

October 29, 2015 Topics in This Report <ul style="list-style-type: none"> • Revenue Analysis • EBITDA Analysis • Income Statement Analysis • Cash Flow Analysis • Balance Sheet Analysis • 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>3Q15</u>	<u>2Q15</u>	<u>3Q14</u>	<u>QoQ</u>	<u>YoY</u>
	Revenue	27.57	28.33	27.77	-3%	-1%
	EBITDA	8.58	8.31	8.10	3%	6%
	Operating Income	5.14	4.95	5.09	4%	1%
	Non-op. Income (Expense)	(0.09)	(0.12)	(0.55)	-21%	-83%
	Pre-tax Income	5.05	4.83	4.54	5%	11%
	(Income Tax)	(0.77)	(0.76)	(0.62)	1%	24%
	(Minority Interest & others)	(0.12)	(0.12)	(0.18)	-2%	-34%
	Net Income	4.16	3.95	3.74	5%	11%
	EPS (NT\$)	1.53	1.45	1.39	6%	10%
		<u>Highlights of Operating Results</u>				
		<p>The 4G service take-up rate reached 35% of the postpaid installed base as of the end of 3Q15. As 4G postpaid ARPU was 1.6x the company's postpaid ARPU, a rising 4G postpaid subscriber number helped mobile postpaid ARPU grow by 3% YoY in the quarter, hitting a record high of NT\$870. As such, mobile service revenue would have grown by 1.3% YoY in 3Q15, if we had adopted the same accounting principles, i.e. residual value method, as our peers. In addition, the lowered handset subsidy level and our aggressive expense controls led to a brisk 4% QoQ and 9% YoY growth in telecom EBITDA in 3Q15.</p> <p>3Q15 consolidated EBIT and net income also registered healthy growth as the strong rise in EBITDA was far more than sufficient to mitigate the increase in 4G related D&A.</p> <p>In terms of quarterly guidance achievement rate, 3Q15 top line came in lower than our forecast, due largely to lower-than-expected sales of high-end phones and momo's weak retail revenue. However, with strict expense discipline, we still managed to beat our EBITDA and EPS targets by 1% and 13%, respectively.</p> <p>For the first three quarters, YoY growth in EBITDA was less than the increase in depreciation and amortization. That said, our net income remained stable compared to the same level it was a year ago as a result of having a big YoY decrease in non-operating expenses.</p>				
	<u>Key Message</u>					
	<p>The 6% and 11% YoY growth in EBITDA and net profit for 3Q15 reflects our solid execution of 4G strategy. We will continue to scale up our 4G business and strengthen our LTE network leadership through sensible spectrum investments aimed at enhancing both customer experience and shareholder value.</p>					
	<p>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.</p>					

I. Revenue Analysis

Table 1. Key Operational Data

Residual Value (NT\$bn)	3Q15	2Q15	3Q14	QoQ	YoY
Mobile Service Revenue	16.45	16.41	16.24	0%	1%
Postpaid ARPU (NT\$)	870	861	843	1%	3%
Blended ARPU (NT\$)	734	739	726	-1%	1%
Telecom Service Revenue	17.63	17.69	17.42	0%	1%

Revenue (NT\$bn)	3Q15	2Q15	3Q14	QoQ	YoY
Telecom	19.56	20.48	19.87	-5%	-2%
Service	15.31	15.42	15.36	-1%	0%
Device Sales	4.24	5.07	4.51	-16%	-6%
CATV	1.63	1.63	1.60	0%	2%
- Pay-TV Related	1.11	1.12	1.10	0%	1%
- Broadband	0.32	0.32	0.31	1%	5%
- Content & Others	0.20	0.19	0.19	2%	2%
Momo	6.33	6.20	6.28	2%	1%
- Online Shopping	4.30	4.10	3.99	5%	8%
- TV Shopping & Others	2.03	2.10	2.29	-3%	-11%
Others¹	0.15	0.14	0.11	4%	32%

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.

	3Q15	2Q15	3Q14	QoQ	YoY
Mobile Subscribers (K)	7,507	7,426	7,498	1%	0%
- Postpaid	5,982	6,001	6,080	0%	-2%
Monthly Churn	1.9%	2.1%	2.0%		
- Postpaid	1.5%	1.5%	1.6%		
MOU (bn)	2.83	2.86	3.05	-1%	-7%
Pay-TV Subs (K)	590	590	587	0%	1%
Cable Broadband Subs (K)	197	195	187	1%	6%
DTV Subs (K)	188	185	164	1%	15%

CATV ARPU (NT\$)	3Q15	2Q15	3Q14	QoQ	YoY
Basic TV	489	493	493	-1%	-1%
Broadband	542	545	546	-1%	-1%
DTV	132	133	133	-1%	-1%
Blended ¹	812	812	801	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 35% of the postpaid installed base as of the end of 3Q15. As 4G postpaid ARPU was 1.6x the company's postpaid ARPU, a rising 4G postpaid subscriber number helped mobile postpaid ARPU grow by 3% YoY in the quarter, hitting a record high of NT\$870. As such, mobile service revenue would have grown by 1.3% YoY in 3Q15, if we had adopted the same accounting principles, i.e. residual value method, as our peers.

Mobile MOU (minutes of use) YoY decline in 3Q15 decelerated to 7%, aided by voice roaming.

Device sales decreased QoQ due to the lack of new flagship handset launches in 3Q15. The YoY decline was related to the later iPhone 6S arrival this year compared to when the iPhone 6 launched in 3Q14.

Cable:

The YoY growth in pay-TV related revenue was resilient at 1%, underpinned by continual increases in digital TV service adoption. Our cable broadband business also benefited from a rising mix of the high-speed service, i.e. above 50Mbps, up to 35% in 3Q15 from only 25% a year ago.

momo

momo derived 68% of its revenue from the online shopping business which registered an 8% YoY growth in 3Q15. However, its TV home shopping business remained lackluster.

II. EBITDA Analysis

Table 2. EBITDA Breakdown

NT\$bn	3Q15	2Q15	3Q14	QoQ	YoY
EBITDA	8.58	8.31	8.10	3%	6%
- Telecom	7.33	7.05	6.72	4%	9%
- CATV	0.89	0.89	0.86	-1%	3%
- momo	0.28	0.30	0.46	-9%	-39%
- others	0.06	0.05	0.07	18%	-7%
Margin	31.1%	29.3%	29.2%	1.8ppts	1.9ppts
- Telecom	37.5%	34.4%	33.8%	3.1ppts	3.7ppts
- CATV	54.4%	54.9%	53.8%	-0.6ppts	0.6ppts
- momo	4.4%	4.9%	7.3%	-0.5ppts	-2.9ppts
- others	42.6%	37.3%	60.3%	5.3ppts	-17.7ppts

D&A	3.43	3.36	3.02	2%	14%
- Telecom	3.08	3.01	2.69	2%	14%
- CATV	0.23	0.23	0.21	-2%	7%
- momo	0.03	0.03	0.03	0%	0%
- others	0.05	0.05	0.04	1%	27%
EBIT	5.14	4.95	5.09	4%	1%
- Telecom	4.25	4.04	4.03	5%	5%
- CATV	0.66	0.66	0.65	0%	2%
- momo	0.24	0.27	0.43	-10%	-43%
- others	0.01	0.00	0.03	NM	-61%

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	3Q15	2Q15	3Q14	QoQ	YoY
Non-Operating Revenue (Expense)	(0.09)	(0.12)	(0.55)	-21%	-83%
- Net Interest Expense	(0.15)	(0.14)	(0.15)	13%	-1%
- Write-off Loss	(0.06)	(0.04)	(0.43)	29%	-87%
- Other Revenue (Expense)	0.12	0.06	0.04	88%	1.8x

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), 3Q15 telecom EBITDA rose 4% QoQ and 9% YoY.

Rising revenues in HBG's broadband and DTV businesses and effective cost controls supported a 3% YoY increase to its EBITDA in 3Q15.

momo's EBITDA margin contraction in 3Q15 was due to 1) decelerated overall revenue growth, 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

We deployed 30MHz spectrum for LTE use in 3Q15, up from 20MHz a year ago. This, together with expanding 4G network, led to a YoY increase in 3Q15 telecom D&A expenses.

The YoY increase in CATV D&A expense was a result of a rising depreciation expense from a growing installed base for the digital set-top-boxes.

Non-Operating Item Analysis

The YoY reduction in 3Q15 non-operating expense was credited largely to lower asset write-off losses and a one-off gain from the disposal of an unused property in the quarter.

III. Income Statement Analysis

Table 4. 3Q15 Consolidated Results vs. Forecast

NT\$bn	3Q15	QoQ	YoY	% of 3Q15 Forecast
Revenue	27.57	-3%	-1%	89%
Operating Cost	18.19	-5%	-1%	86%
Operating Expense	4.23	-2%	-3%	85%
Operating Income	5.14	4%	1%	104%
Non-op. Income (Expense)	(0.09)	-21%	-83%	35%
Pre-tax Income	5.05	5%	11%	108%
Net Income	4.16	5%	11%	111%
EPS (NT\$)	1.53	6%	10%	113%
EBITDA	8.58	3%	6%	101%
EBITDA margin	31.1%			

Table 5. 1-3Q15 Consolidated Results vs. Forecast

NT\$bn	1-3Q15	YoY	% of 2015 Forecast
Revenue	85.61	4%	68%
Operating Cost	58.23	9%	67%
Operating Expense	12.95	-2%	66%
Operating Income	14.43	-7%	76%
Non-op. Income (Expense)	(0.40)	-48%	27%
Pre-tax Income	14.03	-5%	80%
Net Income	11.92	0%	86%
EPS (NT\$)	4.38	-2%	87%
EBITDA	24.48	2%	74%
EBITDA margin	28.6%		

Income Statement Analysis

3Q15

A steady increase in 4G subscriber base has resulted in a YoY rise in telecom service revenue. The lowered handset subsidy level and our aggressive expense controls led to a brisk 3% QoQ and 6% YoY growth in EBITDA in 3Q15.

EBIT and net income in 3Q15 both also registered healthy growth as the strong rise in EBITDA was far more than sufficient enough to mitigate the increase in 4G related D&A.

3Q15 top line came in lower than our forecast, due largely to lower-than-expected sales of high-end phones and momo's weak retail revenue. However, with strict expense discipline, we still managed to beat our EBITDA and EPS targets by 1% and 13%, respectively.

1-3Q15

For the first three quarters, YoY growth in EBITDA was less than the increase in D&A. That said, our net income remained stable compared to the same level it was a year ago as a result of having a big YoY decrease in non-operating expenses.

IV. Cash Flow Analysis

Table 6. Cash Flow

NT\$bn	3Q15	2Q15	3Q14
Total Op Sources/(Uses)	7.25	5.44	7.59
Pre-tax Income	5.05	4.83	4.54
Depreciation	2.65	2.63	2.47
Amortization	0.79	0.73	0.54
Changes in Working Capital	(1.52)	(2.96)	(0.65)
Asset Write-off Add-backs	0.04	0.03	0.43
Other Add-backs	0.26	0.18	0.25
Net Investing Sources/(Uses)	(4.44)	(2.30)	(3.66)
Capex ¹	(2.96)	(3.57)	(3.59)
Divestment (Acquisition)	0.65	(0.08)	0.00
Other Financial Assets (Increase)	(1.20)	1.33	(0.17)
Refundable Deposits (Increase)	(1.00)	(0.01)	0.01
Others	0.07	0.03	0.08
Net Financing Sources/(Uses)	(4.33)	(2.56)	(2.94)
Cash Dividend Payment	(15.24)	-	(15.06)
Short-Term Borrowings	0.70	(1.15)	7.79
Commercial Paper Payable Increase	10.29	(4.59)	4.49
Long-Term Bank Loan	0.09	4.02	(0.11)
Dividends Paid to Minority Shareholders	-	(0.67)	-
Others	(0.16)	(0.17)	(0.05)
Net Cash Position Chg.	(1.51)	0.57	0.99

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

Table 7. Capex & FCF

NT\$bn	3Q15	2Q15	3Q14
Cash Capex	2.96	3.57	3.59
- Mobile	2.46	2.47	2.95
- Fixed-line	0.21	0.48	0.30
- Cable MSO	0.18	0.16	0.27
- momo & others	0.11	0.46	0.06
% of Revenue	11%	13%	13%
Free Cash Flow	4.29	1.87	4.00

Cash Flow Analysis

In 3Q15, working capital cash outflow decreased QoQ mainly due to more corporate income tax and handset payables paid in 2Q15. This, coupled with higher cash earnings, resulted in the sequential rise in operating cash flow.

In terms of 3Q15 investing cash flows, apart from the close to NT\$3bn capex, we set aside NT\$927mn to the Taipei District Court as a counter-security associated with a lawsuit with FET. To participate in the upcoming 2.6GHz spectrum auction, we provided a NT\$1bn deposit to the regulator. Other investment activities in the quarter included 1) the receipt of NT\$0.5bn from Taiwan High Speed Rail (THSR) for its cancellation of preferred shares, 2) momo's NT\$0.19bn money market fund redemption, 3) NT\$0.11bn cash from the disposal of an unused property in the quarter and 4) NT\$80mn investment in Media Asia Group Holdings Limited made by momo.

On the financing front, a total of NT\$11.08bn in borrowings was raised in the quarter to fund the NT\$15.24bn cash dividend payment.

Capex and Free Cash Flow Analysis

Aided by higher operating cash flow and lower capex, TWM generated higher FCF compared to a quarter ago. In addition, 3Q15 FCF also improved YoY, arising from capex reductions.

V. Balance Sheet Analysis

Table 8. Balance Sheet

NT\$bn	3Q15	2Q15	3Q14
Total Assets	154.87	156.51	146.66
Current Assets	31.26	32.15	28.71
- Cash & Cash Equivalents	7.28	8.79	6.99
- Accounts Receivable	15.90	15.28	14.77
- Inventories	2.24	2.92	3.31
- Short-Term Investment	1.06	1.70	0.94
- Other Current Assets	4.79	3.46	2.70
Non-current Assets	123.61	124.36	117.95
- Long-Term Investment	4.59	5.18	2.51
- Property and Equipment	47.85	48.05	47.24
- Concession	41.08	41.71	39.37
- Other Non-current Assets	30.09	29.42	28.83
Liabilities	93.26	98.53	89.41
Current Liabilities	64.81	69.51	55.14
- ST Debt	13.35	12.65	20.17
- Commercial Paper Payable	17.68	7.39	5.79
- LT Borrowings due in one year	11.34	11.21	2.21
- Other Current Liabilities	22.44	38.26	26.97
Non-current Liabilities	28.45	29.02	34.27
- Long-Term Borrowings	23.40	23.44	28.98
- Other Non-current Liabilities	5.04	5.58	5.29
Shareholders' Equity	61.62	57.98	57.25
-Paid-in Capital	34.21	34.21	34.21
-Capital Surplus	14.72	14.72	12.49
-Legal Reserve	23.04	23.04	21.54
-Un-appropriated Earnings	2.77	2.77	4.83
-Treasury Shares	(29.72)	(29.72)	(31.08)
-Non-controlling Interest	5.88	5.80	3.16
-Retained Earnings & Others*	10.72	7.17	12.10

* Including YTD profits and other equity items

Table 9. Ratios

	3Q15	2Q15	3Q14
Current Ratio	48%	46%	52%
Interest Coverage (x)	26.8	29.0	27.0
Net Debt (Cash) to Equity	95%	79%	88%
Net Debt (Cash) to EBITDA (x)	1.78	1.40	1.61
ROE (annualized)	30%	30%	28%
ROA (annualized)	11%	10%	11%

Assets

As of the end of 3Q15, cash balance remained at a healthy level of NT\$7.28bn after cash dividend payments.

The QoQ decrease in short-term investment was a function of disposing THSR's preferred shares, momo's redemption of its money market investment and momo's new investment in Media Asia Group Holdings Limited as explained in the previous section.

Other current assets rose QoQ and YoY due to the counter-security deposit and momo's increased time deposits following its rights issue in 4Q14, respectively.

Long-term investment decreased sequentially to reflect the mark-to-market value appraised on our equity investments in Ambit and THSR.

PP&E did not further grow as new addition in 4Q equipment was smaller than the overall depreciation incurred for the quarter.

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 rose to NT\$65.77bn mainly to finance the dividend payments in 3Q15.

Nonetheless, other current liabilities decreased QoQ due to the \$15.24bn cash dividend payments made in 3Q15.

Ratio Analysis

Ratio of net debt to EBITDA increased in the quarter because of cash dividend payments. The ROE remained intact at 30%, supported by our high dividend payout policy.



VI. Management Remarks

Key Message

The 6% and 11% YoY growth in EBITDA and net profit for 3Q15 reflects our solid execution of 4G strategy. We will continue to scale up our 4G business and strengthen our LTE network leadership through sensible spectrum investments aimed at enhancing both customer experience and shareholder value.

New Product and Service

Launched an annual upgrade program for iPhone 6s customers which 1) enables those customers to renew their contract with a subsidized next generation iPhone one year later by trading in their old iPhone 6s and 2) offers a handset warranty within the contract period for an additional charge of only NT\$258 per month.

Awards and Recognition

- TWM was selected as a member of the DJSI's (Dow Jones Sustainability Index) Emerging Markets Index for the fourth year in a row (2012~2015).
- TWM was awarded "Excellence in Corporate Social Responsibility" by *CommonWealth* magazine for the eighth time.
- TWM's CSR report received the ISAE (International Standards on Assurance Engagements) 3000 certification for the second consecutive year, the only awardee of telecom industry in Taiwan.