4th Quarter Results

for the period ending December 31, 2017

February 1, 2018

TWM Consolidated

NT$bn	2017	YoY	4Q17	QoQ	YoY
Revenues	**117.17**	**0%**	**31.76**	**10%**	**4%**
EBITDA	**32.78**	**-3%**	**7.78**	**-6%**	**-5%**
Operating Income	**19.09**	**-5%**	**4.30**	**-11%**	**-8%**
Non-op. Income (Expenses)	**(1.46)**	**76%**	**(1.12)**	**1116%**	**226%**
Pre-tax Income	**17.63**	**-8%**	**3.18**	**-33%**	**-27%**
(Income Tax)	**(2.68)**	**-18%**	**(0.52)**	**-15%**	**-29%**
(Minority Interest)	**(0.76)**	**24%**	**(0.22)**	**43%**	**34%**
Net Income	**14.19**	**-7%**	**2.44**	**-38%**	**-29%**
EPS (NT$)	**5.21**	**-7%**	**0.89**	**-39%**	**-30%**

2017 Highlights of Operating Results

In 2017, both e-commerce and mobile value-added service revenue came in ahead of expectations. Total revenue was 1% lower than our guidance mainly due to revenue shortfall from mobile device sales caused by weaker demand for high-end smart phone bundled plans. However, aided by handset subsidies and dealer commission cuts as well as other expense rationalizations, both EBITDA and operating income for the full year came in better than our guidance. Our full-year FCF maintained a high level of NT$20.52bn, translating into a FCF yield of 7.0%.

2018 Guidance

- In view of a stable ARPU and subscriber number, telecom top-line is forecast to be flat, should the domestic roaming and mobile termination businesses be excluded. Adjusted for the same accounting treatment as a year ago and not including the domestic roaming business, we target stable core telecom EBITDA through a stable top-line performance and stringent expense disciplines.
- In 2018, the combined EBITDA of the cable TV business and momo will represent 15% of our total EBITDA. Their respective EBITDA growth rates are estimated to be 1% for cable TV and 9% for momo.
- We expect a mere 1% drop in pre-tax earnings in 2018. EPS guidance of NT$5 is largely expected to be negatively affected by the corporate tax rate hike. With an expected stable core recurring EPS for 2018 and over 10% YoY reduction in capex, we forecast an 8% increase in the 2018 free cash flow from a year ago.

Key Message

Taiwan Mobile is confident in maintaining stable free cash flows despite less-than-satisfactory industry dynamics. Plus, we are better positioned with stronger footholds in e-commerce and OTT services, not to mention advantages in 4G spectrum and infrastructure investments. Sustaining the long-term health of our business to deliver satisfactory returns to our shareholders remains our main goal.

Topics in This Report

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Taiwan Mobile

I. Revenue Analysis

Table 1. Key Operational Data

Residual Value (NT$bn)	4Q17	QoQ	YoY	2017	YoY
Mobile Service Revenue	15.42	-1%	-7%	62.62	-5%
Postpaid ARPU (NT$)	845	0%	-5%	849	-4%
Blended ARPU (NT$)	707	0%	-5%	710	-4%
Telecom Service Revenue	16.45	-1%	-7%	67.02	-5%

Revenue (NT$bn)	4Q17	QoQ	YoY	2017	YoY
Telecom	**20.23**	**6%**	**-5%**	**77.37**	**-5%**
Service	14.28	-1%	-7%	58.02	-6%
Device Sales	5.95	29%	0%	19.35	-5%
CATV	**1.56**	**-4%**	**-4%**	**6.39**	**-2%**
- Pay-TV Related	1.02	-5%	-5%	4.24	-3%
- Broadband	0.34	1%	5%	1.35	3%
- Content & Others	0.19	-10%	-13%	0.81	-8%
momo	**9.94**	**24%**	**30%**	**33.24**	**18%**
- Online Shopping	8.21	27%	41%	26.57	29%
- TV Shopping & Others	1.73	11%	-4%	6.67	-11%
Others[1]	**0.15**	**3%**	**9%**	**0.58**	**2%**

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.

	4Q17	3Q17	4Q16	QoQ	YoY
Mobile Subscribers (K)	**7,227**	**7,324**	**7,439**	**-1%**	**-3%**
- Postpaid	5,781	5,832	5,944	-1%	-3%
Monthly Churn	**3.3%**	**3.0%**	**2.9%**		
- Postpaid	1.7%	1.7%	1.7%		
MOU (bn)	**1.59**	**1.73**	**2.43**	**-8%**	**-35%**
Pay-TV Subs (K)	**581**	**584**	**581**	**0%**	**0%**
Cable Broadband Subs (K)	215	212	203	1%	6%
DTV Subs (K)	224	220	199	2%	13%

CATV ARPU (NT$)	4Q17	QoQ	YoY	2017	YoY
Basic TV	444	-5%	-5%	461	-3%
Broadband	526	-1%	-1%	529	-1%
DTV	121	-2%	-4%	124	-4%
Blended[1]	783	-3%	-3%	799	-1%

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

Telecom

In 4Q17, TWM's mobile service revenue decreased YoY, mainly affected by a decreasing domestic roaming business and falling mobile MOUs. Separately, we had lower postpaid churns in the quarter, compared to a year ago, resulting in lower income from subscribers' early termination of their contracts.

For full-year 2017, mobile service revenue, excluding domestic roaming, came down 3.6% YoY, which continued to be less than our peers', on a like for like basis.

4Q17 telecom device sales increased by 29% QoQ aided by the iPhone 8 and iPhone X sales. However, 2017 full-year device sales were lower than those in 2016, owing to weaker demands for high-end Android phones and the lengthened handset replacement cycle.

Cable

Basic TV subscriber base stayed stable in 4Q17, compared to a year ago, suggesting easing competition. The fast ramp-up of digital set-top-box penetration led to a strong 13% YoY rise in DTV subscriber number at the end of 4Q17. With effective campaigns and the lead in download speed, our cable broadband subscriber number rose 6% YoY in 4Q17. This also paves the way for expanding our OTT video streaming service. Despite pricing pressure on services, we manage to have a resilient blended ARPU in 2017 by selling more services to the same household.

momo

In 4Q17, momo's e-commerce business recorded a 41% YoY increase in revenue, surpassing the growth rate of its closest competitor in Taiwan. momo benefited from strong Double 11 Shopping Festival sales and the commencement of operations of the new automated logistics center, which expects to boost momo's total SKUs.

Taiwan Mobile

II. EBITDA Analysis

Table 2. EBITDA Breakdown

NT$bn	4Q17	QoQ	YoY	2017	YoY
EBITDA	**7.78**	**-6%**	**-5%**	**32.78**	**-3%**
- Telecom	6.45	-8%	-6%	27.52	-4%
- CATV	0.74	-12%	-12%	3.28	-6%
- momo	0.47	50%	39%	1.52	11%
- others	0.10	1%	16%	0.39	40%
Margin	**24.5%**	**-4.2ppts**	**-2.2ppts**	**28.0%**	**-1.1ppts**
- Telecom	31.9%	-4.7ppts	-0.3ppts	35.6%	0.7ppts
- CATV	47.8%	-3.9ppts	-4.2ppts	51.3%	-2.4ppts
- momo	4.7%	0.8ppts	0.3ppts	4.6%	-0.3ppts
- others	69.2%	-1.1ppts	4ppts	67.6%	18.3ppts
D&A	**3.48**	**1%**	**0%**	**13.69**	**-1%**
- Telecom	3.04	0%	-3%	12.15	-3%
- CATV	0.30	12%	42%	1.03	18%
- momo	0.05	52%	79%	0.13	26%
- others	0.05	0%	0%	0.21	1%
EBIT	**4.30**	**-11%**	**-8%**	**19.09**	**-5%**
- Telecom	3.41	-13%	-8%	15.37	-4%
- CATV	0.44	-23%	-30%	2.25	-15%
- momo	0.42	50%	36%	1.39	9%
- others	0.05	2%	41%	0.18	162%

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	4Q17	QoQ	YoY	2017	YoY
Non-Operating Income (Expenses)	**(1.12)**	**1116%**	**226%**	**(1.46)**	**76%**
- Net Interest Expenses	(0.13)	19%	6%	(0.47)	-8%
- Write-off Loss	(0.23)	215%	-30%	(0.37)	-21%
- Other Income (Expenses)	(0.76)	nm	nm	(0.63)	nm

EBITDA Analysis

Negatively affected by a reduction in roaming revenue, telecom EBITDA reported YoY decline in 2017. That said, the company still managed to deliver a 0.6% YoY increase in recurring telecom EBITDA in 2017, underpinned by cost rationalization and a 16% increase in mobile value-added services.

CATV EBITDA decline in 4Q was mainly due to falling channel revenues from TV home shopping companies and fewer content agency revenue from small cable service providers. Nonetheless, the growing DTV, fixed broadband, and OTT video revenues did not offset the legacy revenue decrease in the quarter.

In 4Q, momo posted strong QoQ and YoY growth in EBITDA, driven by its accelerated momentum in its online shopping business, on the back of market share gains, and an improved TV home shopping business via channel cost rationalization and making forays into the IPTV platform.

D&A Analysis

To meet the regulatory requirement of 100% set-top-box household penetration by 2017 year-end, depreciation associated with set-top-box capex hikes continued to trend up for the year. momo's depreciation expense increases in 2017 is attributable mainly to warehousing capacity expansion. However, total consolidated D&A remain stable YoY in the quarter, benefiting from the end of the 2G services and the declining 3G D&A. As a result, D&A expenses for the full-year still edged down by 1%.

Non-Operating Item Analysis

The non-operating expenses increased YoY mainly arising from a litigation liability provision made in 4Q17. Obsolete 3G equipment write-offs recognized mainly in 4Q17 will allow us operate at a lighter asset base going forward.

III. Income Statement Analysis

Table 4. 4Q17 Consolidated Results vs. Forecast

NT$bn	4Q17	QoQ	YoY	% of 4Q17 Forecast
Revenues	**31.76**	**10%**	**4%**	**102%**
Operating Costs	**(23.09)**	**17%**	**9%**	**105%**
Operating Expenses	(4.37)	6%	-5%	95%
Operating Income	**4.30**	**-11%**	**-8%**	**97%**
Non-operating Income (Expenses)	(1.12)	1116%	226%	450%
Pre-tax Income	3.18	-33%	-27%	76%
Net Income	**2.44**	**-38%**	**-29%**	**74%**
EPS (NT$)	0.89	-39%	-30%	74%
EBITDA	**7.78**	**-6%**	**-5%**	**98%**
EBITDA margin	24.5%			

Table 5. 2017 Consolidated Results vs. Forecast

NT$bn	2017	YoY	% of 2017 Forecast
Revenues	**117.17**	**0%**	**99%**
Operating Costs	**(81.45)**	**3%**	**99%**
Operating Expenses	(16.63)	-7%	92%
Operating Income	**19.09**	**-5%**	**103%**
Non-operating Income (Expenses)	(1.46)	76%	221%
Pre-tax Income	17.63	-8%	99%
Net Income	**14.19**	**-7%**	**99%**
EPS (NT$)	5.21	-7%	99%
EBITDA	**32.78**	**-3%**	**101%**
EBITDA margin	28.0%		

<u>4Q17</u>

In 4Q17, total revenue beat our forecast on the back of higher-than-expected sales of both the e-commerce business and mobile handsets. In contrast, revenue of cable TV came in lower than expectations, reflecting the finalized contract terms with certain cable MSOs and TV home shopping companies.

In the quarter, operating costs and expenses also went up QoQ due to the rise in device sales and e-commerce revenue, but the expense increase was partially offset by the decrease in handset subsidy and dealer commission.

Non-operating expenses rose YoY and QoQ in 4Q17 because of our conservative approach of setting aside the litigation provision related to a pending lawsuit.

In 4Q17, we missed our EPS guidance mainly because of the one-off litigation provision.

<u>2017 Full-Year</u>

In 2017, both e-commerce and mobile value-added service revenue came in ahead of expectations. That said, total revenue was 1% lower than our guidance due mainly to revenue shortfall from mobile device sales caused by weaker demand for high-end smartphone bundled plans.

Aided by handset subsidies and dealer commission cuts as well as other expense rationalizations, both EBITDA and operating income for the full year came in better than our guidance.

IV. Cash Flow Analysis

Table 6. Cash Flow

NT$bn	2017	2016	4Q17	3Q17
Total Op. Sces/(Uses)	**30.32**	**31.83**	**7.99**	**6.98**
Pre-tax Income	17.63	19.19	3.18	4.73
Depreciation	10.29	10.65	2.58	2.57
Amortization	3.40	3.20	0.90	0.86
Non-cash Add-backs	0.67	0.84	0.32	0.16
Changes in Working Capital and Others	(1.67)	(2.06)	1.01	(1.35)
Net Investing Sces/(Uses)	**(17.67)**	**(11.53)**	**(9.70)**	**(3.43)**
Capex[1]	(9.80)	(10.49)	(2.24)	(2.46)
Divestment (Acquisition)	(0.66)	(0.20)	0.00	(0.08)
4G License Fees	(8.60)	0.00	(8.60)	0.00
Other Financial Assets (Increase)	1.22	(1.04)	0.13	(0.00)
Refundable Deposits (Increase)	(0.01)	(0.02)	1.00	(0.99)
Others	0.18	0.21	0.02	0.11
Net Financing Sces/(Uses)	**(13.72)**	**(21.17)**	**2.37**	**(3.75)**
Short-term Borrowings	7.90	(17.65)	1.65	11.70
Repayments of Bonds Payable	(2.90)	9.99	0.00	0.00
Long-term Bank Loan	(2.41)	2.85	0.91	(0.14)
Dividends Payments	(15.86)	(15.78)	0.00	(15.24)
Others	(0.45)	(0.58)	(0.19)	(0.07)
Net Cash Position Chg.	**(1.07)**	**(0.87)**	**0.66**	**(0.21)**

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

Table 7. Capex & FCF

NT$bn	2017	2016	4Q17	3Q17
Cash Capex[1]	**9.80**	**10.49**	**2.24**	**2.46**
- Mobile	5.41	7.41	1.35	1.48
- Fixed-line	1.23	1.08	0.22	0.41
- Cable	1.66	1.04	0.41	0.26
- momo & others	1.50	0.96	0.26	0.32
% of Revenue	**8%**	**9%**	**7%**	**9%**
Free Cash Flow[1]	**20.52**	**21.34**	**5.74**	**4.51**

Note 1: Excluding 4G License Fees.

Cash Flow Analysis

4Q17

In 4Q17, working capital cash inflow increased QoQ mainly due to higher accounts payable and other current liabilities. Accordingly, operating cash inflow showed a sequential increase for the quarter.

Investing cash outflow grew QoQ, largely due to the payment of NT$8.6bn in 4G license fees.

Net cash inflow from financing activities of NT$2.37bn in 4Q17 was because of an increase in borrowing to finance part of the 4G license fee.

In summary, 4Q17 cash balance climbed by NT$0.66bn from a quarter ago.

2017 Full-Year

2017 operating cash inflow remained stable compared to one year ago.

Investing cash outflow increased YoY mainly due to the NT$8.6bn payment in 4G license fees, but was partially offset by a lower cash capex compared to one year ago.

In 2017, the company repaid NT$2.9bn in corporate bonds carrying a 1.29% coupon, and NT$2.4bn of long-term bank loan. Meanwhile, NT$7.9bn of short-term borrowing was raised to finance 4G license fees.

Capex and Free Cash Flow Analysis

In 2017, telecom capex decreased YoY as 4G related capex continued to fall. However, the fast expanding digital set-top-box installed base and momo's higher spending on the automated logistic center caused their respective capex to grow YoY. Net net, total capex declined YoY, with the ratio of total capex as a percentage of revenue further dropping to 8%. Full-year FCF maintained a high level of NT$20.52bn, translating into a FCF yield of 7.0%.

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V. Balance Sheet Analysis

Table 8. Balance Sheet

NT$bn	4Q17	3Q17	4Q16
Total Assets	**154.52**	**146.41**	**151.38**
Current Assets	32.35	30.50	34.28
- Cash & Cash Equivalents	6.63	5.97	7.70
- Accounts Receivable	14.68	14.70	15.42
- Inventories	4.33	3.15	4.07
- Short-term Investment	1.57	1.57	1.23
- Other Current Assets	5.14	5.10	5.86
Non-current Assets	122.17	115.92	117.10
- Long-term Investment	6.05	6.22	5.41
- Property and Equipment	44.57	45.06	45.37
- Concession	43.67	35.82	37.86
- Other Non-current Assets	27.88	28.82	28.45
Liabilities	**89.01**	**83.36**	**85.19**
Current Liabilities	56.48	44.54	38.14
- ST Borrowings	30.86	21.86	13.62
- Other Current Liabilities	25.62	22.68	24.53
Non-current Liabilities	32.53	38.82	47.05
- Long-term Borrowings	28.35	34.77	42.95
- Other Non-current Liabilities	4.18	4.05	4.10
Shareholders' Equity	**65.51**	**63.06**	**66.19**
-Paid-in Capital	34.21	34.21	34.21
-Capital Surplus	13.94	13.92	14.99
-Legal Reserve	26.14	26.14	24.61
-Treasury Shares	(29.72)	(29.72)	(29.72)
-Un-appropriated Earnings	0.63	0.63	0.63
-Non-controlling Interest	5.88	5.67	5.77
-Retained Earnings & Others[1]	14.44	12.21	15.71

Note 1: Including YTD profits and other equity items

Table 9. Ratios

	4Q17	3Q17	4Q16
Current Ratio	57%	68%	90%
Interest Coverage (x)	19.2	32.0	27.0
Net Debt (Cash) to Equity	80%	80%	74%
Net Debt (Cash) to EBITDA (x)	1.60	1.54	1.44
ROE (annualized) [1]	22%	25%	23%
ROA (annualized) [2]	10%	11%	10%

Note 1: ROE = Accumulated Net Income (Annualized) /Average Shareholders' Equity

Note 2: ROA = Accumulated Net Income + Interest Expenses*(1-Tax Rate) (Annualized) / Average Total Assets

Assets

Driven by momo’s higher e-commerce revenue scale, inventory level at the end of 4Q17 rose sequentially and from a year ago.

Long-term investment increased YoY mainly due to the mark-to-market value appraised on the investments in THSR (Taiwan High Speed Rail) and other investments.

The increase in concession in 4Q was due to the NT$8.6bn additions of the newly acquired 20MHz spectrum on the 2.1GHz frequency band.

Liabilities & Shareholders’ Equity

We increased S-T borrowings to finance for the new spectrum we bought in 4Q17. At the same time, S-T portion of long-term debt also increased in the quarter.

Ratio Analysis

Current ratio declined to 57% at the end of 4Q17, as two issuances of corporate bonds will mature in tranches in the next two years. To keep a healthy capital structure, the board today (February 1st) approved to issue up to NT$15bn worth of corporate bond, in an aim to level up our future current ratio.

Net debt to EBITDA in 4Q17 was still at a healthy level of 1.6x while ROE stood at above 20%.

Taiwan Mobile

VI. Guidance

Table 10. 2018 Guidance

NT$bn	2018	2017	YoY
Revenues	**123.14**	**117.17**	**5%**
Cash Cost[1]	**(73.60)**	**(67.76)**	**9%**
Expenses	**(17.46)**	**(16.63)**	**5%**
EBITDA	**32.09**	**32.78**	**-2%**
D&A	(14.07)	(13.69)	**3%**
Operating Income	**18.01**	**19.09**	**-6%**
Non-operating Income (Expenses)	(0.58)	(1.46)	**-61%**
Pre-tax Income	17.44	17.63	**-1%**
Net Income	**13.60**	**14.19**	**-4%**
EPS (NT$)[2]	5.00	5.21	**-4%**

Note 1: Including handset sales costs, but not including D&A.
Note 2: EPS is based on the share counts of 2.722bn

Telecom business

- In view of a stable ARPU and subscriber number, telecom top-line will be flat, should the domestic roaming and mobile termination businesses be excluded, in 2018.
- The new interconnecting rate mandated by the regulator will weigh on our top-line growth. But the healthy revenue increase in value-added service is forecast to largely offset the aforementioned revenue pressure.
- In a nutshell, we forecast telecom EBITDA to edge down 3% YoY all things considered. That said, the core telecom EBITDA adjusted for the same accounting treatment and no inclusion of the non-core domestic roaming business is estimated to be flat in 2018. The stable core telecom EBITDA target will be achieved through a stable top-line performance and stringent expense disciplines.

Other businesses

- The combined EBITDA of the cable TV business and momo will represent 15% of our total EBITDA. Their respective EBITDA growth rates are estimated to be 1% for cable TV and 9% for momo in 2018.

EPS

- D&A expenses in 2018 are estimated to go up, resulting from the increased capex of momo and cable TV business in the past two years.
- Statutory corporate tax rate has been raised to 20% from 17% starting in 2018. Therefore, EPS estimate for 2018 will be down by 4%, higher than the 1% dip in pre-tax earnings.

Free cash flow

- In light of an expected stable core recurring EPS for 2018 and over 10% YoY reduction in capex, we forecast an 8% increase in the 2018 free cash flow from a year ago.

VII. Management Remarks

Key Message

Taiwan Mobile is confident in maintaining stable free cash flows despite less-than-satisfactory industry dynamics. Plus, we are better positioned with stronger footholds in e-commerce and OTT services, not to mention advantages in 4G spectrum and infrastructure investments. Sustaining the long-term health of our business to deliver satisfactory returns to our shareholders remains our main goal.

Board Resolutions

- Capex Guidance
  The board today (February 1st) approved a NT$7.4bn capex for 2018, including NT$4.9bn for mobile, NT$1.4bn for fixed-line, NT$0.8bn for cable TV and NT$0.3bn for momo and other subsidiaries. Compared to a year ago, telecom capex in 2018 will increase by 6% YoY, with the increase coming from the fixed network. Cable TV and momo combined will reduce its capex by NT$1.3bn in 2018.

- Straight Bond Issuance
  The board today approved the issuance of unsecured corporate straight bonds with a maximum value of NT$15bn.

Major Events

- Starting in 2018, the IFRS 15 has been implemented. The implication of TWM's financial reporting this year will be the capitalization of dealer commissions over the contract period, which will increase our beginning balance of retained earnings by NT$3.4bn.
- Statutory corporate tax rate has been raised to 20% from 17% starting in 2018, which also applies to TWM.

Awards and Recognition

- Taiwan Mobile was the big winner of the 2017 Taiwan Corporate Sustainability Awards, winning nine awards including the highest individual honor, "The Outstanding Corporate Sustainability Professional", received by Chairman Daniel M. Tsai.
- Awarded the "Best Consumer Service Innovation Award" by the Taiwan Contact Center Development Association (TCCDA) at the 2017 Customer Service Excellence Awards in Taiwan.

Note: The nine awards were "Top 50 Corporate Sustainability", "Transparency and Integrity", "Social Inclusion", "Climate Leadership", "People Development", "Supply Chain Management", "Creativity in Communication", "Top 50 Corporate Sustainability Report Award – Gold Award in ICT Sector" and "The Outstanding Corporate Sustainability Professional", won by Chairman Daniel M. Tsai.