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TWM consolidated

NT\$bn	<u>3Q12</u>	<u>3Q11</u>	<u>QoQ</u>	<u>YoY</u>	<u>1-3Q12</u>	<u>YoY</u>
Revenue	24.51	21.73	3%	13%	72.23	25%
EBITDA	7.23	7.54	0%	-4%	21.03	3%
Operating Income	4.79	5.10	0%	-6%	13.77	3%
Non-op. Income (Expense)	(0.04)	(1.22)	80%	-97%	(0.11)	-92%
Pre-tax Income	4.76	3.88	0%	23%	13.67	14%
(Less Tax)	(0.81)	(0.42)	0%	93%	(2.32)	29%
(Less Minority Interest)	(0.04)	(0.06)	-9%	NM	(0.16)	NM
Net Income	3.91	3.39	0%	15%	11.18	10%
EPS (NT\$)	1.46	1.22	1%	20%	4.16	20%

Results Highlights

On a YoY comparison, stripping out the one-off reversal of over-accrued expenses made in 3Q11, our 3Q12 consolidated EBITDA grew by 2.4% from a year ago, contributed by a service revenue growth of 3.4%. Excluding the above mentioned one-off adjustment and impairment loss on THSR (Taiwan High Speed Rail) booked in 3Q11, the recurring net income was up by 4.7% YoY.

TWM's 3Q12 top-line and profits remained stable from the previous quarter, on the back of expanding telecom and CATV revenues to compensate for rising cell site utilities expenses and higher opex associated with more company stores and handset subsidies.

Aided by 5.6% YoY mobile service revenue growth, 0.3% YoY rise in telecom EBITDA and 6.1% YoY increase in CATV EBITDA as well as the absence of a substantial one-off non-operating loss similar to the one incurred in 3Q11, EPS for the first three quarters came in at NT\$4.16, up 20% YoY and reaching 78% of our full-year target of NT\$5.34.

Board Resolution

TWM's board meeting today (October 25) approved to issue in tranches unsecured straight corporate bonds with a maximum amount of NT\$16bn and a maximum duration of 7 years.

Management Remark

Certain high-profile smartphone product launches are expected in 4Q, which is likely to increase quarterly earnings uncertainties. Nevertheless, healthy service revenue growth and solid results from the first three quarters will provide us the confidence to achieve our full-year guidance.

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I. Revenue Analysis

Table 1. Key Operational Data

Revenue (NT\$bn)	3Q12	2Q12	3Q11	QoQ	YoY
CBG	15.63	15.34	14.48	2%	8%
Mobile Service	13.20	12.89	12.68	2%	4%
-Voice	8.90	8.83	9.49	1%	-6%
-VAS	4.31	4.06	3.20	6%	35%
IDD	0.63	0.65	0.69	-2%	-9%
Device Sales	1.69	1.70	1.01	-1%	67%
EBG	2.63	2.60	2.51	1%	5%
Mobile Service	1.14	1.11	1.04	2%	10%
Fixed-line	0.95	0.97	0.94	-2%	1%
ISR & Others	0.54	0.52	0.54	5%	1%
HBG	1.54	1.52	1.50	1%	3%
- Pay-TV related	1.06	1.06	1.05	1%	1%
- Broadband	0.27	0.26	0.24	2%	14%
- Content & others	0.20	0.20	0.21	2%	-4%
momo & Others¹	4.71	4.26	3.24	11%	NM
- TV shopping & catalogue	2.13	2.12	1.85	0%	NM
- Online shopping	2.20	1.83	1.08	20%	NM

	3Q12	2Q12	3Q11	QoQ	YoY
Mobile Subscribers (K)	6,945	6,821	6,574	2%	6%
- Data card	390	368	323	6%	21%
Consumer	6,603	6,506	6,308	1%	5%
Enterprise	342	315	265	9%	29%
Monthly Churn	1.9%	1.9%	1.8%		
MOU (bn)	4.15	4.17	4.02	0%	3%
Pay-TV Subs (K)	579	578	575	0%	1%
Cable Broadband Subs (K)	167	163	152	2%	10%

	3Q12	2Q12	3Q11	QoQ	YoY
Wireless					
ARPU (NT\$) –post-paid	792	782	781	1%	1%
Cable MSO					
Monthly Subscription (NT\$)	502	503	505	0%	-1%
Broadband ARPU (NT\$)	544	544	527	0%	3%
Blended ARPU ² (NT\$)	770	763	748	1%	3%

1. momo's financials were included in consolidated P&L since July 13, 2011.

2. Cable TV & broadband related revenue (excluding content agency) divided by its CATV subscriber number

Revenue Analysis

CBG:

Driven by sustained growth in the mobile internet business, mobile service revenue increased by 4% YoY for the quarter.

Smartphone penetration rate doubled from a year ago, reaching 35% of our postpaid subscriber base in 3Q12. As a result, mobile internet access revenue rose 57% YoY, stemming from a 22% YoY rise in data APRU and a 29% YoY increase in the number of active data users in the quarter. Wireless data revenue as a percentage of mobile service revenue reached 29%, up from 22% a year ago.

Device revenue was down slightly by 1% QoQ due to a higher mix of mid-to-low-end (<NT\$9,000) smartphone in the total handsets sold (over 50% vs. 45% a quarter ago), despite of a sequential rise in total handset sales volume in 3Q12.

EBG:

Mobile service revenue rose 10% YoY in 3Q12, credited to a rise in the number of subscribers and higher smartphone adoptions.

HBG:

HBG maintained its broadband growth momentum on the back of steady cable internet subscriber increase and a surge in APRU as the subscriber mix of 20M & above rose to 25% in September vs. 7% a year ago.

momo

momo's revenue was boosted by growing online shopping, up 77% YoY, despite weak TV shopping sales, down 1% YoY, that was negatively affected by the overall macro-economic environment in 3Q12.

II. EBITDA Analysis

Table 2. EBITDA Breakdown

NT\$bn	3Q12	2Q12	3Q11	QoQ	YoY
EBITDA	7.23	7.20	7.54	0%	-4%
- CBG	5.40	5.30	5.69	2%	-5%
- EBG	0.85	0.92	0.86	-8%	0%
- HBG	0.81	0.81	0.77	0%	5%
-momo ¹ & others	0.17	0.16	0.22	1%	NM
Margin	29.5%	30.3%	34.7%	-0.9ppts	-5.2ppts
- CBG	34.5%	34.5%	39.3%	0.0ppts	-4.7ppts
- EBG	32.5%	35.6%	34.2%	-3.1ppts	-1.7ppts
- HBG	52.6%	53.3%	51.4%	-0.7ppts	1.2ppts
-momo ¹ & others	3.5%	3.8%	6.9%	-0.3ppts	NM
D&A	2.43	2.41	2.44	1%	0%
- CBG	1.97	1.97	2.03	0%	-3%
- EBG	0.24	0.22	0.21	5%	11%
- HBG	0.14	0.14	0.13	2%	12%
-momo ¹ & others	0.09	0.08	0.07	3%	20%
EBIT	4.79	4.78	5.10	0%	-6%
- CBG	3.43	3.33	3.66	3%	-6%
- EBG	0.62	0.70	0.65	-12%	-4%
- HBG	0.67	0.67	0.64	-1%	4%
-momo ¹ & others	0.08	0.08	0.15	-1%	NM

1. momo's financials were included in consolidated P&L since July 13, 2011.

Table 3. Non-operating Item

NT\$bn	3Q12	2Q12	3Q11	QoQ	YoY
Non-Operating	(0.04)	(0.02)	(1.22)	80%	-97%
-Net Interest Revenue (Expense)	(0.08)	(0.05)	(0.01)	43%	10.5x
- Write-off Loss	(0.16)	(0.12)	(0.12)	31%	34%
- Impairment Loss	0.0	0.0	(1.21)	NM	NM
-Others	0.20	0.15	0.11	28%	72%

EBITDA Analysis

Adjusted for the one-time over-accrued expense reversals made in 3Q11, CBG's 3Q12 EBITDA was flattish from a year ago.

HBG posted a stable profit increase from 1) better economies of scale in broadband business and 2) a higher blended ARPU as a result of selling more services per household.

Despite a 49% YoY increase in EBITDA for the online shopping business, momo had margin erosions due to declining profit contributions from its TV home shopping business.

Non-Operating Item Analysis

Interest expense increased QoQ due to the higher gearing level arising from dividend payments in 3Q12. Non-operating expense trended down from a year ago as a result of the NT\$1.21bn of impairment loss from a Taiwan High Speed Rail (THSR) investment booked in 3Q11.

III. Income Statement Analysis

Table 4. Income Statement

NT\$bn	3Q12	2Q12	3Q11
Revenue	24.51	23.72	21.73
Service Revenue ¹	18.01	17.67	17.42
Handset Sales	1.74	1.73	1.04
momo Revenue ²	4.76	4.32	3.26
Operating Cost	15.41	14.73	12.57
momo Cost ²	4.14	3.71	2.70
Operating Expenses	4.31	4.21	4.06
momo Opex ²	0.52	0.49	0.40
EBITDA	7.23	7.20	7.54
Operating Income	4.79	4.78	5.10
Non-op. Income (Expense)	(0.04)	(0.02)	(1.22)
Pre-tax Income	4.76	4.76	3.88
(Less Tax)	(0.81)	(0.81)	(0.42)
(Minority Interest)	(0.04)	(0.04)	(0.06)
Net Income	3.91	3.91	3.39
EPS (NT\$)	1.46	1.45	1.22

1. Total revenue deducted handset sales and momo revenue.

2. momo's financials were included in consolidated P&L since July 13, 2011.

Table 5. Consolidated Results vs. Forecast

NT\$bn	3Q12		1-3Q12	
	YoY	% of forecast	YoY	% of '12 forecast
Revenue	13%	94%	25%	71%
Service Revenue ¹	3%	98%	5%	74%
Handset Sales	67%	68%	45%	56%
momo Revenue ²	NM	92%	NM	69%
EBITDA	-4%	98%	3%	74%
Operating Income	-6%	99%	3%	74%
Non-op. Income (Expense)	-97%	13%	-92%	14%
Asset Write-off Loss	34%	58%	11%	53%
Pre-tax Income	23%	105%	14%	77%
(Less Tax)	93%	105%	29%	77%
(Minority Interest)	NM	32%	NM	39%
Net Income	15%	107%	10%	78%
EPS (NT\$)	20%	107%	20%	78%

1. Total revenue deducted handset sales and momo revenue.

2. momo's financials were included in consolidated P&L since July 13, 2011.

Income Statement Analysis

TWM's 3Q12 top-line and profits remained stable from the previous quarter, on the back of expanding telecom and CATV revenue to compensate for rising cell site utilities expenses and higher opex associated with more company stores and handset subsidies.

On a YoY comparison, stripping out the one-off reversal of over-accrued expenses made in 3Q11, our 3Q12 consolidated EBITDA grew by 2.4% from a year ago, contributed by a service revenue growth of 3.4%. Excluding the above mentioned one-off adjustment and impairment loss on THSR (Taiwan High Speed Rail) booked in 3Q11, the recurring net income was up by 4.7% YoY.

In 3Q12, service revenue was lower than our guidance, due to pre-paid competitions. Nonetheless, both CBG and EBG outperformed its respective profit target, credited to better opex controls. This helped alleviate pressure from momo's lackluster contribution. The non-operating expense also came in less than guidance due mainly to lower-than-expected asset write-off losses.

As a result, 3Q12 EPS reached 107% of 3Q guidance.

IV. Cash Flow Analysis

Table 6. Cash Flow

NT\$bn	3Q12	2Q12	3Q11
Total Op Sources/(Uses)¹	5.02	6.38	5.68
Consolidated Net Income	3.95	3.95	3.46
Depreciation	2.02	1.91	1.99
Amortization	0.42	0.50	0.45
Changes in Working Capital	(1.68)	(0.28)	(1.67)
Asset Write-off Add-backs	0.16	0.12	0.12
Other Add-backs	0.16	0.17	1.33
Net Investing Sources/(Uses)	(3.08)	(1.87)	(11.00)
Capex	(2.35)	(1.68)	(2.37)
Acquisition	(0.55)	(0.07)	(8.51)
Others	(0.18)	(0.11)	(0.11)
Net Financing Sources/(Uses)	(2.32)	(4.00)	0.84
Dividend Payment	(13.88)	(0.25)	(12.44)
Short-Term Borrowings	11.24	(3.77)	12.87
Commercial Paper Payable	0.30	0.00	0.40
Others	0.01	0.02	0.01
Effect of Exchange Rate Changes	(0.00)	0.00	0.04
Cash Inherited from M&A	0.00	0.00	2.29
Net Cash Position Change	(0.39)	0.52	(2.15)

1. Inclusive of cash flow for cash management.

Table 7. Capex & FCF

NT\$bn	3Q12	2Q12	3Q11
Cash Capex	2.35	1.68	2.37
- Mobile	1.71	1.11	1.50
- Fixed-line	0.57	0.46	0.67
- Cable MSO	0.05	0.10	0.09
- momo	0.02	0.01	0.11
% of Revenue	10%	7%	11%
Free Cash Flow	2.66	4.70	3.30

Cash Flow Analysis

Operating cash inflows for the quarter decreased sequentially due mainly to the payments of full-year frequency usage fee, cable TV content cost as well as employee bonuses in 3Q12. In 3Q11, the increase in other add-backs came from the provisioning of THSR impairment loss.

Net investing cash outflow in 3Q12 was mainly for the NT\$2.35bn in cash capex. In addition, a total of NT\$0.55bn in long-term investments was made in the quarter and consisted of: 1) acquiring a 20% stake in Taiwan Pelican Express, 2) capital calls from our 49.9%-held Taipei New Horizon, and 3) acquiring a 32.5% stake in Kbro Media. The high investing cash outflow in 3Q11 was for the purchase of a 51% stake in momo.

In terms of financing activities, we increased short-term borrowing in 3Q12 to fund the cash dividend payments.

Capex and Free Cash Flow Analysis

Capex in the first three quarters totaled NT\$5.77bn, or 8% of revenue, running behind our annual capex forecast of NT\$11.8bn, as the majority of IDC (internet data center) construction and 3G expansion payments will not be made until 4Q12.

Accumulative free cash flow reached NT\$10.66bn, translating into an annualized yield of 4.9%.

V. Balance Sheet Analysis

Table 8. Balance Sheet

NT\$bn	3Q12	2Q12	3Q11
Total Assets	90.17	90.38	93.22
Current Assets	17.67	17.96	18.85
- Cash & Cash Equivalents	5.74	6.13	7.72
-Available-for-Sale Financial Asset	0.20	0.20	0.22
- Inventories	2.30	2.60	1.90
- Other Current Assets	9.42	9.03	9.01
Long-Term Investment	2.76	2.22	2.17
Property and Equipment	39.95	40.11	41.32
Intangible Assets	27.01	27.25	27.74
Other Assets	2.78	2.84	3.15
Liabilities	42.93	47.08	46.56
Current Liabilities	37.43	41.63	37.20
- ST Debt/Commercial Paper Payable	17.39	5.85	14.30
- Other Current Liabilities	20.04	35.78	22.90
Long-Term Borrowings	4.00	4.00	8.00
Other Liabilities	1.50	1.46	1.37
Shareholders' Equity	47.24	43.30	46.66
-Paid-in Capital	34.21	34.21	34.21
-Capital Surplus	12.43	12.43	12.43
-Legal Reserve	18.06	18.06	16.72
-Treasury Shares	(31.08)	(31.08)	(31.08)
-Un-appropriated Earnings*	1.33	1.33	2.27
-Special Reserve	0.00	0.00	0.82
-Retained Earnings & Others	12.29	8.35	11.29

*: excluding YTD profits

Table 9. Ratios

	3Q12	2Q12	3Q11
Current Ratio	47%	43%	51%
Interest Coverage (x)	53.7	70.0	43.8%
Net Debt (Cash) to Equity	33%	9%	31%
Net Debt (Cash) to EBITDA (x)	0.55	0.13	0.54
ROE (annualized)	35%	32%	30%
ROA (annualized)	18%	18%	15%

Balance Sheet Analysis

Assets:

Inventory's YoY increase was a reflection of growing smartphone sales.

Long-term investment increased QoQ as explained in the cash flow analysis section.

The net PP&E balance consisted of \$31.6bn in mobile, \$5.9bn in fixed network, \$1.9bn in cable-TV assets and \$0.5bn in momo.

Liabilities & Shareholders' Equity:

An NT\$11.54bn increase in short-term debt in the quarter raised our net debt balance to NT\$15.65bn or 55% annual EBITDA.

Other current liabilities dropped after cash dividends & employee bonuses were paid in 3Q12.

Ratio Analysis

Current ratio at the end of 3Q12 was higher than a quarter ago because of lower other current liabilities, following our payment of dividends and employee bonuses. Gearing as of the end of 3Q12 remained healthy, similar to its level a year ago.



VI. Management Discussion & Analysis

Key Message

Certain high-profile smartphone product launches are expected in 4Q, which is likely to increase quarterly earnings uncertainties. Nevertheless, healthy service revenue growth and solid results from the first three quarters will provide us the confidence to achieve our full-year guidance.

Board Resolution

TWM's board meeting today (October 25) approved to issue in tranches unsecured straight corporate bonds in 2012 and 2013 with a maximum amount of NT\$16bn and a maximum duration of 7 years.

Product and Service

- Exclusively introduced Samsung Galaxy Note II 32G, Samsung Galaxy S3 (red), the HTC J, Samsung Ace II and TWM own brand Amazing A2.
- Entered an exclusive partnership in Taiwan with Evernote, a world-class cloud service provider, to offer the premium version of the note-taking service, which includes greater storage space and uploads as well as other advanced features, to TWM's smart device users for free.
- Launched Super MOD (Multi-media on Demand) service, which was the first in Taiwan to provide high definition on-demand video, audio and interactive applications/contents by combining video on demand (VOD), Internet TV, cable TV and digital TV onto a single platform.

Awards

- Awarded for "Excellence in Corporate Social Responsibility" by *CommonWealth* magazine for the sixth year in a row. Taiwan Mobile finished fourth in the large enterprise group and first in the telecommunication services category.