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TWM consolidated

NT\$bn	<u>2013</u>	<u>YoY</u>	<u>4Q13</u>	<u>QoQ</u>	<u>YoY</u>
Revenue	109.14	9%	28.55	5%	8%
EBITDA	30.80	1%	7.58	-5%	-1%
Operating Income	20.79	0%	5.01	-8%	-3%
Non-op. Income (Expense)	(1.68)	99%	(0.63)	117%	136%
Pre-tax Income	19.12	-4%	4.38	-16%	-10%
(Less Tax)	(3.30)	-3%	(0.75)	-16%	-10%
(Less Minority Interest)	(0.23)	5%	(0.09)	160%	45%
Net Income	15.58	-5%	3.55	-17%	-11%
EPS (NT\$)	5.79	-5%	1.32	-16%	-11%

Highlights of 2013 Results

- Revenue increases in 2013 arose mainly from a 30% mobile increase in data revenue, continuous mobile revenue growth from enterprise customers, an 8% rise in cable internet revenue, and an over 40% YoY jump in online shopping revenue.
- At the same period, we also incurred more expenses by adding mobile data capacity, boosting smartphone adoptions, and extending the company's own distribution network.
- Thus, EBITDA edged up 1% YoY in 2013. 2013 operating income reached 102% of our guidance. Better-than-expected operating profits came mainly from lower-than-expected mobile bundle packages sold.

1Q14 Guidance

- For 1Q14, our revenue is forecasted to grow 5% YoY while EBITDA will be flattish.
- Lower write-off losses and an one-time land disposal gain of NT\$0.16bn will lead to a 3% YoY increase in EPS to NT\$1.45 in 1Q14.

2014 Business Outlook

- We expect the mobile industry to continue benefiting from rising smartphone and mobile data adoptions. Mobile revenue upside potential will also come from the new 4G service as well as online video/game/music/book services enabled by mobile solutions.
- Cable TV's EBITDA growth rate will be still maintained at low single-digit.
- momo will be a bright spot with a more than 30% increase in EBITDA, aided by forecasted healthy growth in its online shopping business and cost cutting of its other business lines.

Board Resolutions

The board today (January 28, 2014) approved a NT\$12.8bn capex for 2014, lower than the NT\$15.1bn expenditure budget in 2013, due to reductions in 3G expenditure expected to be larger than rises in 4G capex.

Key Message

Maintaining EBITDA stability for our telecom operations will be management's top focus this year. Separately, we expect profit additions from momo and much less non-operating expenses in 2014. Nonetheless, a D&A rise in the wake of the LTE service launch would affect short-term earnings.

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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)	4Q 13	Q o Q	Yo Y	2013	Yo Y
CBG	18.54	5%	7%	71.20	8%
Mobile Service	12.37	-1%	2%	49.2	3%
-Voice	7.42	-4%	-9%	30.64	-8%
-VAS	4.94	2%	26%	18.56	29%
IDD	0.49	-8%	-16%	2.19	-15%
Device Sales	5.54	22%	23%	19.29	29%
EBG	2.78	2%	5%	10.73	3%
Mobile Service	1.22	-2%	14%	4.70	13%
Fixed-line	0.85	-2%	-7%	3.48	-8%
ISR & Others	0.70	13%	8%	2.56	2%
HBG	1.59	1%	3%	6.24	2%
- Pay-TV related	1.09	1%	2%	4.31	2%
- Broadband	0.29	1%	6%	1.16	8%
- Content & others	0.20	4%	2%	0.78	-4%
momo	5.73	8%	15%	21.28	20%
- TV shopping & catalogue	2.18	1%	1%	8.71	0%
- Online shopping	3.32	15%	29%	11.52	43%

	4Q 13	3Q 13	4Q 12	Q o Q	Yo Y
Mobile Subscribers (K)	7,225	7,158	7,012	1%	3%
- Data card	511	483	405	6%	26%
Consumer	6,803	6,752	6,654	1%	2%
Enterprise	422	406	358	4%	18%
Monthly Churn	2.0%	2.1%	2.0%		
MOU (bn)	3.49	3.70	4.02	-6%	-13%
Pay-TV Subs (K)	584	583	580	0%	1%
Cable Broadband Subs (K)	180	179	170	0%	6%
DTV Subs (K)	127	113	77	13%	65%

NT\$	4Q 13	3Q 13	4Q 12	Q o Q	Yo Y
Wireless					
ARPU –postpaid (residual value)	840	847	806	-1%	4%
Cable MSO					
Basic TV ARPU	493	493	501	0%	-2%
Broadband ARPU	539	541	545	0%	-1%
DTV ARPU	138	139	141	0%	-2%
Blended ARPU ¹	792	785	776	1%	2%

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

CBG:

CBG's mobile service revenue saw a 2% revenue YoY growth in 4Q, benefiting from the increase in wireless data revenue more than offsetting softness in mobile voice revenue. As a result, mobile postpaid APRU grew 4% YoY in the quarter.

At the end of 2013, mobile data adoption reached 54% of the postpaid installed base, rising from 42% a year ago. As a result, mobile broadband revenue rose 34% YoY.

Some of the IDD revenue was replaced by VAS revenue from mobile internet and messaging apps.

Continued growth in smartphone bundle contracts sold in the quarter led to a rise in handset sales QoQ and YoY.

EBG:

4Q13 mobile service revenue registered a robust YoY growth of 14% primarily due to an 18% rise in mobile subscribers. Nevertheless, legacy fixed-line revenue was still under pressure.

HBG:

Efforts in increasing the DTV penetration rate paid off as incremental revenue from DTV customers more than covered the reduction in the basic subscription fee.

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.

Blended ARPU managed to grow 2% YoY credited to our efforts in upselling cable broadband and DTV services to the same households.

momo

momo's revenue growth greatly contributed to solid growth in the online shopping business in 4Q13. In addition, TV shopping continued to report YoY revenue increases since 2Q13.

II. EBITDA Analysis

Table 2. EBITDA Breakdown

NT\$bn	4Q13	QoQ	YoY	2013	YoY
EBITDA	7.58	-5%	-1%	30.80	1%
- CBG	5.58	-7%	-2%	22.95	0%
- EBG	0.92	-8%	-2%	3.75	9%
- HBG	0.81	-2%	-1%	3.28	1%
- momo	0.27	59%	31%	0.83	2%
Margin	26.5%	-2.7ppts	-2.4ppts	28.2%	-2.4ppts
- CBG	30.1%	-3.7ppts	-2.8ppts	32.2%	-2.8ppts
- EBG	33.2%	-3.5ppts	-2.6ppts	34.9%	+2.0ppts
- HBG	50.8%	-1.6ppts	-2.0ppts	52.5%	-0.6ppts
- momo	4.7%	+1.5ppts	+0.6ppts	3.9%	-0.7ppts
D&A	2.57	3%	3%	10.00	3%
- CBG	2.04	3%	1%	7.94	0%
- EBG	0.27	-1%	7%	1.05	13%
- HBG	0.19	6%	23%	0.68	19%
- momo	0.04	-21%	-26%	0.17	-7%
EBIT	5.01	-8%	-3%	20.79	0%
- CBG	3.55	-12%	-4%	15.00	-1%
- EBG	0.66	-11%	-6%	2.70	7%
- HBG	0.62	-4%	-6%	2.60	-3%
- momo	0.24	88%	48%	0.66	4%

Note: The combined total of CBG, EBG, HBG and momo does not equal the consolidated total of each account due to minor adjustments and eliminations.

Table 3. Non-operating Item

NT\$bn	4Q13	QoQ	YoY	2013	YoY
Non-Operating	(0.63)	117%	136%	(1.68)	99%
- Net Interest Revenue (Expense)	(0.10)	29%	46%	(0.30)	9%
- Write-off Loss	(0.52)	158%	154%	(1.40)	137%
- Others	(0.01)	-19%	NM	0.03	16%

EBITDA Analysis

In 4Q13, increasing expenses related to new company stores and the iPhone 5S/5C launch (Oct. 25, 2013 vs. iPhone 5 in Dec. 14, 2012) weighed on CBG's EBITDA QoQ and YoY.

Despite its 4Q13 revenue increasing 2% QoQ and 5% YoY, EBG's EBITDA dropped both QoQ and YoY largely due to the new iPhone launch.

HBG's 4Q13 EBITDA declined as a result of higher marketing expenses to boost DTV penetration rate as well as higher IP transit cost related to increasing broadband traffic. Depreciation expense rose due to more digital set-top-box procurements.

In addition to momo's rising revenue, scaling back its cosmetic store operation and the sale of its department store at the end of August 2013 also contributed to the 31% YoY increase in 4Q13 EBITDA.

For 2013, consolidated EBITDA saw a YoY growth rate of 1%, attributed to EBITDA increases from all three business lines of telecom, CATV and momo.

Non-Operating Item Analysis

In 4Q13, non-operating expense rose due to higher asset write-off loss and increasing interest expense resulting from rising debt raised in the quarter.

III. Cash Flow Analysis

Table 4. Cash Flow

NT\$bn	2013	2012	4Q 13	3Q 13
Total Op Sources/(Uses)	24.83	25.98	7.58	5.93
Pre-tax Income	19.12	19.94	4.38	5.19
Depreciation	8.77	8.47	2.26	2.19
Amortization	1.23	1.28	0.31	0.31
Changes in Working Capital	(6.33)	(4.85)	(0.08)	(2.16)
Asset Write-off Add-backs	1.40	0.59	0.52	0.20
Other Add-backs	0.64	0.56	0.19	0.20
Net Investing Sources/(Uses)	(42.35)	(10.23)	(30.40)	(2.57)
Capex ¹	(11.98)	(8.29)	(2.67)	(2.67)
4G License fee	(29.01)	0.00	(29.01)	0.00
Divestment (Acquisition)	(1.75)	(0.69)	0.02	0.00
Other Financial Assets (Increase) ²	0.25	(1.26)	0.23	0.00
Others	0.15	0.02	1.04	0.10
Net Financing Sources/(Uses)	19.27	(16.13)	22.98	(6.86)
Short-Term Borrowings	27.44	(5.84)	22.27	7.56
Commercial Paper Payable Increase	2.40	(0.90)	2.00	0.40
Corporate Bond Payable	1.80	5.00	(4.00)	0.00
Long-Term Bank Loan	3.00	0.00	3.00	0.00
Dividend Payment	(14.80)	(13.88)	0.00	(14.80)
Others	(0.57)	(0.51)	(0.29)	(0.02)
Net Cash Position Chg.	1.76	(0.38)	0.17	(3.49)

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 5. Capex & FCF

NT\$bn	2013	2012	4Q 13	3Q 13
Cash Capex	11.98	8.29	2.67	2.67
- Mobile	7.07	5.80	1.96	1.75
- Fixed-line	3.71	1.73	0.41	0.37
- Cable MSO	0.72	0.66	0.08	0.37
- momo	0.48	0.10	0.23	0.19
% of Revenue	11%	8%	9%	10%
Free Cash Flow	12.85	17.69	4.91	3.26

Cash Flow Analysis

4Q13 operating cash inflow grew QoQ with lower cash outflow for working capital due mainly to a corporate income tax paid in 3Q13. 2013 full-year operating cash inflow declined due to decreases in accounts payable.

2013 full-year net investing cash outflow mainly comprised of 1) NT\$11.98bn in cash capex, 2) NT\$29.01bn in 4G license fee payments, and 3) NT\$1.05bn in long-term investment acquisitions.

Net cash inflow from financing activities of NT\$23bn in 4Q13 was mainly to finance 4G license fee and repay a NT\$4bn matured corporate bond. In contrast to paying down borrowings in 2012, we increased gearing to fund the 4G investment.

Capex and Free Cash Flow Analysis

2013 cash capex increased from a year ago due to 1) higher mobile capex to meet growing 3G data traffic, 2) a one-time fixed-line expenditure related to making payments for the IDC construction completed in 2012, 3) procuring more set-top-boxes to meet government requirements in terms of DTV penetration, and 4) momo's investment in new studio facilities to produce digital programs and its office relocation.

Despite relatively stable operating cash flow, the aforementioned capex hike resulted in a short-term decrease in free cash flow in 2013.

IV. Balance Sheet Analysis

Table 6. Balance Sheet

NT\$bn	4Q 13	3Q 13	4Q 12
Total Assets	138.35	109.35	100.39
Current Assets	29.49	28.86	23.77
- Cash & Cash Equivalents	7.95	7.79	6.19
- Accounts Receivable	14.63	14.20	12.13
- Inventories	3.78	3.15	2.57
- Other Current Assets	3.12	3.72	2.88
Non-current Assets	108.86	80.49	76.62
- Long-Term Investment	4.19	4.20	3.06
- Property and Equipment	42.99	42.52	40.74
- Other Non-current Assets	61.69	33.77	32.82
Liabilities	79.83	54.49	42.75
Current Liabilities	58.61	35.41	29.93
- ST Debt/Commercial Paper Payable	34.00	12.73	7.16
- Other Current Liabilities	24.60	22.69	22.77
Non-current Liabilities	21.23	19.08	12.82
- Long-Term Borrowings	16.79	14.79	9.00
- Deferred Income Tax Liability	2.60	2.49	2.12
- Other Non-current Liabilities	1.83	1.80	1.70
Shareholders' Equity	58.52	54.86	57.64
-Paid-in Capital	34.21	34.21	34.21
-Capital Surplus	12.46	12.43	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*	17.06	13.42	16.10

* Including YTD profits, minority interests and other equity items

Table 7. Ratios

	4Q 13	3Q 13	4Q 12
Current Ratio	50%	81%	79%
Interest Coverage (x)	35.1	50.4	58.8
Net Debt (Cash) to Equity	73%	36%	17%
Net Debt (Cash) to EBITDA (x)	1.39	0.65	0.33
ROE (annualized)	25%	32%	28%
ROA (annualized)	11%	16%	16%

Assets

In 4Q13, the increase in accounts receivable mainly reflected expanding bundled handset sales and mobile service revenue while an increase in inventories resulted from more smart devices procured.

The increase in other non-current assets in 4Q was due to the NT\$29.01bn increase in 4G concession.

The net PP&E balance increase in 2013 resulted mainly from the addition of the new internet data center.

Liabilities & Shareholders' Equity

Short-term debt increased by NT\$21.27bn QoQ as a result of 1) additional increases of NT\$22.27bn new short-term bank loans and NT\$2bn commercial paper payable, 2) the repayment of a NT\$4bn corporate bond, and 3) the NT\$1bn short-term portion of the 2-year bank loan borrowed in the quarter.

In 4Q13, there was a new borrowing of a NT\$3bn 2-year bank loan with a 1.05% annual interest rate. The repayment schedule is NT\$1bn each in 2014 year end, end of June 2015, and 2015 year end, respectively.

Other current liabilities grew mainly due to increases in payables related to the newly acquired telecom equipment.

Ratio Analysis

To fund the LTE infrastructure while LTE service prepares to come on stream, we saw a rise in gearing and dips in current ratio and ROE/ROA.

V. Business Outlook

2014 Guidance

- We expect the mobile industry to continue benefiting from rising smartphone and mobile data adoptions. Taiwan Mobile estimates its mobile data penetration to reach 66% of the postpaid installed base by the end of 2014, up from 54% a year earlier.
- Mobile revenue upside potential will also come from the new 4G service as well as online video/game/music/book services enabled by mobile solutions.
- The above growth drivers are expected to grow our mobile postpaid ARPU by mid-single-digit in 2014.
- We will focus on expense rationalization in an aim to maintain a stable EBITDA for our telecom operations despite opex pressure from adding more 3G and 4G base stations and 4G commercial launch marketing campaigns.
- Cable TV's EBITDA growth rate will be still maintained at low single-digit in 2014.
- momo will be a bright spot with a more than 30% increase in EBITDA in 2014, aided by forecasted healthy growth in its online shopping business and cost cutting of its other business lines.
- Taiwan Mobile's total D&A is expected to rise by around 23%, reflecting expanding telecom and digital TV businesses in 2014.
- Non-operating expense in 2014 is expected to be much less than a year ago.

Table 8. 1Q14 Forecast

NT\$bn	1Q14	1Q13	YoY
Revenue	27.98	26.56	5%
EBITDA	7.46	7.46	0%
EBIT	4.82	4.99	-3%
Non-operating expense	0.07	0.28	-74%
Net Income	3.91	3.81	3%
EPS (NT\$)	1.45	1.42	3%

Based on our business expectations, we forecast a stable 1Q14 EBITDA, a lower non-operating expense, and a 3% EPS increase on a year-on-year comparison.

Capex

The board today (January 28, 2014) approved a NT\$12.8bn capex for 2014, lower than the NT\$15.1bn expenditure budget in 2013, due to reductions in 3G expenditure expected to be larger than rises in 4G capex.

VI. Management Remark

Key Message

Maintaining EBITDA stability for our telecom operations will be management's top focus this year. Separately, we expect profit additions from momo and much less non-operating expenses in 2014. Nonetheless, a D&A rise in the wake of the LTE service launch would affect short-term earnings.

Regulatory Update

TWM is one of the first two operators to have received approval from the NCC to apply for the 4G network roll-out.

Products and Services

- 2GB data pack



Introduced new post-paid data pack for 2GB usage at NT\$299 with 90 days usage period, and the ability to reload back up to 2GB at any time.

- Cloud IDC

TWM's green cloud IDC (Internet Data Center) received the ISO 50001 Certification as well as the Uptime Institute Tier III Certification in both the design and construction categories for its stable and efficient energy management.

- High speed cable broadband

Launched 120Mbps cable internet services for only NT\$888 a month, which includes complete HD channel selections, "Home Play" multi-screen convergence service and "Super MOD" (Multi-media on Demand) service, all for free.

- Exclusive smartphones

TWM exclusively introduced Samsung Grand 2, BlackBerry Q5, HTC Desire 300, TWM Amazing A7, A6S, A5C and A3S for the quarter.

Awards and Recognition

- Received "2013 Taiwan Corporate Sustainability Awards - Excellence in Telecom Sector" as well as "Role Model Award for Community Service and Outreach" from the Taiwan Institute for Sustainable Energy Research.
- The Company (comprising of its office buildings, server rooms, base stations and company stores) achieved the ISO 14064-1 standard for greenhouse gas (GHG) emissions and removals as well as received the ISO 50001 certification for energy management.
- Awarded "2013 Most Prestigious Company in Taiwan" by *CommonWealth* magazine, ranking No.1 in the telecom sector.