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TWM Consolidated

NT\$bn	<u>3Q14</u>	<u>2Q14</u>	<u>3Q13</u>	<u>QoQ</u>	<u>YoY</u>
Revenue	27.77	26.94	27.08	3%	3%
EBITDA	8.10	8.16	8.02	-1%	1%
Operating Income	5.09	5.39	5.54	-6%	-8%
Non-op. Income (Expense)	(0.55)	(0.20)	(0.29)	175%	89%
Pre-tax Income	4.54	5.19	5.25	-13%	-14%
(Less Tax)	(0.62)	(0.89)	(0.89)	-30%	-30%
(Less Discontinued Operation Loss)	0.00	(0.04)	(0.05)	NM	NM
(Less Minority Interest)	(0.18)	(0.13)	(0.03)	37%	426%
Net Income	3.74	4.14	4.27	-10%	-13%
EPS (NT\$)	1.39	1.54	1.58	-10%	-12%

Highlights of 3Q14 Results

For 3Q14, the YoY increase of 3% in revenue was attributed to growth in momo's revenue. TWM's consolidated EBITDA managed to grow 1% YoY on the back of profit increases in all of the business lines, except for telecom business. Telecom's service revenue and EBITDA were both negatively affected by bundle sales adjustments. Higher non-operating expenses and D&A expenses from the telecom business inevitably weighed on TWM's net income in 3Q14.

4Q14 Forecast

- We expect both 4Q14 handset sales and momo revenue to see higher YoY growth. Mobile service revenue is forecasted to have a low single-digit percentage annual increase in 4Q. That said, softness in IDD, ISR and other legacy businesses are expected to result in a flat YoY change in telecom service revenue.
- The EBITDAs of cable TV and momo will continue to rise YoY in 4Q. Telecom EBITDA, on the other hand, may not go up due to anticipated higher 4G take-up which will push up handset subsidies in 4Q.
- D&A expenses are expected to increase both YoY and QoQ, largely due to increases in 4G spectrum fee amortization and 4G equipment depreciation.
- Asset write-off losses and income tax expense, nonetheless, will come off both YoY and QoQ.
- For the full year of 2014, TWM expects to register a consolidated revenue of NT\$112.71bn and EPS of NT\$5.51.

Board Resolutions

- The board today (October 31, 2014) approved an additional NT\$0.5bn capex budget for 2014 to take the lead in the 4G network roll-out. Thus, 2014 capex is revised to be NT\$16bn: NT\$10.7bn for mobile, NT\$1.7bn for fixed-line, NT\$1bn for cable TV, and NT\$2.6bn for momo and other subsidiaries.

Key Message

With the acquisition of 5MHz on the 700MHz frequency band from Ambit, TWM will have the largest 4G spectrum of 35MHz, including in particular, the biggest contiguous spectrum of 20MHz on the 700MHz band, leading TWM to be best positioned to provide the fastest 4G service to the consumers and increase corporate value to our shareholders. Additionally, we will adjust 4G product offerings to better monetize our 4G investments.

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I. Revenue Analysis

Table 1. Key Operational Data

Revenue (NT\$bn)	3Q14	2Q14	3Q13	QoQ	YoY
Telecom	19.87	19.73	20.45	1%	-3%
Mobile Service	13.59	13.50	13.80	1%	-2%
Device Sales	4.51	4.46	4.69	1%	-4%
Fixed-line	0.84	0.84	0.87	0%	-3%
IDD	0.42	0.43	0.53	-2%	-21%
ISR & Others	0.51	0.51	0.57	1%	-10%
CATV	1.60	1.58	1.57	1%	2%
- Pay-TV related	1.10	1.09	1.08	1%	2%
- Broadband	0.31	0.30	0.29	1%	6%
- Content & others	0.19	0.18	0.19	5%	-1%
momo¹	6.28	5.62	5.12	12%	23%
- TV shopping & catalogue	2.14	1.98	2.16	8%	-1%
- Online shopping	3.99	3.52	2.89	13%	38%
Others²	0.11	0.11	--	3%	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.

	3Q14	2Q14	3Q13	QoQ	YoY
Mobile Subscribers (K)	7,498	7,413	7,158	1%	5%
- Post-paid	6,083	6,094	6,084	0%	0%
Monthly Churn	2.0%	1.8%	2.1%		
MOU (bn)	3.05	3.18	3.70	-4%	-18%
Pay-TV Subs (K)	587	586	583	0%	1%
Cable Broadband Subs (K)	187	185	179	1%	4%
DTV Subs (K)	164	152	113	8%	45%

NT\$	3Q14	2Q14	3Q13	QoQ	YoY
Wireless					
Post-paid ARPU (residual value)	843	837	847	1%	0%
Cable MSO					
Basic TV ARPU	493	494	493	0%	0%
Broadband ARPU	546	546	541	0%	1%
DTV ARPU	133	133	139	0%	-4%
Blended ARPU ¹	801	796	785	1%	2%

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

Telecom:

Under the relative fair value method, 3Q14 mobile service revenue declined 2% YoY attributed largely to the deduction of service revenue from handset bundles contracts sold previously. It would be flat YoY if residual value method was adopted. Having said that, mobile data adoption still reached 60% of the postpaid installed base at the end of 3Q14, rising from 51% a year ago. As a result, mobile broadband revenue rose 18% YoY for the quarter.

Under the relative fair value method, device sales grew slightly QoQ (vs. 15% QoQ drop in 2Q14) due to the introduction of the iPhone 6 in late September. The YoY decline, however, was because of a higher mix of low-end smartphones in 3Q14 compared to a year ago.

IDD revenue decline came largely from pricing competition from rivals and OTT service substitution.

Cable:

Benefiting from continual increases in digital TV service adoption and organic growth in basic TV subscriptions, pay-TV related revenue reported a 2% YoY growth.

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 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 38% YoY growth in the online shopping business. In addition, both momo's TV shopping and online shopping revenues were on the rise sequentially.

II. EBITDA Analysis

Table 2. EBITDA Breakdown

NT\$bn	3Q14	2Q14	3Q13	QoQ	YoY
EBITDA	8.10	8.16	8.02	-1%	1%
- Telecom	6.73	6.85	6.99	-2%	-4%
- CATV	0.86	0.86	0.82	0%	5%
- momo ¹	0.46	0.39	0.22	17%	113%
- others	0.07	0.06	--	15%	NM
Margin	29.2%	30.3%	29.6%	-1.1ppts	-0.5ppts
- Telecom	33.9%	34.7%	34.2%	-0.9ppts	-0.3ppts
- CATV	53.8%	54.3%	52.4%	-0.5ppts	+1.4ppts
- momo	7.3%	7.0%	4.2%	+0.3ppts	+3.1ppts
- others	60.3%	53.9%	--	+6.4ppts	NM
D&A	3.02	2.77	2.50	9%	21%
- Telecom	2.69	2.46	2.24	9%	20%
- CATV	0.21	0.20	0.18	8%	20%
- momo ¹	0.03	0.03	0.03	5%	25%
- others	0.04	0.04	--	4%	NM
EBIT	5.09	5.39	5.52	-6%	-8%
- Telecom	4.04	4.39	4.75	-8%	-15%
- CATV	0.65	0.66	0.65	-2%	1%
- momo ¹	0.43	0.36	0.19	18%	125%
- others	0.03	0.02	--	38%	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, HBC, 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	3Q14	2Q14	3Q13	QoQ	YoY
Non-Operating	(0.55)	(0.20)	(0.29)	175%	89%
-Net Interest Income (Expense)	(0.15)	(0.12)	(0.08)	29%	96%
- Write-off Loss	(0.43)	(0.09)	(0.20)	393%	118%
-Others	0.04	0.01	(0.01)	423%	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.

EBITDA Analysis

3Q14 consolidated EBITDA grew 1% YoY mainly credited to momo's pronounced profit growth.

Telecom EBITDA decreased YoY in 3Q14 as 4G revenue in the early stage of the service launch has not been significant. The well-received iPhone6/6plus introduced in late September also increased our handset subsidies QoQ.

D&A expense increased due to expanding 4G network rollout and the amortization of the 4G license fees starting once 4G launched on the 700MHz and 1800MHz in June and September, respectively.

In 3Q14, rising revenues in HBG's broadband and DTV businesses supported a YoY increase to its EBITDA. D&A expense increase was due to a rising depreciation expense from a growing installed base for the digital set-top-boxes.

In 3Q14, momo's EBITDA in the online shopping business grew around 150% YoY credited to strong revenue growth and margin expansion. EBITDA in the TV home shopping service grew by 62% YoY largely due to channel cost cutting measures. Thus, momo's EBITDA increased by 113% YoY in 3Q14, much higher than the 43% YoY rise a quarter ago. Its EBITDA margin also expanded to 7.3% for the quarter from 4.2% during the same period last year.

Non-Operating Item Analysis

3Q14 interest expense rose QoQ and YoY, due to higher borrowings related to paying cash dividends and 4G spectrum payments, respectively. In addition, more asset write-offs were executed in the quarter, leading to a higher non-operating expense.

III. Income Statement Analysis

Table 4. 3Q14 Consolidated Results vs. Forecast

NT\$bn	3Q14	YoY	% of 3Q14 Forecast
Revenue	27.77	3%	98%
Operating Cost	18.32	6%	96%
Operating Expense	4.36	1%	98%
Operating Income	5.09	-8%	108%
Non-op. Income (Expense)	(0.55)	89%	88%
Pre-tax Income	4.54	-14%	111%
(Less Tax)	(0.62)	-30%	113%
(Minority Interest)	(0.18)	426%	162%
Net Income	3.74	-13%	109%
EPS (NT\$)	1.39	-12%	109%
EBITDA	8.10	1%	103%
EBITDA margin	29.2%	-0.5ppts	

Income Statement Analysis

YoY Analysis

For 3Q14, the YoY increase of 3% in revenue was attributed to growth in momo's revenue. TWM's consolidated EBITDA managed to grow 1% YoY on the back of profit increases in all of the business lines, except for telecom business. Telecom's service revenue and EBITDA were both negatively affected by bundle sales adjustments. Higher non-operating expenses and D&A expenses from the telecom business inevitably weighed on TWM's net income in 3Q14.

Guidance Achievement Rate Analysis

The lower-than-expected revenue was mainly due to a handset sales shortfall resulting from weaker demand for high-end 3G smartphones.

Consolidated EBITDA exceeded our guidance by 3% due to lower-than-expected telecom opex and higher-than-expected profit from momo.

D&A and non-operating expenses, mainly interest expense, also came in lower than forecast.

As such, 3Q14 net income was ahead of our forecast by 9%.

IV. Cash Flow Analysis

Table 5. Cash Flow

NT\$bn	3Q14	2Q14	3Q13
Total Op Sources/(Uses)	7.59	6.68	5.89
Pre-tax Income	4.54	5.15	5.19
Depreciation	2.47	2.37	2.19
Amortization	0.54	0.40	0.31
Changes in Working Capital	(0.65)	(1.54)	(2.20)
Asset Write-off Add-backs	0.43	0.09	0.20
Other Add-backs	0.25	0.21	0.19
Net Investing Sources/(Uses)	(3.66)	(4.79)	(2.53)
Capex ¹	(3.59)	(4.78)	(2.63)
Others	(0.07)	(0.01)	0.10
Net Financing Sources/(Uses)	(2.94)	(4.07)	(6.85)
Dividend Payment	(15.06)	(0.22)	(14.80)
Short-Term Borrowings	7.79	(11.47)	7.56
Commercial Paper Payable	4.49	0.80	0.40
Long-Term Bank Loan	(0.11)	7.00	0.00
Interest Payment & Others	(0.05)	(0.18)	(0.01)
Net Cash Position Chg.	0.99	(2.18)	(3.49)

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

Table 6. Capex & FCF

NT\$bn	3Q14	2Q14	3Q13
Cash Capex	3.59	4.78	2.63
- Mobile	2.95	2.13	1.75
- Fixed-line	0.30	0.44	0.37
- Cable MSO	0.27	0.14	0.32
- momo & others	0.06	2.07	0.19
% of Revenue	13%	18%	10%
Free Cash Flow	4.00	1.90	3.26

Cash Flow Analysis

In 3Q14, operating cash inflow increased QoQ and YoY mainly due to greater handset related accounts payables and equipment/construction payables regarding 4G base station deployments accrued in the quarter, resulting in a higher operating cash inflow.

The 3Q14 net investing cash outflow was mainly for a NT\$3.59bn cash capex, as explained in the following section.

In terms of financing activities, the net cash outflow of NT\$2.94bn was mainly a combination of a NT\$15.06bn dividend payment and a NT\$12.18bn increase in borrowings in 3Q14.

Capex and Free Cash Flow Analysis

Continuous investments in the 4G network resulted in a YoY increase in cash capex. Compared to a quarter ago, 3Q14 cash capex decreased due to momo's spending on the logistics and warehousing center made in 2Q14. As a result, free cash yield was back on track to around 6% for the quarter.

V. Balance Sheet Analysis

Table 7. Balance Sheet

NT\$bn	3Q14	2Q14	3Q13
Total Assets	146.66	143.08	109.35
Current Assets	28.71	26.81	28.86
- Cash & Cash Equivalents	6.99	6.00	7.79
- Accounts Receivable	14.77	14.33	14.20
- Inventories	3.31	3.06	3.15
- Other Current Assets	3.64	3.42	3.72
Non- current Assets	117.95	116.27	80.49
- Long-Term Investment	2.51	2.57	4.20
- Property and Equipment	47.24	45.27	42.52
- Concession	39.37	39.70	3.93
- Other Non-current Assets	28.83	28.73	29.85
Liabilities	89.39	89.70	54.49
Current Liabilities	55.14	55.39	35.41
- ST Debt/Commercial Paper Payable	28.17	15.88	12.73
- Other Current Liabilities	26.97	39.51	22.68
Non-current Liabilities	34.25	34.31	19.08
- Long-Term Borrowings	28.98	29.08	14.79
- Other Non-current Liabilities	5.28	5.23	4.29
Shareholders' Equity	57.27	53.38	54.86
-Paid-in Capital	34.21	34.21	34.21
-Capital Surplus	12.49	12.48	12.43
-Legal Reserve	21.54	21.54	19.26
-Un-appropriated Earnings	4.83	4.83	6.61
-Treasury Shares	(31.08)	(31.08)	(31.08)
-Retained Earnings & Others*	15.28	11.40	13.42

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

Assets

In 3Q14, cash balance increased QoQ resulting from a higher operating cash inflow.

Inventories increased at the end of 3Q in preparation for meeting the strong demand for the iPhone 6.

The sequential increase in PP&E mainly came from the continuous addition of 4G equipment.

Taipei New Horizon 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. The sequential drop in concession was due to the amortization of 4G spectrum fees kicking in for the quarter.

Liabilities & Shareholders' Equity

Compared to a quarter ago, TWM increased its gross debt by NT\$12.18bn to fund cash dividend payments made in 3Q14. The YoY increase in debt level resulted from an investment in the LTE spectrum acquired in 4Q13.

Other current liabilities decreased QoQ due to the \$15.06bn cash dividends payable paid in 3Q14, but increased YoY as a result of larger handset and 4G equipment related payables.

Table 8. Ratios

	3Q14	2Q14	3Q13
Current Ratio	52%	48%	81%
Interest Coverage (x)	27.0	36.9	51.0
Net Debt (Cash) to Equity	88%	73%	36%
Net Debt (Cash) to EBITDA (x)	1.61	1.22	0.64
ROE (annualized)	28%	33%	32%
ROA (annualized)	11%	12%	16%

VI. Guidance

Table 9. 4Q14 Forecast

NT\$bn	4Q14F	4Q13	YoY	2014F
Revenue	30.28	28.41	7%	112.71
EBITDA	7.13	7.61	-6%	31.17
D&A expense	(3.23)	(2.56)	26%	(11.67)
EBIT	3.90	5.05	-23%	19.50
Non-operating expense	(0.56)	(0.62)	-9%	(1.34)
Net Income	2.90	3.55	-18%	14.86
EPS (NT\$)	1.06	1.32	-20%	5.51

- We expect both 4Q14 handset sales and momo revenue to see higher YoY growth. Mobile service revenue is forecasted to have a low single-digit percentage annual increase in 4Q. That said, softness in IDD, ISR and other legacy businesses are expected to result in a flat YoY change in telecom service revenue.
- The EBITDAs of cable TV and momo will continue to rise YoY in 4Q. Telecom EBITDA, on the other hand, may not go up due to anticipated higher 4G take-up which will push up handset subsidies in 4Q.
- D&A expenses are expected to increase both YoY and QoQ, largely due to increases in 4G spectrum fee amortization and 4G equipment depreciation.
- Asset write-off losses and income tax expense, nonetheless, will come off both YoY and QoQ.
- For the full year of 2014, TWM expects to register a consolidated revenue of NT\$112.71bn and EPS of NT\$5.51.

VII. Management Remarks

Key Message

With the acquisition of 5MHz on the 700MHz frequency band from Ambit, TWM will have the largest 4G spectrum of 35MHz, including in particular, the biggest contiguous spectrum of 20MHz on the 700MHz band, leading TWM to be best positioned to provide the fastest 4G service to

the consumers and increase corporate value to our shareholders. Additionally, we will adjust 4G product offerings to better monetize our 4G investments.

Board Resolution

- Capex Budget Revision

The board today (October 31, 2014) approved an additional NT\$0.5bn capex budget for 2014 to take the lead in the 4G network roll-out. Thus, 2014 capex is revised to be NT\$16bn: NT\$10.7bn for mobile, NT\$1.7bn for fixed-line, NT\$1bn for cable TV, and NT\$2.6bn for momo and other subsidiaries.

Product and Service

- TWM's 4G service on the 1800MHz officially launched in September. With a combined spectrum of 20MHz, the optimal speed we can provide would reach 150Mbps through inter-band carrier aggregation, the fastest speed among all operators.
- Introduced HomeSecurity, a home surveillance and intelligent monitoring/detection system for household customers.

Awards and Recognition

- TWM was selected as a member of the Dow Jones Sustainability Indices' Emerging Markets Index for the third year in a row.
- TWM's cloud internet data center (IDC) was nominated as a finalist of the "Innovation in the Mega-Data Center" award by DatacenterDynamics, the world's largest third party data center analysis institute.
- The 2013 CSR report received the International Standards on Assurance Engagements (ISAE) 3000 certification, a first for a telecom operator in Taiwan.