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TWM Consolidated

NT\$bn	<u>1Q21</u>	<u>1Q20</u>	<u>YoY</u>
Revenues	35.31	31.85	11%
Operating Income	3.64	4.48	-19%
Non-op. Income (Expenses)	0.01	(0.15)	nm
Pre-tax Income	3.65	4.33	-16%
(Income Tax)	(0.38)	(0.77)	-50%
(Minority Interest)	(0.43)	(0.25)	74%
Net Income	2.83	3.31	-15%
EPS (NT\$)	1.01	1.18	-14%

1Q21 Highlights of Operating Results

Underpinned by our robust e-commerce business and stabilizing telecom business, consolidated revenue grew by 11% YoY in 1Q21. 5G D&A and higher marketing costs weighed on the YoY performance of consolidated operating income, while combined operating income of CATV and momo increased by 25% YoY in 1Q21. That said, consolidated EBITDA already turned YoY positive in March. While capex has risen YoY in 1Q21 following our 5G network roll-out since 2H20, free cash flow improved QoQ as 5G capex had peaked. By the same token, net debt to EBITDA improved sequentially as well.

2020 Earnings Distribution

On May 4th, 2021, TWM's Board approved the proposal to distribute NT\$12.1bn in cash dividends, translating to a 4.3% yield to shareholders. Dividend per share is NT\$4.30 on 2.81bn shares, excluding treasury shares held by 100%-owned subsidiaries. Post earnings distribution, there will be NT\$38.5bn of excess reserves remaining.

Key Message

TWM is currently growing at full speed and expects to further accelerate as our 3 main growth engines, 5G, momo and broadband, continue to gain traction. As a result, we are on track to reach our 2021 guidance for consolidated EBITDA. Given that 5G capex has peaked, our free cash flow should also improve over time.

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I. Revenue Analysis

Table 1. Key Operational Data

Residual Value (NT\$bn)	1Q21	4Q20	1Q20	QoQ	YoY
Mobile Service Revenue	11.76	11.85	11.98	-1%	-2%
Postpaid ARPU (NT\$)	649	653	670	-1%	-3%
Blended ARPU (NT\$)	541	545	558	-1%	-3%

Revenue (NT\$bn)	1Q21	4Q20	1Q20	QoQ	YoY
Telecom	15.90	17.12	15.62	-7%	2%
Service	11.16	11.30	11.37	-1%	-2%
Device Sales	4.75	5.82	4.25	-19%	12%
CATV revenue	1.55	1.55	1.54	0%	1%
Pay-TV	0.83	0.84	0.86	-1%	-4%
Broadband ¹	0.42	0.41	0.37	3%	12%
Content & channel leasing	0.30	0.30	0.30	1%	0%
momo	18.36	20.68	15.11	-11%	22%
E-commerce	16.96	19.21	13.62	-12%	25%
Others²	0.14	0.13	0.14	6%	2%

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.

	1Q21	4Q20	1Q20	QoQ	YoY
Mobile Subscribers (K)	7,239	7,264	7,159	0%	1%
- Postpaid	5,797	5,801	5,718	0%	1%
Monthly Churn	1.2%	1.1%	2.2%		
-Postpaid	0.9%	1.0%	1.0%		
MOU (bn)	0.87	0.92	0.95	-5%	-8%
Pay-TV Subs (K)	545	548	553	0%	-1%
Cable Broadband Subs (K) ¹	269	266	256	1%	5%
DTV Subs (K)	286	281	264	2%	8%

CATV ARPU (NT\$)	1Q21	4Q20	1Q20	QoQ	YoY
Pay-TV	506	510	521	-1%	-3%
Broadband	522	511	490	2%	7%
Blended ²	762	757	747	1%	2%

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

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

Telecom

Underpinned by our industry-leading 3.5GHz 5G infrastructure roll-out, by end of 1Q21, we achieved ~70% mobile traffic coverage in Taiwan and accumulated over 600k 5G users, translating to 11% postpaid subscriber base penetration.

Differentiated product offering remained front and center in our 5G strategy. TWM was the first to offer 48-month contracts for premium handset bundles while our Double Play and momobile bundles leveraged group resources.

As a result, the monthly fee uplift in users upgrading to 5G reached 26% in 1Q21, while the YoY declines in postpaid smartphone user monthly fee/APRU steadily narrowed. In March, the YoY trend in mobile service revenue turned positive, partially due to last year's low roaming revenue base amid the pandemic.

As for device sales, the YoY rise was due to a meaningfully higher proportion of high-end devices following our upselling strategy.

Cable TV

Demand for faster home broadband access including our Double Play packages continued to swell, lifting cable broadband-related revenue by 12% YoY, and offsetting the decline in basic TV revenue.

momo

Despite a high base in online shopping demand spurred by the COVID-19 outbreak a year ago, e-commerce revenue still grew by 25% YoY in 1Q21, with the total number of transactions increasing by 21% YoY.

II. EBITDA Analysis

Table 2. EBITDA Breakdown

NT\$bn	1Q21	4Q20	1Q20	QoQ	YoY
EBITDA	7.85	7.72	8.10	2%	-3%
- Telecom	5.91	5.93	6.49	0%	-9%
- CATV	0.74	0.72	0.74	3%	0%
- momo	1.07	0.96	0.75	11%	43%

NT\$bn	1Q21	4Q20	1Q20	QoQ	YoY
D&A	4.21	4.12	3.62	2%	16%
- Telecom	3.74	3.66	3.20	2%	17%
- CATV	0.19	0.18	0.18	2%	3%
- momo	0.23	0.22	0.19	1%	19%

NT\$bn	1Q21	4Q20	1Q20	QoQ	YoY
EBIT	3.64	3.60	4.48	1%	-19%
- Telecom	2.17	2.27	3.29	-5%	-34%
- CATV	0.55	0.53	0.56	3%	-2%
- momo	0.85	0.74	0.56	15%	51%

EBITDA Analysis

1Q21 telecom EBITDA fell YoY due to higher subsidies from our upselling strategies and longer handset bundle contracts. However, the YoY drop narrowed sequentially, partially helped by the low roaming business base from March onwards. As we continued to roll out 5G infrastructure, the YoY hike in telecom D&A rose in the quarter, resulting in a steeper decline at the EBIT level.

With ongoing investment in broadband and new set-top-boxes, CATV EBIT turned to YoY decrease as D&A turned to YoY increase in 1Q21.

Thanks to scale economies and operating leverage, momo's e-commerce EBITDA soared by 58% YoY in 1Q21. Payment processing fee as a percentage of revenue decreased, as its private label credit card accounted for 23% of B2C sales in 1Q21.

D&A Analysis

Overall D&A's YoY rise swelled in 1Q21 as a result of 5G infrastructure roll-out, followed by investments in broadband and logistics for CATV and momo respectively.

Table 3. Non-operating Item

NT\$bn	1Q21	4Q20	1Q20	QoQ	YoY
Non-Operating Revenue (Expense)	0.01	(0.41)	(0.15)	nm	nm
- Net Interest Expense	(0.14)	(0.14)	(0.13)	0%	13%
- Write-off Loss	(0.03)	(0.26)	(0.02)	-86%	120%
- Other Revenue (Expense)	0.19	(0.01)	(0.01)	nm	nm

Non-Operating Item Analysis

The YoY change in 1Q21 non-operating income was attributable to disposal gains from our asset sale and momo's full divestment of Taiwan Pelican Express shares (no longer an equity investment).

III. Income Statement Analysis

Table 4. 1Q21 Consolidated Results

NT\$bn	1Q21	QoQ	YoY
Revenue	35.31	-8%	11%
Cash Cost & Expense	(27.46)	-11%	16%
Operating Income	3.64	1%	-19%
Non-op. Income (Expense)	0.01	nm	nm
Pre-tax Income	3.65	14%	-16%
Net Income	2.83	35%	-15%
EPS (NT\$)	1.01	36%	-14%
EBITDA	7.85	2%	-3%

Income Statement Analysis

1Q21

Bolstered by our robust e-commerce business and stabilizing telecom business, consolidated revenue grew by 11% YoY in 1Q21.

Similar to the previous quarter, 5G D&A and higher marketing costs weighed on the YoY performance of consolidated operating income, while combined operating income of CATV and momo increased by 25% YoY in 1Q21. That said, consolidated EBITDA already turned YoY positive in March.

IV. Cash Flow Analysis

Table 5. Cash Flow

NT\$bn	1Q21	4Q20	1Q20
Operating	6.00	8.73	9.24
Pre-tax Income	3.65	3.19	4.33
Non-cash Add-backs	4.64	4.56	4.14
--Depreciation ¹	2.02	1.90	1.78
--Amortization	1.19	1.22	0.85
--Others ¹	1.44	1.44	1.50
Changes in Working Capital & Income Taxes	(2.28)	0.55	0.60
Others	(0.01)	0.42	0.16
Investing	(2.33)	(5.40)	(31.79)
Capex ²	(2.93)	(6.35)	(1.65)
Divestment (Acquisition)	0.59	1.00	(0.37)
5G License Fees	0.00	0.00	(29.66)
Other Financial Assets (Increase)	0.01	(0.03)	(0.10)
Refundable Deposits (Increase)	(0.01)	(0.02)	(0.03)
Others	0.01	0.01	0.00
Financing	(3.08)	(3.01)	22.99
Short-term Borrowings	(1.80)	(8.40)	8.16
Proceeds from Issuance of Bonds	0.00	0.00	19.98
Long-term Bank Loan	(0.06)	6.40	(4.05)
Repayment of The Principal Portion of Lease Liabilities ³	(1.02)	(0.94)	(1.00)
Dividends Payments	0.00	0.00	0.00
Repayments of Bonds Payable	0.00	0.00	0.00
Interest (Payment) & Others	(0.21)	(0.07)	(0.09)
Net Cash Position Chg.	0.58	0.32	0.44

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 6. Capex & FCF

NT\$bn	1Q21	4Q20	1Q20
Cash Capex¹	2.93	6.35	1.65
- Mobile	2.08	5.51	1.03
- Fixed-line	0.56	0.55	0.22
- Cable	0.15	0.17	0.15
- momo & others	0.14	0.12	0.25
% of Revenue	8%	17%	5%
Free Cash Flow¹	2.01	1.41	6.56

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

Cash Flow Analysis

In 1Q21, the YoY decrease in operating cash inflow was due mainly to 1) higher handset subsidies as we introduced 48-month handset bundle plans, 2) larger payment made in 1Q21 due to the late release of iPhone 12 in 4Q20, and 3) lower iPhone availability amid COVID-19 related supply shortage a year ago.

As for investing cash outflow, the YoY hike in capex was attributable to our proactive 5G network deployment since 2H20. We are the first to obtain NCC's 50% 5G population coverage accreditation. However, FY21 5G mobile roll-out scale is expected to halve YoY and 1Q21 capex already posted a QoQ drop. Another major investing activity in the quarter was momo's divestment of Taiwan Pelican Express shares.

On the financing front, cash flow generated in the quarter allowed us to repay our bank borrowings.

Capex and Free Cash Flow Analysis

The YoY changes in cash capex and free cash flow were driven by 5G-related expenditure, while free cash flow saw a QoQ improvement as 5G capex had peaked. We also expect to receive the government's 5G subsidies before year-end 2021.

V. Balance Sheet Analysis

Table 7. Balance Sheet

NT\$bn	1Q21	4Q20	1Q20
Total Assets	185.00	184.58	178.73
Current Assets	31.69	32.09	30.69
- Cash & Cash Equivalents	11.36	10.78	9.10
- Receivable & Contract Assets	13.97	13.79	13.49
- Inventories	4.66	5.77	3.77
- Short-term Investment	0.26	0.25	2.83
- Other Current Assets	1.44	1.51	1.49
Non-current Assets	153.31	152.49	148.05
- Long-term Investment	4.05	4.26	3.00
- Property and Equipment	46.32	45.11	38.35
- Right-of-use Assets	9.42	9.01	9.54
- Concession	63.73	64.80	67.66
- Other Non-current & Contract Assets	29.80	29.31	29.50
Liabilities	109.61	112.59	102.56
Current Liabilities	55.35	58.53	51.60
- ST Borrowings	25.13	26.93	26.63
- Accounts & Notes Payable	8.48	9.79	7.70
- Current Lease Liabilities	3.64	3.51	3.58
- Other Current Liabilities	18.10	18.31	13.69
Non-current Liabilities	54.26	54.06	50.96
- Long-term Borrowings	43.70	43.75	40.42
- Non-current Lease Liabilities	5.79	5.53	5.93
- Other Non-current Liabilities	4.77	4.78	4.61
Shareholders' Equity	75.39	71.99	76.18
-Paid-in Capital	35.12	35.12	35.09
-Capital Surplus	18.91	18.94	20.28
-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	7.04	6.63	6.40
-Retained Earnings & Others ¹	13.85	10.85	14.71

1: Including YTD profits and other equity items

Table 8. Ratios

	1Q21	4Q20	1Q20
Current Ratio	57%	55%	59%
Interest Coverage (x)	27.9	24.0	36.6
Net Debt (Cash) to Equity	76%	83%	76%
Net Debt (Cash) to EBITDA (x)	1.83	1.91	1.81
ROE (annualized)¹	15%	15%	18%
ROA (annualized)²	6%	7%	8%

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

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

Assets

Inventories rose YoY owing to momo's business expansion and a low base in 1Q20 as the supply of iPhone 11 was impacted by the COVID-19 pandemic.

The YoY decline in short-term investment was attributable to the divestment of Taiwan High Speed Rail shares in 2020.

For non-current assets, the YoY growth in PP&E was driven by 5G network rollout and land purchase for momo's new distribution center in southern Taiwan.

Liabilities & Shareholders' Equity

As for liabilities, accounts & notes payable increased YoY following the continuous growth in momo's e-commerce business, but was partially offset by the undersupply of iPhone 12 Pro in 1Q21.

The YoY climb in other current liabilities reflects higher 5G equipment payable to Nokia and growing mobile users' on-line purchase payable to merchants.

In terms of shareholder's equity, the minor YoY change in paid-in capital was from the conversion of our convertible bond, with an outstanding balance of NT\$0.64bn.

Ratio Analysis

Net debt to equity/EBITDA improved QoQ due to the decline in our net debt, caused mainly by the decrease in cash capex.

VI. Management Remarks

Key Message

TWM is currently growing at full speed and expects to further accelerate as our 3 main growth engines, 5G, momo and broadband, continue to gain traction. As a result, we are on track to reach our 2021 guidance for consolidated EBITDA. Given that 5G capex has peaked, our free cash flow should also improve over time.

2020 Earnings Distribution

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Awards and Recognition

- Received the world-renowned SGS “QualiCert Service Quality Certification” for 9 consecutive years.
- Honored with a “Gold Award” in S&P Global’s “The Sustainability Yearbook 2021”, ranking first in the global telecommunications industry.