

July 25, 2019	<u>TWM Consolidated</u>					<u>FY19</u>	
	NT\$bn	<u>2Q19</u>	<u>YoY</u>	<u>1H19</u>	<u>YoY</u>	<u>Achievement Ratio</u>	
<b>Topics in This Report</b>	Revenues	29.61	4%	59.49	1%	48%	
	Operating Income	4.33	-13%	8.55	-12%	50%	
	Non-op. Income (Expenses)	(0.10)	-11%	(0.24)	-17%	34%	
	Pre-tax Income	4.22	-13%	8.31	-11%	51%	
	(Income Tax)	(0.83)	6%	(1.63)	-4%	50%	
	(Minority Interest)	(0.18)	-26%	(0.41)	-4%	56%	
	Net Income	3.21	-16%	6.28	-14%	51%	
	<b><u>Highlights of Operating Results</u></b>						
	2Q19						
	Consolidated revenue rose by 4% YoY as momo's strong e-commerce revenue growth compensated for the decline in mobile service and pay-TV revenue. The combined operating income of pay-TV and momo increased by 9% YoY, helping mitigate the decline in telecom operating income which had already started to stabilize in June.						
1H19							
The slight miss in total revenue from weak telecom performance was offset by lower traffic costs and selling expenses. Overall, operating income for all major businesses was within management expectations and net income also reached company guidance. FCF yield of 5.6% at the end of 2Q19 still stood higher than our dividend yield in spite of the negative impact from lower operating cashflow. Net debt to pre-IFRS 16 EBITDA ratio further improved to 1.03x.							
<b><u>Key Message</u></b>							
TWM started seeing improved fundamentals with June operating results stabilized compared with a year ago. Joining forces with digital leaders, including momo and AppWorks companies, to offer compelling service bundles will prove to be our winning strategy. Looking forward, as we approach the tail-end of 4G deployment, we will be in a good position with more financial flexibility to make strategic moves, expand our footprint and generate healthy returns for our shareholders.							
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**Topics in This Report**

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- EBITDA Analysis
- Income Statement Analysis
- Cash Flow Analysis
- Balance Sheet Analysis
- Management Remarks

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## I. Revenue Analysis

**Table 1. Key Operational Data**

Residual Value (NT\$bn)	2Q19	1Q19	2Q18	QoQ	YoY
Mobile Service Revenue	12.92	13.13	15.03	-2%	-14%
Postpaid ARPU (NT\$)	731	745	842	-2%	-13%
Blended ARPU (NT\$)	592	603	697	-2%	-15%
Telecom Service Revenue	14.10	14.13	16.04	0%	-12%

Revenue (NT\$bn)	2Q19	1Q19	2Q18	QoQ	YoY
<b>Telecom</b>	<b>16.38</b>	<b>16.57</b>	<b>17.23</b>	<b>-1%</b>	<b>-5%</b>
Service	12.38	12.34	14.01	0%	-12%
Device Sales	4.00	4.22	3.21	-5%	24%
<b>CATV revenue</b>	<b>1.54</b>	<b>1.55</b>	<b>1.59</b>	<b>-1%</b>	<b>-3%</b>
Pay-TV	0.89	0.90	0.94	-1%	-5%
Broadband	0.36	0.35	0.35	1%	2%
Content & channel leasing	0.29	0.30	0.30	-2%	-2%
<b>momo</b>	<b>11.82</b>	<b>11.74</b>	<b>9.63</b>	<b>1%</b>	<b>23%</b>
E-commerce	10.26	10.06	7.91	2%	30%
TV shopping & others	1.55	1.68	1.72	-8%	-9%
<b>Others<sup>1</sup></b>	<b>0.15</b>	<b>0.15</b>	<b>0.15</b>	<b>0%</b>	<b>1%</b>

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.

	2Q19	1Q19	2Q18	QoQ	YoY
<b>Mobile Subscribers (K)</b>	<b>7,254</b>	<b>7,274</b>	<b>7,229</b>	<b>0%</b>	<b>0%</b>
- Postpaid	5,653	5,624	5,665	1%	0%
<b>Monthly Churn</b>	<b>2.7%</b>	<b>2.4%</b>	<b>2.9%</b>		
-Postpaid	1.1%	1.2%	1.8%		
<b>MOU (bn)</b>	<b>1.10</b>	<b>1.12</b>	<b>1.37</b>	<b>-2%</b>	<b>-20%</b>
<b>Pay-TV Subs (K)</b>	<b>559</b>	<b>562</b>	<b>574</b>	<b>-1%</b>	<b>-3%</b>
Cable Broadband Subs (K)	234	230	222	1%	6%
DTV Subs (K)	250	246	236	2%	6%

CATV ARPU (NT\$)	2Q19	1Q19	2Q18	QoQ	YoY
Pay-TV	527	531	542	-1%	-3%
Broadband	510	514	529	-1%	-4%
Blended <sup>1</sup>	739	741	745	0%	-1%

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

### Telecom

In comparison to 2Q18 with a hefty penalty income from customers' switching into \$499 SIM-only plans, the YoY decline in telecom service revenue expanded in 2Q19. Nonetheless, downward pressure of recurring telecom service revenue in 2Q19 narrowed to 7%, the lowest level in the past four quarters.

We have been making progress with rate plan upselling via growing 2Q19 iPhone bundle sales volume by 65% YoY and offering a variety of non-handset bundle packages, such as handset plus home appliance products. As a result, the YoY increase in device sales had gone up and non-handset bundle packages accounted for 19% of bundled plans added in the quarter.

The record low post-paid churn rate and versatile bundle plans contributed to the sequential increase in post-paid subscriber number in 2Q19. Healthy demand for IoT connectivity led to a 35% YoY increase in M2M (machine to machine) connections for the quarter.

Besides growing IoT contract wins, the enterprise segment saw good revenue momentum from ICT, cloud solutions and information security services, with a combined revenue growth of 24% in 2Q19.

### Cable TV

In 2Q19, benefitting from the successful bundling of broadband & DTV services as well as effective pricing strategies, we saw a decent increase in broadband & DTV subscribers, leading to a stable blended ARPU. The percentage of customers subscribed to broadband plans with speeds of 100Mbps and higher rose to 35%, increasing from 30% a year ago.

### momo

E-commerce revenue rose 30% YoY in 2Q19, aided by Mother's Day and June 18 shopping gala promotions. In particular, B2C average ticket size grew by 1.3% YoY and the number of transactions rose by 28% YoY.

## II. EBITDA Analysis

**Table 2. EBITDA Breakdown**

NT\$bn	2Q19	1Q19	2Q18	QoQ	YoY
<b>Pre-IFRS 16 EBITDA</b>	<b>7.46</b>	<b>7.45</b>	<b>8.34</b>	<b>0%</b>	<b>-11%</b>
- Telecom	6.14	6.02	6.98	2%	-12%
- CATV	0.78	0.79	0.80	-1%	-3%
- momo	0.44	0.54	0.41	-19%	8%
<b>Reported EBITDA</b>	<b>8.43</b>	<b>8.41</b>	<b>8.34</b>	<b>0%</b>	<b>1%</b>

NT\$bn	2Q19	1Q19	2Q18	QoQ	YoY
<b>Pre-IFRS 16 D&amp;A</b>	<b>3.13</b>	<b>3.22</b>	<b>3.40</b>	<b>-3%</b>	<b>-8%</b>
- Telecom	2.74	2.80	2.90	-2%	-5%
- CATV	0.25	0.28	0.32	-11%	-23%
- momo	0.09	0.09	0.08	-1%	11%
<b>Reported D&amp;A</b>	<b>4.10</b>	<b>4.18</b>	<b>3.40</b>	<b>-2%</b>	<b>21%</b>

NT\$bn	2Q19	1Q19	2Q18	QoQ	YoY
<b>Reported EBIT</b>	<b>4.33</b>	<b>4.23</b>	<b>4.95</b>	<b>2%</b>	<b>-13%</b>
- Telecom	3.40	3.22	4.08	6%	-17%
- CATV	0.53	0.51	0.48	5%	11%
- momo	0.35	0.45	0.33	-23%	7%

Note: Reported EBITDA in 2019 plus depreciations charged on right-of-use assets approximates to EBITDA definition prior to 2019.

**Table 3. Non-operating Item**

NT\$bn	2Q19	1Q19	2Q18	QoQ	YoY
<b>Non-Operating Revenue (Expense)</b>	<b>(0.10)</b>	<b>(0.14)</b>	<b>(0.12)</b>	<b>-25%</b>	<b>-11%</b>
- Net Interest Expense	(0.12)	(0.14)	(0.13)	-13%	-8%
- Write-off Loss	(0.02)	(0.02)	(0.03)	38%	-20%
- Other Revenue (Expense)	0.04	0.02	0.04	124%	-7%

### EBITDA Analysis

The high base mentioned in the revenue analysis of the previous page resulted in a tough comparison for pre-IFRS 16 telecom EBITDA in 2Q19. That said, the YoY decline in EBITDA ceased in June 2019 on the back of the following measures 1) dealer commission reductions 2) lower interconnecting costs and spectrum usage fees mandated by NCC (National Communications Commission).

In 2Q19, pre-IFRS 16 CATV EBITDA dipped by 3% YoY, stemming from weak basic TV subscription revenue. But thanks to falling depreciation of set-top box, CATV EBIT ended with an 11% YoY increase.

In the quarter, momo reported a QoQ decline in pre-IFRS 16 EBITDA, owing to faster revenue growth in lower-margin consumer electronics coupled with higher marketing spending. That said, momo keeps on pursuing greater economies of scale and the creation of entry barriers, evident in the 34% YoY growth in pre-IFRS 16 EBITDA and 0.1ppts YoY increase in operating margin in its B2C business.

### D&A Analysis

In 2Q19, the decline in pre-IFRS 16 D&A was mainly due to lower depreciation of 3G equipment and set-top boxes, which more than offset the D&A increase in 4G and momo.

### Non-Operating Item Analysis

In 2Q19, non-operating expenses decreased YoY, as momo's equity income rose by NT\$27mn YoY. Interest expenses fell both QoQ and YoY due to net debt reductions in the quarter.

### III. Income Statement Analysis

**Table 4. 2Q19 Consolidated Results vs. Forecast**

NT\$bn	2Q19	YoY	% of 2Q19 Forecast
<b>Revenue</b>	<b>29.61</b>	<b>4%</b>	<b>99%</b>
Operating Cost	(21.49)	10%	99%
Operating Expense	(3.80)	-5%	92%
<b>Operating Income</b>	<b>4.33</b>	<b>-13%</b>	<b>103%</b>
Non-op. (Expense)	(0.10)	-11%	61%
Pre-tax Income	4.22	-13%	105%
<b>Net Income</b>	<b>3.21</b>	<b>-16%</b>	<b>105%</b>
EPS (NT\$)	1.16	-17%	104%
<b>EBITDA</b>	<b>8.43</b>	<b>1%</b>	<b>101%</b>
<b>EBITDA (Pre-IFRS 16)</b>	<b>7.46</b>	<b>-11%</b>	

**Table 5. 1H19 Consolidated Results vs. Forecast**

NT\$bn	1H19	YoY	% of Full Year Forecast
<b>Revenue</b>	<b>59.49</b>	<b>1%</b>	<b>48%</b>
Operating Cost	(43.17)	5%	48%
Operating Expense	(7.76)	-5%	46%
<b>Operating Income</b>	<b>8.55</b>	<b>-12%</b>	<b>50%</b>
Non-op. (Expense)	(0.24)	-17%	34%
Pre-tax Income	8.31	-11%	51%
<b>Net Income</b>	<b>6.28</b>	<b>-14%</b>	<b>51%</b>
EPS (NT\$)	2.29	-14%	51%
<b>EBITDA</b>	<b>16.84</b>	<b>2%</b>	<b>50%</b>
<b>EBITDA (Pre-IFRS 16)</b>	<b>14.90</b>	<b>-10%</b>	

#### Income Statement Analysis

##### 2Q19

momo's strong e-commerce revenue growth compensated for the decline in our mobile service and pay-TV revenue, resulting in a 4% YoY increase in consolidated revenue in 2Q19. However, higher cost of goods sold at momo and subsidies from our effort to upsell with iPhone bundle plans weighed on our operating cost.

The 9% YoY increase in the combined EBIT of cable TV business and momo helped mitigate the YoY decline in telecom EBIT.

Tax expenses increased YoY owing to a lower base from momo's automated warehouse investment tax credit of NT\$160mn in 2Q18.

##### 1H19

The slight miss in total revenue from weak telecom performance was offset by lower traffic costs and selling expenses. Overall, operating income for all major businesses was within management expectations for 1H19.

Non-operating expenses arrived at 34% of our FY19 forecast due to lower-than-expected interest expenses and higher-than-expected profits in momo's investment holdings. Net income reached company guidance in 1H19.

## IV. Cash Flow Analysis

**Table 6. Cash Flow**

NT\$bn	2Q19	1Q19	2Q18
<b>Operating</b>	<b>7.07</b>	<b>8.44</b>	<b>7.51</b>
Pre-tax Income	4.22	4.09	4.83
Non-cash Add-backs	4.83	4.94	4.40
--Depreciation <sup>1</sup>	2.27	2.36	2.49
--Amortization	0.86	0.86	0.91
--Others <sup>1</sup>	1.70	1.72	1.01
Changes in Working Capital & Income Taxes	(2.10)	(0.74)	(1.87)
Others	0.12	0.15	0.15
<b>Investing</b>	<b>(1.37)</b>	<b>(2.09)</b>	<b>(0.28)</b>
Capex <sup>2</sup>	(1.38)	(2.02)	(1.69)
Divestment (Acquisition)	0.01	0.00	(0.01)
Other Financial Assets (Increase)	(0.02)	(0.01)	0.86
Refundable Deposits (Increase)	0.00	(0.01)	0.02
Others	0.02	(0.05)	0.56
<b>Financing</b>	<b>(6.76)</b>	<b>(6.02)</b>	<b>(7.28)</b>
Short-term Borrowings	(4.90)	(2.97)	(13.60)
Repayments of Bonds Payable	0.00	0.00	(2.90)
Proceeds from Issuance of Bonds	0.00	0.00	14.98
Long-term Bank Loan	(0.05)	(2.05)	(5.05)
Repayment of The Principal Portion of Lease Liabilities <sup>3</sup>	(0.92)	(0.93)	0.00
Dividends Payments	(0.69)	0.00	(0.62)
Interest (Payment) & Others	(0.19)	(0.07)	(0.10)
<b>Net Cash Position Chg.</b>	<b>(1.06)</b>	<b>0.34</b>	<b>(0.04)</b>

1. The depreciation of right-of-use assets that arose in accordance with IFRS 16 is shown separately under "Others" instead of "Depreciation" in this table.

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

3. An operating cash outflow item prior to 2019.

**Table 7. Capex & FCF**

NT\$bn	2Q19	1Q19	2Q18
<b>Cash Capex<sup>1</sup></b>	<b>1.38</b>	<b>2.02</b>	<b>1.69</b>
- Mobile	0.88	1.56	1.16
- Fixed-line	0.34	0.26	0.30
- Cable	0.13	0.11	0.18
- momo & others	0.03	0.09	0.05
<b>% of Revenue</b>	<b>5%</b>	<b>7%</b>	<b>6%</b>
<b>Free Cash Flow<sup>1</sup></b>	<b>4.73</b>	<b>5.46</b>	<b>5.82</b>

1. Excluding 4G License Fees

## Cash Flow Analysis

Corporates pay taxes on the previous year's taxable income in 2Q. The YoY change in 2Q19 operating cash flow reflected not only the pre-tax earnings changes but also a higher tax rate (from 17% to 20%) on higher taxable income.

The QoQ reduction in investing cash outflow was a result of reduced capex in 2Q19. Separately, the YoY increase in investing cash outflow in 2Q19, despite the fall in capex, was attributable to higher cash inflows from fund redemptions and fewer guarantee deposits in 2Q18.

Net cash outflow from financing activities mainly came from debt repayment and cash dividend payments to momo's minority shareholders in 2Q19.

## Capex and Free Cash Flow Analysis

2Q19 FCF trended down, affected negatively by lower operating cash flow. But FCF yield of 5.6% in the quarter still stood at the level higher than our dividend yield.

## V. Balance Sheet Analysis

**Table 8. Balance Sheet**

NT\$bn	2Q19	1Q19	2Q18
<b>Total Assets</b>	<b>153.60</b>	<b>155.21</b>	<b>151.41</b>
Current Assets	27.10	28.60	29.48
- Cash & Cash Equivalents	6.77	7.84	7.62
- Receivable & Contract Assets	14.60	14.43	14.89
- Inventories	4.08	3.96	3.58
- Short-term Investment	0.34	0.34	0.38
- Other Current Assets	1.30	2.04	3.00
Non-current Assets	126.51	126.60	121.93
- Long-term Investment	7.36	6.43	5.87
- Property and Equipment	40.74	40.66	43.12
- Right-of-use Assets	9.67	9.87	0.00
- Concession	39.12	39.82	42.04
- Other Non-current & Contract Assets	29.63	29.82	30.90
<b>Liabilities</b>	<b>89.18</b>	<b>82.53</b>	<b>90.77</b>
Current Liabilities	49.76	39.41	48.18
- ST Borrowings	8.70	13.60	9.77
- Current Lease Liabilities	3.42	3.41	0.00
- Other Current Liabilities	37.63	22.40	38.42
Non-current Liabilities	39.42	43.12	42.59
- Long-term Borrowings	28.73	32.29	38.27
- Non-current Lease Liabilities	6.19	6.37	0.00
- Other Non-current Liabilities	4.50	4.46	4.31
<b>Shareholders' Equity</b>	<b>64.42</b>	<b>72.68</b>	<b>60.64</b>
-Paid-in Capital	34.68	34.34	34.21
-Capital Surplus	16.65	13.47	12.31
-Legal Reserve	28.92	27.56	27.56
-Treasury Shares	(29.72)	(29.72)	(29.72)
-Un-appropriated Earnings	0.49	3.39	3.39
-Non-controlling Interest	5.86	6.37	5.68
-Retained Earnings & Others <sup>1</sup>	7.53	17.27	7.22

1: Including YTD profits and other equity items

**Table 9. Ratios**

	2Q19	1Q19	2Q18
<b>Current Ratio</b>	54%	73%	61%
<b>Interest Coverage (x)</b>	37.9	32.8	34.4
<b>Net Debt (Cash) to Equity</b>	48%	52%	67%
<b>Net Debt (Cash) to Pre-IFRS 16 EBITDA (x)</b>	1.03	1.28	1.23
<b>ROE (annualized)<sup>1</sup></b>	18%	17%	22%
<b>ROA (annualized)<sup>2</sup></b>	8%	8%	10%

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

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

### Assets

Among current assets, only other current assets saw a meaningful drop, QoQ and YoY in 2Q19. The declines were due mainly to the reversal of interim payments accrued a year ago.

Inventory went up by 14% due to momo's business expansion and the subsequent increase in its inventory.

Long-term investment grew in 2Q19, attributable to the appreciation of the Taiwan High Speed Rail stock price.

### Liabilities & Shareholders' Equity

In 2Q19, shareholder's equity decreased QoQ following AGM's approval of dividends, which became a dividend payable in other current liabilities.

Gross debt declined to NT\$37.44bn, a significant drop of 22% YoY, owing to 1) deleveraging with our healthy FCF and 2) investors' conversion of a convertible bond into equity.

As of the end of June 2019, the outstanding amount of CB was NT\$5.1bn and a total of 47.1mn shares had been converted. The conversion price was adjusted to NT\$99.9 post ex-date.

On the shareholders' equity front, the NT\$3.52bn QoQ increase in capital surplus and paid-in capital was due to the conversion of a convertible bond in 2Q19.

### Ratio Analysis

In 2Q19, benefiting from lower debt, our net debt to pre-IFRS 16 EBITDA further declined to 1.03x.

Current ratio came off from the previous quarter due to the accrual of dividend payable as the current liability in the quarter.

## **VI. Management Remarks**

### Key Message

TWM started seeing improved fundamentals with June operating results stabilized compared with a year ago. Joining forces with digital leaders, including momo and AppWorks companies, to offer compelling service bundles will prove to be our winning strategy.

Looking forward, as we approach the tail-end of 4G deployment, we will be in a good position with more financial flexibility to make strategic moves, expand our footprint and generate healthy returns for our shareholders.

### Awards and Recognition

- Honored with the 2019 “Annual CSR Survey – Telecom Service Industry” award and the “Outstanding Solutions – Public Welfare ” award from Global Views Monthly.
- Ranked among the top 5% of listed companies in the “Corporate Governance Evaluation” conducted by the Taiwan Stock Exchange and Taipei Exchange, for the fifth year in a row.
- The only telecommunications company in Taiwan that has an approved science-based greenhouse gas emissions reduction target from the Science-Based Targets initiative (SBTi).
- Recognized as “Asia's Best CEO”, “Asia's Best CFO” and “Best Investor Relations Company (Taiwan)” by the Corporate Governance Asia magazine at the 2019 Asian Excellence Awards.