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TWM Consolidated

NT\$bn	<u>3Q16</u>	<u>2Q16</u>	<u>3Q15</u>	<u>QoQ</u>	<u>YoY</u>
Revenue	28.45	28.44	27.57	0%	3%
EBITDA	8.57	8.72	8.58	-2%	0%
Operating Income	5.09	5.24	5.14	-3%	-1%
Non-op. Income (Expense)	(0.13)	(0.12)	(0.09)	2%	35%
Pre-tax Income	4.97	5.12	5.05	-3%	-2%
(Income Tax)	(0.84)	(0.86)	(0.77)	-2%	9%
(Minority Interest)	(0.14)	(0.14)	(0.12)	-2%	17%
Net Income	3.99	4.12	4.16	-3%	-4%
EPS (NT\$)	1.46	1.51	1.53	-3%	-5%

Highlights of Operating Results
3Q16

The 4G service take-up rate reached 60% of the postpaid installed base and helped mobile postpaid ARPU grow by 2% YoY in 3Q16, hitting a record high of NT\$885. As a result, TWM reported a 1% YoY increase in mobile service revenue for the quarter, while those of its peers both declined. The earlier release of iPhone 7 in 3Q16 vs. iPhone 6S in 4Q15 resulted in a YoY rise in handset subsidies. However, TWM's 3Q16 EBITDA was still resilient compared to a year ago.

Compared to our 3Q16 guidance, consolidated revenue slightly missed our forecast for the quarter mainly due to lower-than-expected handset sales. However, fewer-than-expected handset subsidies helped us beat our EBIT and EPS targets by 3% and 6%, respectively, in 3Q16.

1-3Q16

Year to September, our annual growth rate in consolidated EBITDA was 5%, the highest among peers, credited to better operating leverage. In addition, EPS for the first nine months accumulated to NT\$4.36 and reached 85% of our full-year target.

Key Message

Taiwan Mobile's optimized spectrum investments and disciplined handset subsidies led to the steady EBITDA growth in the first three quarters of 2016. The company's progress in achieving the 2016 full-year guidance is on track. A sound mobile spectrum and network investment strategy as well as healthy balance sheet management will allow the company to enhance shareholder returns in the future.

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I. Revenue Analysis

Table 1. Key Operational Data

Residual Value (NT\$bn)	3Q16	2Q16	3Q15	QoQ	YoY
Mobile Service Revenue	16.62	16.60	16.45	0%	1%
Postpaid ARPU (NT\$)	885	883	870	0%	2%
Blended ARPU (NT\$)	742	743	734	0%	1%
Telecom Service Revenue	17.74	17.76	17.63	0%	1%

Revenue (NT\$bn)	3Q16	2Q16	3Q15	QoQ	YoY
Telecom	20.01	20.05	19.56	0%	2%
Service	15.40	15.43	15.31	0%	1%
Device Sales	4.61	4.63	4.24	0%	9%
CATV	1.63	1.65	1.63	-1%	0%
- Pay-TV Related	1.08	1.09	1.11	-1%	-3%
- Broadband	0.33	0.33	0.32	-1%	1%
- Content & Others	0.22	0.23	0.20	-3%	12%
momo	6.76	6.69	6.33	1%	7%
- Online Shopping	4.95	4.82	4.30	3%	15%
- TV Shopping & Others	1.81	1.87	2.03	-3%	-11%
Others¹	0.13	0.14	0.15	-9%	-12%

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.

	3Q16	2Q16	3Q15	QoQ	YoY
Mobile Subscribers (K)	7,479	7,458	7,507	0%	0%
- Postpaid	5,974	5,973	5,982	0%	0%
Monthly Churn	2.6%	2.3%	1.9%		
- Postpaid	1.6%	1.4%	1.5%		
MOU (bn)	2.57	2.66	2.83	-3%	-9%
Pay-TV Subs (K)	582	585	590	0%	-1%
Cable Broadband Subs (K)	202	201	197	1%	2%
DTV Subs (K)	196	192	188	2%	4%

CATV ARPU (NT\$)	3Q16	2Q16	3Q15	QoQ	YoY
Basic TV	470	479	489	-2%	-4%
Broadband	530	536	542	-1%	-2%
DTV	127	129	132	-2%	-3%
Blended ¹	804	807	812	0%	-1%

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

Telecom:

The 4G service take-up rate reached 60% of the postpaid installed base and helped mobile postpaid ARPU grow by 2% YoY in 3Q16, hitting a record high of NT\$885. As a result, TWM reported a 1% YoY increase in mobile service revenue for the quarter, while those of its peers both declined.

3Q16 device sales increased YoY due mainly to the launch of iPhone 7 in mid-September (iPhone 6S was launched in 4Q15).

In 3Q16, despite the other two major competitors' increased marketing efforts, TWM still performed the best among peers in sustaining its mobile subscriber base.

Cable:

Higher revenues from the content agency, cable broadband and digital TV businesses offset the YoY decline in basic TV subscription revenue due to price competition from new entrants. As a result, overall revenue from the cable business remained flat from a year ago.

momo

With a 15% YoY top-line growth, online shopping remained the brightest spot for momo. It also posted a 3% revenue increase compared to a quarter ago.

II. EBITDA Analysis

Table 2. EBITDA Breakdown

NT\$bn	3Q16	2Q16	3Q15	QoQ	YoY
EBITDA	8.57	8.72	8.58	-2%	0%
- Telecom	7.26	7.40	7.33	-2%	-1%
- CATV	0.87	0.90	0.89	-4%	-2%
- momo	0.30	0.34	0.28	-14%	6%
- others	0.08	0.05	0.06	62%	33%
Margin	30.1%	30.7%	31.1%	-0.6ppts	-1.0ppts
- Telecom	36.3%	36.9%	37.5%	-0.6ppts	-1.2ppts
- CATV	53.3%	54.6%	54.4%	-1.3ppts	-1.1ppts
- momo	4.4%	5.1%	4.4%	-0.8ppts	+0.0ppts
- others	64.2%	36.0%	42.6%	+28ppts	+22ppts

D&A	3.48	3.48	3.43	0%	1%
- Telecom	3.14	3.15	3.08	0%	2%
- CATV	0.22	0.22	0.23	0%	-2%
- momo	0.03	0.02	0.03	7%	-27%
- others	0.05	0.05	0.05	0%	-1%
EBIT	5.09	5.24	5.14	-3%	-1%
- Telecom	4.13	4.25	4.25	-3%	-3%
- CATV	0.65	0.68	0.66	-5%	-2%
- momo	0.27	0.32	0.24	-16%	11%
- others	0.03	(0.00)	0.01	NM	NM

Note: The combined total of telecom, CATV, 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	3Q16	2Q16	3Q15	QoQ	YoY
Non-Operating Revenue (Expense)	(0.13)	(0.12)	(0.09)	2%	35%
- Net Interest Expense	(0.13)	(0.11)	(0.15)	14%	-14%
- Write-off Loss	(0.04)	(0.05)	(0.06)	-21%	-28%
- Other Revenue (Expense)	0.05	0.04	0.12	8%	-60%

EBITDA Analysis

Despite rising mobile service revenue, telecom EBITDA decreased QoQ and YoY, mainly due to higher handset subsidies resulting from the new iPhone launch in the quarter.

On the cable front, though cable TV revenue remained stable, 3Q16 CATV EBITDA was down due to higher broadband IP bandwidth cost and personnel expenses.

For 3Q, momo's 6% YoY increase in EBITDA came not only from revenue growth in its online shopping business but also from the TV home shopping business turnaround in China.

D&A Analysis

The 2% YoY increase in telecom D&A came entirely from continuous investments in 4G infrastructure.

CATV 3Q16 D&A expense decreased YoY as some of the non-broadband related equipment had been fully depreciated.

momo's 3Q16 D&A expense decreased YoY resulting from equipment sale a year ago to shape up its TV home shopping business in China.

Non-Operating Item Analysis

The YoY increase in 3Q16 non-operating expense was due to a low base in 3Q15 with a one-off gain from the disposal of an unused property.

III. Income Statement Analysis

Table 4. 3Q16 Consolidated Results vs. Forecast

NT\$b	3Q16	QoQ	YoY	% of 3Q16 Forecast
Revenue	28.45	0%	3%	97%
Operating Cost	19.03	1%	5%	96%
Operating Expense	4.33	-1%	2%	95%
Operating Income	5.09	-3%	-1%	103%
Non-op. Income (Expense)	(0.13)	2%	35%	56%
Pre-tax Income	4.97	-3%	-2%	105%
Net Income	3.99	-3%	-4%	106%
EPS (NT\$)	1.46	-3%	-5%	106%
EBITDA	8.57	-2%	0%	100%
EBITDA margin	30.1%			

Income Statement Analysis

3Q16

The earlier release of iPhone 7 in 3Q16 vs. iPhone 6S in 4Q15 resulted in a YoY rise in handset subsidies. However, TWM's 3Q16 EBITDA was still resilient compared to a year ago.

Compared to our 3Q16 guidance, consolidated revenue slightly missed our forecast for the quarter mainly due to lower-than-expected handset sales. However, fewer-than-expected handset subsidies helped us beat our EBIT and EPS targets by 3% and 6%, respectively, in 3Q16.

Table 5. 1-3Q16 Consolidated Results vs. Forecast

NT\$b	1-3Q16	YoY	% of Full Year Forecast
Revenue	86.09	1%	71%
Operating Cost	57.52	-1%	69%
Operating Expense	13.24	2%	72%
Operating Income	15.34	6%	83%
Non-op. Income (Expense)	(0.48)	20%	49%
Pre-tax Income	14.85	6%	85%
Net Income	11.88	0%	85%
EPS (NT\$)	4.36	0%	85%
EBITDA	25.71	5%	78%
EBITDA margin	29.9%		

1-3Q16

Year to September, our annual growth rate in consolidated EBITDA was 5%, the highest among peers, credited to better operating leverage. In addition, EPS for the first nine months accumulated to NT\$4.36 and reached 85% of our full-year target.

IV. Cash Flow Analysis

Table 6. Cash Flow

NT\$bn	3Q16	2Q16	3Q15
Total Op Sources/(Uses)	7.89	5.97	7.25
Pre-tax Income	4.97	5.12	5.05
Depreciation	2.68	2.70	2.65
Amortization	0.80	0.79	0.79
Changes in Operating Assets and Liabilities	(0.80)	(2.89)	(1.52)
Asset Write-off Add-backs	0.04	0.05	0.04
Other Add-backs	0.21	0.21	0.26
Net Investing Sources/(Uses)	(3.55)	(2.70)	(4.44)
Capex ¹	(3.05)	(2.43)	(2.96)
Other Financial Assets (Increase)	(0.66)	(0.30)	(1.20)
Refundable Deposits (Increase)	0.02	(0.03)	(1.00)
Others	0.14	0.05	0.72
Net Financing Sources/(Uses)	(5.31)	(4.42)	(4.33)
Short-Term Borrowings	4.65	(0.51)	0.70
Commercial Paper Payable	5.50	(6.30)	10.29
Long-Term Bank Loan	(0.14)	3.08	0.09
Dividends Payments	(15.24)	(0.54)	(15.24)
Others	(0.08)	(0.15)	(0.17)
Net Cash Position Chg.	(0.98)	(1.15)	(1.51)

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

Table 7. Capex & FCF

NT\$bn	3Q16	2Q16	3Q15
Cash Capex	3.05	2.43	2.96
- Mobile	2.18	1.78	2.46
- Fixed-line	0.29	0.24	0.21
- Cable MSO	0.26	0.22	0.18
- momo & others	0.33	0.19	0.11
% of Revenue	11%	9%	11%
Free Cash Flow	4.84	3.54	4.29

Cash Flow Analysis

3Q16 operating cash inflows increased sequentially due to more handset payments and corporate income tax paid in 2Q16.

The major investing activities in 3Q16 were the NT\$3.05bn capex and a NT\$0.75bn time deposit made by momo for cash management purposes. For the same period a year ago, the cash outflow of NT\$1bn refundable deposit provided to the regulator was to participate in the 2.6GHz spectrum auction.

On the financing front, a total of NT\$10.15bn in short-term borrowings was raised in the quarter to fund the NT\$15.24bn cash dividend payment. Separately, we paid NT\$0.54bn cash dividend in 2Q16 to momo's minority shareholders.

Capex and Free Cash Flow Analysis

In 3Q16, aided by higher operating cash flow, TWM generated higher FCF QoQ and YoY. For the first three quarters, FCF netted NT\$15.66bn, up 90% YoY, attributed to higher cash earnings and reduced 4G related spectrum & capex spending. The accumulative FCF translated into an annualized FCF yield of 7%.

V. Balance Sheet Analysis

Table 8. Balance Sheet

NT\$bn	3Q16	2Q16	3Q15
Total Assets	151.26	152.47	154.87
Current Assets	32.39	32.72	31.26
- Cash & Cash Equivalents	6.57	7.55	7.28
- Accounts Receivable	15.66	15.97	15.90
- Inventories	2.95	2.85	2.24
- Short-Term Investment	1.26	1.27	1.06
- Other Current Assets	5.95	5.08	4.79
Non- current Assets	118.87	119.75	123.61
- Long-Term Investment	5.55	5.21	4.59
- Property and Equipment	46.42	46.76	48.15
- Concession	38.53	39.17	41.08
- Other Non-current Assets	28.36	28.61	29.78
Liabilities	88.76	94.45	93.26
Current Liabilities	51.34	56.17	64.81
- ST Debt	13.87	9.22	13.35
- Commercial Paper Payable	7.70	2.20	17.68
- LT Borrowings due in one year	6.25	6.25	11.34
- Other Current Liabilities	23.52	38.50	22.44
Non-current Liabilities	37.42	38.28	28.45
- Long-Term Borrowings	33.38	33.52	23.40
- Other Non-current Liabilities	4.04	4.76	5.05
Shareholders' Equity	62.50	58.02	61.62
-Paid-in Capital	34.21	34.21	34.21
-Capital Surplus	14.59	14.59	14.72
-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	5.62	5.50	5.88
-Retained Earnings & Others*	12.57	8.21	10.73

* Including YTD profits and other equity items

Table 9. Ratios

	3Q16	2Q16	3Q15
Current Ratio	63%	58%	48%
Interest Coverage (x)	30.1	33.5	26.8
Net Debt (Cash) to Equity	87%	75%	95%
Net Debt (Cash) to EBITDA (x)	1.62	1.29	1.78
ROE (annualized)	28%	31%	30%
ROA (annualized)	11%	11%	11%

Assets

Other current assets increased sequentially due to momo's NT\$0.75bn time deposit for cash management purposes mentioned earlier.

The QoQ and YoY increases in long-term investment were both to reflect the rising mark-to-market value appraised on our 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 rose to NT\$61.20bn mainly to finance the dividend payments in 3Q16.

Nonetheless, other current liabilities decreased QoQ due to the \$15.24bn cash dividend payments made in 3Q16, leading to a QoQ rise in current ratio.

Ratio Analysis

Net debt to EBITDA increased sequentially in the quarter because of raising cash to pay dividends through bank borrowings. Having said that, the ratio in 3Q16 was lower than its level a year ago. ROE at the end of 3Q came in at a high of 28%.

VI. Management Remarks

Key Message

Taiwan Mobile's optimized spectrum investments and disciplined handset subsidies led to the steady EBITDA growth in the first three quarters of 2016. The company's progress in achieving the 2016 full-year guidance is on track. A sound mobile spectrum and network investment strategy as well as healthy balance sheet management will allow the company to enhance shareholder returns in the future.

Change of TWM's Chairman

Following Mr. Richard M. Tsai's being named the Chairman of Fubon Financial Holdings and Fubon Life Insurance, Mr. Daniel M. Tsai was elected as Taiwan Mobile's Chairman by the board on Oct. 12, 2016.

Earlier Return of Partial 2G Spectrum

To optimize mobile network resources and be better prepared for the 2G network switch-off, TWM returned its 5MHz x 2 2G spectrum in the 1800MHz frequency band, which was approved by NCC on Sep. 14, 2016.

New Products and Services

- With an aim toward the Internet of Vehicle market, TWM has introduced new fleet management services, which integrate mobile communications, vehicle telematics, cloud service platform and mobile apps as well as car insurance services provided by Fubon Insurance, for enterprise customers to enhance managing efficiency on connected cars and reduce operating costs.

Awards and Recognition

- TWM was selected as a member of the DJSI's (Dow Jones Sustainability Index) Emerging Markets Index for the fifth year in a row (2012~2016).

- TWM was awarded the "Excellence in Corporate Social Responsibility" by *CommonWealth* magazine for the ninth time.
- TWM's 2015 CSR report, following the Integrated Reporting (IR) guidelines, was the first in the industry assured by KPMG.