

November 1, 2018	<u>TWM Consolidated</u>					
	NT\$bn	<u>3Q18</u>	<u>2Q18</u>	<u>3Q17</u>	<u>QoQ</u>	<u>YoY</u>
	Revenues	28.32	28.54	28.76	-1%	-2%
	EBITDA	7.59	8.34	8.26	-9%	-8%
	Operating Income	4.21	4.95	4.82	-15%	-13%
	Non-op. Income (Expenses)	(0.08)	(0.12)	(0.09)	-33%	-16%
	Pre-tax Income	4.13	4.83	4.73	-14%	-13%
	(Income Tax)	(0.68)	(0.79)	(0.62)	-13%	11%
	(Minority Interest)	(0.18)	(0.24)	(0.15)	-27%	19%
	Net Income	3.27	3.80	3.96	-14%	-17%
	EPS (NT\$)	1.21	1.39	1.46	-13%	-17%
<b>Topics in This Report</b>	<b><u>Operating Results Highlights</u></b>					
<ul style="list-style-type: none"> <li>• Revenue Analysis</li> <li>• EBITDA Analysis</li> <li>• Income Statement Analysis</li> <li>• Cash Flow Analysis</li> <li>• Balance Sheet Analysis</li> <li>• Management Remarks</li> </ul>	<p><b>3Q18</b>            In 3Q, core telecom EBITDA (domestic roaming revenue excluded) under the basis of pre-IFRS numbers declined by a mere 1% YoY due to savings in both handset subsidies and channel commission. However, negative impacts on reported EBITDA under IFRS, which had no cash flow effects, increased by NT\$415M YoY in the quarter. This precipitated the reported EBITDA YoY decline in the quarter. Separately, the hike in statutory corporate tax rate to 20% from 17% negatively impacted net income growth this year.</p>					
<p><u>IR contact:</u></p> <p>Pearl Lin            Deputy Director            Investor Relations            Pearl1Lin@taiwanmobile.com</p> <p>Shirley Chu            Senior Director            Investor Relations            shirleychu@taiwanmobile.com</p> <p>Rosie Yu            CFO            rosieyu@taiwanmobile.com</p> <p>13F, No. 88, Yan Chang Rd.,            Taipei City 110, Taiwan, ROC            Tel: 8862 6636 3159</p> <p>ir@taiwanmobile.com  <a href="http://www.taiwanmobile.com">http://www.taiwanmobile.com</a></p>	<p><b>1-3Q18</b>            Year to September, our revenue was 4% lower than the Company's expectations, owing to the \$499 unlimited offers in the market. That said, through relentless efforts in cost and expense rationalization, both our operating and net incomes are on track to meet company guidance.</p>					
	<b><u>Key Message</u></b>					
	<p>Growing e-commerce business as well as cross-selling among telecom, content, and internet services to stimulate higher spending per customer is our focus.</p> <p>The fast growing momentum of the enterprise segment, including the IoT, cloud, and ICT businesses, bring additional promise for future telecom revenues.</p> <p>Rationalizing costs and optimizing efficiency to ensure steady streams of cash flows remain our commitment.</p>					
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## I. Revenue Analysis

**Table 1. Key Operational Data**

Residual Value (NT\$bn)	3Q18	2Q18	3Q17	QoQ	YoY
Mobile Service Revenue	13.83	15.03	15.57	-8%	-11%
Postpaid ARPU (NT\$)	780	842	847	-7%	-8%
Blended ARPU (NT\$)	640	697	707	-8%	-9%
Telecom Service Revenue	14.83	16.04	16.69	-8%	-11%

Reported Revenue (NT\$bn)	3Q18	2Q18	3Q17	QoQ	YoY
<b>Telecom</b>	<b>16.84</b>	<b>17.23</b>	<b>19.07</b>	<b>-2%</b>	<b>-12%</b>
Service	12.91	14.01	14.47	-8%	-11%
Device Sales	3.93	3.21	4.60	22%	-15%
<b>CATV</b>	<b>1.58</b>	<b>1.59</b>	<b>1.63</b>	<b>0%</b>	<b>-3%</b>
- Pay-TV Related	0.93	0.94	0.98	-1%	-5%
- Broadband	0.35	0.35	0.34	0%	3%
- Content & channel leasing	0.31	0.30	0.31	2%	-1%
<b>momo</b>	<b>9.81</b>	<b>9.63</b>	<b>8.02</b>	<b>2%</b>	<b>22%</b>
- Online Shopping	8.34	7.91	6.47	5%	29%
- TV Shopping & Others	1.47	1.72	1.55	-14%	-5%
<b>Others<sup>1</sup></b>	<b>0.14</b>	<b>0.15</b>	<b>0.15</b>	<b>-1%</b>	<b>-1%</b>

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.

	3Q18	2Q18	3Q17	QoQ	YoY
<b>Mobile Subscribers (K)</b>	<b>7,194</b>	<b>7,229</b>	<b>7,324</b>	<b>0%</b>	<b>-2%</b>
- Postpaid	5,626	5,665	5,832	-1%	-4%
<b>Monthly Churn</b>	<b>2.6%</b>	<b>2.9%</b>	<b>3.0%</b>		
- Postpaid	1.3%	1.8%	1.7%		
<b>MOU (bn)</b>	<b>1.30</b>	<b>1.37</b>	<b>1.73</b>	<b>-5%</b>	<b>-25%</b>
<b>Pay-TV Subs (K)</b>	<b>570</b>	<b>574</b>	<b>584</b>	<b>-1%</b>	<b>-2%</b>
Cable Broadband Subs (K)	225	222	212	2%	6%
DTV Subs (K)	240	236	220	2%	9%

CATV ARPU (NT\$)	3Q18	2Q18	3Q17	QoQ	YoY
Pay-TV	541	542	558	0%	-3%
Broadband	521	529	539	-1%	-3%
Blended <sup>1</sup>	745	745	752	0%	-1%

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

### Telecom

In 3Q18, TWM's mobile service revenue and ARPU declined YoY, primarily due to the increased take-up of the \$499 SIM-only plan in May as well as the continuous drop in both domestic roaming and mobile MOUs. Separately, device sales decreased on a YoY basis as a result of lower adoptions of handset bundle plans.

In spite of ARPU pressure, postpaid monthly churn rate fell to 1.3% in 3Q18, the lowest level since 3Q13. This led to savings in handset subsidies and deal commissions for the quarter. Compared to our peers, we had lesser mobile service revenue YoY declines, attributable to our strategy of maintaining a better customer portfolio with a contained churn rate.

We have been seeing a higher proportion of customers subscribing to high-tariff plans after the iPhone XS launch in September. This paves the way for future ARPU uplift.

### Cable TV

In 3Q18, TWM grew its DTV and broadband subscriber base by 9% and 6% YoY, respectively. We managed to deliver a stable blended ARPU by selling more services to the same household. Through up-selling, cable broadband download speed of 20Mbps below came down to 25% in the quarter.

### momo

In 3Q18, e-commerce remained the bright spot for momo with a 29% YoY growth, surpassing its closest domestic peer, and made up 85% of momo's total revenue, versus 81% a year ago. In particular, momo's revenue transacted through the mobile devices for the quarter rose 49% YoY and accounted for 60.4% of e-commerce sales.

## II. EBITDA Analysis

**Table 2. Reported EBITDA Breakdown**

NT\$bn	3Q18	2Q18	3Q17	QoQ	YoY
<b>EBITDA</b>	<b>7.59</b>	<b>8.34</b>	<b>8.26</b>	<b>-9%</b>	<b>-8%</b>
- Telecom	6.30	6.98	6.98	-10%	-10%
- CATV	0.80	0.80	0.84	0%	-5%
- momo	0.33	0.41	0.31	-17%	7%
- others	0.10	0.10	0.10	-6%	-6%
<b>Margin</b>	<b>26.8%</b>	<b>29.2%</b>	<b>28.7%</b>	<b>-2.4ppts</b>	<b>-1.9ppts</b>
- Telecom	37.4%	40.5%	36.6%	-3.1ppts	0.9ppts
- CATV	50.4%	50.4%	51.8%	0ppts	-1.4ppts
- momo	3.4%	4.2%	3.9%	-0.8ppts	-0.5ppts
- others	66.6%	70.2%	70.3%	-3.6ppts	-3.7ppts

<b>D&amp;A</b>	<b>3.38</b>	<b>3.40</b>	<b>3.44</b>	<b>-1%</b>	<b>-2%</b>
- Telecom	2.89	2.90	3.04	0%	-5%
- CATV	0.31	0.32	0.27	-3%	16%
- momo	0.08	0.08	0.03	9%	182%
- others	0.05	0.05	0.05	0%	0%
<b>EBIT</b>	<b>4.21</b>	<b>4.95</b>	<b>4.82</b>	<b>-15%</b>	<b>-13%</b>
- Telecom	3.42	4.08	3.93	-16%	-13%
- CATV	0.48	0.48	0.57	2%	-15%
- momo	0.25	0.33	0.28	-24%	-12%
- others	0.04	0.05	0.05	-12%	-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	3Q18	2Q18	3Q17	QoQ	YoY
<b>Non-Operating Income (Expenses)</b>	<b>(0.08)</b>	<b>(0.12)</b>	<b>(0.09)</b>	<b>-33%</b>	<b>-16%</b>
- Net Interest Expenses	(0.14)	(0.13)	(0.11)	8%	24%
- Write-off Loss	(0.03)	(0.03)	(0.07)	-8%	-62%
- Other Income (Expenses)	0.09	0.04	0.09	108%	-4%

### EBITDA Analysis

In 3Q18, core telecom EBITDA (domestic roaming revenue excluded) under the basis of pre-IFRS declined by a mere 1% YoY due to savings in both handset subsidies and channel commission. However, negative impacts on reported EBITDA under IFRS, which had no cash flow effects, increased by NT\$415M YoY in the quarter.

CATV EBITDA edged down by 5% YoY, mainly caused by lower pay-TV and channel leasing revenues compared to a year ago. However, its EBITDA stayed resilient compared to a quarter ago.

momo's EBITDA rose 7% YoY on the back of the strong e-commerce revenue growth. The QoQ decrease in its EBITDA mainly resulted from TV home shopping revenue slump on weaker jewelry sales.

### D&A Analysis

While the roll-out of digital set-top-box during 2016-17 and momo's adding the new automated distribution center in 4Q17 increased depreciation expenses, 3G equipment depreciation reductions more than offset the aforementioned D&A rises in momo and CATV in 3Q18.

### Non-Operating Item Analysis

Despite lower interest income, non-operating expenses in 3Q18 decreased YoY because of the higher write-off loss a year ago which was incurred from the write off of 2G equipment after the termination of 2G service in 2Q17.

### III. Income Statement Analysis

**Table 4. 3Q18 Consolidated Results vs. Forecast**

NT\$bn	3Q18	QoQ	YoY	% of 3Q18 Forecast
<b>Revenues</b>	<b>28.32</b>	<b>-1%</b>	<b>-2%</b>	<b>91%</b>
<b>Operating Costs</b>	<b>(20.18)</b>	<b>3%</b>	<b>2%</b>	<b>91%</b>
Operating Expenses	(3.93)	-2%	-5%	90%
<b>Operating Income</b>	<b>4.21</b>	<b>-15%</b>	<b>-13%</b>	<b>90%</b>
Non-operating Income (Expenses)	(0.08)	-33%	-16%	54%
Pre-tax Income	4.13	-14%	-13%	91%
<b>Net Income</b>	<b>3.27</b>	<b>-14%</b>	<b>-17%</b>	<b>93%</b>
EPS (NT\$)	1.21	-13%	-17%	93%
<b>EBITDA</b>	<b>7.59</b>	<b>-9%</b>	<b>-8%</b>	<b>93%</b>
EBITDA margin	26.8%			

**Table 5. 1-3Q18 Consolidated Results vs. Forecast**

NT\$bn	1-3Q18	YoY	% of Full Year Forecast
<b>Revenue</b>	<b>87.17</b>	<b>2%</b>	<b>71%</b>
Operating Cost	(61.15)	5%	70%
Operating Expense	(12.12)	-1%	69%
<b>Operating Income</b>	<b>13.90</b>	<b>-6%</b>	<b>77%</b>
Non-op. Income (Expense)	(0.37)	9%	64%
Pre-tax Income	13.53	-6%	78%
<b>Net Income</b>	<b>10.55</b>	<b>-10%</b>	<b>78%</b>
EPS (NT\$)	3.88	-10%	78%
<b>EBITDA</b>	<b>24.10</b>	<b>-4%</b>	<b>75%</b>
EBITDA margin	27.7%		

#### Income Statement Analysis

##### *3Q18*

In 3Q, consolidated revenue, benefiting from our diversification, decreased by 2% YoY, with momo's revenue growth largely offsetting the declines in other businesses.

While momo's operating costs rose in tandem with its revenue growth, mobile commission rationalizations and savings in handset subsidies after customers' shifting from handset bundles to SIM only plans kept our consolidated costs & expenses stable from a year ago.

Downward adjustments to 3Q18 EBITDA under IFRS were enlarged by NT\$415M from a year ago. This precipitated the reported EBITDA YoY decline.

The hike in statutory corporate tax rate to 20% from 17% negatively impacted net income growth this year.

##### *1-3Q18*

Reported net income inclusive of handset bundle sales and the capitalization of commission accounting treatments showed a 10% YoY decrease. This doesn't reflect the year-to-date 3% YoY rise in pre-IFRS telecom EBITDA and the 7% growth in free cash flow.

Year to September, our revenue was 4% lower than the Company's expectations, owing to \$499 unlimited offers in the market. That said, through relentless efforts in cost and expense rationalization, both our operating and net incomes are on track to meet company guidance. Our accumulated net income also beat forecast by 3%.

## IV. Cash Flow Analysis

**Table 6. Cash Flow**

NT\$bn	3Q18	2Q18	3Q17
<b>Operating</b>	<b>7.00</b>	<b>7.51</b>	<b>6.98</b>
Pre-tax Income	4.13	4.83	4.73
Non-cash Add-backs	4.30	4.40	3.53
--Depreciation	2.46	2.49	2.57
--Amortization	0.92	0.91	0.86
--Others	0.93	1.01	0.09
Changes in Working Capital & Income Taxes	(1.53)	(1.87)	(1.44)
Others	0.09	0.15	0.16
<b>Investing</b>	<b>(1.08)</b>	<b>(0.28)</b>	<b>(3.43)</b>
Capex <sup>1</sup>	(2.18)	(1.69)	(2.46)
Divestment (Acquisition)	0.03	0.01	(0.08)
4G License Fees	0.00	0.00	0.00
Other Financial Assets (Increase)	0.96	0.86	(0.00)
Refundable Deposits (Increase)	(0.00)	0.02	(0.99)
Others	0.11	0.54	0.11
<b>Financing</b>	<b>(7.60)</b>	<b>(7.28)</b>	<b>(3.75)</b>
Short-term Borrowings	7.72	(13.60)	11.70
Repayments of Bonds Payable	0.00	(2.90)	0.00
Proceeds from Issuance of Bonds	0.00	14.98	0.00
Long-term Bank Loan	(0.05)	(5.05)	(0.14)
Dividends Payments	(15.24)	(0.62)	(15.24)
Interest (Payment) & Others	(0.02)	(0.10)	(0.07)
<b>Net Cash Position Chg.</b>	<b>(1.69)</b>	<b>(0.04)</b>	<b>(0.21)</b>

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

**Table 7. Capex & FCF**

NT\$bn	3Q18	2Q18	3Q17
<b>Cash Capex<sup>1</sup></b>	<b>2.18</b>	<b>1.69</b>	<b>2.46</b>
- Mobile	1.70	1.16	1.48
- Fixed-line	0.25	0.30	0.41
- Cable	0.16	0.18	0.26
- momo & others	0.07	0.05	0.32
<b>% of Revenue</b>	<b>8%</b>	<b>6%</b>	<b>9%</b>
<b>Free Cash Flow<sup>1</sup></b>	<b>4.82</b>	<b>5.82</b>	<b>4.51</b>

Note 1: Excluding 4G License Fees.

### Cash Flow Analysis

3Q18 operating cash inflow remained stable compared to a year ago, even though reported EBITDA shed 8% YoY. The EBITDA contraction was largely due to IFRS adjustments which had no cash flow impacts.

The major investing activities in 3Q18 were comprised of a NT\$2.18bn cash capex and a NT\$964M in cash freed up as we took back more guarantee deposits in the quarter. In 3Q17, we provided a NT\$1bn deposit to the regulator related to the 1.8/2.1GHz spectrum auctions in 4Q17.

On the financing front, a total of NT\$7.72bn in short-term borrowings was raised in the quarter to fund the NT\$15.24bn cash dividend payments. In 2Q18, 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 a nutshell, our 3Q18 cash balance slightly declined QoQ mainly due to cash outflows for financing activities.

### Capex and Free Cash Flow Analysis

In 3Q18, 4G related capex is mainly associated with our deployment of another 10MHz spectrum in the 2100MHz band for 4G service. Separately, capex for fixed-line, cable TV and momo all trended down, leading to an 11% YoY decrease in total capex.

Accumulative FCF netted NT\$15.8bn, up 7% YoY and translating into an annual FCF yield of 7.1%.

## V. Balance Sheet Analysis

**Table 8. Balance Sheet**

NT\$bn	3Q18	2Q18	3Q17
<b>Total Assets</b>	<b>147.45</b>	<b>151.41</b>	<b>146.41</b>
Current Assets	26.97	29.48	30.50
- Cash & Cash Equivalents	5.94	7.62	5.97
- Receivable & Contract Assets	15.24	14.89	15.93
- Inventories	3.27	3.58	3.15
- Short-term Investment	0.34	0.38	1.57
- Other Current Assets	2.19	3.00	3.87
Non-current Assets	120.47	121.93	115.92
- Long-term Investment	6.22	5.87	6.22
- Property and Equipment	42.47	43.12	45.06
- Concession	41.29	42.04	35.82
- Other Non-current & Contract Assets	30.50	30.90	28.82
<b>Liabilities</b>	<b>82.97</b>	<b>90.77</b>	<b>83.36</b>
Current Liabilities	40.48	48.18	44.54
- ST Borrowings	17.59	9.77	21.86
- Other Current Liabilities	22.89	38.42	22.68
Non-current Liabilities	42.49	42.59	38.82
- Long-term Borrowings	38.14	38.27	34.77
- Other Non-current Liabilities	4.35	4.31	4.05
<b>Shareholders' Equity</b>	<b>64.48</b>	<b>60.64</b>	<b>63.06</b>
-Paid-in Capital	34.21	34.21	34.21
-Capital Surplus	12.30	12.31	13.92
-Legal Reserve	27.56	27.56	26.14
-Treasury Shares	(29.72)	(29.72)	(29.72)
-Un-appropriated Earnings	3.39	3.39	0.63
-Non-controlling Interest	5.87	5.68	5.67
-Retained Earnings & Others <sup>1</sup>	10.87	7.22	12.21

Note 1: Including YTD profits and other equity items

**Table 9. Ratios**

	3Q18	2Q18	3Q17
<b>Current Ratio</b>	67%	61%	68%
<b>Interest Coverage (x)</b>	28.1	34.4	32.0
<b>Net Debt (Cash) to Equity</b>	77%	67%	80%
<b>Net Debt (Cash) to EBITDA (x)</b>	1.55	1.23	1.54
<b>ROE (annualized)<sup>1</sup></b>	22%	22%	26%
<b>ROA (annualized)<sup>2</sup></b>	10%	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

In 3Q18, the YoY decrease in receivable & contract assets reflected slower demand for handset bundles as opposed to SIM-only plans.

The YoY drop in other current assets was because of guarantee deposits reductions this year.

Short-term investments declined YoY mainly due to the liquidation of investments & money market instruments.

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

### Liabilities & Shareholders' Equity

Net debt as of the end of 3Q18 rose sequentially, primarily resulted from dividend payments made in the quarter.

That said, other current liabilities decreased QoQ after the NT\$15.24bn cash dividend was paid in 3Q18, leading to a QoQ rise in current ratio.

### Ratio Analysis

Our net debt to EBITDA rose QoQ to 1.55x, but remained similar to last year's level.

ROE stood at above 20% in 3Q18.

## **VI. Management Remarks**

### Key Message

- Growing e-commerce business as well as cross-selling among telecom, content, and internet services to stimulate higher spending per customer is our focus.
- The fast growing momentum of the enterprise segment, including the IoT, cloud, and ICT businesses, bring additional promise for future telecom revenues.
- Rationalizing costs and optimizing efficiency to ensure steady streams of cash flows remain our commitment.

### Awards and Recognition

- Selected for 2018 Dow Jones Sustainability World Indices (DJSI World) and ranked Top 1 in global telecommunications.
- Recognized for the “Best Customer Service Center” of the CSEA (Customer Service Excellence Awards) by Taiwan Contact Center Development Association in 2018.
- Won Excellence in Corporate Social Responsibility Award 2018 from Commonwealth Magazine.