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TWM Consolidated

NT\$bn	<u>1Q14</u>	<u>4Q13</u>	<u>1Q13</u>	<u>QoQ</u>	<u>YoY</u>
Revenue	27.73	28.41	26.36	-2%	5%
EBITDA	7.77	7.60	7.51	2%	3%
Operating Income	5.11	5.04	5.07	1%	1%
Non-op. Income (Expense)	(0.03)	(0.62)	(0.28)	-95%	-89%
Pre-tax Income	5.08	4.42	4.78	15%	6%
(Less Tax)	(0.86)	(0.75)	(0.86)	15%	0%
(Less Discontinued operation Loss)	(0.04)	(0.03)	(0.07)	24%	-40%
(Less Minority Interest)	(0.09)	(0.09)	(0.05)	3%	88%
Net Income	4.08	3.55	3.81	15%	7%
EPS (NT\$)	1.52	1.32	1.42	15%	7%

Highlights of 1Q14 Results

In addition to the revenue rises in all three business lines of telecom, CATV and momo, expense discipline implemented across all divisions also contributed to the 3% YoY increase in consolidated EBITDA in 1Q14. The operating results of momo's physical channels were reclassified retroactively as discontinued operations in the consolidated P&L. Non-operating expense declined YoY due to a lesser asset write-off loss and a one-off gain from the disposal of an unused parcel of land. As a result, our net income was up by 7% YoY for the quarter.

2Q14 Forecast

- We expect 2Q14 total revenue to be up by 6% YoY mainly driven by increases in handset sales and momo revenue.
- EBITDA increases from cable TV and momo are forecasted to mitigate pressure on telecom EBITDA resulting from rising opex related to adding more 3G and 4G base stations and company stores for the quarter.
- Taiwan Mobile's total D&A, reflecting expanding telecom and digital TV businesses, is expected to weigh on profits in 2Q14.

Board Resolutions

- TWM's board meeting today (April 29, 2014) approved a proposal to distribute NT\$15.1bn in cash dividends, comprised of 90% of 2013 earnings and NT\$1.0bn of un-appropriated earnings, translating into a 97% payout to shareholders. Dividend per share is NT\$5.6 on 2.69bn shares, excluding treasury shares held by 100%-owned subsidiaries.
- The board today (April 29, 2014) approved an additional NT\$0.8bn capex budget for 2014, by adding NT\$0.2bn IT capex and NT\$0.6bn spending related to our 49.9%-held Taipei New Horizon. Thus, 2014 capex is revised to be NT\$13.6bn: NT\$9.8bn for mobile, NT\$2.1bn for fixed-line, NT\$1bn for cable-TV, and the remaining balance for other subsidiaries.

Key Message

The LTE network deployment, expected service offerings and handset availabilities have been very promising. TWM is aiming to maintain operating stability in the near term and as always to ensure shareholders' returns.

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I. Revenue Analysis

Table 1. Key Operational Data

Revenue (NT\$bn)	1Q14	4Q13	1Q13	QoQ	YoY
Telecom	20.53	21.31	19.93	-4%	3%
Mobile Service	13.41	13.59	13.00	-1%	3%
Device Sales	5.24	5.80	4.95	-10%	6%
Fixed-line	0.83	0.85	0.88	-2%	-5%
IDD	0.47	0.49	0.61	-5%	-23%
ISR & Others	0.58	0.57	0.49	1%	18%
HBG	1.58	1.59	1.54	0%	3%
- Pay-TV related	1.09	1.09	1.06	0%	2%
- Broadband	0.30	0.29	0.28	1%	5%
- Content & others	0.19	0.20	0.19	-4%	1%
momo¹	5.66	5.59	4.94	1%	15%
- TV shopping & catalogue	2.22	2.18	2.22	2%	0%
- Online shopping	3.35	3.32	2.65	1%	27%
Other²	0.04	-	-	NM	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 the table 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.

	1Q14	4Q13	1Q13	QoQ	YoY
Mobile Subscribers (K)	7,306	7,225	7,050	1%	4%
- Data card	544	511	428	6%	27%
Monthly Churn	2.0%	2.0%	2.1%		
MOU (bn)	3.29	3.49	3.86	-6%	-15%
Pay-TV Subs (K)	585	584	581	0%	1%
Cable Broadband Subs (K)	182	180	173	1%	5%
DTV Subs (K)	141	127	86	11%	64%

NT\$	1Q14	4Q13	1Q13	QoQ	YoY
Wireless					
ARPU –postpaid (residual value)	831	840	799	-1%	4%
Cable MSO					
Basic TV ARPU	495	493	494	0%	0%
Broadband ARPU	543	539	546	1%	-1%
DTV ARPU	137	138	141	-1%	-3%
Blended ARPU ¹	791	792	776	0%	2%

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

Telecom:

Under the relative fair value method, mobile service revenue saw a 3% revenue YoY growth in 1Q14, benefiting from the increase in wireless data revenue more than offsetting softness in mobile voice revenue.

For a like-for-like comparison with peers under the residual value method, mobile postpaid APRU grew 4% YoY in the quarter. In addition, mobile data adoption reached 56% of the postpaid installed base at the end of 1Q14, rising from 45% a year ago. As a result, mobile broadband revenue rose 25% YoY for the quarter.

Under the relative fair value method, device sales declined QoQ due to the sales mix shifting to entry-level smartphones in 1Q14 and a relatively higher sales volume triggered by the iPhone in 4Q13. However, compared to a year ago, sales volume of bundled and unbundled handsets still registered an increase.

Legacy fixed-line revenue was still under pressure. IDD revenue was on the decline due to pricing competition.

Cable:

None of the monthly fee caps in TWM's CATV service areas is downward adjusted in 2014. Revenues in both basic TV subscription and digital TV services went up YoY in 1Q14 due to the increases in their respective subscriber number.

Cable broadband's revenue growth was driven by an increase in the cable internet subscriber base and a higher subscriber mix in the high-speed services.

DTV ARPU was slightly down QoQ and YoY due to a higher customer mix of promotional basic HD programs, which was offered to the 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

In 1Q14, momo's revenue increase was greatly attributed to a solid 27% YoY growth in the online shopping business.

II. EBITDA Analysis

Table 2. EBITDA Breakdown

NT\$bn	1Q14	4Q13	1Q13	QoQ	YoY
EBITDA	7.77	7.60	7.51	2%	3%
- Telecom	6.57	6.51	6.46	1%	2%
- HBG	0.86	0.81	0.82	7%	5%
- momo ¹	0.32	0.29	0.23	10%	35%
- others	0.02	-	-	NM	NM
Margin	28.0%	26.7%	28.5%	+1.3ppts	-0.5ppts
- Telecom	32.0%	30.5%	32.4%	+1.5ppts	-0.4ppts
- HBG	54.5%	50.8%	53.2%	+3.7ppts	+1.3ppts
- momo	5.6%	5.2%	4.8%	+0.4ppts	+0.8ppts
- others	63.9%	-	-	NM	NM
D&A	2.66	2.56	2.45	4%	9%
- Telecom	2.38	2.30	2.23	3%	6%
- HBG	0.19	0.19	0.16	3%	22%
- momo ¹	0.03	0.03	0.03	24%	28%
- others	0.02	-	-	NM	NM
EBIT	5.11	5.04	5.07	1%	1%
- Telecom	4.20	4.20	4.23	0%	-1%
- HBG	0.67	0.62	0.66	8%	1%
- momo ¹	0.28	0.26	0.21	8%	36%
- others	0.01	-	-	NM	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 the table 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	1Q14	4Q13	1Q13	QoQ	YoY
Non-Operating	(0.03)	(0.62)	(0.28)	-95%	-89%
-Net Interest Revenue (Expense)	(0.13)	(0.10)	(0.07)	26%	94%
- Write-off Loss	(0.07)	(0.52)	(0.24)	-86%	-70%
-Gains from the Sale of the Property	0.16	0.00	0.00	NM	NM
-Others	0.01	0.00	0.02	102%	-61%

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 the table 1, 2 and 3.

EBITDA Analysis

For 1Q14, consolidated EBITDA recorded a healthy YoY growth with half of the increase coming from the telecom business and the rest largely from momo.

Telecom's 1Q14 EBITDA grew from a year ago due to increases in service revenue and savings as a result of expense discipline. Its sequential increase was mainly credited to the less handset subsidy for the quarter.

Thanks to a 61% YoY revenue growth in the DTV business and contained cost and expenses in 1Q14, HBG saw QoQ and YoY increases in EBITDA and an expanding EBITDA margin. Depreciation expense rose due to more digital set-top-box procurements.

In 1Q14, momo's EBITDA in the online shopping business grew around 90% YoY credited to a better product mix and margin expansions. EBITDA in the TV home shopping service stabilized due to a mild increase in revenue and cost cutting measures. For the unprofitable physical channels, momo has announced the sale of its cosmetics stores on March 28, 2014. Accordingly, in the P&L, this has been reclassified as discontinued operations. As a result, momo registered a 35% YoY increase in EBITDA on an expanding margin of 5.6% for the quarter from 4.8% a year ago.

Non-Operating Item Analysis

In 1Q14, non-operating expense declined QoQ and YoY due to a lesser asset write-off loss and a one-off gain from the disposal of an unused parcel of land.

III. Income Statement Analysis

Table 4. 1Q14 Consolidated Results vs. Forecast

NT\$bn	1Q14	YoY	% of 1Q14 Forecast
Revenue	27.73	5%	99%
Operating Cost	17.99	7%	96%
Operating Expense	4.62	3%	103%
Operating Income	5.11	1%	106%
Non-op. Income (Expense)	(0.03)	-89%	43%
Pre-tax Income	5.08	6%	107%
(Less Tax)	(0.86)	0%	112%
(Discontinued Operations & Minority Interest)	(0.13)	14%	NM
Net Income	4.08	7%	104%
EPS (NT\$)	1.52	7%	105%
EBITDA	7.77	3%	104%
EBITDA margin	28.0%	-0.5ppt	

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

Income Statement Analysis

YoY Analysis

In addition to the revenue rises in all three business lines of telecom, CATV and momo, the expense discipline implemented across all divisions also contributed to the 3% YoY increase in consolidated EBITDA in 1Q14. The rising D&A expenses resulting from expanding telecom and CATV businesses, however, weighed on TWM's EBIT for the quarter. Credited to a drop in non-operating expense analyzed in previous section, our 1Q14 net income managed to grow 7% from a year ago.

Guidance Achievement Rate Analysis

Consolidated EBITDA was ahead of our guidance by 4% due to lower-than-expected telecom cost and higher-than-expected profit from momo. On the non-operating front, interest expenses came in much lower than our expectations due to the lower-than-expected interest rate we negotiated. As a result, 1Q14 net income was ahead of our forecast by 4%.

IV. Cash Flow Analysis

Table 5. Cash Flow

NT\$bn	1Q14	4Q13	1Q13
Total Op Sources/(Uses)	6.84	7.58	3.95
Pre-tax Income	5.03	4.38	4.70
Depreciation	2.35	2.26	2.16
Amortization	0.32	0.31	0.31
Changes in Working Capital	(0.99)	(0.08)	(3.58)
Asset Write-off Add-backs	0.07	0.52	0.24
Other Add-backs	0.06	0.19	0.12
Net Investing Sources/(Uses)	(0.99)	(30.40)	(4.32)
Capex ¹	(2.27)	(2.67)	(3.99)
Cash from Consolidation of Subsidiary	1.19	-	-
Divestments (Acquisitions)	(0.11)	0.02	(0.39)
Other Financial Assets (Increase) ²	0.18	0.23	0.04
4G License fee	-	(29.01)	-
Others	0.02	1.04	0.02
Net Financing Sources/(Uses)	(5.63)	22.98	0.25
Short-Term Borrowings	(6.76)	22.27	0.25
Commercial Paper Payable Increase	(1.90)	2.00	-
Corporate Bond Payable	-	(4.00)	-
Long-Term Bank Loan	3.00	3.00	-
Dispose of investment in Subsidiaries	0.14	0.00	-
Others	(0.11)	(0.29)	0.00
Net Cash Position Chg.	0.22	0.17	(0.12)

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	1Q14	4Q13	1Q13
Cash Capex	2.27	2.67	3.99
- Mobile	1.59	1.96	1.30
- Fixed-line	0.32	0.41	2.54
- Cable MSO	0.34	0.08	0.12
- momo & other	0.02	0.23	0.02
% of Revenue	8%	9%	15%
Free Cash Flow	4.57	4.91	(0.04)

Cash Flow Analysis

1Q14 operating cash inflow decreased QoQ mainly because the employee bonuses booked in 4Q13 was paid in 1Q14. Compared to a year ago, a large handset payment made in 1Q13 resulted in a higher cash outflow a year ago.

In contrast to a big jump in investment in the new mobile spectrum in 4Q13, investment cash outflow was a mere NT\$1bn in 1Q14. 1Q net investing cash outflow mainly comprised of 1) NT\$2.27bn in cash capex and 2) NT\$1.19bn in cash included arising from the consolidation of Taipei New Horizon (TNH), TWM's 49.9%-held subsidiary, since February 21, 2014. In addition, we raised our investment in TNH and entered into a joint venture in Thailand to explore the TV home shopping market overseas in 1Q14. A year ago, the main increases in investments were capital calls from our 32.5%-owned Kbro Media and TNH.

With regard to financing activity in 1Q14, the reduction in investing cash outflow allowed us to repay NT\$8.66bn of short-term borrowings in the quarter.

TWM sold some shares in momo to the security underwriter and reduced its shareholdings in momo from 50.64% to 49.93% upon momo's listing on the Tiger Board in Feb. 2014 per regulations. The disposal gain of NT\$20mn was to increase TWM's capital surplus.

Capex and Free Cash Flow Analysis

1Q14 cash capex was mainly for expanding wireless capacity and continuously procuring set-top-boxes to boost DTV penetration. Compared to a year ago, new IDC (internet data center) payments resulted in higher capex in 1Q13. The sequential drop in cash capex was due to momo's investment made in 4Q13 for new studio facilities to produce digital programs.

After paying down the 4G license fee, TWM regained its ability to generate stable free cash inflow going forward.

V. Balance Sheet Analysis

Table 7. Balance Sheet

NT\$bn	1Q14	4Q13	1Q13
Total Assets	142.93	138.35	104.34
Current Assets	28.54	29.49	25.19
- Cash & Cash Equivalents	8.18	7.95	6.08
- Accounts Receivable	14.15	14.27	12.10
- Inventories	2.94	3.78	3.48
- Other Current Assets	3.27	3.49	3.54
Non-current Assets	114.39	108.86	79.15
- Long-Term Investment	2.47	4.19	3.43
- Property and Equipment	42.81	42.99	42.62
- Other Non-current Assets	69.11	61.68	33.10
Liabilities	78.51	79.83	42.69
Current Liabilities	49.62	58.61	29.60
- ST Debt/Commercial Paper Payable	25.55	34.00	7.42
- Other Current Liabilities	24.07	24.60	22.18
Non-current Liabilities	28.89	21.23	13.09
- Long-Term Borrowings	23.08	16.79	9.00
- Deferred Income Tax Liability	2.66	2.60	2.35
- Other Non-current Liabilities	3.15	1.83	1.74
Shareholders' Equity	64.42	58.52	61.66
-Paid-in Capital	34.21	34.21	34.21
-Capital Surplus	12.48	12.46	12.43
-Legal Reserve	19.26	19.26	18.06
-Un-appropriated Earnings	6.61	6.61	7.91
-Treasury Shares	(31.08)	(31.08)	(31.08)
-Retained Earnings & Others*	22.94	17.06	20.12

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

Table 8. Ratios

	1Q14	4Q13	1Q13
Current Ratio	58%	50%	85%
Interest Coverage (x)	34.5	35.1	60.8
Net Debt (Cash) to Equity	63%	73%	17%
Net Debt (Cash) to EBITDA (x)	1.30	1.39	0.34
ROE (annualized)	27%	25%	25%
ROA (annualized)	12%	11%	15%

Assets

Inventories decreased QoQ on faster turnover for mobile business in 1Q14.

We note that TNH has been consolidated into TWM's financials since Feb. 21, 2014.

The QoQ increase in other non-current assets was a reflection of TNH's NT\$7.46bn superficies granted by the government. On a YoY basis, in addition to TNH, the rise in this account was a result of the NT\$29bn 4G spectrum fee paid in 4Q13.

Liabilities & Shareholders' Equity

Despite the inclusion of TNH's net debt of NT\$2.6bn, TWM's consolidated net debt decreased to NT\$40.45bn from NT\$42.84bn a quarter ago due largely to the repayment of some short-term borrowings mentioned in Cash Flow Analysis Section.

Other non-current liabilities increased arising from TNH's payables to the government related to the superficies and payables to the contractor.

Ratio Analysis

Current ratio improved and net debt to EBITDA came off in 1Q14 from a quarter ago due to lower gearing. As a result of a QoQ profit increase, we saw a rise in ROE/ROA.

VI. Quarterly Guidance

Table 9. 2Q14 Forecast

NT\$bn	2Q14F	2Q13	YoY
Revenue	28.28	26.56	6%
EBITDA	7.74	7.83	-1%
EBIT	4.83	5.38	-10%
Non-operating expense	0.44	0.46	-5%
Net Income	3.57	3.96	-10%
EPS (NT\$)	1.33	1.47	-10%

- We expect 2Q14 total revenue to be up by 6% YoY mainly driven by increases in handset sales and momo revenue.
- EBITDA increases from cable TV and momo are forecasted to mitigate pressure on telecom EBITDA resulting from rising opex related to adding more 3G and 4G base stations and company stores for the quarter.
- Taiwan Mobile's total D&A, reflecting expanding telecom and digital TV businesses, is expected to weigh on profits in 2Q14.

VII. Management Remark

Key Message

The LTE network deployment, expected service offerings and handset availabilities have been very promising. TWM is aiming to maintain operating stability in the near term and as always to ensure shareholders' returns.

2013 Earnings Distribution

TWM's board meeting today (April 29, 2014) approved a proposal to distribute NT\$15.1bn in cash dividends, comprised of 90% of 2013 earnings and NT\$1.0bn of un-appropriated earnings, translating into a 97% payout to shareholders. Dividend per share is NT\$5.6 on 2.69bn shares, excluding treasury shares held by 100%-owned subsidiaries.

Capex Budget Revision

The board today (April 29, 2014) approved an additional NT\$0.8bn capex budget for 2014, by adding NT\$0.2bn IT capex and NT\$0.6bn spending related to our 49.9%-held Taipei New Horizon. Thus, 2014 capex is revised to be NT\$13.6bn: NT\$9.8bn for mobile, NT\$2.1bn for fixed-line, NT\$1bn for cable-TV, and the remaining balance for other subsidiaries.

Regulatory Update

TWM has obtained the system technology validation approval for the roll-out of 4G base stations from NCC and has also filed an application for the 4G commercial launch.

Awards and Recognition

- Received an "Award for Promoting High-speed Broadband Services in Remote Areas" from the NCC in the recognition of TWM's efforts in narrowing the digital gap in the mountain villages.