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TWM Consolidated

NT\$bn	<u>1Q18</u>	<u>4Q17</u>	<u>1Q17</u>	<u>QoQ</u>	<u>YoY</u>
Revenues	30.31	31.76	28.84	-5%	5%
EBITDA	8.17	7.78	8.44	5%	-3%
Operating Income	4.74	4.30	5.07	10%	-7%
Non-op. Income (Expenses)	(0.17)	(1.12)	(0.17)	-84%	2%
Pre-tax Income	4.56	3.18	4.90	43%	-7%
(Income Tax)	(0.90)	(0.52)	(0.76)	72%	18%
(Minority Interest)	(0.18)	(0.22)	(0.18)	-16%	1%
Net Income	3.48	2.44	3.96	43%	-12%
EPS (NT\$)	1.28	0.89	1.46	44%	-12%

Highlights of Operating Results

In 1Q18, our strategy of maintaining a stable profit through mobile subscriber acquisition cost rationalization was evidenced by a 4.1% YoY increase in pre-IFRS 15 core telecom EBITDA. Separately, momo continued its strong growth trend in EBITDA, rising by 37% YoY, aided by the stellar growth in online shopping business and the recovery in TV home shopping profitability. In summary, we surpassed our EBITDA and EPS guidance by 6% and 8%, respectively, the highest achievement rates among industry peers.

2017 Earnings Distribution

On April 27, 2018, TWM's board meeting approved the proposal to distribute NT\$15.2bn in cash dividends, translating into a 107% payout to shareholders. Dividend per share is NT\$5.6 on 2.72bn shares, excluding treasury shares held by 100%-owned subsidiaries.

Key Message

In order to deliver satisfactory returns to our shareholders, sustaining the stability of free cash flow generations and adding differentiation to strengthen our market foothold remain our main focuses.

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I. Revenue Analysis

Table 1. Key Operational Data

Residual Value (NT\$bn)	1Q18	4Q17	1Q17	QoQ	YoY
Mobile Service Revenue	14.90	15.42	16.02	-3%	-7%
Postpaid ARPU (NT\$)	825	845	861	-2%	-4%
Blended ARPU (NT\$)	691	707	720	-2%	-4%
Telecom Service Revenue	15.94	16.45	17.17	-3%	-7%

Reported Revenue (NT\$bn)	1Q18	4Q17	1Q17	QoQ	YoY
Telecom	18.47	20.23	19.61	-9%	-6%
Service	13.81	14.28	14.85	-3%	-7%
Device Sales	4.66	5.95	4.76	-22%	-2%
CATV	1.60	1.56	1.61	3%	-1%
- Pay-TV Related	0.95	0.94	0.96	1%	-1%
- Broadband	0.35	0.34	0.33	1%	5%
- Content & channel leasing	0.30	0.27	0.32	13%	-7%
momo	10.18	9.94	7.58	2%	34%
- Online Shopping	8.41	8.21	5.90	2%	43%
- TV Shopping & Others	1.77	1.73	1.68	2%	5%
Others¹	0.14	0.15	0.13	-5%	5%

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.

	1Q18	4Q17	1Q17	QoQ	YoY
Mobile Subscribers (K)	7,168	7,227	7,386	-1%	-3%
- Postpaid	5,726	5,781	5,912	-1%	-3%
Monthly Churn	2.9%	3.3%	2.9%		
- Postpaid	1.6%	1.7%	1.6%		
MOU (bn)	1.45	1.59	2.09	-9%	-31%
Pay-TV Subs (K)	579	581	581	0%	0%
Cable Broadband Subs (K)	217	215	205	1%	6%
DTV Subs (K)	231	224	205	3%	13%

CATV ARPU (NT\$)	1Q18	4Q17	1Q17	QoQ	YoY
Pay-TV	547	540	550	1%	-1%
Broadband	536	536	538	0%	0%
Blended ¹	747	737	739	1%	1%

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

Telecom

In 1Q18, TWM reported a 7% YoY decline in mobile service revenue, negatively affected by a decreasing domestic roaming business and falling mobile MOUs. Excluding domestic roaming, the YoY decline in postpaid ARPU and mobile service revenue narrowed to 1.7% and 4.7%, respectively, outperforming our peers on a like for like basis.

Mobile subscriber base in 1Q18 declined 3% YoY, mainly owing to the termination of 2G service in June last year. However, we had lower postpaid churn this quarter, both QoQ and YoY, reflecting a milder industry competition and lesser impact from SIM card consolidation.

Separately, device sales decreased by 22% QoQ mainly due to lower iPhone 8 and iPhone X after the initial launch period.

Cable

In 1Q18, TWM continued seeing strong growth in both DTV and broadband subscriber number, up 13% and 6% YoY, respectively. Proactive promotions of TWM's video on demand service to cable TV users further increase customers' stickiness and revenue contributions. Selling more services to the same household increased cable TV ARPU and made cable revenue stay resilient.

momo

In 1Q18, momo's e-commerce revenue reached another record high, with a 43% YoY increase, and continued surpassing the growth rate of its closest competitor in Taiwan. As a result, e-commerce made up 83% of momo's total revenue, versus 78% a year ago.

II. EBITDA Analysis

Table 2. Reported EBITDA Breakdown

NT\$bn	1Q18	4Q17	1Q17	QoQ	YoY
EBITDA	8.17	7.78	8.44	5%	-3%
- Telecom	6.77	6.45	7.14	5%	-5%
- CATV	0.81	0.74	0.86	9%	-6%
- momo	0.46	0.47	0.34	-1%	37%
- others	0.09	0.10	0.09	-13%	5%
Margin	27.0%	24.5%	29.3%	2.5ppts	-2.3ppts
- Telecom	36.6%	31.9%	36.4%	4.7ppts	0.2ppts
- CATV	50.6%	47.8%	53.5%	2.8ppts	-2.9ppts
- momo	4.6%	4.7%	4.5%	-0.2ppts	0.1ppts
- others	63.8%	69.2%	64.1%	-5.4ppts	-0.3ppts

D&A	3.44	3.48	3.37	-1%	2%
- Telecom	2.95	3.04	3.03	-3%	-3%
- CATV	0.32	0.30	0.22	6%	48%
- momo	0.07	0.05	0.03	56%	182%
- others	0.05	0.05	0.05	0%	0%
EBIT	4.74	4.30	5.07	10%	-7%
- Telecom	3.82	3.41	4.11	12%	-7%
- CATV	0.49	0.44	0.65	11%	-24%
- momo	0.39	0.42	0.31	-7%	25%
- others	0.04	0.05	0.03	-26%	13%

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	1Q18	4Q17	1Q17	QoQ	YoY
Non-Operating Income (Expenses)	(0.17)	(1.12)	(0.17)	-84%	2%
- Net Interest Expenses	(0.14)	(0.13)	(0.12)	2%	15%
- Write-off Loss	(0.03)	(0.23)	(0.03)	-89%	-2%
- Other Income (Expenses)	(0.01)	(0.76)	(0.03)	-98%	-53%

EBITDA Analysis

In 1Q18, both telecom EBITDA and cable EBITDA showed sequential improvements, while momo's EBITDA stayed flattish, in comparison to the strongest quarter in 4Q17, which included the Double 11 Shopping Festival.

Our strategy of maintaining a stable profit through mobile subscriber acquisition cost rationalization was evidenced by a mere 1.3% YoY dip in pre-IFRS15 telecom EBITDA in 1Q18. Should domestic roaming revenue be excluded, core telecom EBITDA grew consistently by 4.1% YoY under the basis of pre-IFRS 15 numbers.

CATV EBITDA fell by 6% YoY, mainly caused by the lower channel revenues from TV home shopping companies.

momo continued its strong growth trend in EBITDA, rising by 37% YoY, aided by the stellar growth in online shopping business and the recovery in TV home shopping profitability.

D&A Analysis

The roll-outs of digital set-top-boxes in 2016-17 have led to an increase in cable D&A. momo's D&A increase seen in 1Q18 was attributable to its newly-built automated distribution center. With 3G depreciation reductions partially offsetting the D&A rise in momo and cable, total consolidated D&A in 1Q18 went up by only 2% YoY.

Non-Operating Item Analysis

The non-operating expenses in 1Q18 remained flat YoY, but declined sequentially mainly due to an one-off litigation liability provision made in 4Q17 and lower asset write-offs in 1Q18.

III. Income Statement Analysis

Table 4. 1Q18 Consolidated Results vs. Forecast

NT\$bn	1Q18	QoQ	YoY	% of 1Q18 Forecast
Revenues	30.31	-5%	5%	102%
Operating Costs	(21.38)	-7%	9%	101%
Operating Expenses	(4.19)	-4%	1%	95%
Operating Income	4.74	10%	-7%	111%
Non-operating Income (Expenses)	(0.17)	-84%	2%	103%
Pre-tax Income	4.56	43%	-7%	112%
Net Income	3.48	43%	-12%	108%
EPS (NT\$)	1.28	44%	-12%	108%
EBITDA	8.17	5%	-3%	106%
EBITDA margin	27.0%			

Income Statement Analysis

In 1Q18, telecom and cable revenues were largely in line with our forecast, while the e-commerce revenue exceeded expectations. As a result, our consolidated revenue beat the guidance by 2%. Aided by the cost rationalizations, EBIT exceeded our forecast by 11%.

Of note, the hike in statutory corporate tax rate to 20% from 17% negatively impacted net income growth on a YoY basis. Nevertheless, net income for the quarter surpassed our guidance by 8%, the highest achievement rate among peers.

IV. Cash Flow Analysis

Table 5. Cash Flow

NT\$bn	1Q18	4Q17	1Q17
Total Op. Sces/(Uses)	7.96	7.99	7.49
Pre-tax Income	4.56	3.18	4.90
Non-cash Add-backs	3.70	3.80	3.45
--Depreciation	2.53	2.58	2.55
--Amortization	0.90	0.90	0.82
--Others	0.26	0.32	0.08
Changes in Working Capital and Others	(0.30)	1.01	(0.87)
Net Investing Sces/(Uses)	(2.16)	(9.70)	(1.70)
Capex ¹	(2.76)	(2.24)	(2.66)
Divestment (Acquisition)	0.04	0.00	0.00
4G License Fees	0.00	(8.60)	0.00
Other Financial Assets (Increase)	0.57	0.13	0.96
Refundable Deposits (Increase)	(0.03)	1.00	(0.03)
Others	0.02	0.02	0.02
Net Financing Sces/(Uses)	(4.76)	2.37	(5.56)
Short-term Borrowings	(1.60)	1.65	(5.35)
Repayments of Bonds Payable	0.00	0.00	0.00
Long-term Bank Loan	(3.05)	0.91	(0.14)
Dividends Payments	0.00	0.00	0.00
Interest (Payment) & Others	(0.11)	(0.19)	(0.07)
Net Cash Position Chg.	1.03	0.66	0.22

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

Cash Flow Analysis

In contrast to a 3% contraction in reported EBITDA, 1Q18 operating cash inflow rose 6%, compared to a year ago. The EBITDA decline in the quarter was mainly due to IFRS 15 adjustments which had no cash flow impacts.

Investing cash outflow increased YoY mainly due to an increase in capex. Separately, we had NT\$570M cash free up as we took back more guarantee deposits in the quarter. Higher investment cash outflow in 4Q17 was largely due to the payment of NT\$8.6bn to acquire 4G spectrum.

Net cash outflow from financing activities was for debt repayments and interest expenses.

In summary, 1Q18 cash balance rose by NT\$1.03bn from a quarter ago.

Table 6. Capex & FCF

NT\$bn	1Q18	4Q17	1Q17
Cash Capex¹	2.76	2.24	2.66
- Mobile	1.47	1.35	1.29
- Fixed-line	0.42	0.22	0.36
- Cable	0.26	0.41	0.42
- momo & others	0.61	0.26	0.58
% of Revenue	9%	7%	9%
Free Cash Flow¹	5.20	5.74	4.83

Note 1: Excluding 4G License Fees.

Capex and Free Cash Flow Analysis

Part of the 4G and momo logistic center capex payments were deferred from last year to 1Q18. That said, we expect consolidated capex for 2018 to be down by 11%. FCF for the quarter reached NT\$5.2bn up 7.7% YoY and translating into an annual FCF yield of 6.9%.

V. Balance Sheet Analysis

Table 7. Balance Sheet

NT\$bn	1Q18	4Q17	1Q17
Total Assets	155.27	154.52	148.73
Current Assets	31.22	32.35	32.58
- Cash & Cash Equivalents	7.66	6.63	7.93
- Accounts Receivable/Contract Assets	14.24	14.68	14.77
- Inventories	3.98	4.33	3.82
- Short-term Investment	0.97	1.57	1.22
- Other Current Assets	4.36	5.14	4.85
Non-current Assets	124.05	122.17	116.15
- Long-term Investment	5.88	6.05	5.58
- Property and Equipment	43.42	44.57	45.00
- Concession	42.92	43.67	37.20
- Other Non-current Assets	31.82	27.88	28.37
Liabilities	82.76	89.01	78.25
Current Liabilities	52.14	56.48	31.42
- ST Borrowings	28.27	30.86	8.26
- Other Current Liabilities	23.88	25.62	23.16
Non-current Liabilities	30.62	32.53	46.83
- Long-term Borrowings	26.32	28.35	42.81
- Other Non-current Liabilities	4.30	4.18	4.02
Shareholders' Equity	72.51	65.51	70.48
-Paid-in Capital	34.21	34.21	34.21
-Capital Surplus	13.94	13.94	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	6.07	5.88	5.92
-Retained Earnings & Others ¹	21.25	14.44	19.85

Note 1: Including YTD profits and other equity items

Table 8. Ratios

	1Q18	4Q17	1Q17
Current Ratio	60%	57%	104%
Interest Coverage (x)	30.3	19.2	31.6
Net Debt (Cash) to Equity	65%	80%	61%
Net Debt (Cash) to EBITDA (x)	1.44	1.60	1.32
ROE (annualized)¹	20%	22%	23%
ROA (annualized)²	9%	10%	11%

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

As of the end of 1Q18, cash balance increased QoQ as explained in the cash flow analysis section.

The YoY decrease in accounts receivable was owing to lower handset bundled sales, which boded well for handset subsidy reductions.

The YoY drop in both short-term investments and other current assets was associated with momo's redemption of money market funds and TWM's fewer guarantee deposits.

Inventory came off QoQ mainly due to the lower handset inventories.

Long-term investment increased YoY mainly reflecting the new media investments made in 2Q17.

The YoY increase in concession resulted from the NT\$8.6bn addition of spectrum on the 2.1GHz frequency band.

Liabilities & Shareholders' Equity

Apart from the short-term financing we raised in 4Q17 to fund the new mobile spectrum, NT\$7.4bn worth of corporate bonds have to be repaid within one year. As such, we had higher short-term portion of long-term debt at the end of 1Q, compared to a year ago.

On April 20, we issued unsecured corporate straight bonds of NT\$15bn with an average interest rate of 0.939% p.a., in an aim to reduce the percentage of short-term debt.

Ratio Analysis

With a higher short-term portion of long-term debt in 1Q18, current ratio at the end of 1Q18 declined to 60%, compared to one year ago. However, we expect the current ratio to level up at the end of April, after we used the longer tenure bonds discussed above to replace the short-term bank borrowings.

VI. Management Remarks

Key Message

In order to deliver satisfactory returns to our shareholders, sustaining the stability of free cash flow generations and adding differentiation to strengthen our market foothold remain our main focuses.

2017 Earnings Distribution

On April 27, 2018, TWM's board meeting approved the proposal to distribute NT\$15.2bn in cash dividends, translating into a 107% payout to shareholders. Dividend per share is NT\$5.6 on 2.72bn shares, excluding treasury shares held by 100%-owned subsidiaries. After the earnings distribution as proposed above, TWM's excess reserves of NT\$34bn are available to top up dividends in the future.

Major Events

– Straight Bond Issuance

On April 20, 2018, TWM successfully completed its issuance of the 5th unsecured corporate straight bonds with a total amount of NT\$15bn, which consist of NT\$6bn for the 5-year bond (with a fixed annual rate of 0.848%) and NT\$9bn for the 7-year bond (with a fixed annual rate of 1.00%).

Awards and Recognition

- Received “Silver Class Sustainability Award” of Sustainability Leaders in the category of global telecom industry from RobecoSAM's 2018 Sustainability Yearbook.
- Selected as a constituent of ECPI INDEX CERTIFICATE 2017.