



November 6, 2020

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IR contact:

Jennifer Yuan
Principal Administrator
Investor Relations
jenniferyuan@taiwanmobile.com

Rosie Yu
CFO
rosieyu@taiwanmobile.com

13F, No. 88, Yan Chang Rd.,
Taipei City 110, Taiwan, ROC
Tel: 8862 6636 3159

ir@taiwanmobile.com
<http://www.taiwanmobile.com>

TWM Consolidated

NT\$bn	3Q20	YoY	1~3Q20	YoY	<u>FY20</u> <u>Achievement</u> <u>Ratio</u>
Revenues	31.24	1%	94.44	5%	70%
Operating Income	3.84	-10%	12.46	-3%	79%
Non-op. Income (Expenses)	(0.04)	49%	(0.19)	-27%	20%
Pre-tax Income	3.81	-10%	12.27	-2%	83%
(Income Tax)	(0.74)	-12%	(2.32)	-6%	83%
(Minority Interest)	(0.24)	54%	(0.76)	34%	93%
Net Income	2.82	-13%	9.18	-4%	82%
EPS (NT\$)	1.01	-14%	3.27	-5%	83%

Highlights of Operating Results**3Q20**

3Q consolidated revenue grew YoY thanks to momo's robust momentum, outweighing the softness in telecom business from fewer of high-end handset bundled plans in comparison to the boost in 3Q19 from iPhone 11 release. 5G service launch in July further weighed on telecom operating income with the start of 5G D&A in the quarter. That said, combined operating income of CATV and momo increased 15% YoY and helped mitigate the slide in telecom profits in 3Q20.

1~3Q20

Total revenue tracked slightly behind; however, the muted telecom performance was offset by lower selling expenses and momo's operating leverage at the operating income level. Overall, operating income for all major businesses achieved management expectations in 1-3Q20. EPS for the period reached 83% of Company's FY20 guidance, aided by lower-than-expected non-operating expenses.

1-3Q20 cumulative free cash flow calculated with pre-IFRS 16 operating cash flow was NT\$14.79bn, translating into an annualized FCF yield of 7.3%.

Key Message

The competitive landscape in Taiwan's mobile industry has become more benign, evidenced by the continued decline of ported numbers since 5G launch in July, as all operators introduced higher monthly fees for 5G unlimited data plans. Meanwhile, our 5G service is poised to gain momentum on the back of accelerated network rollout, iPhone 12 release, and a wider range of 5G Android phone options. Enhanced synergies from momo and cable broadband also give us an edge over our peers.

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I. Revenue Analysis

Table 1. Key Operational Data

Residual Value (NT\$bn)	3Q20	2Q20	3Q19	QoQ	YoY
Mobile Service Revenue	11.73	11.70	12.75	0%	-8%
Postpaid ARPU (NT\$)	650	654	718	-1%	-9%
Blended ARPU (NT\$)	543	545	586	0%	-7%
Telecom Service Revenue	12.64	12.70	13.72	0%	-8%

Revenue (NT\$bn)	3Q20	2Q20	3Q19	QoQ	YoY
Telecom	14.44	14.36	17.18	1%	-16%
Service	11.16	11.18	12.05	0%	-7%
Device Sales	3.28	3.17	5.13	3%	-36%
CATV revenue	1.56	1.54	1.52	1%	3%
Pay-TV	0.85	0.86	0.88	-1%	-3%
Broadband ¹	0.39	0.38	0.36	3%	9%
Content & channel leasing	0.32	0.30	0.29	6%	12%
momo	15.58	15.83	12.37	-2%	26%
E-commerce	14.29	14.46	10.91	-1%	31%
TV shopping & others	1.29	1.37	1.46	-6%	-11%
Others²	0.15	0.13	0.15	12%	0%

1. Cable broadband revenue includes costs borne by TWM for its Double Play customers which is eliminated in consolidated revenue.

2. 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.

	3Q20	2Q20	3Q19	QoQ	YoY
Mobile Subscribers (K)	7,225	7,171	7,256	1%	0%
- Postpaid	5,810	5,741	5,679	1%	2%
Monthly Churn	1.3%	1.3%	2.6%		
-Postpaid	0.8%	1.0%	1.2%		
MOU (bn)	0.96	0.95	1.06	1%	-9%
Pay-TV Subs (K)	550	551	556	0%	-1%
Cable Broadband Subs (K) ¹	263	260	249	1%	6%
DTV Subs (K)	276	270	255	2%	8%

CATV ARPU (NT\$)	3Q20	2Q20	3Q19	QoQ	YoY
Pay-TV	513	517	524	-1%	-2%
Broadband	501	495	487	1%	3%
Blended ²	752	749	741	0%	1%

1. Cable broadband customers signed via TWM Double Play series are not included.

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

Telecom

Although the YoY comparison remained challenging in 3Q20, we have seen QoQ stabilization since 5G service launch in July.

In 3Q20, a visible ARPU uplift was seen in the users upgrading to 5G, while ~90% of all 5G sign-ups opted for \$999 or higher rate plans. Excluding IoT subs, postpaid monthly tariff already recorded a sequential increase in September, as a result of rate plan mix stabilization. Mobile service revenue also posted its first QoQ stability since the \$499 frenzy in 2Q18.

As the new iPhone launch is in 4Q in 2020 vs. 3Q in 2019, device sales plunged YoY but rose QoQ in 3Q20, driven by Android 5G handset models. With the release of iPhone 12 and increasing 5G smartphone options, handset bundle sales and device sales should pick up steam in 4Q20, boding well for ARPU.

In addition, our Double Play bundle (unlimited mobile data + high speed home broadband) posted a 44% QoQ surge in new sign-ups in 3Q20, with rising proportion in 1Gbps fixed broadband speed which acts as complementary indoor network service to 5G.

Cable TV

Supported by the growth in TV content aggregation revenue and climbing broadband momentum, CATV revenue went up by 3% YoY amid competitive operating environment in 3Q20. Demand for faster home broadband access continued to swell, lifting cable broadband-related revenue by 9% YoY.

momo

momo's e-commerce business delivered another set of solid results in 3Q20, as it grew the total number of transactions by 30% YoY and strengthened its logistic capabilities. In addition to expanding its in-house delivery fleet, two more satellite warehouses were added in 3Q20, taking the total number of satellite warehouses to 19 (up by 6 YoY).

II. EBIT Analysis

Table 2. EBITDA Breakdown

NT\$bn	3Q20	2Q20	3Q19	QoQ	YoY
EBITDA	7.80	7.71	8.30	1%	-6%
- Telecom	6.25	6.19	6.91	1%	-10%
- CATV	0.73	0.74	0.78	-2%	-6%
- momo	0.66	0.66	0.51	0%	29%

NT\$bn	3Q20	2Q20	3Q19	QoQ	YoY
D&A	3.95	3.58	4.02	10%	-2%
- Telecom	3.53	3.16	3.57	12%	-1%
- CATV	0.18	0.18	0.23	0%	-22%
- momo	0.20	0.20	0.18	3%	12%

NT\$bn	3Q20	2Q20	3Q19	QoQ	YoY
EBIT	3.84	4.13	4.28	-7%	-10%
- Telecom	2.73	3.04	3.34	-10%	-18%
- CATV	0.55	0.56	0.55	-2%	0%
- momo	0.46	0.46	0.33	-1%	38%

EBIT Analysis

While telecom EBITDA improved sequentially thanks to steady mobile service revenue and a dip in SG&A expenses, the YoY trend was still hindered by falling sales of handset bundle plans. With the commencement of 5G spectrum amortization in July, the YoY decrease in telecom EBIT widened in 3Q20.

CATV EBITDA fell YoY in 3Q20, mainly driven by competition in basic TV business. Meanwhile, EBIT was flat YoY, aided by the falling depreciation of set-top boxes - a subsiding tailwind.

As a result of increasing scale and operating leverage, momo's e-commerce EBIT surged by 66% YoY in 3Q20. Payment processing fee as a percentage of revenue went down, aided by rising adoption of its private label credit card. The QoQ EBIT ebb was caused by softness in its legacy business.

D&A Analysis

As 5G-related D&A kicked in, 3Q20 telecom D&A YoY decline narrowed significantly compared to 2Q20. Given the continuous fall in 3&4G depreciation, overall D&A still dropped YoY despite the YoY D&A uptick from momo's satellite warehouse additions.

Table 3. Non-operating Item

NT\$bn	3Q20	2Q20	3Q19	QoQ	YoY
Non-Operating Revenue (Expense)	(0.04)	(0.00)	(0.02)	629%	49%
- Net Interest Expense	(0.14)	(0.14)	(0.13)	2%	14%
- Write-off Loss	(0.02)	(0.02)	(0.02)	9%	4%
- Other Revenue (Expense)	0.13	0.15	0.12	-17%	5%

Non-Operating Item Analysis

Non-operating expense swelled YoY in 3Q20, mainly on the back of higher financing costs and lower dividend income from investees. It also jumped QoQ, owing to momo's disposal gains from its investments in 2Q20.

III. Income Statement Analysis

Table 4. 3Q20 Consolidated Results vs. Forecast

NT\$bnn	3Q20	YoY	% of 3Q20 Forecast
Revenue	31.24	1%	94%
Cash Cost & Expense	(23.45)	4%	92%
Operating Income	3.84	-10%	104%
Non-op. Income (Expense)	(0.04)	49%	14%
Pre-tax Income	3.81	-10%	111%
Net Income	2.82	-13%	110%
EPS (NT\$)	1.01	-14%	111%
EBITDA	7.80	-6%	99%

Table 5. 1-3Q20 Consolidated Results vs. Forecast

NT\$bnn	1~3Q20	YoY	% of Full Year guidance
Revenue	94.44	5%	70%
Cash Cost & Expense	(70.83)	9%	69%
Operating Income	12.46	-3%	79%
Non-op. Income (Expense)	(0.19)	-27%	20%
Pre-tax Income	12.27	-2%	83%
Net Income	9.18	-4%	82%
EPS (NT\$)	3.27	-5%	83%
EBITDA	23.61	-6%	75%

Income Statement Analysis

3Q20

3Q telecom business was soft due to the lack of high-end handset bundled plans, in contrast to a boost from the iPhone 11 launch a year ago. Separately, 5G service launch in July further weighed on telecom EBIT as 5G spectrum amortization and equipment depreciation started in the quarter. That said, combined operating income of CATV and momo increased 15% YoY and helped mitigate the slide in telecom profits in 3Q20.

Compared to our 3Q operating income guidance, telecom was slightly ahead while momo beat expectations. Coupled with lower-than-expected non-operating expenses arising from higher dividends from investees and the downward trend of interest rate, net income for 3Q exceeded our guidance.

1-3Q20

Total revenue tracked slightly behind; however, the muted telecom performance was offset by lower selling expenses and momo's operating leverage at the operating income level.

Overall, operating income for all major businesses achieved management expectations in 1-3Q20.

1-3Q20 net income also came in ahead on the back of lower-than-expected non-operating expenses brought about by the aforementioned reasons along with momo's disposal gains. EPS for the period reached 83% of Company's FY20 guidance.

IV. Cash Flow Analysis

Table 6. Cash Flow

NT\$bn	1-3Q20	YoY	3Q20	2Q20	3Q19
Operating	23.02	-16%	6.31	7.47	11.83
Pre-tax Income	12.27	-2%	3.81	4.13	4.25
Non-cash Add-backs	12.62	-13%	4.41	4.07	4.69
--Depreciation ¹	5.26	-23%	1.75	1.73	2.18
--Amortization	2.94	14%	1.22	0.87	0.86
--Others ¹	4.41	-13%	1.44	1.47	1.65
Changes in Working Capital & Income Taxes	(2.07)	nm	(1.95)	(0.73)	2.85
Others	0.20	-33%	0.04	0.00	0.03
Investing	(33.92)	518%	(0.59)	(1.54)	(2.03)
Capex ²	(5.20)	-6%	(1.65)	(1.90)	(2.12)
Divestment (Acquisition)	0.96	nm	0.94	0.39	0.00
5G License Fees	(29.66)	nm	0.00	0.00	0.00
Other Financial Assets (Increase)	(0.12)	28%	(0.03)	0.01	(0.07)
Refundable Deposits (Increase)	(0.03)	nm	(0.00)	(0.01)	0.01
Others	0.13	14%	0.16	(0.03)	0.15
Financing	12.70	nm	(3.50)	(6.79)	(3.54)
Short-term Borrowings	14.22	179%	11.00	(4.94)	12.97
Proceeds from Issuance of Bonds	19.98	nm	0.00	0.00	0.00
Long-term Bank Loan	(4.20)	87%	(0.10)	(0.05)	(0.15)
Repayment of The Principal Portion of Lease Liabilities ³	(2.94)	4%	(1.00)	(0.94)	(0.97)
Dividends Payments	(14.01)	-13%	(13.35)	(0.66)	(15.37)
Interest (Payment) & Others	(0.34)	21%	(0.05)	(0.20)	(0.03)
Net Cash Position Chg.	1.79	-68%	2.22	(0.86)	6.25

1. Depreciation of right-of-use assets 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	1-3Q20	YoY	3Q20	2Q20	3Q19
Cash Capex¹	5.20	-6%	1.65	1.90	2.12
- Mobile	3.08	-21%	1.17	0.88	1.44
- Fixed-line	0.86	-13%	0.29	0.35	0.39
- Cable	0.50	19%	0.17	0.18	0.18
- momo & others	0.76	235%	0.02	0.49	0.11
% of Revenue	6%		5%	6%	7%
Free Cash Flow¹	14.79	-22%	3.63	4.60	8.72

1. Excluding 5G License Fees. Free cash flow was on pre-IFRS 16 basis.

Cash Flow Analysis

In 3Q20, the YoY drop in operating cash inflow was attributable to momo's inventory expansion, if we exclude an impact of around NT\$5bn from two one-off factors – 1) deferral of provisional taxes and momo's 3Q payables to 4Q in 2019 due to the typhoon; 2) lack of cash inflow from new iPhone sales in 3Q20.

Investing cash outflow narrowed QoQ and YoY, owing to shrinking cash capex and inflow of sales proceeds from Taiwan High Speed Rail shares.

On the financing front, short-term borrowings climbed QoQ to fund the dividend payments.

Capex and Free Cash Flow Analysis

As 5G rollout is still under way, cash capex showed a YoY decline in 3Q20.

1-3Q20 cumulative free cash flow calculated with pre-IFRS 16 operating cash flow was NT\$14.79bn, translating into an annualized FCF yield of 7.3%.

V. Balance Sheet Analysis

Table 8. Balance Sheet

NT\$bn	3Q20	2Q20	3Q19
Total Assets	180.74	177.39	158.83
Current Assets	32.05	30.27	34.23
- Cash & Cash Equivalents	10.46	8.24	13.02
- Receivable & Contract Assets	13.44	13.77	14.80
- Inventories	4.89	3.72	4.71
- Short-term Investment	1.61	2.99	0.25
- Other Current Assets	1.65	1.55	1.45
Non-current Assets	148.69	147.12	124.60
- Long-term Investment	3.80	3.57	6.43
- Property and Equipment	41.36	38.55	39.97
- Right-of-use Assets	9.01	9.21	9.93
- Concession	65.88	66.96	38.41
- Other Non-current & Contract Assets	28.64	28.84	29.86
Liabilities	111.12	110.89	89.43
Current Liabilities	62.91	60.18	52.66
- ST Borrowings	34.69	21.69	21.67
- Accounts & Notes Payable	8.53	8.35	12.08
- Current Lease Liabilities	3.47	3.53	3.53
- Other Current Liabilities	16.21	26.61	15.38
Non-current Liabilities	48.21	50.71	36.77
- Long-term Borrowings	37.99	40.37	25.85
- Non-current Lease Liabilities	5.52	5.68	6.37
- Other Non-current Liabilities	4.70	4.66	4.54
Shareholders' Equity	69.62	66.50	69.40
-Paid-in Capital	35.12	35.09	34.96
-Capital Surplus	18.94	18.68	19.11
-Legal Reserve	30.17	30.17	28.92
-Treasury Shares	(29.72)	(29.72)	(29.72)
-Un-appropriated Earnings	0.00	0.00	0.49
-Non-controlling Interest	6.27	6.02	6.01
-Retained Earnings & Others ¹	8.83	6.24	9.63

1: Including YTD profits and other equity items

Table 9. Ratios

	3Q20	2Q20	3Q19
Current Ratio	51%	50%	65%
Interest Coverage (x)	29.0	31.4	37.2
Net Debt (Cash) to Equity	89%	81%	50%
Net Debt (Cash) to EBITDA (x)	1.95	1.68	1.02
ROE (annualized)¹	17%	18%	18%
ROA (annualized)²	8%	8%	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

Among current assets, momo's inventory grew YoY and QoQ. However, the YoY rise was offset by the high base of iPhone 11 inventory in 3Q19.

Our THSR shares were reclassified from long-term investment to short-term investment, leading to a significant YoY variance in the two accounts. In 3Q20, sales proceeds of NT\$1,039mn were realized, with 43mn shares left to be disposed of.

PP&E rose YoY and QoQ on the back of 5G network rollout. The YoY increase in concession was driven by the acquisition of 5G spectrum in 1Q20 which has begun amortization since the commercial launch on July 1, 2020.

Liabilities & Shareholders' Equity

Gross debt increased QoQ to NT\$73bn as of 3Q20 as we bumped up short-term borrowing to fund our dividend payment. Other current liabilities went down QoQ in tandem.

Among current liabilities, the YoY slump in accounts & notes payable resulted from a high base - momo's payments were delayed by the day off due to typhoon on Sep 30 2019.

As for shareholders' equity, the YoY and QoQ changes in paid-in capital and capital surplus were insignificant as majority of our convertible bond had already been converted. The outstanding balance was NT\$0.64bn at the end of 3Q20.

Ratio Analysis

The sequential uptick in net debt to EBITDA was within the seasonal pattern as we paid accrued dividends payable in 3Q.

The YoY rises in net debt to equity/EBITDA were associated with the incremental debt we took on for 5G spectrum acquisition.



VI. Management Remarks

Key Message

The competitive landscape in Taiwan's mobile industry has become more benign, evidenced by the continued decline of ported numbers since 5G launch in July, as all operators introduced higher monthly fees for 5G unlimited data plans. Meanwhile, our 5G service is poised to gain momentum on the back of accelerated network rollout, iPhone 12 release, and a wider range of 5G Android phone options. Enhanced synergies from momo and cable broadband also give us an edge over our peers.

Event Updates

- TWM launched commercial 5G services on July 1st, 2020.
- For the first three months of 5G service launch, the adoption rate was 50% higher than that of 4G.

Awards and Recognition

- Thirteen-time winner of CommonWealth Magazine's "Excellence in Corporate Social Responsibility Award".
- Ranked 10th in ISS's first edition of "Taiwan's Top 30 Corporations in ESG" and rated the highest in the telecom industry.