Second Quarter 2018 Results

for the period ending June 30, 2018

July 26, 2018

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TWM Consolidated

NT$bn	2Q18	1Q18	2Q17	QoQ	YoY
Revenues	**28.54**	**30.31**	**27.80**	**-6%**	**3%**
EBITDA	**8.34**	**8.17**	**8.30**	**2%**	**1%**
Operating Income	**4.95**	**4.74**	**4.89**	**4%**	**1%**
Non-op. Income (Expenses)	**(0.12)**	**(0.17)**	**(0.08)**	**-33%**	**52%**
Pre-tax Income	**4.83**	**4.56**	**4.82**	**6%**	**0%**
(Income Tax)	**(0.79)**	**(0.90)**	**(0.78)**	**-13%**	**1%**
(Minority Interest)	**(0.24)**	**(0.18)**	**(0.21)**	**35%**	**17%**
Net Income	**3.80**	**3.48**	**3.83**	**9%**	**-1%**
EPS (NT$)	**1.39**	**1.28**	**1.40**	**9%**	**-1%**

Highlights of Operating Results

2Q18

In 2Q18, telecom EBITDA improved on both QoQ and YoY basis, thanks to the one-time penalty income related to the NT$499 plan and the big savings on handset subsidies from customers' demand shifting from handset bundles to SIM only plans. As a result, pre-tax income stayed resilient compared to a year ago. EPS decline was a mere 1% in 2Q, despite that the hike in statutory corporate tax rate negatively impacted net income growth on a YoY basis.

1H18

Year to June, our efforts in cost and expense rationalization have been paying off, allowing our accumulated net income to surpass forecast by 8%. In 1H18, our pre-IFRS telecom EBITDA rose 6% YoY. This, coupled with capex decrease, increased our free cash flow by 7% .

Key Message

The $499 unlimited SIM-only offering led to a customer spending pattern change in 2Q. Enhancing distribution efficiency and continuous rationalization of customer retention & acquisition costs remain our areas of focus.

Our significant progress in cloud, AI and IoT businesses provides enterprise revenue growth potential. A faster customer migration to unlimited 4G data also paves the way for our future revenue expansion in OTT-related services. Making all-out efforts to generate steady streams of cash flows and stringent cost control against a lower ARPU are our main aims.

I. Revenue Analysis

Table 1. Key Operational Data

Residual Value (NT$bn)	2Q18	1Q18	2Q17	QoQ	YoY
Mobile Service Revenue	15.03	14.90	15.62	1%	-4%
Postpaid ARPU (NT$)	842	825	842	2%	0%
Blended ARPU (NT$)	697	691	707	1%	-1%
Telecom Service Revenue	16.04	15.94	16.71	1%	-4%

Reported Revenue (NT$bn)	2Q18	1Q18	2Q17	QoQ	YoY
Telecom	**17.23**	**18.47**	**18.46**	**-7%**	**-7%**
Service	14.01	13.81	14.43	1%	-3%
Device Sales	3.21	4.66	4.03	-31%	-20%
CATV	**1.59**	**1.60**	**1.60**	**-1%**	**-1%**
- Pay-TV Related	0.94	0.95	0.97	-2%	-4%
- Broadband	0.35	0.35	0.34	1%	4%
- Content & channel leasing	0.30	0.30	0.29	0%	5%
momo	**9.63**	**10.18**	**7.69**	**-5%**	**25%**
- Online Shopping	7.91	8.41	6.00	-6%	32%
- TV Shopping & Others	1.72	1.77	1.70	-3%	1%
Others[1]	**0.15**	**0.14**	**0.15**	**3%**	**0%**

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.

	2Q18	1Q18	2Q17	QoQ	YoY
Mobile Subscribers (K)	**7,229**	**7,168**	**7,340**	**1%**	**-2%**
- Postpaid	5,665	5,726	5,868	-1%	-3%
Monthly Churn	**2.9%**	**2.9%**	**3.2%**		
- Postpaid	1.8%	1.6%	1.7%		
MOU (bn)	**1.37**	**1.45**	**1.82**	**-5%**	**-25%**
Pay-TV Subs (K)	**574**	**579**	**583**	**-1%**	**-1%**
Cable Broadband Subs (K)	222	217	208	2%	6%
DTV Subs (K)	236	231	214	2%	11%

CATV ARPU (NT$)	2Q18	1Q18	2Q17	QoQ	YoY
Pay-TV	542	547	557	-1%	-3%
Broadband	529	536	539	-1%	-2%
Blended[1]	745	747	749	0%	-1%

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

Telecom

In 2Q18, telecom operating data was significantly affected by a flash sale of the SIM only NT$499 unlimited rate plan in May. Aided by higher penalty income from subscribers' switch to the NT$499 plan, TWM's mobile service revenue rose 1% QoQ and its YoY decline lessened to 3.8% while postpaid ARPU increased 2% QoQ.

Postpaid churn rate peaked in May driven by the flash sale then contracted to 1.3% in June. Separately, with more SIM only rate plans sold and a one-time reversal of handset sales arising from subscribers' early termination of their existing contracts, device sales decreased by 31% QoQ and 20% YoY.

Cable TV

In 2Q18, with effective pricing and bundling strategy, the DTV and broadband subscriber numbers levelled up by 11% and 6% YoY, respectively. By selling more bundled services to the same household, we were able to sustain a stable ARPU on both QoQ and YoY basis.

momo

momo's 2Q18 revenue was up by 25% YoY, driven by its strong growth in e-commerce and a stable TV revenue. In 2Q, e-commerce made up 82% of momo's total revenue, versus 78% a year ago.

Taiwan Mobile

II. EBITDA Analysis

Table 2. Reported EBITDA Breakdown

NT$bn	2Q18	1Q18	2Q17	QoQ	YoY
EBITDA	**8.34**	**8.17**	**8.30**	**2%**	**1%**
- Telecom	6.98	6.77	6.95	3%	0%
- CATV	0.80	0.81	0.83	-1%	-3%
- momo	0.41	0.46	0.39	-13%	3%
- others	0.10	0.09	0.10	13%	5%
Margin	**29.2%**	**27.0%**	**29.8%**	**2.3ppts**	**-0.6ppts**
- Telecom	40.5%	36.6%	37.7%	3.9ppts	2.9ppts
- CATV	50.4%	50.6%	51.8%	-0.2ppts	-1.4ppts
- momo	4.2%	4.6%	5.1%	-0.3ppts	-0.9ppts
- others	70.2%	63.8%	66.5%	6.4ppts	3.8ppts
D&A	**3.40**	**3.44**	**3.40**	**-1%**	**0%**
- Telecom	2.90	2.95	3.04	-2%	-5%
- CATV	0.32	0.32	0.24	1%	36%
- momo	0.08	0.07	0.03	9%	199%
- others	0.05	0.05	0.05	0%	0%
EBIT	**4.95**	**4.74**	**4.89**	**4%**	**1%**
- Telecom	4.08	3.82	3.91	7%	4%
- CATV	0.48	0.49	0.59	-3%	-19%
- momo	0.33	0.39	0.37	-17%	-11%
- others	0.05	0.04	0.04	31%	12%

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.

<u>EBITDA Analysis</u>

In 2Q18, telecom EBITDA improved on both QoQ and YoY basis, thanks to our cost rationalizations and the one-off penalty income related to the NT$499 plan. Should domestic roaming revenue be excluded, core telecom EBITDA grew by 15% YoY under the basis of pre-IFRS 15 numbers, showing a steady stream of operating cash flow.

CATV EBITDA edged down by 3% YoY, mainly due to lower pay-TV revenue and higher marketing costs. However, the magnitude of the decline was smaller compared to a quarter ago.

momo's milder EBITDA YoY growth this quarter can be attributed to: (1) product mix changes (2) more aggressive pricing to strive for market share, and (3) increased operating expenses that include the higher expenses from the new automated logistics center.

<u>D&A Analysis</u>

The roll-outs of the digital set-top-boxes in 2016-17 have led to an increase in CATV's D&A. In addition, momo's D&A hike resulted from its newly-built automated distribution center to cope with its expanding business. With 3G depreciation reductions offsetting D&A rises in momo and the CATV business, total consolidated D&A in 2Q18 stayed flat YoY.

Table 3. Non-operating Item

NT$bn	2Q18	1Q18	2Q17	QoQ	YoY
Non-Operating Income (Expenses)	**(0.12)**	**(0.17)**	**(0.08)**	**-33%**	**52%**
- Net Interest Expenses	(0.13)	(0.14)	(0.10)	-5%	24%
- Write-off Loss	(0.03)	(0.03)	(0.04)	15%	-21%
- Other Income (Expenses)	0.04	(0.01)	0.07	nm	-35%

<u>Non-Operating Item Analysis</u>

The YoY increase in non-operating expenses in 2Q18 was due partially to a lower interest income with a better use of cash.

III. Income Statement Analysis

Table 4. 2Q18 Consolidated Results vs. Forecast

NT$bn	2Q18	QoQ	YoY	% of 2Q18 Forecast
Revenues	**28.54**	**-6%**	**3%**	**96%**
Operating Costs	**(19.59)**	**-8%**	**4%**	**93%**
Operating Expenses	(4.00)	-4%	0%	93%
Operating Income	**4.95**	**4%**	**1%**	**110%**
Non-operating Income (Expenses)	(0.12)	-33%	52%	200%
Pre-tax Income	4.83	6%	0%	109%
Net Income	**3.80**	**9%**	**-1%**	**107%**
EPS (NT$)	1.39	9%	-1%	107%
EBITDA	**8.34**	**2%**	**1%**	**103%**
EBITDA margin	29.2%			

Table 5. 1H18 Consolidated Results vs. Forecast

NT$bn	1H18	YoY	% of Full Year Forecast
Revenue	**58.85**	**4%**	**48%**
Operating Cost	(40.97)	6%	47%
Operating Expense	(8.19)	1%	47%
Operating Income	**9.68**	**-3%**	**54%**
Non-op. Income (Expense)	(0.29)	18%	51%
Pre-tax Income	9.39	-3%	54%
Net Income	**7.28**	**-7%**	**54%**
EPS (NT$)	2.67	-7%	54%
EBITDA	**16.51**	**-1%**	**51%**
EBITDA margin	28.1%		

Income Statement Analysis

2Q18

In 2Q18, telecom revenues fell short of expectations mainly owing to weaker demand for high-end handset bundles, while momo's revenue continued exceeding expectations.

Our costs & expenses decrease and EBITDA increase reflected 1) one-time penalty income from customers who broke their contracts 2) big savings on handset subsidies from customers' demand shifting from handset bundles to SIM only plans, and 3) reduced reliance on third-party dealers.

As a result, our pre-tax income stayed consistently stable compared to a year ago, on the back of 1% YoY increase in EBITDA.

Of note, the hike in statutory corporate tax rate to 20% from 17% negatively impacted net income growth on a YoY basis.

1H18

Reported net income inclusive of handset bundle sales accounting treatments resulted in a 7% YoY decrease. This doesn't reflect year to date 6% YoY rise in pre-IFRS telecom EBITDA and 7% growth in free cash flow.

Year to June, our revenue came roughly in line with the Company's expectations. Our efforts in cost and expense rationalization have been paying off, allowing our accumulated operating income to achieve 111% of our guidance. Our accumulated net income also beat forecast by 8%.

Taiwan Mobile

IV. Cash Flow Analysis

Table 6. Cash Flow

NT$bn	2Q18	1Q18	2Q17
Operating	**7.51**	**7.96**	**7.87**
Pre-tax Income	4.83	4.56	4.82
Non-cash Add-backs	3.86	3.81	3.51
--Depreciation	2.49	2.53	2.59
--Amortization	0.91	0.90	0.81
--Others	0.47	0.37	0.10
Changes in Working Capital and Others	(1.18)	(0.41)	(0.46)
Investing	**(0.28)**	**(2.16)**	**(2.84)**
Capex[1]	(1.69)	(2.76)	(2.43)
Divestment (Acquisition)	0.01	0.04	(0.59)
4G License Fees	0.00	0.00	0.00
Other Financial Assets (Increase)	0.86	0.57	0.14
Refundable Deposits (Increase)	0.02	(0.03)	0.01
Others	0.54	0.02	0.03
Financing	**(7.28)**	**(4.76)**	**(6.78)**
Short-term Borrowings	(13.60)	(1.60)	(0.10)
Repayments of Bonds Payable	(2.90)	0.00	(2.90)
Proceeds from Issuance of Bonds	14.98	0.00	0.00
Long-term Bank Loan	(5.05)	(3.05)	(3.04)
Dividends Payments	(0.62)	0.00	(0.62)
Interest (Payment) & Others	(0.10)	(0.11)	(0.12)
Net Cash Position Chg.	**(0.04)**	**1.03**	**(1.75)**

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

Cash Flow Analysis

2Q18 operating cash inflow saw a YoY decline mainly because of a reduction in handset payable and a temporary payment related to pending future court rulings. That said, operating cash flow for 1H18 remained stable, compared to a year ago.

Investing cash outflow decreased YoY mainly due to: (1) a reduction in capex, (2) NT$934mn in cash freed up as we took back more guarantee deposits in the quarter, and (3) the proceeds from investment redemptions.

On April 20, we issued unsecured corporate straight bonds of NT$15bn, which allowed us to repay a total of NT$21.6bn for short-term & long-term debts in the quarter. As a result, our cash outflow from financing activities rose from a quarter ago.

In summary, our 2Q18 cash balance stayed resilient from a quarter ago.

Table 7. Capex & FCF

NT$bn	2Q18	1Q18	2Q17
Cash Capex[1]	**1.69**	**2.76**	**2.43**
- Mobile	1.03	1.60	1.28
- Fixed-line	0.30	0.42	0.24
- Cable	0.18	0.26	0.57
- momo & others	0.18	0.48	0.34
% of Revenue	**6%**	**9%**	**9%**
Free Cash Flow[1]	**5.82**	**5.20**	**5.43**

Note 1: Excluding 4G License Fees.

Capex and Free Cash Flow Analysis

In 2Q18, capex of telecom, cable TV and momo all trended down, leading to a 30% YoY decrease in total capex. FCF of NT$5.82bn for the quarter was up 7.2% YoY and translated into an annual FCF yield of 7.3%.

V. Balance Sheet Analysis

Table 8. Balance Sheet

NT$bn	2Q18	1Q18	2Q17
Total Assets	**151.41**	**155.27**	**146.58**
Current Assets	29.48	31.22	30.18
- Cash & Cash Equivalents	7.62	7.66	6.18
- Receivable & Contract Assets	14.89	15.51	15.72
- Inventories	3.58	3.98	3.08
- Short-term Investment	0.38	0.97	1.46
- Other Current Assets	3.00	3.09	3.74
Non-current Assets	121.93	124.05	116.39
- Long-term Investment	5.87	5.88	6.47
- Property and Equipment	43.12	43.42	45.37
- Concession	42.04	42.92	36.53
- Other Non-current & Contract Assets	30.90	31.82	28.01
Liabilities	**90.77**	**82.76**	**87.41**
Current Liabilities	48.18	52.14	48.50
- ST Borrowings	9.77	28.27	10.16
- Other Current Liabilities	38.42	23.88	38.34
Non-current Liabilities	42.59	30.62	38.91
- Long-term Borrowings	38.27	26.32	34.89
- Other Non-current Liabilities	4.31	4.30	4.02
Shareholders' Equity	**60.64**	**72.51**	**59.16**
-Paid-in Capital	34.21	34.21	34.21
-Capital Surplus	12.31	13.94	13.92
-Legal Reserve	27.56	26.14	26.14
-Treasury Shares	(29.72)	(29.72)	(29.72)
-Un-appropriated Earnings	0.03	0.63	0.63
-Non-controlling Interest	5.68	6.07	5.51
-Retained Earnings & Others[1]	10.57	21.25	8.48

Note 1: Including YTD profits and other equity items

<u>Assets</u>

As of the end of 2Q18, cash balance stood at a stable level, on the back of healthy free cash flow generation.

The YoY decrease in contract assets was attributable to lower/reversal of handset bundled sales following rising demand shifting to SIM-only plan in the quarter.

The YoY decline in short-term investments was due to the liquidation of investments & money market instruments.

Inventory rose YoY mainly due to momo's inventory increase arising from its expanding business scale.

The YoY increase in concession resulted from the NT$8.6bn addition of spectrum on the 2.1GHz frequency band in 4Q17.

<u>Liabilities & Shareholders' Equity</u>

Our gross debt balance decreased to NT$48.04bn from a quarter ago, primarily due to a reduction in short-term borrowings.

Shareholders' equity went down sequentially following AGM's approval of dividends, which became a payable item afterwards.

Table 9. Ratios

	2Q18	1Q18	2Q17
Current Ratio	61%	60%	62%
Interest Coverage (x)	34.4	30.3	34.0
Net Debt (Cash) to Equity	67%	65%	66%
Net Debt (Cash) to EBITDA (x)	1.23	1.44	1.18
ROE (annualized) [1]	22%	20%	24%
ROA (annualized) [2]	10%	9%	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

<u>Ratio Analysis</u>

With a lower short-term borrowing but a higher dividend payable, current ratio at the end of 2Q18 stayed stable at 61%.

Our net debt to EBITDA was 1.23x, an improvement from a quarter ago, after our gross debt level was reduced.

VI. Management Remarks

Key Message

The $499 unlimited SIM-only offering led to a customer spending pattern change in 2Q. Enhancing distribution efficiency and continuous rationalization of customer retention & acquisition costs remain our areas of focus.

Our significant progress in cloud, AI and IoT businesses provides enterprise revenue growth potential. A faster customer migration to unlimited 4G data also paves the way for our future revenue expansion in OTT-related services. Making all-out efforts to generate steady streams of cash flows and stringent cost control against a lower ARPU are our main aims.

Awards and Recognition

- Honored with the 2018 CSR Model Award in the “Annual CSR Survey – Service Section” from *Global Views Monthly*.
- Ranked among the top 5% of listed companies in the “Corporate Governance Evaluation” for the fourth year in a row by the Taiwan Stock Exchange and Taipei Exchange.
- Recognized as the “Asia's Best CFO (Investor Relations)” and “Best Investor Relations Company (Taiwan)” by Corporate Governance Asia magazine at the 2018 Asian Excellence Awards.