

March 31, 2017	<u>TWM Consolidated</u>					
	NT\$bn	<u>1Q17</u>	<u>4Q16</u>	<u>1Q16</u>	<u>QoQ</u>	<u>YoY</u>
	Revenue	28.84	30.56	29.20	-6%	-1%
	EBITDA	8.44	8.16	8.42	3%	0%
	Operating Income	5.07	4.68	5.00	8%	1%
	Non-op. Income (Expense)	(0.17)	(0.34)	(0.24)	-50%	-27%
	Pre-tax Income	4.90	4.34	4.77	13%	3%
	(Income Tax)	(0.76)	(0.74)	(0.83)	3%	-8%
	(Minority Interest)	(0.18)	(0.16)	(0.17)	12%	7%
	Net Income	3.96	3.44	3.77	15%	5%
	EPS (NT\$)	1.46	1.27	1.39	15%	5%
Topics in This Report	<u>Highlights of Operating Results</u>					
<ul style="list-style-type: none"> • Revenue Analysis • EBITDA Analysis • Income Statement Analysis • Cash Flow Analysis • Balance Sheet Analysis • Management Remarks 	<p>In 1Q17, despite keener market competition, TWM still managed to grow its consolidated EBIT by 1% from a year ago due to subscriber acquisition cost reductions and product offering differentiations. In addition, we had lower interest expenses and asset write-off losses coupled with a higher equity investment income for the quarter. The aforementioned led to a 5% YoY increase in net income, the highest in the industry.</p> <p>1Q17 consolidated revenue slightly missed our forecast due to lower-than-expected handset sales and telecom service revenue. However, TWM exceeded its EBIT guidance by 7% resulting from its stringent opex controls. Net income came in 9% higher than target, surpassing our expectations.</p>					
	<u>2016 Earnings Distribution</u>					
	<p>TWM's board meeting today (May 4, 2017) approved a proposal to distribute NT\$15.2bn in cash dividends, translating into a 99.5% payout or NT\$5.6 per share, demonstrating our commitment to maintaining a stable dividend policy.</p>					
	<u>Key Message</u>					
	<p>Maintaining stable profits remains a key area of focus for Taiwan Mobile. Differentiated offerings to mitigate the longer-than-expected industry rationalization have helped us to increase the take-up of higher-end rate plans and lower customer acquisition costs. Looking ahead, we don't expect to see worsened competitive dynamics. Taiwan Mobile will strike a balance between responding to competition and maintaining profitability.</p>					
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I. Revenue Analysis

Table 1. Key Operational Data

Residual Value (NT\$bn)	1Q17	4Q16	1Q16	QoQ	YoY
Mobile Service Revenue	16.02	16.57	16.34	-3%	-2%
Postpaid ARPU (NT\$)	861	885	869	-3%	-1%
Blended ARPU (NT\$)	720	740	733	-3%	-2%
Telecom Service Revenue	17.17	17.67	17.59	-3%	-2%

Revenue (NT\$bn)	1Q17	4Q16	1Q16	QoQ	YoY
Telecom	19.61	21.29	20.50	-8%	-4%
Service	14.85	15.33	15.26	-3%	-3%
Device Sales	4.76	5.96	5.23	-20%	-9%
CATV	1.61	1.62	1.64	0%	-2%
- Pay-TV Related	1.07	1.08	1.10	-1%	-2%
- Broadband	0.33	0.33	0.33	1%	1%
- Content & Others	0.21	0.22	0.22	-2%	-2%
momo	7.58	7.62	7.01	-1%	8%
- E-commerce	5.90	5.82	4.99	1%	18%
- TV Shopping & Others	1.68	1.80	2.01	-7%	-16%
Others¹	0.13	0.14	0.15	-2%	-13%

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.

	1Q17	4Q16	1Q16	QoQ	YoY
Mobile Subscribers (K)	7,386	7,439	7,434	-1%	-1%
- Postpaid	5,912	5,944	5,975	-1%	-1%
Monthly Churn	2.9%	2.9%	2.5%		
- Postpaid	1.6%	1.7%	1.5%		
MOU (bn)	2.09	2.43	2.65	-14%	-21%
Pay-TV Subs (K)	581	581	588	0%	-1%
Cable Broadband Subs (K)	205	203	200	1%	3%
DTV Subs (K)	205	199	191	3%	7%

CATV ARPU (NT\$)	1Q17	4Q16	1Q16	QoQ	YoY
Basic TV	465	466	483	0%	-4%
Broadband	531	531	538	0%	-1%
DTV	126	127	130	-1%	-3%
Blended ¹	803	804	807	0%	0%

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

Telecom:

Even though 4G take-up rate continuously rose to 68% at the end of 1Q17, the growth in postpaid ARPU and mobile service revenue was constrained by market competition. Having said that, TWM still outperformed its peers by posting the smallest YoY decline in mobile service revenue in 1Q17.

1Q17 device sales decreased QoQ and YoY due to the decelerated sales momentum of iPhone 7 and higher mix of mid-end Android phones.

In terms of total mobile subscribers, although the mobile market remained competitive in 1Q17, TWM still outperformed in terms of sustaining its subscriber base.

MOU's QoQ and YoY drops were a function of VoIP replacement and fewer minutes from APT.

Cable:

In 1Q17, the number of basic TV subscribers bottomed out from 4Q16 due to the tapered-off impact from new entrant competition in the New Taipei City service area. Stability in overall CATV revenue was underpinned by sequential subscriber rise in cable broadband and digital TV services.

momo

momo posted an 18% YoY top-line growth in the E-commerce business for the quarter, higher than that of its closest competitor in the industry. As a result, E-commerce made up 78% of momo's total revenue.

II. EBITDA Analysis

Table 2. EBITDA Breakdown

NT\$bn	1Q17	4Q16	1Q16	QoQ	YoY
EBITDA	8.44	8.16	8.42	3%	0%
- Telecom	7.14	6.86	7.05	4%	1%
- CATV	0.86	0.84	0.90	2%	-4%
- momo	0.34	0.34	0.40	0%	-14%
- others	0.09	0.09	0.05	-3%	61%
Margin	29.3%	26.7%	28.8%	2.6ppts	0.4ppts
- Telecom	36.4%	32.2%	34.4%	4.2ppts	2.0ppts
- CATV	53.5%	52.0%	54.6%	1.5ppts	-1.1ppts
- momo	4.5%	4.4%	5.6%	0.0ppts	-1.2ppts
- others	64.1%	65.2%	34.8%	-1.0ppts	29.3ppts

D&A	3.37	3.48	3.41	-3%	-1%
- Telecom	3.03	3.14	3.08	-4%	-2%
- CATV	0.22	0.21	0.22	2%	0%
- momo	0.03	0.03	0.03	-1%	-5%
- others	0.05	0.05	0.05	0%	1%
EBIT	5.07	4.68	5.00	8%	1%
- Telecom	4.11	3.72	3.97	11%	4%
- CATV	0.65	0.63	0.68	3%	-5%
- momo	0.31	0.31	0.37	1%	-15%
- others	0.03	0.04	0.00	-8%	NM

Note: The sum of each account of telecom, CATV and momo does not equal to the consolidated total number due to other revenue and minor adjustments / eliminations.

Table 3. Non-operating Item

NT\$bn	1Q17	4Q16	1Q16	QoQ	YoY
Non-Operating Revenue (Expense)	(0.17)	(0.34)	(0.24)	-50%	-27%
- Net Interest Expense	(0.12)	(0.13)	(0.14)	-6%	-14%
- Write-off Loss	(0.03)	(0.33)	(0.04)	-92%	-38%
- Other Revenue (Expense)	(0.03)	0.11	(0.05)	NM	-52%

EBITDA Analysis

Due to smaller handset subsidies from fewer handsets sold as well as lower SAC (subscriber acquisition cost), telecom EBITDA increased QoQ and YoY in 1Q17. A disciplined marketing expense also contributed to the improvements of telecom EBITDA.

Cable TV EBITDA rose sequentially in 1Q17 aided by the stabilizing CATV revenue as mentioned earlier and lesser marketing efforts to defend market share. As such, CATV EBITDA margin increased 1.5ppts from a quarter ago.

In 1Q17, momo's YoY contraction in EBITDA was mainly due to the revenue decline of its TV home shopping business which has higher fixed costs. Despite the YoY drop in EBITDA, momo's equity investment income grew over 50% from a year ago and already made up 12% of its net income.

D&A Analysis

Compared to our peers, we invested more rationally in 4G. As such, telecom depreciation and amortization peaked in 2016 and started coming off this year. As a result, TWM showed the highest YoY growth of 4% in telecom EBIT among peers in 1Q17.

CATV 1Q17 D&A expense increased sequentially as a result of continuous investments in subsidizing set-up boxes in order to reach 100% household set-top-box installation target by 2017 requested by the NCC.

Non-Operating Item Analysis

1Q17 non-operating expense decreased YoY due to a lower interest expense from a smaller average loan balance, additional leasing revenue from unused properties and a higher equity investment income. Its sequential drop was due mainly to a lower asset write-off loss booked in 1Q17.

III. Income Statement Analysis

Table 4. 1Q17 Consolidated Results vs. Forecast

NT\$bn	1Q17	QoQ	YoY	% of 1Q17 Forecast
Revenue	28.84	-6%	-1%	97%
Operating Cost	19.64	-8%	0%	97%
Operating Expense	4.13	-10%	-8%	91%
Operating Income	5.07	8%	1%	107%
Non-op. Income (Expense)	(0.17)	-50%	-27%	117%
Pre-tax Income	4.90	13%	3%	107%
Net Income	3.96	15%	5%	109%
EPS (NT\$)	1.46	15%	5%	109%
EBITDA	8.44	3%	0%	104%
EBITDA margin	29.3%			

Income Statement Analysis

YoY Analysis

In 1Q17, despite keener market competition, TWM still managed to grow its consolidated EBIT by 1% from a year ago due to SAC reductions and product offering differentiations. In addition, we had lower interest expenses and asset write-off losses coupled with a higher equity investment income for the quarter. The aforementioned led to a 5% YoY increase in net income, the highest in the industry.

Guidance Achievement Rate Analysis

1Q17 consolidated revenue slightly missed our forecast due to lower-than-expected handset sales and telecom service revenue. However, TWM exceeded its EBIT guidance by 7% resulting from its stringent opex controls. Net income came in 9% higher than target, surpassing our expectations.

IV. Cash Flow Analysis

Table 5. Cash Flow

NT\$bn	1Q17	4Q16	1Q16
Total Op Sources/(Uses)	7.49	7.94	10.03
Pre-tax Income	4.90	4.34	4.77
Depreciation	2.55	2.65	2.62
Amortization	0.82	0.83	0.79
Changes in Working Capital	(0.98)	(0.42)	1.54
Asset Write-off Add-backs	0.02	0.33	0.04
Other Add-backs	0.18	0.21	0.27
Net Investing Sources/(Uses)	(1.70)	(2.36)	(2.91)
Capex ¹	(2.66)	(2.26)	(2.75)
Divestment (Acquisition)	0.00	(0.03)	(0.20)
Other Financial Assets (Increase)	0.96	(0.09)	0.01
Refundable Deposits (Increase)	(0.03)	(0.01)	(0.00)
Others	0.02	0.03	0.02
Net Financing Sources/(Uses)	(5.56)	(4.44)	(7.00)
Short-Term Borrowings	(5.35)	(6.51)	(4.49)
Commercial Paper Payable Increase	0.00	(7.70)	(2.30)
Convertible Bond Payable	0.00	9.99	0.00
Long-Term Bank Loan	(0.14)	(0.04)	(0.06)
Others	(0.06)	(0.19)	(0.16)
Net Cash Position Chg.	0.22	1.13	0.12

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

Table 6. Capex & FCF

NT\$bn	1Q17	4Q16	1Q16
Cash Capex	2.66	2.26	2.75
- Mobile	1.29	1.45	2.00
- Fixed-line	0.36	0.30	0.25
- Cable MSO	0.42	0.27	0.29
- momo & others	0.58	0.24	0.21
% of Revenue	9%	7%	9%
Free Cash Flow	4.83	5.68	7.29

Cash Flow Analysis

In 1Q17, operating cash inflow remained stable compared to a quarter ago. Operating cash inflow was higher in 1Q16 as a result of a smaller handset payment made in that quarter.

The major investing activities in 1Q17 were a NT\$2.66bn cash capex and momo's redemption of its NT\$1.16bn time deposit for its automatic warehouse under construction.

On the financing front, we reduced our borrowings, short-term debt in particular, by NT\$5.49bn in 1Q17. In 4Q16, a 5-year NT\$10bn zero-coupon convertible bond was issued to replace short-term bank borrowings.

Capex and Free Cash Flow Analysis

In 1Q17, telecom capex dropped QoQ and YoY as guided. The rising investment in CATV, however, was to fulfill the 100% household set-top-box installation target. Most of momo's cash capex in 1Q17 were payments that were already budgeted in 2016 for the automatic warehouse.

V. Balance Sheet Analysis

Table 7. Balance Sheet

NT\$bn	1Q17	4Q16	1Q16
Total Assets	148.73	151.38	153.75
Current Assets	32.58	34.28	32.98
- Cash & Cash Equivalents	7.93	7.70	8.70
- Accounts Receivable	14.77	15.42	15.72
- Inventories	3.82	4.07	2.78
- Short-Term Investment	1.22	1.23	1.24
- Other Current Assets	4.85	5.86	4.53
Non-current Assets	116.15	117.10	120.77
- Long-Term Investment	5.58	5.41	5.37
- Property and Equipment	45.00	45.37	46.79
- Concession	37.20	37.86	39.81
- Other Non-current Assets	28.37	28.45	28.80
Liabilities	78.25	85.19	84.09
Current Liabilities	31.42	38.14	49.84
- ST Borrowings	8.26	13.62	25.53
- Other Current Liabilities	23.16	24.53	24.31
Non-current Liabilities	46.83	47.05	34.25
- Long-Term Borrowings	42.79	42.91	29.39
- Other Non-current Liabilities	4.04	4.14	4.86
Shareholders' Equity	70.48	66.19	69.66
-Paid-in Capital	34.21	34.21	34.21
-Capital Surplus	14.99	14.99	14.59
-Legal Reserve	24.61	24.61	23.04
-Un-appropriated Earnings	0.63	0.63	2.76
-Treasury Shares	(29.72)	(29.72)	(29.72)
-Non-controlling Interest	5.92	5.77	5.90
-Retained Earnings & Others*	19.85	15.71	18.89

* Including YTD profits and other equity items

Table 8. Ratios

	1Q17	4Q16	1Q16
Current Ratio	104%	90%	66%
Interest Coverage (x)	31.6	27.0	27.8
Net Debt (Cash) to Equity	61%	74%	66%
Net Debt (Cash) to EBITDA (x)	1.32	1.44	1.39
ROE (annualized)	25%	23%	24%
ROA (annualized)	11%	9%	10%

Assets

As of the end of 1Q17, cash balance increased QoQ as explained in the cash flow analysis section.

The QoQ decrease in accounts receivable was a function of a higher mix of mid-end handset bundled sales.

Other current assets decrease sequentially mainly due to momo's redemption of its time deposit mentioned earlier.

Long-term investment increased QoQ and YoY to reflect the mark-to-market value appraised on the investments in THSR (Taiwan High Speed Rail).

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

Liabilities & Shareholders' Equity

Gross debt balance fell to NT\$51.05bn, following a NT\$5.49bn debt repayment made in the quarter. After being partially replaced by the convertible bond in 4Q16, short-term borrowings only accounted for 16% of gross debt by end of 1Q17 compared to 46% a year ago.

The YoY increase in capital surplus was due to the equity component (share option) of TWM's convertible bond issued in 4Q16.

Ratio Analysis

With short-term debt repayments made in 1Q17, current ratio went up while the ratios of net debt to equity and net debt to EBITDA both fell. ROE rose to 25% by the end of 1Q17.

VI. Management Remarks

Key Message

Maintaining stable profits remains a key area of focus for Taiwan Mobile. Differentiated offerings to mitigate the longer-than-expected industry rationalization have helped us to increase the take-up of higher-end rate plans and lower customer acquisition costs. Looking ahead, we don't expect to see worsened competitive dynamics. Taiwan Mobile will strike a balance between responding to competition and maintaining profitability.

2016 Earnings Distribution

TWM's board meeting today (May 4, 2017) approved a proposal to distribute NT\$15.2bn in cash dividends, translating into a 99.5% 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

Received the distinction of Industry Mover in the category of global telecom industry and qualified for inclusion in the 2017 Sustainability Yearbook issued by RobecoSAM (Sustainable Asset Management) for the first time, the only awardee from the Taiwan telecom industry.