2nd Quarter Results

for the period ended June 30, 2013

July 30, 2013

		TWM consolidated			
NT$bn	**2Q13**	**1Q13**	**2Q12**	**QoQ**	**YoY**
Revenue	**26.77**	**26.56**	**23.91**	**1%**	**12%**
EBITDA	**7.78**	**7.46**	**7.59**	**4%**	**2%**
Operating Income	**5.31**	**4.99**	**5.17**	**6%**	**3%**
Non-op. Income (Expense)	**(0.46)**	**(0.28)**	**(0.17)**	**63%**	**177%**
Pre-tax Income	**4.84**	**4.70**	**5.00**	**3%**	**-3%**
(Less Tax)	**(0.83)**	**(0.85)**	**(0.85)**	**-3%**	**-3%**
(Less Minority Interest)	**(0.06)**	**(0.05)**	**(0.04)**	**29%**	**61%**
Net Income	**3.96**	**3.81**	**4.12**	**4%**	**-4%**
EPS (NT$)	**1.47**	**1.42**	**1.53**	**4%**	**-4%**

Topics in This Report

- Revenue Analysis
- EBITDA Analysis
- Income Statement Analysis
- Cash Flow Analysis
- Balance Sheet Analysis
- Management Remark

Highlights of 2Q13 results

In 2Q13, our telecom revenue rose NT$654m YoY, of which mobile service revenue was up NT$997m or 7%, higher than our peers on a like-for-like basis. Adjusted for bundle sales, our 2Q13 telecom service revenue still showed an increase versus the YoY reduction in telecom cash cost. Therefore, telecom service profit increased.

2Q13 handset subsidies remained relatively flattish YoY because the handset sales revenue and its costs increased by a similar magnitude from 2Q12.

The main operating expense increase in the quarter was due to adding 108 more company stores from a year ago.

As consumer business, enterprise business, home business, and momo all had healthy revenue growth, this led to a 2% YoY increase in EBITDA in the quarter, versus a 2% YoY EBITDA drop in 1Q13.

2Q13 asset write-off losses came in higher than a year ago. Having said that, accumulative consolidated net income for the first half was still ahead of our guidance.

Management Remark

As expected, we achieved our goals for the first half and have recently completed the spinoff of our direct stores. Looking ahead, the most important task for all the telcos will be the 4G spectrum auction. TWM is confident in its preparation for the challenge.

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<All numbers provided in the tables are based on IFRS – fair value method, unless otherwise stated>

I. Revenue Analysis

Table 1. Key Operational Data

Revenue (NT$bn)	2Q13	1Q13	2Q12	QoQ	YoY
CBG[1]	**17.46**	**17.36**	**15.80**	**1%**	**10%**
Mobile Service	12.34	11.95	11.81	3%	4%
-Voice	7.80	7.70	8.34	1%	-7%
-VAS	4.54	4.25	3.47	7%	31%
IDD	0.55	0.61	0.65	-10%	-15%
Device Sales	4.44	4.67	3.26	-5%	36%
EBG	**2.74**	**2.59**	**2.57**	**6%**	**6%**
Mobile Service	1.17	1.06	1.03	10%	13%
Fixed-line	0.88	0.88	0.97	0%	-9%
ISR & Others	0.69	0.66	0.58	5%	20%
HBG	**1.55**	**1.54**	**1.52**	**0%**	**2%**
- Pay-TV related	1.07	1.06	1.06	1%	1%
- Broadband	0.29	0.28	0.27	1%	9%
- Content & others	0.19	0.19	0.20	-2%	-6%
momo & Others	**5.03**	**5.07**	**4.00**	**-1%**	**26%**
- TV shopping & catalogue	2.16	2.22	2.10	-2%	3%
- Online shopping	2.66	2.65	1.75	1%	52%

	2Q13	1Q13	2Q12	QoQ	YoY
Mobile Subscribers (K)	**7,106**	**7,050**	**6,821**	**1%**	**4%**
- Data card	453	428	368	6%	23%
Consumer	6,708	6,676	6,506	0%	3%
Enterprise	398	374	315	6%	26%
Monthly Churn	**2.0%**	**2.1%**	**1.9%**		
MOU (bn)	**3.81**	**3.86**	**4.17**	**-1%**	**-8%**
Pay-TV Subs (K)	**582**	**581**	**578**	**0%**	**1%**
Cable Broadband Subs (K)	176	173	163	2%	8%
DTV Subs (K)	98	86	62	14%	58%

NT$	2Q13	1Q13	2Q12	QoQ	YoY
Wireless					
ARPU –post-paid (residual value)	829	799	795	4%	4%
Cable MSO					
Basic TV ARPU	493	494	503	0%	-2%
Broadband ARPU	544	546	544	0%	0%
DTV ARPU	140	141	141	-1%	0%
Blended ARPU[1]	779	776	763	0%	2%

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

CBG:

2Q13 mobile service revenue YoY growth rate expanded to 4% vs. 1% in 1Q, on the back of healthy growth momentum in mobile data and decelerating declines in voice revenue.

At the end of 2Q13, mobile data adoption reached 48% of the postpaid installed base, rising from 34% a year ago. As a result, mobile broadband revenue rose 41% YoY.

Handset sales rose YoY mainly due to more smartphone bundle contracts sold during the quarter.

EBG:

The YoY mobile service revenue increase was aided by increases in the subscriber base and in the mobile data business. Legacy fixed-line revenue was still under pressure.

HBG:

The basic subscription monthly fee for CATV was downward adjusted by the local governments this year. However, growing DTV revenue offset the negative revenue impact.

Cable broadband's revenue growth came from the steady cable internet subscriber base increase and migrating more customers to higher-speed services.

momo

momo's online shopping revenue growth remained robust in the quarter. Additionally, its TV home shopping business saw a turnaround in the quarter and reported positive top-line growth in 2Q13.

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II. EBITDA Analysis

Table 2. EBITDA Breakdown

NT$bn	2Q13	1Q13	2Q12	QoQ	YoY
EBITDA	**7.78**	**7.46**	**7.59**	**4%**	**2%**
- CBG	5.73	5.53	5.69	4%	1%
- EBG	1.03	0.91	0.89	13%	15%
- HBG	0.83	0.82	0.81	1%	2%
-momo & others	0.19	0.20	0.18	-6%	3%
Margin	**29.0%**	**28.1%**	**31.7%**	**+1.0ppts**	**-2.7ppts**
- CBG	32.8%	31.8%	36.0%	+1.0ppts	-3.2ppts
- EBG	37.5%	35.0%	34.7%	+2.5ppts	+2.8ppts
- HBG	53.6%	53.2%	53.4%	+0.4ppts	+0.3ppts
-momo & others	3.8%	4.0%	4.6%	-0.2ppts	-0.8ppts
D&A	**2.47**	**2.47**	**2.41**	**0%**	**2%**
- CBG	1.95	1.98	1.97	-2%	-1%
- EBG	0.26	0.25	0.22	6%	17%
- HBG	0.16	0.16	0.14	5%	16%
-momo & others	0.09	0.08	0.08	17%	10%
EBIT	**5.31**	**4.99**	**5.17**	**6%**	**3%**
- CBG	3.78	3.54	3.73	7%	1%
- EBG	0.76	0.66	0.67	16%	14%
- HBG	0.67	0.66	0.67	0%	-1%
-momo & others	0.10	0.12	0.10	-20%	-3%

EBITDA Analysis

In 2Q13, CBG's service revenue increase and cost management resulted in a 4% EBITDA growth QoQ. Compared to a year ago, CBG's 2Q13 top-line growth more than offset the increases in expenses related to over 30% volume rise in smartphone bundle packages and the addition of 1,900 3G base stations and 108 new company stores.

EBG's 2Q13 EBITDA YoY growth largely resulted from mobile business growth coupled with stable costs/expenses.

HBG has been benefiting from operating leverage and reported EBITDA growth both YoY and QoQ. But its depreciation expense has been on the rise due to more digital set-top-box procurements to beef up DTV service take-up.

In contrast to a 39% YoY drop in its 1Q13 EBITDA, momo's 2Q13 EBITDA delivered a 30% YoY jump, boosted not only by revenue increase but also by margin expansions in both the online and TV home shopping businesses.

Table 3. Non-operating Item

NT$bn	2Q13	1Q13	2Q12	QoQ	YoY
Non-Operating	**(0.46)**	**(0.28)**	**(0.17)**	**63%**	**177%**
-Net Interest Revenue (Expense)	(0.06)	(0.07)	(0.06)	-14%	3%
- Write-off Loss	(0.43)	(0.24)	(0.12)	80%	260%
-Others	0.03	0.02	0.01	21%	228%

Non-Operating Item Analysis

QoQ and YoY increases in non-operating expense came from a higher asset write-off loss in 2Q13.

III. Income Statement Analysis

Table 4. Income Statement

NT$bn	2Q13	1Q13	2Q12
Revenue	**26.77**	**26.56**	**23.91**
Telecom Service[1]	14.98	14.54	14.73
Handset Sales	4.72	4.95	3.35
Revenue (residual value)	**26.21**	**25.85**	**23.61**
Telecom Service	16.70	16.15	16.05
Operating Cost	**16.82**	**16.87**	**14.49**
Operating Expense	**4.65**	**4.70**	**4.26**
Other Income/(Loss)	0.01	0.01	0.02
EBITDA	**7.78**	**7.46**	**7.59**
Operating Income	**5.31**	**4.99**	**5.17**
Non-op. Income (Expense)	(0.46)	(0.28)	(0.17)
Pre-tax Income	4.84	4.70	5.00
Net Income	**3.96**	**3.81**	**4.12**
EPS (NT$)	1.47	1.42	1.53

1.Combined mobile and fixed-line revenues net of inter-company transactions

Table 5. 1H13 Consolidated Results vs. Forecast

NT$bn	1H13	YoY	% of 1H13 Forecast
Revenue	53.33	10%	99%
Telecom Service[1]	29.55	0%	99%
Handset Sales	9.67	30%	91%
momo Revenue	10.24	24%	108%
Operating Income	10.30	-1%	108%
Non-op. Income (Expense)	(0.75)	110%	162%
Asset Write-off Loss	(0.67)	199%	239%
Pre-tax Income	9.55	-4%	105%
(Less Tax)	(1.67)	-2%	108%
Net Income	7.76	-5%	105%
EPS (NT$)	2.89	-5%	105%
EBITDA	15.23	0%	105%
EBITDA margin	28.6%	-2.6ppts	

1.Combined mobile and fixed-line revenues net of inter-company transactions

<u>Income Statement Analysis</u>

Telecom revenue / cost

In 2Q13, our telecom revenue rose NT$654m YoY, of which mobile service revenue was up NT$997m or 7%, higher than our peers on a like-for-like basis. Adjusted for bundle sales, our 2Q13 telecom service revenue still showed an increase versus the YoY reduction in telecom cash cost.

Handset sales / cost

2Q13 handset subsidies remained relatively flattish YoY because the handset sales revenue and its costs increased by a similar magnitude from 2Q12.

Opex

The main increase came from adding 108 more company stores compared to a year ago.

EBITDA

As CBG, EBG, HBG, and momo all had healthy revenue growth, this led to a 2% YoY increase in EBITDA in the quarter, versus a 2% EBITDA drop in 1Q13.

Net income

2Q13 asset write-off losses came in higher than a year ago. Having said that, accumulative consolidated net income for the first half was still ahead of our guidance.

IV. Cash Flow Analysis

Table 6. Cash Flow

NT$bn	2Q13	1Q13	2Q12
Total Op Sources/(Uses)	**7.38**	**3.94**	**6.35**
Pre-tax Income	4.84	4.70	5.00
Depreciation	2.16	2.16	2.09
Amortization	0.31	0.31	0.33
Changes in Working Capital	(0.50)	(3.59)	(1.33)
Asset Write-off Add-backs	0.43	0.24	0.12
Other Add-backs	0.14	0.11	0.14
Net Investing Sources/(Uses)	**(5.07)**	**(4.31)**	**(3.07)**
Capex[1]	(2.67)	(3.97)	(1.69)
Divestment (Acquisition)	(1.38)	(0.39)	(0.07)
Refundable Deposits (Increase)	(1.04)	(0.00)	(0.01)
Other Financial Assets (Increase)[2]	(0.01)	0.04	(1.32)
Others	0.04	0.02	0.01
Net Financing Sources/(Uses)	**2.89**	**0.25**	**(4.01)**
Short-Term Borrowings	(2.65)	0.25	(3.77)
Corporate Bond Payable	5.80	0.00	0.00
Others	(0.25)	0.00	(0.25)
Net Cash Position Chg.	**5.20**	**(0.12)**	**(0.74)**

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

Cash Flow Analysis

In 2Q13, operating cash inflow increased sequentially due to a rise in accounts payable and a decrease in inventories.

2Q13 investing cash outflow rose YoY because of higher mobile capex and more equity investments. Net investing cash outflow in 2Q13 including mainly NT$2.67bn cash capex; NT$384m capital injections into our 49.9%-held Taipei New Horizon and 19%-owned Trusted Service Management, the NFC consortium in Taiwan; NT$1bn refundable deposits with NCC for the upcoming spectrum auction.

2Q financing cash inflows increased both QoQ and YoY due to the issuance of a corporate bond in the quarter. The net inflow of NT$2.89bn was mainly a combination of 1) a NT$2.65bn repayment of short-term borrowings, and 2) a 5-year NT$5.8bn straight corporate bond with a coupon rate of 1.29% issued on April 25.

Table 7. Capex & FCF

NT$bn	2Q13	1Q13	2Q12
Cash Capex	**2.67**	**3.97**	**1.69**
- Mobile	2.07	1.30	1.12
- Fixed-line	0.40	2.54	0.46
- Cable MSO	0.16	0.11	0.10
- momo	0.04	0.02	0.01
% of Revenue	**10%**	**15%**	**7%**
Free Cash Flow	**4.71**	**(0.03)**	**4.66**

Capex and Free Cash Flow Analysis

2Q13 cash capex was down sequentially, mainly due to a NT$2.12bn payment for a 2012 IDC (internet data center) construction cost being made in 1Q13.

With the increased operating cash inflows and lower cash capex for the quarter, free cash flow rose from the previous quarter.

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V. Balance Sheet Analysis

Table 8. Balance Sheet

NT$bn	2Q13	1Q13	2Q12
Total Assets	**111.86**	**104.42**	**97.21**
Current Assets	32.85	26.21	21.77
- Cash & Cash Equivalents	11.28	7.11	4.76
- Accounts Receivable	13.92	12.90	11.12
- Inventories	3.18	3.48	2.51
- Other Current Assets	4.48	2.72	3.38
Non- current Assets	79.01	78.21	75.44
- Long-Term Investment	3.27	3.43	2.38
- Property and Equipment	42.19	42.47	40.83
- Other Non-current Assets	33.55	32.31	32.23
Liabilities	**61.40**	**42.76**	**47.77**
Current Liabilities	42.36	29.67	40.27
- ST Debt/Commercial Paper Payable	4.77	7.42	5.85
- Other Current Liabilities	37.59	22.25	34.42
Non-current Liabilities	19.05	13.09	7.50
- Long-Term Borrowings	14.79	9.00	4.00
- Deferred Income Tax Liability	2.48	2.35	1.88
- Other Non-current Liabilities	1.78	1.74	1.62
Shareholders' Equity	**50.46**	**61.66**	**49.44**
-Paid-in Capital	34.21	34.21	34.21
-Capital Surplus	12.43	12.43	12.43
-Legal Reserve	19.26	18.06	18.06
-Un-appropriated Earnings	6.61	7.91	6.32
-Treasury Shares	(31.08)	(31.08)	(31.08)
-Retained Earnings & Others*	9.02	20.12	9.50

* Including YTD profits, minority interests and other equity items

<u>Balance Sheet Analysis</u>

Assets:

In 2Q13, cash balance increased QoQ due to higher operating cash inflows as explained in the cash flow analysis section. Compared to a year ago, 2Q13 cash level was higher mainly due to the increased financing cash inflows.

The YoY increase in accounts receivable mainly reflected the expanding bundled handset sales and mobile service revenue. But the average collection days remained stable at 46 days.

The inventory level rose YoY, as a result of more handset procurements.

The net PP&E balance consisted of $31.4bn in mobile, $8.3bn in fixed network, $2bn in cable-TV assets and $0.5bn in momo.

Liabilities & Shareholders' Equity:

The QoQ increase in other current liabilities was due to the NT$0.3bn payable of cash returns from legal reserve and the $14.5bn dividends payable paid on July 26, 2013.

Gross debt grew to NT$19.56bn at the end of 2Q13, following a reduction in short-term borrowings and the issuance of the corporate bond.

Table 9. Ratios

	2Q13	1Q13	2Q12
Current Ratio	78%	88%	54%
Interest Coverage (x)	58.9	59.8	72.5
Net Debt (Cash) to Equity	16%	15%	10%
Net Debt (Cash) to EBITDA (x)	0.27	0.30	0.17
ROE (annualized)	32%	25%	34%
ROA (annualized)	14%	15%	17%

<u>Ratio Analysis</u>

Current ratio fell sequentially due to dividends payable in 2Q13.

ROE improved from 1Q13 due to fewer shareholders' equity at the end of 2Q13 after dividend declarations.

VII. Management Remark

Key Message

As expected, we achieved our goals for the first half and have recently completed the spinoff of our direct stores. Looking ahead, the most important task for all the telcos will be the 4G spectrum auction. TWM is confident in its preparation for the challenge.

Products and Services

- Mobile
  - “Super Save 250/349/549” – rate plans with the widest range of 30 smartphone models for bundling in the industry
  - “NT$179 monthly 3G voice rates” – first minute free of on-net calls for customers with low voice usage
  - “NT$300/500 Prepaid Card Package Including 1G Data” and “1GB Data Refill ” for only NT$180, both are for light prepaid mobile internet users
- M-commerce

  Launched the mobile app for “myfone” on-line shopping, with features including an innovative in-app video commentary made by a host of each product, as well as payments being integrated into the customers’ phone bills.
- Cable TV / broadband

  Introduced the high-speed 100Mbps cable internet service, available for over 90% of the households in TWM’s service areas, for only NT$879 a month bundled with a free two-year “Super MOD” video service.
- Exclusive smartphones

  TWM exclusively introduced Sony Xperia ZR, HTC Desire 200, LG L4 II, Huawei Ascend P6, and TWM Amazing A3, A4 and A6.

Awards and Recognition

- TWM has outperformed its local peers by being named as a recipient of “The Best of Asia: Icon on Corporate Governance, Taiwan region” in recognition of its continuous excellence, the highest honor given by *Corporate Governance Asia* (CGA) magazine. This marks the seventh year in a row TWM has received an award from CGA.
- Received the highest “A++” rating and ranked as one of the top 5 listed companies in “Transparency and Information Disclosure” from Taiwan’s Securities and Futures Institute for the eighth year in a row.
- Won the “Trusted Brand Gold Award” by *Reader’s Digest* for the tenth consecutive year.
- For the sixth time, winner of the “Corporate Social Responsibility Award” by *Global Views Monthly*, this year in the category of Promotion of Education.