

Taiwan Mobile
2Q22 Results Conference Call
August 5, 2022

Jamie Lin, President: Good afternoon, everyone. Welcome to Taiwan Mobile's 2nd quarter 2022 earnings conference call. Before I start our presentation, let's go over our disclaimer as always:

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Now that's out of the way, let me start with business overview. Please turn to page 4 for highlights of the quarter.

Business Overview

In the 2nd quarter, we continued to see solid momentum across three main growth engines, namely 5G, e-commerce and home broadband. Our mobile service revenue grew YoY for the 5th consecutive quarter, with the growth accelerating to over 3%. This was due to steady ARPU enhancement via 5G upselling, as well as continued improvement in the 4G pricing environment. E-commerce revenue rose by 14% YoY despite a high base, while broadband revenue YoY growth reached 11% thanks to continued demand for faster home broadband. As a result, consolidated revenue increased by 8% YoY during the quarter.

Looking at the bottom-line, both consolidated and telecom EBITDA grew YoY for 5 consecutive quarters.

For the first half of 2022, consolidated EBITDA growth was 5% YoY, comparing to our full-year guidance of 1-3%. Excluding one-off factors, our first half net income would have increased by 9% YoY, aided by deceleration of D&A.

Next let's turn to page 5 for a closer look at our mobile business.

Mobile – Growth Engine #1

At the 2nd anniversary of 5G service launch, our 5G postpaid penetration is now well above 20%, producing a consistent 25% monthly fee uplift from the renewals during the quarter.

Our unique bundles - momobile (or “mo幣多” in Mandarin), Double Play (or “好速成雙”) and Disney+ continued to be instrumental in delivering ARPU improvements. As more and more users sign up to momobile, their contribution to momo's e-commerce revenue grows in parallel. I'm happy to report that this number reached 4.9% in June, up from about 2% only 6 months ago. On top of that, our data has shown that in addition to offering appealing bundles to Taiwan Mobile customers, momobile also helps momo broaden its customer base, especially in the younger male demographic, and enhances the stickiness and wallet share of momo's existing customers. As for Double Play, overall subscribers who were on \$999 or higher rate plans further increased to nearly 60% during the quarter, boding well for ARPU increase. Disney+ also helped increase customer engagement and stickiness. With our unique and appealing portfolio of rate plans and services available to our customers and as a result of our investments in 48-month contracts during 5G launch, postpaid churn further declined to 0.8% in the 2nd quarter.

On the enterprise side, data & access, cloud and IoT services all delivered solid YoY growths in the quarter.

Now, before we move on to the next growth engine, I would like to take this opportunity to address a couple of common investor questions regarding our 5G spectrum and potential synergies from the pending merger. Please turn to page 6.

Potential 5G Benefits Post Merger

With regard to our proposed merger with T-Star, in the beginning of the year, we have shared with you its potential synergies, namely 49% from network consolidation, 31% via customer contribution and 20% through business streamlining. Altogether, this amounts to an average of \$6bn EBITDA increment per annum. Though the deal is currently being reviewed by the regulators, I would like to take this chance to highlight the benefits of this merger from a different angle, that is spectrum.

You see, the moment we acquire the additional 40MHz of 3.5GHz spectrum through the merger, with some very simple software settings adjustments, almost akin to flipping a switch, our combined 3.5GHz base stations will immediately be able to beam the 60+40MHz of high-speed

3.5GHz spectrum, hence providing a full capacity of 100MHz, which is the industry's largest. This is because both companies use the same generation of equipment from the same vendor.

In addition, we also recommend investors look at the sub-6GHz spectrum as a whole. Eventually, most of the 4G spectrum will be re-farmed for 5G use. If we compare the total sub-6GHz spectrum available for 5G use between us and the other merger case, the amounts are basically the same. Given there are currently limited bandwidth-hungry applications in the field, we believe providing capacity and lower latency are more important than having the fastest speed when it comes to optimal user experiences. In other words, allowing more users to have faster response time and enough bandwidth to use their favorite streaming or gaming apps is more important than allowing one user to see a high speed test result, which is more or less a vanity metric. Recent third-party testing results can also attest to the efficacy of our strategy. Though we did not clinch top speed due to a more rational 3.5GHz investment, we topped the charts of video and gaming experiences.

That said, new radio carrier aggregation technology, or NR CA, is on the cusp of going mainstream, with iPhone 13 being one of the first major phones to support it. NR CA will allow devices to take advantage of the full 60+40MHz spectrum we will hold, hence producing top speeds comparable to market leaders. Therefore, non-continuous 3.5GHz spectrum will be a relatively small issue. And hence, this merger will level the playing field for us while giving us some advantages in key niches.

Now, let's go to the next page for updates on our e-commerce business.

momo – Growth Engine #2

As you may recall, momo had an extraordinary 2nd quarter last year as Taiwan entered level III alert in May. Despite this high base, momo managed to grow our e-commerce revenue by 14% YoY in the quarter. While this may seem like a deceleration from the previous period, it is actually a stark outperformance compared to our peers.

On the other hand, momo's EBITDA fell YoY during the period, again due to a high base and as marketing costs and expenses normalized compared to a year ago.

Looking beyond near-term headwinds, we are carrying on with momo's logistic investments to strengthen our leadership position and to build a solid foundation for longer-term growth. Two more satellite warehouses were added in the quarter, while our total warehouse space reached 408k sqm, a 25% YoY increase. About 20% of our deliveries now are done by our in-house fleet.

As we mentioned before, momo's southern and central distribution centers are on track to be operational in 2023 and 2025, respectively. Through these investments, momo will further expand the coverage area of our rapid delivery services and be better poised for future growth.

Now, let's take a look at our broadband business on the next page.

Broadband – Growth Engine #3

In the 2nd quarter, we continued to outperform our MSO peers in the YoY trends of basic TV subscriptions and broadband service penetration.

Steady demand for faster home broadband as well as the success of our Double Play bundles led to sequential increases in broadband subs and ARPU. The ratio of broadband subscribers, including those of Double Play packages, who signed up for speeds of 500Mbps or higher rose by 43% YoY. As a result, broadband revenue grew by 11% YoY, helping the overall CATV business EBITDA grow YoY in the quarter.

Now let me turn the presentation over to Rosie for Financial Overview.

Performance by Business

Rosie Yu, CFO & Spokesperson: Good afternoon. Let's start with Performance by Business.

In the 2nd quarter of 2022, consolidated revenue rose by 8% YoY, as our three growth engines all delivered YoY growths. Mobile service revenue grew YoY for five quarters in a row, thanks to ARPU improvement amid rising 5G adoption and rational 4G pricing.

In terms of profitability, telecom was the main driver, with its EBITDA rising YoY for five consecutive quarters, underpinned by service revenue increase, 5G government subsidies, and savings in channel commissions. Coupled with stabilizing rise in telecom D&A, telecom EBIT grew QoQ and YoY for two quarters in a row. momo's EBITDA fell YoY, due to a high base as the marketing costs/expenses normalized compared to a year ago. Steady broadband revenue momentum helped CATV EBITDA post a 2% YoY uptick in the quarter.

Let us go to Results Summary.

Results Summary

In the first half of 2022, improving telecom performance and decent e-commerce momentum contributed to a 10% growth in consolidated revenue. Our three main businesses all posted YoY EBITDA growths in the first half of this year. Coupled with diminishing D&A increases, consolidated operating income growth reached 8% YoY.

The gap between the YoY increases of operating income and net income stemmed from a high base in non-operating income and tax benefits. Excluding one-off factors, first half 2022 net income would have increased by about 9% YoY, bolstered by telecom growth.

Let's move on to Balance Sheet Analysis.

Balance Sheet Analysis

On the asset side, receivables increased QoQ and YoY in the 2nd quarter, owing to 1) improving mobile business, 2) momo's revenue expansion, and 3) exercising our shareholders' appraisal rights to request APT to buy back its shares, in the wake of its announcement of the merger with Far EasTone.

Long-term investment climbed YoY, due to our ventures into e-commerce, marketplace, media, fintech, and cloud services.

Although 5G investment had already peaked, PP&E grew YoY as momo acquired land for its central distribution center in the quarter.

As for liabilities, other current liabilities went up QoQ following AGM's approval of dividend payments, while other non-current liabilities increased YoY as we received 5G government subsidies in the second half of 2021. NT\$38.6bn of excess reserve remain available for future dividend top-up.

Benefiting from decent free cash flow generations, our net debt to EBITDA declined to 1.49x in the 2nd quarter, a record low since the 4th quarter of 2019.

Lastly, let's look at Cash Flow Analysis on the next slide.

Cash Flow Analysis

While our cash earnings increased QoQ and YoY, operating cash flow in the 2nd quarter faced a high base as momo's inventory days significantly shortened amid the level III alert a year ago.

Investing cash outflow rose YoY, driven by higher capex for momo's distribution centers and increase in investments.

On the financing front, we managed to reduce our reliance on short-term borrowings.

With 5G investment cycle behind us, in the first half of this year, telecom capex declined 39% YoY and resulted in a 5% YoY decrease in total cash capex. Free cash flow calculated on a pre-IFRS 16 basis was NT\$6.22bn in the first half, translating into an annualized free cash flow yield of 4.1%.

Let me turn the presentation back to Jamie for event updates and Key Message.

Awards and Recognition

Jamie: Thank you Rosie. On page 15, we summarized the awards and recognitions we received during the quarter, for your reference. On behalf of the management team, I would like to take this opportunity to thank the investment community for your support during this year's Institutional Investor poll. Your recognition has given us a lot of positive energy to keep at it and do even better going forward. Thank you. We really appreciate it.

Key Message

Finally, please turn to the next page. As we wrap up our presentation, here is the key message we would like for you to take away with.

As our growth engines, including 5G, momo and momobile, as well as home broadband and Double Play, continue to generate thrust, we have delivered steady growth and healthy returns to our shareholders. Post T-Star merger, we expect to leverage our advantages in spectrum holdings, equipment synergy, as well as system design and optimization, to deliver first-rate, if not superior, performance in 1) overall sub-6G 4G/5G experience, 2) 5G massive MIMO deployment, and 3) 5G peak speed.

Before we go into Q&A, there is a one more thing. As many of you may have read in the news, Rosie is retiring at the end of this month, after a long, stellar career as our CFO with countless

& enormous contributions to our organization. I truly appreciate having her as my partner for the past 3.5 years during our turnaround. With that, let me open the floor up for questions.

Q&A

Neale Anderson, HSBC: *First of all, Rosie, I wish you all the very best for a great retirement. Thank you for all your help over the years. I have 2 questions please. The first one relates to 5G migration of 25% uplift. Can you give us your views on how sustainable you think that's going to be in the second half of the year and perhaps going into next year? Do you think you can maintain it at those levels? The second one relates to the 5G government subsidies. Could you just remind us of the status of those? How long will they be in place and what impact they've been having?*

Rosie: Thank you for all of your support, Neale. Let me answer the second question first, about 5G government subsidies. We received NT\$2bn last year and NT\$0.7bn this year but from the book, you will only be seeing part of it because we will need to amortize these subsidies in line with its remaining depreciation or amortization schedule. For the depreciation schedule, let's put it this way: if we buy equipment and depreciate it based on a 7-year or 5-year period, then the government subsidies will be amortized in the same pattern.

Jamie: In terms of government subsidies, we know that phase 1 was approved by the Legislative Yuan, but phase 2, based on our knowledge, is still yet to be greenlighted. So that will be up to the government to decide. In terms of 5G migration, the 25% lift has been pretty consistent over the past 5 quarters. We don't expect a dramatic shift in the foreseeable future.

Alvin, JP Morgan: *We understand from the slide that, after the merger with T-Star, Taiwan Mobile will definitely have more 5G spectrum on the 3.5GHz. However, Taiwan Mobile and T-Star spectrum blocks are not adjacent to each other. Will this be a concern when driving the spectrum synergy you look forward to or forecasted?*

Jamie: Like I said during the presentation, starting from the iPhone 13, more and more major smartphones will support new radio carrier aggregation or NR CA. This means that customers can enjoy the full 60+40MHz of 3.5GHz spectrum simultaneously, so the adjacency of the spectrum will be no issue. We foresee this being a minor problem, or no problem at all.