

April 30, 2019

Topics in This Report

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

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TWM Consolidated

NT\$bn	1Q19	1Q18	YoY
Revenues	29.87	30.31	-1%
Operating Income	4.23	4.74	-11%
Non-op. Income (Expenses)	(0.14)	(0.17)	-22%
Pre-tax Income	4.09	4.56	-10%
(Income Tax)	(0.79)	(0.90)	-12%
(Minority Interest)	(0.23)	(0.18)	25%
Net Income	3.07	3.48	-12%
EPS (NT\$)	1.13	1.28	-12%

1Q19 Highlights of Operating Results

1Q19 consolidated revenue declined by 1% YoY, as the 20% YoY revenue growth in momo's e-commerce business largely offset the 10% YoY decline in telecom revenue, which faced a tough comparison from 1Q18 prior to the \$499 frenzy. Consolidated operating income declined by 11% YoY, as the 9% YoY increase in combined EBIT of cable TV and momo helped mitigate the decline in telecom EBIT. Overall, operating income for all major businesses exceeded guidance for the quarter, thanks to effective cost control and economies of scale in momo. With capex falling by 27% YoY, free cash flow increased to \$5.46bn, translating 7.2% FCF yield.

2018 Earnings Distribution

On April 30, 2019, TWM's board meeting approved the proposal to distribute NT\$15.4bn in cash dividends, translating into a 113% payout to shareholders. Dividend per share is NT\$5.6 on 2.74bn shares, excluding treasury shares held by 100%-owned subsidiaries.

Key Message

The group will strive to leverage our thriving ecosystem and accelerate our transformation into a regional enterprise following the 5"G"+ guidelines:

1. Gift – digital transformation based on in-house big data, user base, and online-offline channel operations
2. Group – more synergy with momo, AppWorks, and other strategic partners
3. Grit – long-term vision of an ecosystem beyond 5G
4. Green – environmental awareness and corporate sustainability
5. GSEA (Greater South East Asia) – expanding footholds in South East Asia to become a regional enterprise

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I. Revenue Analysis

Table 1. Key Operational Data

Residual Value (NT\$bn)	1Q19	4Q18	1Q18	QoQ	YoY
Mobile Service Revenue	13.13	13.54	14.90	-3%	-12%
Postpaid ARPU (NT\$)	745	767	825	-3%	-10%
Blended ARPU (NT\$)	603	624	691	-3%	-13%
Telecom Service Revenue	14.13	14.58	15.94	-3%	-11%

Revenue (NT\$bn)	1Q19	4Q18	1Q18	QoQ	YoY
Telecom	16.57	17.50	18.47	-5%	-10%
Service	12.34	12.73	13.81	-3%	-11%
Device Sales	4.22	4.77	4.66	-11%	-9%
CATV revenue	1.55	1.57	1.60	-1%	-3%
Pay-TV	0.90	0.91	0.95	-1%	-6%
Broadband	0.35	0.35	0.35	1%	2%
Content & channel leasing	0.30	0.31	0.30	-3%	0%
momo¹	11.74	12.39	10.18	-5%	15%
E-commerce	10.06	10.73	8.41	-6%	20%
TV shopping & others	1.68	1.67	1.77	1%	-5%
Others	0.15	0.16	0.14	-5%	4%

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.

	1Q19	4Q18	1Q18	QoQ	YoY
Mobile Subscribers (K)	7,274	7,266	7,168	0%	1%
- Postpaid	5,624	5,617	5,726	0%	-2%
Monthly Churn	2.4%	2.3%	2.9%		
-Postpaid	1.2%	1.4%	1.6%		
MOU (bn)	1.12	1.23	1.45	-9%	-23%
Pay-TV Subs (K)	562	566	579	-1%	-3%
Cable Broadband Subs (K)	230	228	217	1%	6%
DTV Subs (K)	246	242	231	2%	7%

CATV ARPU (NT\$)	1Q19	4Q18	1Q18	QoQ	YoY
Pay-TV	531	536	547	-1%	-3%
Broadband	514	517	536	-1%	-4%
Blended ¹	741	742	747	0%	-1%

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

Telecom

The high base a quarter before the outbreak of the \$499 frenzy made post-paid ARPU a tough comparison for 1Q19. The ever-rising take-up rate of SIM-only plans hindered high-end handset demands, leading to a YoY decline in device sales in the quarter. That said, we are making some progress in improving rate plan mix by growing iPhone sales volume by 10% YoY in the quarter.

In 1Q19, postpaid churn rate reached a record low of 1.2% and saw a stabilization in the number of postpaid subscribers. Demand for IoT connectivity remained strong and contributed to a 26% YoY increase in IoT connection sales volume in 1Q19.

Apart from IoT, the enterprise segment also saw healthy revenue momentum from ICT, cloud solutions and internet/data access businesses. In 1Q19, the aforementioned revenue rose 5% YoY.

Cable TV

In 1Q19, we saw a decent increase in broadband & DTV subscribers, leading to a stable blended ARPU, attributable to the successful bundling of broadband & DTV services as well as effective pricing strategy. The percentage of customers subscribed to broadband plans with speeds of 100Mbps and higher rose to 34%, compared to 28% a year ago.

momo

In 1Q19, e-commerce revenue increased by 20% YoY, driven by continuous brand additions and more versatile online marketing campaigns such as “brand day” promotions. In particular, B2C average ticket size grew by 5% YoY to NT\$2,163 and the number of transactions rose by 14% YoY.

The QoQ decline in revenue is due to the high base in 4Q18 with Singles’ Day promotions.

II. EBITDA Analysis

Table 2. EBITDA Breakdown

NT\$bn	1Q19	4Q18	1Q18	QoQ	YoY
Pre-IFRS 16 EBITDA	7.45	7.62	8.17	-2%	-9%
- Telecom	6.02	6.14	6.77	-2%	-11%
- CATV	0.79	0.78	0.81	1%	-3%
- momo	0.54	0.54	0.46	0%	17%
Reported EBITDA	8.41	7.62	8.17	10%	3%

NT\$bn	1Q19	4Q18	1Q18	QoQ	YoY
Pre-IFRS 16 D&A	3.22	3.35	3.44	-4%	-6%
- Telecom	2.80	2.87	2.95	-2%	-5%
- CATV	0.28	0.30	0.32	-7%	-13%
- momo	0.09	0.09	0.07	-2%	22%
Reported D&A	4.18	3.35	3.44	25%	22%

NT\$bn	1Q19	4Q18	1Q18	QoQ	YoY
Reported EBIT	4.23	4.27	4.74	-1%	-11%
- Telecom	3.22	3.27	3.82	-2%	-16%
- CATV	0.51	0.48	0.49	6%	4%
- momo	0.45	0.45	0.39	1%	15%

EBITDA Analysis

Responding to the shift of consumer preference to lower-tiered SIM-only rate plans, TWM had done the following:

1) Continued pursuing opex reductions. In the quarter, reliance on third-party channels for customer sign-ups dropped by 7ppts YoY. We also reduced the number of physical stores and used E-shop and telemarketing instead.

2) Bundled package differentiations through offering non-handset products. This made up 17% of bundled plans added in the quarter.

All in all, mobile SAC (subscriber acquisition cost) as a percentage of ARPU declined by 2ppts YoY in 1Q19.

While pre-IFRS CATV EBITDA saw a 3% YoY decline, at the EBIT level, our weaker revenue was more than offset by the lower depreciation in set-top box, resulting in a 4% YoY increase in EBIT. QoQ, pre-IFRS 16 EBITDA rose by 1%, thanks to fewer marketing activities.

Fast growth in lower margin consumer electronics product sales propelled momo's top line. Nonetheless, its gross margin and operating margin in 1Q19 was higher compared to a year ago, benefitting from better pricing strategies and economies of scale.

D&A Analysis

The sequential decrease in pre-IFRS 16 D&A was mainly due to lower depreciation of 3G equipment and set-top box, which more than offset the D&A increase from the 4G spectrum deployment on the 2100MHz band.

Non-Operating Item Analysis

Non-operating expenses in the quarter decreased YoY, due mainly to mark-to-market gains of momo's fund holding this year and mark-to-market losses of CATV's investment of a convertible bond a year ago.

Write-off losses declined by 34% YoY, primarily attributed to less obsolete equipment and lower base station relocation losses.

Table 3. Non-operating Item

NT\$bn	1Q19	4Q18	1Q18	QoQ	YoY
Non-Operating Revenue (Expense)	(0.14)	(0.10)	(0.17)	33%	-22%
- Net Interest Expense	(0.14)	(0.13)	(0.14)	3%	1%
- Write-off Loss	(0.02)	(0.03)	(0.03)	-33%	-34%
- Other Revenue (Expense)	0.02	0.06	(0.01)	-68%	nm

III. Income Statement Analysis

Table 4. 1Q19 Consolidated Results vs. Forecast

NT\$bn	1Q19	YoY	% of 1Q19 Forecast
Revenue	29.87	-1%	100%
Operating Cost	(21.68)	1%	100%
Operating Expense	(3.96)	-5%	93%
Operating Income	4.23	-11%	108%
Non-op. Income (Expense)	(0.14)	-22%	74%
Pre-tax Income	4.09	-10%	109%
Net Income	3.07	-12%	108%
EPS (NT\$)	1.13	-12%	109%
EBITDA	8.41	3%	103%
EBITDA (Pre-IFRS 16)	7.45	-9%	

Income Statement Analysis

In 1Q19, momo's strong revenue growth largely offset the decline in our mobile business, resulting in a mere 1% YoY decline in consolidated revenue.

Meanwhile, the 9% YoY increase in the combined EBIT of cable TV business and momo helped mitigate the 16% YoY decline in telecom EBIT in 1Q19.

Overall, operating income for all major businesses exceeded their guidance for the first quarter, owing to efficient cost and expense control as well as economies of scale in e-commerce business.

Non-operating expenses in 1Q19 reached only 74% of our forecast, as a result of lower interest expenses and write-offs.

IV. Cash Flow Analysis

Table 5. Cash Flow

NT\$bn	1Q19	4Q18	1Q18
Operating	8.44	7.31	7.96
Pre-tax Income	4.09	4.16	4.56
Non-cash Add-backs	4.94	4.22	4.44
--Depreciation ¹	2.36	2.43	2.53
--Amortization	0.86	0.92	0.90
--Others ¹	1.72	0.87	1.01
Changes in Working Capital & Income Taxes	(0.74)	(1.20)	(1.24)
Others	0.15	0.13	0.19
Investing	(2.09)	(2.01)	(2.16)
Capex ²	(2.02)	(1.87)	(2.76)
Divestment (Acquisition)	0.00	0.01	0.04
Other Financial Assets (Increase)	(0.01)	(0.16)	0.57
Refundable Deposits (Increase)	(0.01)	(0.01)	(0.03)
Others	(0.05)	0.03	0.02
Financing	(6.02)	(3.74)	(4.76)
Short-term Borrowings	(2.97)	3.98	(1.60)
Repayments of Bonds Payable	0.00	(4.50)	0.00
Proceeds from Issuance of Bonds	0.00	0.00	0.00
Long-term Bank Loan	(2.05)	(3.05)	(3.05)
Repayment of The Principal Portion of Lease Liabilities ³	(0.93)	0.00	0.00
Dividends Payments	0.00	0.00	0.00
Interest (Payment) & Others	(0.07)	(0.17)	(0.11)
Net Cash Position Chg.	0.34	1.56	1.03

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 6. Capex & FCF

NT\$bn	1Q19	4Q18	1Q18
Cash Capex¹	2.02	1.87	2.76
- Mobile	1.56	1.37	1.47
- Fixed-line	0.26	0.30	0.42
- Cable	0.11	0.12	0.26
- momo & others	0.09	0.07	0.61
% of Revenue	7%	6%	9%
Free Cash Flow¹	5.46	5.44	5.20

1. Excluding 4G License Fees

Cash Flow Analysis

Operating cash inflow increased QoQ and YoY in 1Q19, due to the adoption of a new accounting treatment, IFRS 16, this year. "Lease expenses" previously under operating activities was reclassified into "repayment of principal and interests of lease liabilities" under financing activities with the adoption of IFRS 16.

Excluding momo's money-market fund redemption of NT\$0.6bn in 1Q18, our pre-IFRS 16 operating cash inflow slightly increased YoY which can be attributed to a lower reduction in payables in 1Q19.

Investing cash outflow in 1Q19 came in close to the level a year ago, in spite of the NT\$570mn cash freed up from guarantee deposits in 1Q18, which was partially offset by higher capex payments related to momo's logistics center, IDC, and network optimization in the same quarter.

Net cash outflow from financing activities mainly came from debt repayment, supported by our healthy free cash flow.

Capex and Free Cash Flow Analysis

In 1Q19, the decrease in capex for fixed-line, cable TV and momo more than offset the increase in mobile capex from the network deployment on the 2100MHz band for 4G service.

Our free cash flow calculated with pre-IFRS 16 operating cash flow reached NT\$5.46bn, up 5% YoY and translating into an FCF yield of 7.2%, owing to the 27% YoY decrease in capex.

V. Balance Sheet Analysis

Table 7. Balance Sheet

NT\$bn	1Q19	4Q18	1Q18
Total Assets	155.21	147.67	155.27
Current Assets	28.60	29.07	31.22
- Cash & Cash Equivalents	7.84	7.50	7.66
- Receivable & Contract Assets	14.43	15.21	15.51
- Inventories	3.96	3.95	3.98
- Short-term Investment	0.34	0.34	0.97
- Other Current Assets	2.04	2.08	3.09
Non-current Assets	126.60	118.60	124.05
- Long-term Investment	6.43	6.20	5.88
- Property and Equipment	40.66	41.86	43.42
- Right-of-use Assets	9.87	0.00	0.00
- Concession	39.82	40.53	42.92
- Other Non-current & Contract Assets	29.82	30.01	31.82
Liabilities	82.53	79.67	82.76
Current Liabilities	39.41	41.88	52.14
- ST Borrowings	13.60	18.57	28.27
- Current Lease Liabilities	3.41	0.00	0.00
- Other Current Liabilities	22.40	23.31	23.88
Non-current Liabilities	43.12	37.79	30.62
- Long-term Borrowings	32.29	33.31	26.32
- Non-current Lease Liabilities	6.37	0.00	0.00
- Other Non-current Liabilities	4.46	4.48	4.30
Shareholders' Equity	72.68	67.99	72.51
-Paid-in Capital	34.34	34.24	34.21
-Capital Surplus	13.47	12.58	13.94
-Legal Reserve	27.56	27.56	26.14
-Treasury Shares	(29.72)	(29.72)	(29.72)
-Un-appropriated Earnings	3.39	3.39	3.98
-Non-controlling Interest	6.37	6.11	6.07
-Retained Earnings & Others ¹	17.27	13.83	17.89

1: Including YTD profits and other equity items

Table 8. Ratios

	1Q19	4Q18	1Q18
Current Ratio	73%	69%	60%
Interest Coverage (x)	32.8	29.0	30.3
Net Debt (Cash) to Equity	52%	65%	65%
Net Debt (Cash) to Pre-IFRS 16 EBITDA (x)	1.28	1.40	1.44
ROE (annualized)¹	17%	21%	20%
ROA (annualized)²	8%	9%	9%

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

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

Assets

In 1Q19, current assets went down by 8% YoY, due to 1) a decline in receivables & contract assets, as a result of the higher take-up rate of SIM-only plans, 2) a decrease in short-term investment, owing to the liquidation of investments & money market instruments in 2018.

The YoY drop in other current assets in 1Q19 was attributable to higher guarantee deposits a year ago.

Along with the termination 3G services in 2018, property and equipment & concession dropped significantly in 1Q19. However, non-current assets slightly increased YoY, as a result of 1) the inclusion of right-of-use assets in accordance with IFRS 16, and 2) Taiwan High Speed Rail stock price appreciation.

Liabilities & Shareholders' Equity

In 1Q19, gross debt decreased by 16% YoY to NT\$45.89bn, as 1) our healthy FCF enabled us to pay off some outstanding debts, and 2) the conversion of a total of NT\$1.3bn convertible bond into equity.

Despite a decrease in gross debt, total liabilities remained flat compared to a year ago. This is mainly attributed to the inclusion of lease liabilities, which was worth NT\$9.78bn, in accordance with the implementation of IFRS 16 in 2019.

A convertible bond worth NT\$1.0bn was converted in 1Q19, leading to a QoQ increase in capital surplus and paid-in capital. As of the end of March 2019, the outstanding amount of CB was NT\$8.7bn and a total of 12.7mn shares had been converted.

Ratio Analysis

Benefiting from lower current debt level, our net debt to pre-IFRS 16 EBITDA went down to 1.28x.

VII. Management Remarks

Key Message

The group will strive to leverage our thriving ecosystem and accelerate our transformation into a regional enterprise following the 5”G”+ guidelines:

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Awards and Recognition

- Recognized as one of the “Sustainability Leaders” in the global telecommunication industry by RobecoSAM in its “The Sustainability Yearbook 2019” and has been awarded the Silver Class distinction for 2 consecutive years.