

July 26, 2012 Topics in This Report <ul style="list-style-type: none"> • Revenue Analysis • EBITDA Analysis • Income Statement Analysis • Cash Flow Analysis • Balance Sheet Analysis • Forecast • Management Remark IR contact: Shirley Chu 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	<u>TWM consolidated</u>						
	NT\$bn	<u>2Q12</u>	<u>1Q12</u>	<u>2Q11</u>	<u>QoQ</u>	<u>YoY</u>	
	Revenue	23.72	23.99	17.97	-1%	32%	
	EBITDA	7.20	6.60	6.60	9%	9%	
	Operating Income	4.78	4.20	4.26	14%	12%	
	Non-op. Income (Expense)	(0.02)	(0.05)	(0.08)	-55%	-73%	
	Pre-tax Income	4.76	4.15	4.18	15%	14%	
	(Less Tax)	(0.81)	(0.71)	(0.71)	15%	14%	
	(Less Minority Interest)	(0.04)	(0.09)	0.00	-57%	NM	
	Net Income	3.91	3.35	3.47	17%	13%	
	EPS (NT\$)	1.45	1.25	1.16	16%	25%	
	<u>Highlights of 2Q12 & 1H12</u>						
	<p>TWM achieved better operating leverage in 2Q12 with service revenue YoY growth more than offsetting the increased marketing expenses related to smartphones adoptions. Benefitting also from savings on network/traffic costs, consolidated EBITDA grew by 9% YoY in 2Q12.</p> <p>In 2Q12, the combined service revenue of the three business groups achieved its guidance. Negatively affected by weak spending sentiment, momo failed to live up to our expectations in 2Q12. But both CBG and EBG saw a notable EBITDA increase QoQ and YoY due accelerated revenue growth and controlled expenses, allowing consolidated EBITDA to meet its target.</p> <p>With EBITDA meeting 2Q12 guidance plus higher-than-expected non-operating income, our 2Q12 net profit was better than forecasted.</p> <p>For the first six months of this year, our EPS came in at NT\$2.7, up 19% YoY and reaching 51% of our full-year target of NT\$5.34.</p>						
	<u>Capex guidance revision</u>						
	<p>On July 26, the Board approved an additional NT\$1bn capital expenditure in 2012 to accelerate 3G data capacity expansions. The group's capex budget would be raised to around NT\$11.8bn, of which NT\$6.7bn will be for mobile, NT\$2.8bn for the construction and equipments of the IDC, NT\$1.4bn for fixed-line other than IDC, NT\$0.9bn for CATV and the other subsidiaries.</p>						
	<u>Management Remark</u>						
	<p>To meet increased demand for data, we have stepped up our efforts to further build out our network. These efforts will continue prudently. Overall, we reiterate our confidence in achieving our 2012 targets.</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

Revenue (NT\$bn)	2Q12	1Q12	2Q11	QoQ	YoY
CBG	15.34	15.52	14.12	-1%	9%
Mobile Service	12.89	12.75	12.24	1%	5%
-Voice	8.83	8.90	9.33	-1%	-5%
-VAS	4.06	3.84	2.91	6%	40%
IDD	0.65	0.70	0.65	-8%	-1%
Device Sales	1.70	1.96	1.13	-13%	50%
EBG	2.60	2.54	2.39	2%	9%
Mobile Service	1.11	1.08	1.00	3%	11%
Fixed-line	0.97	0.95	0.91	2%	7%
ISR & Others	0.52	0.52	0.49	0%	6%
HBG	1.52	1.51	1.47	1%	4%
- Pay-TV related	1.06	1.05	1.04	0%	2%
- Broadband	0.26	0.26	0.22	2%	17%
- Content & others	0.20	0.20	0.20	-2%	-2%
momo & Others¹	4.26	4.41	-0.01	-4%	NM
- TV shopping & catalogue	2.13	2.41	2.05	-12%	4%
- Online shopping	1.83	1.70	1.30	8%	41%

	2Q12	1Q12	2Q11	QoQ	YoY
Mobile Subscribers (K)	6,821	6,735	6,474	1%	5%
- Data card	368	356	299	4%	23%
Consumer	6,506	6,429	6,216	1%	5%
Enterprise	315	306	258	3%	22%
Monthly Churn	1.9%	1.9%	1.7%		
MOU (bn)	4.17	4.16	3.69	0%	13%
ARPM (NT\$)	3.51	3.48	3.75	1%	-6%
Pay-TV Subs (K)	578	577	573	0%	1%
Cable Broadband Subs (K)	163	159	147	3%	11%

	2Q12	1Q12	2Q11	QoQ	YoY
Wireless					
ARPU (NT\$)	721	720	716	0%	1%
MOU per sub (minute/month)	205	207	191	-1%	8%
Cable MSO					
Monthly Subscription (NT\$)	503	505	505	0%	0%
Broadband ARPU (NT\$)	544	546	519	0%	5%
Blended ARPU ² (NT\$)	763	759	739	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:

Continued strong growth in wireless data revenue boosted mobile service revenue to increase by 5% YoY in the second quarter.

At the end of 2Q12, we have doubled our smartphone user base from a year ago to 31% of postpaid subscribers. As a result, mobile internet access revenue rose 65% YoY, stemming from a 37% YoY rise in data APRU and a 26% 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.

In 2Q12, device sales declined QoQ due to iPhone 4S sales volume tapering off. Compared to 2Q11, Android smartphone sales increase pushed up both smartphone sales volume and handset sales revenue by 50%.

EBG:

Benefiting from enterprise customer growth, mobile service revenue rose 11% YoY in 2Q12. In terms of the fixed-line business, revenue growth came largely from continued strength in the IP transit business.

HBG:

HBG maintained its broadband growth momentum on the back of steady cable internet subscriber increase and a higher APRU as a rich mix of 20M& above rose to 21% in June vs. 1% a year ago.

momo

Online shopping revenue was the bright spot, posting a 41% YoY growth in 2Q12 on margin expansions. The lackluster TV home shopping revenue in a more challenging macroeconomic environment took the shine off momo's 2Q revenue.

II. EBITDA Analysis

Table 2. EBITDA Breakdown

NT\$bn	2Q12	1Q12	2Q11	QoQ	YoY
EBITDA	7.20	6.60	6.60	9%	9%
- CBG	5.30	4.82	5.18	10%	2%
- EBG	0.93	0.69	0.64	34%	44%
- HBG	0.81	0.81	0.76	1%	6%
-momo ¹ & others	0.16	0.29	0.01	-44%	NM
Margin	30.3%	27.5%	36.7%	2.8%	-6.4%
- CBG	34.5%	31.0%	36.7%	3.5%	-2.1%
- EBG	35.6%	27.1%	27.0%	8.6%	8.7%
- HBG	53.3%	53.2%	51.9%	0.1%	1.4%
-momo ¹ & others	3.8%	6.6%	--	-2.7%	NM
D&A	2.41	2.41	2.34	0%	3%
- CBG	1.97	1.96	1.98	0%	-1%
- EBG	0.22	0.22	0.20	2%	15%
- HBG	0.14	0.14	0.12	2%	13%
-momo ¹ & others	0.08	0.09	0.04	-2%	NM
EBIT	4.78	4.20	4.26	14%	12%
- CBG	3.33	2.86	3.20	17%	4%
- EBG	0.70	0.47	0.45	49%	56%
- HBG	0.67	0.67	0.64	0%	5%
-momo ¹ & others	0.08	0.20	(0.03)	-61%	NM

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

Table 3. Non-operating Item

NT\$bn	2Q12	1Q12	2Q11	QoQ	YoY
Non-Operating	(0.02)	(0.05)	(0.08)	-55%	-73%
-Net Interest Revenue (Expense)	(0.05)	(0.07)	0.01	-25%	NM
- Write-off Loss	(0.12)	(0.11)	(0.17)	12%	-29%
-Others	0.15	0.13	0.09	16%	78%

EBITDA Analysis

CBG started seeing profitable growth in 2Q12, which resulted in a solid 9% YoY rise in TWM's consolidated EBITDA for the quarter.

Both CBG and EBG saw notable QoQ and YoY EBITDA increases due to accelerated revenue growth and controlled expenses.

HBG's profit increase came from 1) better economies of scale and 2) a higher blended ARPU as a result of selling more services to the same household.

Despite a steady increase in momo's online shopping business, its TV shopping business performance was less than satisfactory in 2Q12.

Non-Operating Item Analysis

Non-operating expense was well-contained and trended down both sequentially and from a year ago in 2Q12.

III. Income Statement Analysis

Table 4. Income Statement

NT\$bn	2Q12	1Q12	2Q11
Revenue	23.72	23.99	17.97
Service Revenue ¹	17.67	17.49	16.82
Handset Sales	1.73	2.04	1.16
momo Revenue	4.32	4.46	--
Operating Cost	14.73	15.58	10.36
momo Cost	3.66	3.69	--
Operating Expenses	4.21	4.22	3.36
momo Opex	0.49	0.48	--
EBITDA	7.20	6.60	6.60
Operating Income	4.78	4.20	4.26
Non-op. Income (Expense)	(0.02)	(0.05)	(0.08)
Pre-tax Income	4.76	4.15	4.18
(Less Tax)	(0.81)	(0.71)	(0.71)
(Minority Interest)	(0.04)	(0.09)	0.00
Net Income	3.91	3.35	3.47
EPS (NT\$)	1.45	1.25	1.16

Income Statement Analysis

TWM achieved better operating leverage in 2Q12 with service revenue YoY growth more than offsetting the increased marketing expenses related to smartphones adoptions. In addition, we continued to benefit from savings on network/traffic costs. Therefore, we grew our consolidated EBITDA by 9% YoY in 2Q12.

Table 5. Consolidated Results vs. Forecast

NT\$bn	2Q12	% of 2Q12 Forecast	1H12	% of Full-year Forecast
Revenue	23.72	96%	47.72	47%
Service Revenue ¹	17.67	99%	35.16	49%
Handset Sales	1.73	76%	3.78	38%
momo Revenue	4.32	92%	8.78	44%
EBITDA	7.20	100%	13.80	48%
Operating Income	4.78	101%	8.98	48%
Non-op. Income (Expense)	(0.02)	21%	(0.07)	9%
Asset Write-off Loss	(0.12)	118%	(0.23)	31%
Pre-tax Income	4.76	102%	8.91	50%
(Less Tax)	(0.81)	102%	(1.52)	50%
(Minority Interest)	(0.04)	44%	(0.13)	30%
Net Income	3.91	104%	7.27	51%
EPS (NT\$)	1.45	104%	2.70	51%

In 2Q12, the combined service revenue of the three business groups achieved its guidance. Negatively affected by weak spending sentiment, momo failed to live up to expectations in 2Q12. Having said that, the consolidated EBITDA still managed to meet its target, attributed to expense disciplines.

With EBITDA meeting 2Q12 guidance plus higher-than-expected non-operating income, our 2Q12 net profit was better than forecasted.

1. Total revenue deducted handset sales and momo revenue.

IV. Cash Flow Analysis

Table 6. Cash Flow

NT\$bn	2Q12	1Q12	2Q11
Total Op Sources/(Uses)¹	6.38	5.04	5.84
Consolidated Net Income	3.95	3.44	3.47
Depreciation	1.91	2.05	1.87
Amortization	0.50	0.35	0.47
Changes in Working Capital	(0.28)	(1.03)	(0.33)
Asset Write-off Add-backs	0.12	0.11	0.17
Other Add-backs	0.17	0.11	0.19
Net Investing Sources/(Uses)	(1.87)	(1.85)	(1.56)
Capex	(1.68)	(1.74)	(1.34)
Others	(0.19)	(0.11)	(0.23)
Net Financing Sources/(Uses)	(4.00)	(4.26)	(0.33)
Short-Term Borrowings	(3.77)	(3.39)	(0.33)
Commercial Paper Payable	0.00	(0.90)	0.00
Others	(0.22)	0.03	0.00
Net Cash Position Chg.	0.52	(1.08)	3.94

1. Inclusive of cash flow for cash management.

Table 7. Capex & FCF

NT\$bn	2Q12	1Q12	2Q11
Cash Capex	1.68	1.74	1.34
- Mobile	1.11	1.09	1.03
- Fixed-line	0.46	0.35	0.26
- Cable MSO	0.10	0.27	0.05
- momo	0.01	0.03	--
% of Revenue	7%	7%	7%
Free Cash Flow	4.70	3.30	4.50

Cash Flow Analysis

Operating cash inflows for the quarter increased sequentially due to a rise in net income and the payment of employee bonuses in the previous quarter.

Net investing cash outflow in 2Q12 was mainly for the NT\$1.68bn in cash capex.

The NT\$3.77bn short-term borrowing repayment was the main cash outflow for financing activities during the quarter. Another NT\$250m financing cash outflow was related to momo's payment of dividends to its minority shareholders.

Capex and Free Cash Flow Analysis

Cash capex was 7% of total revenue in 2Q12. We estimate group capex to be more back-end loaded as the majority of IDC (internet data center) construction and 3G expansion payments will be made in 2H12.

1H free cash flow netted NT\$8bn, translating into an annualized yield of 6%.

V. Balance Sheet Analysis

Table 8. Balance Sheet

NT\$bn	2Q12	1Q12	2Q11
Total Assets	90.38	89.81	87.16
Current Assets	17.96	17.01	19.21
- Cash & Cash Equivalents	6.13	5.62	9.87
- Available-for-Sale Financial Asset	0.20	0.20	0.21
- Inventories	2.60	2.56	1.39
- Other Current Assets	9.03	8.65	7.74
Long-Term Investment	2.22	2.16	3.28
Property and Equipment	40.11	40.65	41.09
Intangible Assets	27.25	27.06	20.45
Other Assets	2.84	2.94	3.14
Liabilities	47.08	36.34	41.93
Current Liabilities	41.63	30.92	32.80
- ST Debt/Commercial Paper Payable	5.85	9.61	1.03
- Other Current Liabilities	35.78	21.31	31.78
Long-Term Borrowings	4.00	4.00	8.00
Other Liabilities	1.46	1.42	1.13
Shareholders' Equity	43.30	53.47	45.23
- Paid-in Capital	34.21	34.21	38.01
- Capital Surplus	12.43	12.43	12.43
- Legal Reserve	18.06	16.72	16.72
- Treasury Shares	(31.08)	(31.08)	(31.89)
- Un-appropriated Earnings*	1.33	2.27	2.27
- Special Reserve	0.00	0.82	0.82
- Retained Earnings & Others	8.35	18.11	6.87

*: excluding YTD profits

Table 9. Ratios

	2Q12	1Q12	2Q11
Current Ratio	43%	55%	59%
Interest Coverage (x)	70.0	49.7	71.5
Net Debt (Cash) to Equity	9%	15%	-2%
Net Debt (Cash) to EBITDA (x)	0.13	0.28	-0.03
ROE (annualized)	32%	26%	28%
ROA (annualized)	18%	15%	16%

Balance Sheet Analysis

Assets:

In 2Q12, cash balance increased QoQ due to higher operating cash inflows as explained in the cash flow analysis section. Compared to a year ago, 2Q12 cash level was lower due to more repayment of short-term borrowings for the quarter.

Inventory's YoY increase was a reflection of the inclusion of momo and growing smartphone sales.

Long-term investment decreased YoY, due mainly to the impairment loss of our Taiwan High Speed Rail investment made in 3Q11. Compared to a quarter ago, increase in long-term investment was for an additional investment of NT\$75mn in our 49.9% held Taipei New Horizons, in which TWM has invested NT\$0.72bn accumulatively.

Intangible asset YoY increase arose from our investment in momo since July 2011.

Liabilities & Shareholders' Equity:

Other current liabilities increased from a quarter ago because of the NT\$13.9bn dividend payable, which is scheduled to be paid on July 27, 2012.

Gross debt balance fell to NT\$9.8bn due to a NT\$3.77bn short-term borrowing repayment in 2Q12. As a result, our net debt further decline to NT\$3.7bn.

The NT\$1.76bn top-up of dividends reduced the balance of un-appropriated earnings and special reserve.

Ratio Analysis

Current ratio fell sequentially due to dividend payable in 2Q12. However, the reduction in short-term debts improved our net debt to EBITDA and net debt to equity ratios. In 3Q12, we expect to gear up again to finance dividend payments.

VI. Forecast

Table 10. Forecast

NT\$bn	3Q12	3Q11	YoY
Revenue	26.04	21.73	20%
momo	5.16	3.26	NM ³
Cash Cost ¹	14.44	10.38	39%
momo	4.29	2.66	NM ³
SG&A	4.52	4.06	11%
momo	0.57	0.40	NM ³
EBITDA	7.34	7.54	-3%
D&A	2.52	2.44	3%
Operating Income	4.82	5.10	-5%
Non-op. Income	(0.29)	(1.22)	-76%
- Asset write-off	(0.27)	(0.12)	130%
Pre-tax Income	4.54	3.88	17%
Tax Expense	(0.77)	(0.42)	84%
Minority Interest	(0.11)	(0.06)	69%
Net Income	3.66	3.39	8%
EPS (NT\$) ²	1.36	1.22	11%

1. Including handset sales costs, but not including D&A.

2. EPS is based on total share counts of 2.69bn for 3Q12; 2.79bn shares for 3Q11.

3. Momo contributed 2.5 months operation results to TWM's 3Q11P&L

The combined service revenue of telecom and CATV is expected to grow by around 5% YoY in 3Q12.

Stripping out one-offs in 3Q11, TWM's 3Q12 telecom and CATV related EBITDA will be flat to slightly up from a year ago.

Non-operating expense in 3Q12 will see a big reduction from a year ago as we had a NT\$1.2bn Taiwan High Speed Rail investment impairment loss in 3Q11.

3Q12 EPS is forecasted to be NT\$1.36, up 11% YoY, on the back of an 8% net income increase and benefits from a capital reduction made in August 2011.

VII. Management Discussion & Analysis

Key Message

On July 26, the Board approved an additional NT\$1bn capital expenditure in 2012 to accelerate 3G data capacity expansions. The group's capex budget would be raised to around NT\$11.8bn, of which NT\$6.7bn will be for mobile, NT\$2.8bn for the construction and equipments of the IDC, NT\$1.4bn for fixed-line other than IDC, NT\$0.9bn for CATV and the other subsidiaries.

To meet increased demand for data, we have stepped up our efforts to further build out our network. These efforts will continue prudently. We reiterate our confidence in achieving the 2012 target.

Product and Service

- Exclusively introduced Samsung SIII 32G, Sony Xperia ion, Nokia LUMIA 610, LG Optimus L7, Moto XT550, and our own-brand smartphone Amazing.
- Launched a low-price bundled rate plan catered to light users featuring as low as NT\$50 for 1GB data usage per month for the first six months of the 30-month contract period.
- Introduced a new prepaid rate plan that includes 100 free on-net voice minutes, 100 MB mobile internet usage and all off-net calls charged at the low on-net rate, all for only NT\$299, the lowest price of its kind.

Awards

- Ranked 1st in the "Info Tech 100 Taiwan" and 8th in the "Info Tech 100 Asia" by *Business Next Magazine*.
- Won the "Trusted Brand Gold Award" by *Reader's Digest* for the ninth consecutive year.
- For the fifth time, winner of the "Corporate Social Responsibility Award" by *Global Views Monthly*, this year, in the categories of Community Care and Overall Performance.



Taiwan Mobile

- Received the highest rating of A⁺⁺ and ranked as one of the top 10 listed companies in “Transparency and Information Disclosure” by the Securities and Futures Institute for the seventh consecutive year.