

April 28, 2016	<u>TWM Consolidated</u>					
	NT\$bn	<u>1Q16</u>	<u>4Q15</u>	<u>1Q15</u>	<u>QoQ</u>	<u>YoY</u>
	<b>Revenue</b>	<b>29.20</b>	<b>30.53</b>	<b>29.72</b>	<b>-4%</b>	<b>-2%</b>
	<b>EBITDA</b>	<b>8.42</b>	<b>7.80</b>	<b>7.59</b>	<b>8%</b>	<b>11%</b>
	<b>Operating Income</b>	<b>5.00</b>	<b>4.34</b>	<b>4.34</b>	<b>15%</b>	<b>15%</b>
	<b>Non-op. Income (Expense)</b>	<b>(0.24)</b>	<b>(0.20)</b>	<b>(0.19)</b>	<b>19%</b>	<b>21%</b>
	<b>Pre-tax Income</b>	<b>4.77</b>	<b>4.14</b>	<b>4.15</b>	<b>15%</b>	<b>15%</b>
	<b>(Income Tax)</b>	<b>(0.83)</b>	<b>(0.25)</b>	<b>(0.21)</b>	<b>230%</b>	<b>292%</b>
	<b>(Minority Interest &amp; others)</b>	<b>(0.17)</b>	<b>(0.12)</b>	<b>(0.12)</b>	<b>39%</b>	<b>38%</b>
	<b>Net Income</b>	<b>3.77</b>	<b>3.77</b>	<b>3.81</b>	<b>0%</b>	<b>-1%</b>
	<b>EPS (NT\$)</b>	<b>1.39</b>	<b>1.38</b>	<b>1.40</b>	<b>1%</b>	<b>-1%</b>
<b>Topics in This Report</b>	<p><b><u>Highlights of Operating Results</u></b></p> <p>TWM delivered solid operating leverage in 1Q16. A steady increase in the 4G subscriber base has resulted in a 2% YoY rise in telecom service revenue. The lowered handset subsidy, coupled with momo's healthy EBITDA growth, led to a brisk 11% YoY growth in consolidated EBITDA in 1Q16. 1Q16 recurring net income would have been up by 13% YoY if the one-off gains related to income tax were excluded in 1Q15.</p> <p><b><u>2015 Earnings Distribution</u></b></p> <p>TWM's board meeting today (April 28, 2016) approved a proposal to distribute NT\$15.2bn in cash dividends, translating into a 97% payout or NT\$5.6 per share, showing our commitment to maintain stable dividends.</p> <p><b><u>Key Message</u></b></p> <p>The mobile industry's rational moves on 4G rate plans set the tone for a healthier growth path for the industry. Taiwan Mobile is expected to benefit from better operating leverage and stronger free cash flow generation going forward.</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>						
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## I. Revenue Analysis

**Table 1. Key Operational Data**

Residual Value (NT\$bn)	1Q16	4Q15	1Q15	QoQ	YoY
Mobile Service Revenue	16.34	16.48	16.07	-1%	2%
Postpaid ARPU (NT\$)	869	874	835	-1%	4%
Blended ARPU (NT\$)	733	735	724	0%	1%
Telecom Service Revenue	17.57	17.69	17.28	-1%	2%

Revenue (NT\$bn)	1Q16	4Q15	1Q15	QoQ	YoY
<b>Telecom</b>	<b>20.50</b>	<b>21.93</b>	<b>21.82</b>	<b>-7%</b>	<b>-6%</b>
Service	15.25	15.35	15.08	-1%	1%
Device Sales	5.25	6.58	6.74	-20%	-22%
<b>CATV</b>	<b>1.64</b>	<b>1.67</b>	<b>1.62</b>	<b>-2%</b>	<b>1%</b>
- Pay-TV Related	1.10	1.12	1.11	-2%	-1%
- Broadband	0.33	0.32	0.32	1%	3%
- Content & Others	0.22	0.23	0.19	-6%	12%
<b>momo</b>	<b>7.01</b>	<b>6.85</b>	<b>6.26</b>	<b>2%</b>	<b>12%</b>
- Online Shopping	4.99	4.76	4.07	5%	23%
- TV Shopping & Others	2.01	2.10	2.19	-4%	-8%
<b>Others<sup>1</sup></b>	<b>0.15</b>	<b>0.17</b>	<b>0.14</b>	<b>-9%</b>	<b>12%</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.

	1Q16	4Q15	1Q15	QoQ	YoY
<b>Mobile Subscribers (K)</b>	<b>7,434</b>	<b>7,453</b>	<b>7,370</b>	<b>0%</b>	<b>1%</b>
- Postpaid	5,975	5,981	6,012	0%	-1%
<b>Monthly Churn</b>	<b>2.5%</b>	<b>2.7%</b>	<b>2.6%</b>		
- Postpaid	1.5%	1.5%	1.7%		
<b>MOU (bn)</b>	<b>2.65</b>	<b>2.75</b>	<b>2.76</b>	<b>-3%</b>	<b>-4%</b>
<b>Pay-TV Subs (K)</b>	<b>588</b>	<b>589</b>	<b>589</b>	<b>0%</b>	<b>0%</b>
Cable Broadband Subs (K)	200	199	193	1%	4%
DTV Subs (K)	191	189	180	1%	6%

CATV ARPU (NT\$)	1Q16	4Q15	1Q15	QoQ	YoY
Basic TV	483	488	494	-1%	-2%
Broadband	539	538	545	0%	-1%
DTV	130	130	133	0%	-2%
Blended <sup>1</sup>	806	815	810	-1%	0%

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

### Telecom:

The 4G service take-up rate reached 49% of the postpaid installed base and helped mobile postpaid ARPU grow by 4% YoY in 1Q16. As a result, TWM reported a 2% YoY growth in mobile service revenue, the highest among peers on a like-for-like basis.

1Q16 device sales decreased QoQ and YoY because of weaker demand for high-end smartphones.

The churn rate of postpaid subscribers stabilized at 1.5%, compared to 1.7% a year ago. As such, TWM saw a 1% YoY increase in total subscriber number, while the peers' were both on the decline.

### Cable:

The YoY decline in basic TV subscription revenue, as a result of price competition from new entrants, was more than offset by rising revenues from the content agency, cable broadband and digital TV businesses. Consequently, the YoY growth in revenue from the cable business was resilient at 1%. The cable broadband business still benefited from expanding subscriber numbers and a rising mix of the higher-speed services, i.e. above 100Mbps, that went up to 13% in 1Q16 from 9% a year ago.

### momo

momo derived 71% of its revenue from the online shopping business which registered a robust 23% YoY growth in 1Q16. However, its TV home shopping business in Taiwan remained lackluster.

## II. EBITDA Analysis

**Table 2. EBITDA Breakdown**

NT\$bn	1Q16	4Q15	1Q15	QoQ	YoY
<b>EBITDA</b>	<b>8.42</b>	<b>7.80</b>	<b>7.59</b>	<b>8%</b>	<b>11%</b>
- Telecom	7.06	6.53	6.33	8%	12%
- CATV	0.90	0.89	0.89	0%	1%
- momo	0.40	0.28	0.33	42%	20%
- others	0.05	0.07	0.05	-26%	9%
<b>Margin</b>	<b>28.8%</b>	<b>25.6%</b>	<b>25.6%</b>	<b>-3.3ppts</b>	<b>+3.3ppts</b>
- Telecom	34.4%	29.8%	29.0%	+4.7ppts	+5.4ppts
- CATV	54.6%	53.5%	54.7%	+1.1ppts	-0.1ppts
- momo	5.6%	4.1%	5.2%	+1.6ppts	+0.4ppts
- others	34.8%	42.7%	35.8%	-7.9ppts	-1.0ppts

<b>D&amp;A</b>	<b>3.41</b>	<b>3.47</b>	<b>3.25</b>	<b>-2%</b>	<b>5%</b>
- Telecom	3.08	3.13	2.90	-2%	6%
- CATV	0.22	0.22	0.23	0%	-6%
- momo	0.03	0.03	0.03	-10%	-21%
- others	0.05	0.05	0.05	0%	4%
<b>EBIT</b>	<b>5.00</b>	<b>4.34</b>	<b>4.34</b>	<b>15%</b>	<b>15%</b>
- Telecom	3.98	3.40	3.42	17%	16%
- CATV	0.68	0.68	0.66	0%	3%
- momo	0.37	0.25	0.29	48%	25%
- others	0.00	0.02	(0.00)	-94%	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	1Q16	4Q15	1Q15	QoQ	YoY
<b>Non-Operating Revenue (Expense)</b>	<b>(0.24)</b>	<b>(0.20)</b>	<b>(0.19)</b>	<b>19%</b>	<b>21%</b>
- Net Interest Expense	(0.14)	(0.15)	(0.14)	-6%	-1%
- Write-off Loss	(0.04)	(0.23)	(0.04)	-82%	15%
- Other Revenue (Expense)	(0.05)	0.18	(0.02)	NM	225%

### 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 1Q16 telecom EBITDA accelerated to 12%. The sequential increase in telecom EBITDA was due to a low base in 4Q15 as a result of the iPhone 6S launch.

The 1% YoY increase in the cable business' 1Q16 EBITDA was in line with its revenue growth.

In 1Q16, momo posted strong QoQ and YoY EBITDA increases of 42% and 20%, respectively, due to its margin expansion, robust revenue growth in the online shopping business and loss reduction from shaping up the TV home shopping operations in China.

### D&A Analysis

The YoY increase in 1Q16 telecom D&A expenses was largely from amortization due to more 4G spectrum deployed for LTE service (1Q16: 30MHz vs. 1Q15: 20MHz).

CATV 1Q16 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

Despite a lesser assets write-off loss, 1Q16 non-operating expenses increased sequentially due to the one-off preferred shares dividends of NT\$215m received from Taiwan High Speed Rail in 4Q15. It rose YoY mainly due to an unrealized mark-to-market valuation loss from TFNM's investment in Media Asia Group Holdings Limited's convertible notes.

### III. Income Statement Analysis

**Table 4. 1Q16 Consolidated Results vs. Forecast**

NT\$bn	1Q16	QoQ	YoY	% of 1Q16 Forecast
<b>Revenue</b>	<b>29.20</b>	<b>-4%</b>	<b>-2%</b>	<b>100%</b>
<b>Operating Cost</b>	<b>19.68</b>	<b>-9%</b>	<b>-6%</b>	<b>97%</b>
Operating Expense	4.51	-3%	3%	98%
<b>Operating Income</b>	<b>5.00</b>	<b>15%</b>	<b>15%</b>	<b>113%</b>
Non-op. Income (Expense)	(0.24)	19%	21%	64%
Pre-tax Income	4.77	15%	15%	117%
<b>Net Income</b>	<b>3.77</b>	<b>0%</b>	<b>-1%</b>	<b>115%</b>
EPS (NT\$)	1.39	1%	-1%	115%
<b>EBITDA</b>	<b>8.42</b>	<b>8%</b>	<b>11%</b>	<b>107%</b>
EBITDA margin	28.8%			

#### Income Statement Analysis

##### *YoY Analysis*

TWM delivered solid operating leverage in 1Q16. A steady increase in the 4G subscriber base has resulted in a 2% YoY rise in telecom service revenue. The lowered handset subsidy provided, during the period of tapping into the mid-to-low end segment, coupled with momo's healthy EBITDA growth, led to a brisk 11% YoY growth in consolidated EBITDA in 1Q16.

Operating income registered an even higher YoY increase of 15% as the magnitude of the D&A expense increase was smaller than that of the EBITDA growth. 1Q16 recurring net income would have been up by 13% YoY if the one-off gains related to income tax were excluded in 1Q15.

##### *Guidance Achievement Rate Analysis*

We met our consolidated revenue target for the quarter. With strict expense discipline and less-than-expected non-operating expenses, we managed to beat our EBITDA and EPS targets by 7% and 15% in 1Q16, respectively.

## IV. Cash Flow Analysis

**Table 5. Cash Flow**

NT\$bn	1Q16	4Q15	1Q15
<b>Total Op Sources/(Uses)</b>	<b>10.03</b>	<b>7.74</b>	<b>5.38</b>
Pre-tax Income	4.77	4.14	4.15
Depreciation	2.62	2.67	2.62
Amortization	0.79	0.79	0.63
Changes in Operating Assets and Liabilities	1.54	(0.33)	(2.29)
Asset Write-off Add-backs	0.04	0.23	0.04
Other Add-backs	0.27	0.23	0.23
<b>Net Investing Sources/(Uses)</b>	<b>(2.91)</b>	<b>(1.76)</b>	<b>(6.68)</b>
Capex <sup>1</sup>	(2.75)	(2.80)	(3.29)
Divestment (Acquisition)	(0.20)	0.00	0.00
4G License Fees	-	-	(3.43)
Other Financial Assets (Increase)	0.01	(0.02)	0.03
Refundable Deposits (Increase)	(0.00)	1.02	(0.02)
Others	0.03	0.04	0.03
<b>Net Financing Sources/(Uses)</b>	<b>(7.00)</b>	<b>(4.68)</b>	<b>1.62</b>
Short-Term Borrowings	(4.49)	0.87	(5.10)
Commercial Paper Payable Increase	(2.30)	(6.88)	6.39
Long-Term Bank Loan	(0.06)	2.00	0.45
Others	(0.15)	(0.67)	(0.11)
<b>Net Cash Position Chg.</b>	<b>0.12</b>	<b>1.30</b>	<b>0.31</b>

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

**Table 6. Capex & FCF**

NT\$bn	1Q16	4Q15	1Q15
<b>Cash Capex</b>	<b>2.75</b>	<b>2.80</b>	<b>3.29</b>
- Mobile	2.00	2.21	2.33
- Fixed-line	0.25	0.45	0.46
- Cable MSO	0.29	0.13	0.25
- momo & others	0.21	0.00	0.25
<b>% of Revenue</b>	<b>9%</b>	<b>9%</b>	<b>11%</b>
<b>Free Cash Flow</b>	<b>7.29</b>	<b>4.94</b>	<b>2.09</b>

### Cash Flow Analysis

In 1Q16, operating cash inflows increased sequentially aided by healthy operating results as well as more cash inflow from decreases in inventory.

The major investing activities in 1Q16 were a NT\$2.75bn capex and a NT\$0.2bn money market fund investment made by momo for cash management purposes. The YoY decrease in investing cash outflow was mainly due to a NT\$3.43bn payment to acquire 5MHz spectrum from Ambit (now merged into APT) in 1Q15.

Net cash outflow from financing activities increased QoQ and YoY mainly due to a total of NT\$6.84bn in borrowings repaid in the quarter supported by improving free cash flows.

### Capex and Free Cash Flow Analysis

In 1Q16, total capex as a percentage of revenue dropped to 9% from 11% a year ago. momo's sequential capex increase was due to the pushback of its capex with regards to the new logistics center.

TWM's FCF increased QoQ and YoY, both credited to the higher operating cash inflow and lower telecom capex spent. As a result, its FCF yield surged to 10.2% for the quarter.

## V. Balance Sheet Analysis

**Table 7. Balance Sheet**

NT\$bn	1Q16	4Q15	1Q15
<b>Total Assets</b>	<b>153.75</b>	<b>156.09</b>	<b>157.23</b>
Current Assets	32.96	34.16	33.29
- Cash & Cash Equivalents	8.70	8.58	8.22
- Accounts Receivable	15.70	15.70	15.03
- Inventories	2.78	4.19	3.25
- Short-Term Investment	1.24	1.03	2.22
- Other Current Assets	4.53	4.66	4.57
Non-current Assets	120.79	121.93	123.94
- Long-Term Investment	5.37	4.96	4.77
- Property and Equipment	46.46	47.25	47.18
- Concession	39.81	40.45	42.30
- Other Non-current Assets	29.15	29.28	29.69
<b>Liabilities</b>	<b>84.09</b>	<b>90.79</b>	<b>87.10</b>
Current Liabilities	49.84	59.23	56.12
- ST Debt	9.73	14.22	13.80
- Commercial Paper Payable	8.49	10.79	11.98
- LT Borrowings due in one year	7.30	10.27	5.21
- Other Current Liabilities	24.31	23.95	25.13
Non-current Liabilities	34.25	31.56	30.98
- Long-Term Borrowings	29.39	26.48	25.42
- Other Non-current Liabilities	4.86	5.08	5.55
<b>Shareholders' Equity</b>	<b>69.66</b>	<b>65.29</b>	<b>70.13</b>
-Paid-in Capital	34.21	34.21	34.21
-Capital Surplus	14.59	14.59	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	5.90	5.74	6.36
-Retained Earnings & Others*	18.89	14.67	18.20

\* Including YTD profits and other equity items

**Table 8. Ratios**

	1Q16	4Q15	1Q15
<b>Current Ratio</b>	66%	58%	59%
<b>Interest Coverage (x)</b>	27.8	22.5	25.3
<b>Net Debt (Cash) to Equity</b>	66%	81%	69%
<b>Net Debt (Cash) to EBITDA (x)</b>	1.39	1.65	1.47
<b>ROE (annualized)</b>	24%	25%	24%
<b>ROA (annualized)</b>	10%	10%	10%

### Assets

As of the end of 1Q16, cash balance increased QoQ as shown in the cash flow analysis section.

The QoQ decrease in inventory was mainly due to lesser demand for the iPhone 6S in 1Q16, the second quarter after its launch.

The sequential increase in short-term investment came from momo's cash management mentioned earlier.

Long-term investment increased sequentially to reflect the rising mark-to-market value appraised on our investments in THSR. TWM's original 14.9% stake in Ambit translated into a 3.45% shareholding in APT after their merger, effective Feb. 15, 2016.

PP&E decreased QoQ 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\$54.92bn, following a NT\$6.84bn debt repayment made in the quarter.

The YoY 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

In 1Q16, due to continuous debt repayments made in 1Q16, the ratios of net debt to equity and net debt to EBITDA both came off from a quarter ago.

## **VI. Management Remarks**

### Key Message

The mobile industry's rational moves on 4G rate plans set the tone for a healthier growth path for the industry. Taiwan Mobile is expected to benefit from better operating leverage and stronger free cash flow generation going forward.

### 2015 Earnings Distribution

TWM's board meeting today (April 28, 2016) approved a proposal to distribute NT\$15.2bn in cash dividends, translating into a 97% payout to shareholders. Dividend per share is NT\$5.6 on 2.72bn shares, excluding treasury shares held by 100%-owned subsidiaries.

### Awards and Recognition

- According to speed tests conducted by Ookla, the internationally recognized standard for internet connection testing, Taiwan Mobile won the "2015 Taiwan's Fastest Mobile Network" and the "2015 Taiwan's Fastest 4G LTE".