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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	<u>3Q19</u>	<u>YoY</u>	<u>1~3Q19</u>	<u>YoY</u>	<u>FY19</u> <u>Achievement</u> <u>Ratio</u>
Revenues	30.83	9%	90.31	4%	73%
Operating Income	4.28	2%	12.83	-8%	75%
Non-op. Income (Expenses)	(0.02)	-70%	(0.26)	-28%	37%
Pre-tax Income	4.25	3%	12.57	-7%	77%
(Income Tax)	(0.84)	23%	(2.47)	4%	76%
(Minority Interest)	(0.16)	-12%	(0.57)	-6%	78%
Net Income	3.25	-1%	9.53	-10%	77%
EPS (NT\$)	1.17	-3%	3.46	-11%	77%

Highlights of Operating Results
3Q19

Consolidated revenue increased by 9% YoY. In addition to the effects of the \$499-related high base tapering off, increasing e-commerce revenue, mobile handset and ICT sales more than offset the decline in mobile service and CATV revenue. The YoY decline in pre-IFRS 16 telecom EBITDA decelerated to 4% as we rolled off the tough base and had lower dealer commission, interconnecting costs and spectrum usage fees. Pre-IFRS 16 CATV EBITDA dipped by 5% YoY due to market competition but EBIT still grew by 13% as a result of falling depreciation of set-top boxes. As for momo, in addition to its robust revenue growth, pre-IFRS 16 EBITDA surged by 26% YoY. Operating income in 3Q19 was back on an upward trajectory, following YoY declines in the past four quarters.

1~3Q19

The cumulative consolidated revenue is in-line with company forecast. Overall, operating income for all major businesses was within management expectations and net income has already reached 77% of FY19 full-year guidance. The cumulative pre-IFRS 16 free cash flow remained flat YoY, after adjusting for the one-off payment delays. Net debt to pre-IFRS 16 EBITDA remained at a low level of 1.16x.

5G Spectrum Auction

5G spectrum auction is scheduled to begin on December 10th 2019 and conclude early January 2020. For the essential 3.5GHz frequency band, a total of 270MHz are available for auction with a total floor price of NT\$24.3bn. The roll-out requirement is 1000 base stations and 50% population coverage in 5 years.

Key Message

Margin disciplines have contributed to our operating income growth in third quarter 2019. Free cash flow stability provides good visibility to shareholder returns.

Looking ahead, efforts to extend our business value chains would be a long-term growth driver for Taiwan Mobile, besides satisfactory earnings growth contribution from e-commerce business.

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I. Revenue Analysis

Table 1. Key Operational Data

Residual Value (NT\$bn)	3Q19	2Q19	3Q18	QoQ	YoY
Mobile Service Revenue	12.75	12.92	13.83	-1%	-8%
Postpaid ARPU (NT\$)	718	731	780	-2%	-8%
Blended ARPU (NT\$)	586	592	640	-1%	-9%
Telecom Service Revenue	13.72	13.92	14.82	-1%	-7%

Revenue (NT\$bn)	3Q19	2Q19	3Q18	QoQ	YoY
Telecom	17.18	16.38	16.84	5%	2%
Service	12.05	12.20	12.89	-1%	-7%
Device Sales	5.13	4.17	3.94	23%	30%
CATV revenue	1.52	1.54	1.58	-1%	-4%
Pay-TV	0.88	0.89	0.93	-1%	-5%
Broadband	0.36	0.36	0.35	1%	3%
Content & channel leasing	0.29	0.29	0.31	-3%	-7%
momo	12.37	11.82	9.81	5%	26%
E-commerce	10.91	10.26	8.34	6%	31%
TV shopping & others	1.46	1.55	1.47	-6%	-1%
Others¹	0.15	0.15	0.14	1%	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.

	3Q19	2Q19	3Q18	QoQ	YoY
Mobile Subscribers (K)	7,256	7,254	7,194	0%	1%
- Postpaid	5,679	5,653	5,626	0%	1%
Monthly Churn	2.6%	2.7%	2.6%		
-Postpaid	1.2%	1.1%	1.3%		
MOU (bn)	1.06	1.10	1.30	-4%	-19%
Pay-TV Subs (K)	556	559	570	0%	-2%
Cable Broadband Subs (K)	237	234	225	1%	5%
DTV Subs (K)	255	250	240	2%	6%

CATV ARPU (NT\$)	3Q19	2Q19	3Q18	QoQ	YoY
Pay-TV	525	527	541	0%	-3%
Broadband	509	510	521	0%	-2%
Blended ¹	741	739	745	0%	-1%

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

Telecom

The YoY decline in telecom service revenue decelerated in 3Q19 as we rolled off the tough pre-\$499 base while the YoY growth in device sales was boosted by ICT-related equipment sales and increased handset sales.

Aided by the release of the new iPhone, fresh sign-ups for >\$999 bundle plans shot up by 4ppt YoY. This is in addition to our ongoing effort in growing the variety of our non-handset bundle plans where procurement via momo quickly rose to 75% in September from 27% a quarter ago.

With the stabilizing competitive environment, the YoY trend in post-paid subscribers turned positive on the back of low churn rate. Healthy demand for IoT connectivity also led to a 44% YoY surge in M2M (machine to machine) connections for the quarter.

The enterprise segment recorded healthy revenue momentum from ICT, IoT and cloud solutions, with a combined revenue growth of 146% during the quarter.

Cable TV

Benefitting from effective bundling of broadband services including triple-play plans that come with telecom services, we saw a decent increase in broadband & DTV subscribers, leading to a stable blended 3Q19 ARPU. The percentage of customers subscribed to broadband plans with speeds of 100Mbps and higher rose to 36% from 31.6% a year ago.

momo

Our strategic marketing campaigns along with rising contribution from 3C products underpinned the 31% YoY growth in e-commerce revenue in 3Q19. In particular, B2C average ticket size rose by 1.3% YoY and the number of transactions climbed by 29.3% YoY.

II. EBITDA Analysis

Table 2. EBITDA Breakdown

NT\$bn	3Q19	2Q19	3Q18	QoQ	YoY
Pre-IFRS 16 EBITDA	7.31	7.46	7.59	-2%	-4%
- Telecom	6.03	6.14	6.30	-2%	-4%
- CATV	0.76	0.78	0.80	-2%	-5%
- momo	0.42	0.44	0.33	-4%	26%
Reported EBITDA	8.30	8.43	7.59	-1%	9%

NT\$bn	3Q19	2Q19	3Q18	QoQ	YoY
Pre-IFRS 16 D&A	3.04	3.13	3.38	-3%	-10%
- Telecom	2.68	2.74	2.89	-2%	-7%
- CATV	0.21	0.25	0.31	-14%	-32%
- momo	0.09	0.09	0.08	4%	6%
Reported D&A	4.02	4.10	3.38	-2%	19%

NT\$bn	3Q19	2Q19	3Q18	QoQ	YoY
Reported EBIT	4.28	4.33	4.21	-1%	2%
- Telecom	3.34	3.40	3.42	-2%	-2%
- CATV	0.55	0.53	0.48	4%	13%
- momo	0.33	0.35	0.25	-6%	32%

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	3Q19	2Q19	3Q18	QoQ	YoY
Non-Operating Revenue (Expense)	(0.02)	(0.10)	(0.08)	-77%	-70%
- Net Interest Expense	(0.13)	(0.12)	(0.14)	5%	-11%
- Write-off Loss	(0.02)	(0.02)	(0.03)	-25%	-35%
- Other Revenue (Expense)	0.12	0.04	0.09	199%	33%

EBITDA Analysis

In 3Q19, the YoY decline in pre-IFRS 16 telecom EBITDA narrowed to 4%, the lowest since the \$499 frenzy, as the effects of the high base began to ease and the following measures were taken: 1) dealer commission reductions 2) lower interconnecting costs and spectrum usage fees mandated by NCC (National Communications Commission).

Weak basic TV revenue from market competition was the reason for a 5% YoY drop in pre-IFRS 16 CATV EBITDA in 3Q19. That said, with the falling depreciation of set-top boxes, CATV EBIT recorded a 13% YoY upturn in the quarter.

In addition to robust YoY growth in momo's revenue, its pre-IFRS 16 EBITDA surged by 26% YoY in 3Q19, thanks to the costs and expenses rationalization in TV shopping & catalogue divisions.

D&A Analysis

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

Non-Operating Item Analysis

Non-operating expenses plunged YoY this quarter, thriving on larger dividend income and smaller pre-IFRS 16 interest expenses.

III. Income Statement Analysis

Table 4. 3Q19 Consolidated Results vs. Forecast

NT\$bn	3Q19	YoY	% of 3Q19 Forecast
Revenue	30.83	9%	100%
Operating Cost	(22.69)	12%	102%
Operating Expense	(3.86)	-2%	93%
Operating Income	4.28	2%	99%
Non-op. (Expense)	(0.02)	-70%	18%
Pre-tax Income	4.25	3%	102%
Net Income	3.25	-1%	102%
EPS (NT\$)	1.17	-3%	101%
EBITDA	8.30	9%	99%
EBITDA (Pre-IFRS 16)	7.31	-4%	

Table 5. 1-3Q19 Consolidated Results vs. Forecast

NT\$bn	1-3Q19	YoY	% of Full Year Forecast
Revenue	90.31	4%	73%
Operating Cost	(65.86)	8%	73%
Operating Expense	(11.62)	-4%	69%
Operating Income	12.83	-8%	75%
Non-op. (Expense)	(0.26)	-28%	37%
Pre-tax Income	12.57	-7%	77%
Net Income	9.53	-10%	77%
EPS (NT\$)	3.46	-11%	77%
EBITDA	25.14	4%	75%
EBITDA (Pre-IFRS 16)	22.22	-8%	

Income Statement Analysis

3Q19

Weak mobile service and pay-TV revenue were more than offset by increasing e-commerce, mobile handset and ICT revenue in 3Q19. As a result, total consolidated revenue came in higher YoY.

Subsequently, costs related to the aforementioned growing businesses trended up YoY despite our continuous cuts in traffic costs and telecom D&A.

As for operating expenses, telecom SG&A fell 7% YoY as a result of mobile rate plan profit rationalization.

Operating income in the quarter was back on an upward trajectory, following YoY declines in the past four quarters.

Despite a healthy 3% YoY rise in pre-tax earnings, consolidated net income edged down by a mere 1% YoY in 3Q19, due to momo's tax credit of NT\$106mn in 3Q18.

1-3Q19

The cumulative consolidated revenue is in-line with company forecast and we expect a seasonally strong 4Q. With prudent cost controls and group synergies paying off, operating income for all major businesses was also within expectations.

Non-operating expenses reached 37% of our FY19 forecast due to lower-than-expected interest expenses and higher-than-expected dividend income from Taiwan High Speed Rail. Net income has already reached 77% of FY19 full-year guidance.

IV. Cash Flow Analysis

Table 6. Cash Flow

NT\$bn	1-3Q19	YoY	3Q19	2Q19	3Q18
Operating	27.34	22%	11.83	7.07	7.00
Pre-tax Income	12.57	-7%	4.25	4.22	4.13
Non-cash Add-backs	14.45	10%	4.69	4.83	4.30
--Depreciation ¹	6.80	-9%	2.18	2.27	2.46
--Amortization	2.58	-5%	0.86	0.86	0.92
--Others ¹	5.07	73%	1.65	1.70	0.93
Changes in Working Capital & Income Taxes	0.02	nm	2.85	(2.10)	(1.53)
Others	0.30	-29%	0.03	0.12	0.09
Investing	(5.49)	56%	(2.03)	(1.37)	(1.08)
Capex ²	(5.52)	-17%	(2.12)	(1.38)	(2.18)
Divestment (Acquisition)	0.01	-85%	0.00	0.01	0.03
Other Financial Assets (Increase)	(0.10)	nm	(0.07)	(0.02)	0.96
Refundable Deposits (Increase)	(0.00)	-81%	0.01	0.00	(0.00)
Others	0.12	-83%	0.15	0.02	0.11
Financing	(16.32)	-17%	(3.54)	(6.76)	(7.60)
Short-term Borrowings	5.10	nm	12.97	(4.90)	7.72
Long-term Bank Loan	(2.25)	-72%	(0.15)	(0.05)	(0.05)
Repayment of The Principal Portion of Lease Liabilities ³	(2.82)	nm	(0.97)	(0.92)	0.00
Dividends Payments	(16.06)	1%	(15.37)	(0.69)	(15.24)
Interest (Payment) & Others	(0.28)	21%	(0.03)	(0.19)	(0.02)
Net Cash Position Chg.	5.52	nm	6.25	(1.06)	(1.69)

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	1-3Q19	YoY	3Q19	2Q19	3Q18
Cash Capex¹	5.52	-17%	2.12	1.38	2.18
- Mobile	3.88	-10%	1.44	0.88	1.70
- Fixed-line	0.99	1%	0.39	0.34	0.25
- Cable	0.42	-30%	0.18	0.13	0.16
- momo & others	0.23	-69%	0.11	0.03	0.07
% of Revenue	6%		7%	5%	8%
Free Cash Flow¹	18.91	19%	8.72	4.73	4.82

1. Excluding 4G license fees and using pre-IFRS16 operating cash flow

Cash Flow Analysis

Starting from this year, IFRS 16 classifies rental expense payments as financing cash flow, as opposed to operating cash flow. For a like for like comparison, pre-IFRS 16 operating cash flow soared by 55% YoY in 3Q19, because of increases in iPhone 11 related sales and momo's payables. Adjusting for the results of payment delays from the typhoon, 3Q19 pre-IFRS 16 operating cash flow still came in higher than the level a year ago.

In 3Q19, investing cash flow decreased YoY as we had higher inflow from the guarantee deposits we took back during 3Q18.

Short-term borrowings increased in 3Q19 to fund the dividend payments.

Capex and Free Cash Flow Analysis

1-3Q19 mobile capex came off YoY, as 4G approached the tail-end of the investment cycle. In contrast to the high base of momo's capex for its mega automated warehouse a year ago, its accumulated cash capex also had a sharp YoY reduction in 1-3Q19.

Benefitting from lower capex and higher operating cash flow, 1-3Q19 FCF remained flat compared to the same period last year, after adjusting for the one-off payment delays mentioned above.

V. Balance Sheet Analysis

Table 8. Balance Sheet

NT\$bn	3Q19	2Q19	3Q18
Total Assets	158.83	153.60	147.45
Current Assets	34.23	27.10	26.97
- Cash & Cash Equivalents	13.02	6.77	5.94
- Receivable & Contract Assets	14.80	14.60	15.24
- Inventories	4.71	4.08	3.27
- Short-term Investment	0.25	0.34	0.34
- Other Current Assets	1.45	1.30	2.19
Non-current Assets	124.60	126.51	120.47
- Long-term Investment	6.43	7.36	6.22
- Property and Equipment	39.97	40.74	42.47
- Right-of-use Assets	9.93	9.67	0.00
- Concession	38.41	39.12	41.29
- Other Non-current & Contract Assets	29.86	29.63	30.50
Liabilities	89.43	89.18	82.97
Current Liabilities	52.66	49.76	40.48
- ST Borrowings	21.67	8.70	17.59
- Accounts & Notes Payable	12.08	7.14	6.76
- Current Lease Liabilities	3.53	3.42	0.00
- Other Current Liabilities	15.38	30.50	16.12
Non-current Liabilities	36.77	39.42	42.49
- Long-term Borrowings	25.85	28.73	38.14
- Non-current Lease Liabilities	6.37	6.19	0.00
- Other Non-current Liabilities	4.54	4.50	4.35
Shareholders' Equity	69.40	64.42	64.48
-Paid-in Capital	34.96	34.68	34.21
-Capital Surplus	19.11	16.65	12.30
-Legal Reserve	28.92	28.92	27.56
-Treasury Shares	(29.72)	(29.72)	(29.72)
-Un-appropriated Earnings	0.49	0.49	3.39
-Non-controlling Interest	6.01	5.86	5.87
-Retained Earnings & Others ¹	9.63	7.53	10.87

¹: Including YTD profits and other equity items

Table 9. Ratios

	3Q19	2Q19	3Q18
Current Ratio	65%	54%	67%
Interest Coverage (x)	37.2	37.9	28.1
Net Debt (Cash) to Equity	50%	48%	77%
Net Debt (Cash) to Pre-IFRS 16 EBITDA (x)	1.16	1.03	1.55
ROE (annualized)¹	19%	18%	22%
ROA (annualized)²	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, inventory soared by 44% YoY in 3Q19 as a result of momo's business expansion and the new iPhone launch. On the other hand, a bond fund redemption by momo shrank short-term investment by 27% while the reversal of interim payments accrued a year ago wore down other current assets.

The sequential decline in long-term investment was attributable to the share price pullback of Taiwan High Speed Rail.

Liabilities & Shareholders' Equity

Among current liabilities, the YoY surge in accounts & notes payable in 3Q19 was driven mainly by momo's payments that were delayed by the typhoon holiday on Sep 30, followed by momo's continuous growth and a more optimistic iPhone launch.

The QoQ fluctuations in ST borrowing and other current liabilities stemmed from our dividend payment in 3Q.

Gross debt declined by 15% YoY, following CB holders' conversions.

As for shareholders' equity, the increase in paid-in capital and capital surplus reflect the conversion of our convertible bond, which had an outstanding balance of NT\$2.27bn at the end of 3Q19.

Ratio Analysis

The sequential increase in current ratio was within the seasonal pattern as we paid accrued dividends payable in 3Q.

Benefiting from lower debt, our net debt to pre-IFRS 16 EBITDA remained at a low level of 1.16x.


VI. Management Remarks

Key Message

Margin disciplines have contributed to our operating income growth in third quarter 2019. Free cash flow stability provides good visibility to shareholder returns.

Looking ahead, efforts to extend our business value chains would be a long-term growth driver for Taiwan Mobile, besides satisfactory earnings growth contribution from e-commerce business.

Event Updates

-  momo's BOD approved an additional capex of NT\$0.63bn to purchase a parcel of land for its South Distribution Center. TWM's FY19 consolidated capex guidance has been increased to NT\$7.1bn accordingly.

Awards and Recognition

-  Selected for the 2019 "Dow Jones Sustainability World Indices" (DJSI World) for the third year in a row and ranked second in the global telecommunications industry.
-  Twelve-time winner of Commonwealth Magazine's "Excellence in Corporate Social Responsibility Award".
-  The only telecommunications company in Taiwan that was honored with an "SGS Information Security Management Excellence Award".