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IR contact:

Shirley Chu
 Senior Director
 Investor Relations
 shirleychu@taiwanmobile.com

Rosie Yu
 CFO
 rosieyu@taiwanmobile.com

18Fl, No. 172-1, Sec.2, Ji-Lung
 Rd., Taipei 106, Taiwan, ROC
 Tel: 8862 6636 3159

ir@taiwanmobile.com
<http://www.taiwanmobile.com>

TWM Consolidated

NT\$bn	<u>2Q14</u>	<u>1Q14</u>	<u>2Q13</u>	<u>QoQ</u>	<u>YoY</u>
Revenue	26.94	27.73	26.56	-3%	1%
EBITDA	8.16	7.77	7.86	5%	4%
Operating Income	5.39	5.11	5.41	6%	0%
Non-op. Income (Expense)	(0.20)	(0.03)	(0.46)	523%	-57%
Pre-tax Income	5.19	5.08	4.95	2%	5%
(Less Tax)	(0.89)	(0.86)	(0.84)	3%	5%
(Less Discontinued operation Loss)	(0.04)	(0.04)	(0.09)	-3%	-56%
(Less Minority Interest)	(0.13)	(0.09)	(0.06)	43%	108%
Net Income	4.14	4.08	3.96	1%	5%
EPS (NT\$)	1.54	1.52	1.47	1%	5%

Highlights of 2Q14 Results

2Q14 consolidated EBITDA recorded a healthy YoY growth with half of the growth related to our telecom business and the rest largely from momo. Telecom EBITDA made up 84% of 2Q total EBITDA and rose 2% YoY. This is credited to a lower SAC (Subscriber Acquisition Cost), despite continuous pressure on mobile voice business. momo's strong EBITDA growth came from its online shopping business and margin expansions.

3Q14 Forecast

- We expect 3Q14 total revenue to be up by 5% YoY resulting from increases in both handset sales and momo revenue.
- EBITDA of cable TV and momo will continue to rise YoY in 3Q. Telecom EBITDA, nonetheless, may not see a YoY growth as initial 4G related opex would exceed revenue increase in the early stage of 4G service launch.
- Separately, we expect mobile network expansion to translate into YoY increases in both D&A and write-off charges in 3Q.

Board Resolutions

- The board today (July 28, 2014) approved the issuance of a 5-year Euro-Convertible Bond of no more than US\$500mn with a zero coupon, zero yield to maturity, conversion premium of 20% to 32.5%, and no conversion price adjustment for dividend yield below 5.8%.
- The board today (July 28, 2014) approved an additional NT\$1.82bn capex budget for 2014 mainly to reflect momo's investment of its logistic and warehousing center. Thus, 2014 capex is revised to be NT\$15.4bn: NT\$9.8bn for mobile, NT\$2.1bn for fixed-line, NT\$1bn for cable TV, and NT\$2.5bn for momo and other subsidiaries.

Key Message

Acceleration in the deployment of the 4G network, growing number and greater variety of LTE devices and the earlier-than-expected availability of the 1800MHz LTE spectrum will propel customers' migration to 4G services. TWM is best positioned to capture the business upside of the LTE services.

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I. Revenue Analysis

Table 1. Key Operational Data

Revenue (NT\$bn)	2Q14	1Q14	2Q13	QoQ	YoY
Telecom	19.73	20.53	20.18	-4%	-2%
Mobile Service	13.50	13.41	13.51	1%	0%
Device Sales	4.46	5.24	4.72	-15%	-6%
Fixed-line	0.84	0.83	0.88	1%	-5%
IDD	0.43	0.47	0.55	-8%	-21%
ISR & Others	0.51	0.58	0.53	-12%	-4%
HBG	1.58	1.58	1.55	0%	2%
- Pay-TV related	1.09	1.09	1.07	0%	2%
- Broadband	0.30	0.30	0.29	2%	6%
- Content & others	0.18	0.19	0.19	-5%	-3%
momo¹	5.62	5.66	4.89	-1%	15%
- TV shopping & catalogue	1.98	2.22	2.16	-11%	-8%
- Online shopping	3.52	3.35	2.66	5%	32%
Other²	0.11	0.04	-	179%	NM

Note 1: momo announced the sale of its cosmetic stores and department store operations on March 28, 2014 and August 30, 2013, respectively. The related operating and non-operating results of the aforementioned business lines were reclassified retroactively as discontinued operations in the consolidated P&L and thus were not included in tables 1, 2 and 3.

Note 2: 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.

	2Q14	1Q14	2Q13	QoQ	YoY
Mobile Subscribers (K)	7,413	7,306	7,106	1%	4%
- Data card	569	544	453	5%	26%
Monthly Churn	1.8%	2.0%	2.0%		
MOU (bn)	3.18	3.29	3.81	-3%	-17%
Pay-TV Subs (K)	586	585	582	0%	1%
Cable Broadband Subs (K)	185	182	176	1%	5%
DTV Subs (K)	152	141	98	8%	55%

NT\$	2Q14	1Q14	2Q13	QoQ	YoY
Wireless					
ARPU –postpaid (residual value)	837	831	829	1%	1%
Cable MSO					
Basic TV ARPU	494	495	493	0%	0%
Broadband ARPU	546	543	544	1%	0%
DTV ARPU	133	137	140	-3%	-5%
Blended ARPU ¹	796	791	779	1%	2%

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

Telecom:

Under the relative fair value method, 2Q14 mobile service revenue was flat YoY as the increase in the wireless data revenue was offset by the decline in the mobile voice revenue resulting from MOU drops. Having said that, mobile data adoption still reached 58% of the postpaid installed base at the end of 2Q14, rising from 48% a year ago. As a result, mobile broadband revenue rose 20% YoY for the quarter.

Under the relative fair value method, device sales declined QoQ and YoY due to, respectively, a decrease in the sale volume of the bundled handsets and the sales mix shifting to low-end smartphones in 2Q14.

IDD revenue decline came largely from pricing competition from type II smaller players.

Cable:

Pay-TV related revenue reported a 2% YoY growth benefiting from the continuing increases in digital TV service adoption and organic growth in basic TV subscriptions.

Broadband revenue maintained a mid-single digit YoY growth on the back of a steady increase in the cable internet subscriber base.

DTV ARPU was down QoQ and YoY due to a higher customer mix of promotional basic HD programs, which was offered to new household subscribers as a means to boost DTV penetration rate. However, blended ARPU still grew 2% YoY as a result of our upselling strategy.

momo

momo's revenue increase was mainly due to a solid 32% YoY growth in the online shopping business.

II. EBITDA Analysis

Table 2. EBITDA Breakdown

NT\$bn	2Q14	1Q14	2Q13	QoQ	YoY
EBITDA	8.16	7.77	7.86	5%	4%
- Telecom	6.85	6.57	6.74	4%	2%
- HBG	0.86	0.86	0.83	0%	3%
- momo ¹	0.39	0.32	0.28	22%	43%
- others	0.06	0.02	-	146%	NM
Margin	30.3%	28.0%	29.6%	+2.3ppts	+0.7ppts
- Telecom	34.7%	32.0%	33.4%	+2.7ppts	+1.4ppts
- HBG	54.3%	54.5%	53.6%	-0.2ppts	+0.6ppts
- momo	7.0%	5.7%	5.6%	+1.3ppts	+1.4ppts
- others	53.9%	61.2%	-	-7.2ppts	NM
D&A	2.77	2.66	2.44	4%	13%
- Telecom	2.46	2.38	2.21	4%	11%
- HBG	0.20	0.19	0.16	2%	19%
- momo ¹	0.03	0.03	0.03	0%	23%
- others	0.04	0.02	--	125%	NM
EBIT	5.39	5.11	5.41	6%	0%
- Telecom	4.39	4.19	4.52	5%	-3%
- HBG	0.66	0.67	0.67	-1%	0%
- momo ¹	0.36	0.29	0.25	24%	45%
- others	0.02	0.01	-	203%	NM

Note 1: momo announced the sale of its cosmetic stores and department store operations on March 28, 2014 and August 30, 2013, respectively. The related operating and non-operating results of the aforementioned business lines were reclassified retroactively as discontinued operations in the consolidated P&L and thus were not included in tables 1, 2 and 3.

Note 2: The combined total of telecom, HBG, 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	2Q14	1Q14	2Q13	QoQ	YoY
Non-Operating	(0.20)	(0.03)	(0.46)	523%	-57%
-Net Interest Income (Expense)	(0.12)	(0.13)	(0.06)	-7%	109%
- Write-off Loss	(0.09)	(0.07)	(0.43)	20%	-79%
-Gains from the Sale of Property	0.00	0.16	0.00	NM	NM
-Others	0.01	0.01	0.03	-30%	-69%

Note 1: momo announced the sale of its cosmetic stores and department store operations on March 28, 2014 and August 30, 2013, respectively. The related operating and non-operating results of the aforementioned business lines were reclassified retroactively as discontinued operations in the consolidated P&L and thus were not included in tables 1, 2 and 3.

EBITDA Analysis

For 2Q14, consolidated EBITDA grew YoY driven by EBITDA increases from all business lines. The sequential increase was largely due to growth in telecom EBITDA.

Telecom EBITDA increased YoY in 2Q14 mainly resulting from a contained SAC, despite continuous pressure on mobile voice business. Its QoQ growth was aided by a reduction in subsidy expenditure related to a lower sale volume of bundled handsets.

In 2Q14, rising revenues in HBG's broadband and DTV businesses supported its EBITDA YoY increase. D&A expense increase was due to a rising depreciation expense from more digital set-top-box procurements.

In 2Q14, momo's EBITDA in the online shopping business grew around 72% YoY credited to a better product mix and margin expansions. EBITDA in the TV home shopping service grew by 11% due to cost cutting measures. Thus, momo's EBITDA increased by 43% YoY in 2Q14, even higher than the 35% YoY rise a quarter ago. Its EBITDA margin also expanded to 7.0% for the quarter from 5.6% during the same period last year.

Non-Operating Item Analysis

2Q14 non-operating expense rose QoQ as a result of a one-off disposal gain from an unused parcel of land in 1Q14. Despite a higher interest expense, a lesser assets write-off loss in 2Q14 led to a YoY decline in non-operating loss.

III. Income Statement Analysis

Table 4. 2Q14 Consolidated Results vs. Forecast

NT\$bn	2Q14	YoY	% of 2Q14 Forecast
Revenue	26.94	1%	95%
Operating Cost	17.33	3%	92%
Operating Expense	4.24	-4%	92%
Operating Income	5.39	0%	112%
Non-op. Income (Expense)	(0.20)	-57%	45%
Pre-tax Income	5.19	5%	118%
(Less Tax)	(0.89)	5%	127%
(Discontinued Operations & Minority Interest)	(0.17)	12%	139%
Net Income	4.14	5%	116%
EPS (NT\$)	1.54	5%	116%
EBITDA	8.16	4%	105%
EBITDA margin	30.3%	+0.7ppts	

Income Statement Analysis

YoY Analysis

For 2Q14, the revenue's YoY increase of 1% was due to growth in momo's revenue, which more than offset declines in device sales and IDD revenue. EBITDA grew 4% YoY largely as a result of expense discipline in the telecom division and profit growth from momo. Although the rising D&A expense resulting from the expanding telecom and CATV businesses weighed on TWM's EBIT for the quarter, a lower non-operating expense boosted net income to increase 5% from a year ago.

Guidance Achievement Rate Analysis

The lower-than-expected revenue was mainly due to a handset sales shortfall resulting from weaker demand for high-end smartphones. Having said that, consolidated EBITDA still exceeded our guidance by 5% due to lower-than-expected telecom opex and higher-than-expected profit from momo. Non-operating expenses, namely write-offs and interesting expenses, also came in lower than forecast. As such, 2Q14 net income was ahead of our forecast by 16%.

IV. Cash Flow Analysis

Table 5. Cash Flow

NT\$bn	2Q14	1Q14	2Q13
Total Op Sources/(Uses)	6.68	6.84	7.42
Pre-tax Income	5.15	5.03	4.84
Depreciation	2.37	2.35	2.16
Amortization	0.40	0.32	0.31
Changes in Working Capital	(1.54)	(0.99)	(0.47)
Asset Write-off Add-backs	0.09	0.07	0.43
Other Add-backs	0.21	0.06	0.14
Net Investing Sources/(Uses)	(4.79)	(0.99)	(5.12)
Capex ¹	(4.78)	(2.27)	(2.71)
Divestments (Acquisitions)	0.04	(0.11)	(1.38)
Other Financial Assets (Increase) ²	(0.07)	0.18	(0.01)
Cash from Consolidation of Subsidiary	0.00	1.19	0.00
Refundable Deposit (Increase)	(0.01)	(0.01)	(1.04)
Others	0.02	0.02	0.02
Net Financing Sources/(Uses)	(4.07)	(5.63)	2.90
Short-Term Borrowings	(11.47)	(6.76)	(2.65)
Long-Term Bank Loan	7.00	3.00	-
Commercial Paper Payable Increase	0.80	(1.90)	-
Dividend Payment to Minority Interest	(0.22)	-	(0.25)
Interest Payment	(0.17)	(0.09)	(0.00)
Dispose of investment in Subsidiaries	-	0.14	-
Corporate Bond Payable	-	-	5.80
Others	(0.01)	(0.03)	0.01
Net Cash Position Chg.	(2.18)	0.22	5.20

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

2. Mainly time deposits with durations of over 3 months

Table 6. Capex & FCF

NT\$bn	2Q14	1Q14	2Q13
Cash Capex	4.78	2.27	2.71
- Mobile	2.02	1.59	2.06
- Fixed-line	0.44	0.32	0.40
- Cable MSO	0.14	0.34	0.21
- momo & other	2.18	0.02	0.04
% of Revenue	18%	8%	10%
Free Cash Flow	1.90	4.57	4.70

Cash Flow Analysis

Despite a higher pre-tax income in 2Q14, the operating cash inflow decreased slightly QoQ mainly due to a corporate income tax payment made in the quarter. Compared to a year ago, larger advanced receipts/other payables booked in 2Q13 resulted in a higher operating cash inflow.

The 2Q14 net investing cash outflow was mainly a NT\$4.78bn cash capex, explained in the following section. For the same period a year ago, some cash outflowed due to capital injections into our subsidiaries and investees and momo's NT\$1bn investment in bond funds. In addition, a NT\$1bn refundable deposit was paid to the NCC for the 4G auction held in 3Q13.

The main financing activity in 2Q14 was raising a NT\$7bn 2-year bank loan and a NT\$0.8bn commercial paper to repay the NT\$11.47bn short-term borrowing. In addition, a NT\$0.22bn cash dividend payment to minority shareholders was made by momo in 2Q14.

Capex and Free Cash Flow Analysis

The 2Q14 net investing cash outflow was mainly a NT\$4.78bn cash capex, comprising of 1) 4G network roll-out, 2) momo's logistic and warehousing center 3) Taipei New Horizon's project payments.

V. Balance Sheet Analysis

Table 7. Balance Sheet

NT\$bn	2Q14	1Q14	2Q13
Total Assets	143.08	142.93	111.81
Current Assets	26.81	28.54	31.74
- Cash & Cash Equivalents	6.00	8.18	11.28
- Accounts Receivable	14.33	14.15	13.00
- Inventories	3.06	2.94	3.18
- Other Current Assets	3.42	3.27	4.28
Non-current Assets	116.27	114.39	80.08
- Long-Term Investment	2.57	2.47	3.27
- Property and Equipment	45.27	42.81	42.38
- Concession	39.70	40.02	4.11
- Other Non-current Assets	28.73	29.09	30.32
Liabilities	89.70	78.51	61.36
Current Liabilities	55.39	49.62	42.31
- ST Debt/Commercial Paper Payable	15.88	25.55	4.77
- Other Current Liabilities	39.51	24.06	37.54
Non-current Liabilities	34.31	28.89	19.05
- Long-Term Borrowings	29.08	23.08	14.79
- Other Non-current Liabilities	5.23	5.81	4.26
Shareholders' Equity	53.38	64.42	50.46
-Paid-in Capital	34.21	34.21	34.21
-Capital Surplus	12.48	12.48	12.43
-Legal Reserve	21.54	19.26	19.26
-Un-appropriated Earnings	4.83	6.61	6.61
-Treasury Shares	(31.08)	(31.08)	(31.08)
-Retained Earnings & Others*	11.40	22.94	9.02

* Including YTD profits, non-controlling interest and other equity items

Table 8. Ratios

	2Q14	1Q14	2Q13
Current Ratio	48%	58%	75%
Interest Coverage (x)	36.9	34.5	60.2
Net Debt (Cash) to Equity	73%	63%	16%
Net Debt (Cash) to EBITDA (x)	1.22	1.30	0.27
ROE (annualized)	33%	27%	32%
ROA (annualized)	12%	12%	14%

Assets

In 2Q14, cash balance decreased QoQ resulting from a higher cash capex. Compared to a year ago, cash level was lower because we raised NT\$5.8bn from corporate bond issuance during the same period last year.

The QoQ increase in long-term investment in 2Q was due to momo's new TV home shopping joint venture in Thailand with the related cash outflow occurring a quarter ago.

The sequential increase in PP&E mainly came from adding 4G equipment & momo's NT\$1.71bn spending to build its logistic and warehousing center.

We note that TNH has been consolidated into TWM's financials since Feb. 21, 2014. The YoY increase in concession was a reflection of TNH's NT\$7.4bn superficies granted by the government and the NT\$29bn 4G spectrum fee paid in 4Q13.

Liabilities & Shareholders' Equity

Compared to a year ago, TWM's net debt increased by NT\$30bn in 2Q14 mainly attributed to the LTE spectrum acquired in 4Q13. But the Company managed to reduce the debt level sequentially.

The QoQ increase in other current liabilities was due to the \$15.06bn cash dividends payable paid on July 18, 2014.

Ratio Analysis

Current ratio fell sequentially due to dividends payable in 2Q14. ROE improved from 1Q14 due to fewer shareholders' equity at the end of 2Q14 after dividend declarations.

VI. Quarterly Guidance

Table 9. 3Q14 Forecast

NT\$bn	3Q14F	3Q13	YoY
Revenue	28.30	27.08	5%
EBITDA	7.89	8.02	-2%
EBIT	4.72	5.54	-15%
Non-operating expense	0.62	0.29	115%
Net Income	3.44	4.27	-19%
EPS (NT\$)	1.28	1.58	-19%

- We expect 3Q14 total revenue to be up by 5% YoY resulting from increases in both handset sales and momo revenue.
- EBITDA of cable TV and momo will continue to rise YoY in 3Q. Telecom EBITDA, nonetheless, may not see a YoY growth as initial 4G related opex would exceed revenue increase in the early stage of 4G service launch.
- Separately, we expect mobile network expansion to translate into YoY increases in both D&A and write-off charges in 3Q.

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- ECB Issuance

The board today (July 28, 2014) approved the issuance of a 5-year Euro-Convertible Bond of no more than US\$500mn with a zero coupon, zero yield to maturity, conversion premium of 20% to 32.5%, and no conversion price adjustment for dividend yield below 5.8%.

- Capex Budget Revision

The board today (July 28, 2014) approved an additional NT\$1.82bn capex budget for 2014 mainly to reflect momo's investment of its logistic and warehousing center. Thus, 2014 capex is revised to be NT\$15.4bn: NT\$9.8bn for mobile, NT\$2.1bn for fixed-line, NT\$1bn for cable TV, and NT\$2.5bn for momo and other subsidiaries.

Regulatory Update

NCC approved TWM and FET returning their respective 5MHz 2G spectrums on the 1800MHz band on July 16, 2014. Accordingly, TWM will be able to launch 1800 LTE service by the end of September.

Product and Service

- TWM's 4G service on 700MHz officially launched in early June with an early bird discount that offers consumers the unsurpassed experience of the fastest mobile broadband service.
- Ahead of peers in introducing high-speed 200Mbps cable internet service for only NT\$999 per month.

Awards and Recognition

- Won the "Trusted Brand Gold Award" by *Reader's Digest* for the eleventh consecutive year.
- Received the highest "A⁺⁺" rating among listed companies in "Transparency and Information Disclosure" from Taiwan's Securities and Futures Institute for the ninth year in a row.
- For the eighth time, winner of the "Corporate Social Responsibility Award" by *Global Views Monthly*.