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TWM Consolidated

NT\$bn	<u>4Q19</u>	<u>YoY</u>	<u>FY19</u>	<u>YoY</u>	<u>FY19</u> <u>Achievement</u> <u>Ratio</u>
Revenues	34.11	8%	124.42	5%	100%
Operating Income	4.36	2%	17.19	-5%	101%
Non-op. Income (Expenses)	(0.35)	236%	(0.61)	29%	86%
Pre-tax Income	4.02	-4%	16.58	-6%	102%
(Income Tax)	(0.82)	-2%	(3.29)	3%	101%
(Minority Interest)	(0.24)	2%	(0.81)	-4%	112%
Net Income	2.95	-5%	12.48	-9%	101%
EPS (NT\$)	1.05	-7%	4.51	-10%	100%

2019 Highlights of Operating Results

Consolidated revenue increased by 5% YoY as robust e-commerce performance more than offset the softness in telecom and CATV revenue. Reduced dealer commissions, lower interconnecting costs and spectrum usage fees helped contain the YoY decline in pre-IFRS 16 telecom EBITDA at 7% in FY19, while telecom EBIT turned positive YoY in 4Q19 as D&A tapered off. FY19 telecom EBIT came in ahead of expectations, while the combined EBIT of cable TV and momo also surpassed our expectations, accounting for 22% of our consolidated EBIT. FY19 free cash flow of NT\$19.19bn translates into free cash flow yield of c.6%. Net debt to pre-IFRS 16 EBITDA remained at a low level of 1.16x.

2020 Guidance

- 5G, cloud gaming, streaming content revenue, enterprise cloud and enterprise connectivity solutions will be the growing areas among telecom business in 2020. Taken into account the legacy revenue decline and conservative estimate of 5G service adoption for the first year, telecom revenue inclusive of device sales will increase 2% YoY in 2020.
- In 2020, momo top-line is expected to grow 18% YoY underpinned by expanding e-commerce business. Pay-TV revenue will turn into a growth trajectory, aided by premium fixed broadband bundle services.
- The combined EBIT of the cable TV business and momo will grow 4% YoY and make up 25% of our total EBIT in 2020. That said, consolidated EBIT is forecast to decrease. This is because profitability for 5G, cloud gaming, streaming content investments, etc. takes time to kick in.

Capex Guidance

The board approved a NT\$14.5bn capex for 2020, that includes NT\$11bn for mobile, NT\$1.8bn for fixed-line, NT\$0.8bn for cable TV and NT\$0.9bn for momo and other affiliates.

Key Message

Taiwan Mobile will be the only telco among the big three in Taiwan to be able to have partnerships on 5G network/spectrum sharing and create incremental benefits. 60MHz of spectrum in the 3.5GHz frequency band is sufficient for Taiwan Mobile's 5G business in the next ten years. In due course, we won't have capex inefficiency issues that others may encounter. We believe we have a sensible 5G winning strategy in view that our total 5G spectrum and capex spend in the 20-year spectrum concession period may be the least among the big three without sacrificing 5G network quality. Progressing on the 5G journey, our overarching goal is to maximize related investment returns.

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I. Revenue Analysis

Table 1. Key Operational Data

Residual Value (NT\$bn)	4Q19	QoQ	YoY	2019	YoY
Mobile Service Revenue	12.43	-3%	-8%	51.24	-11%
Postpaid ARPU (NT\$)	695	-3%	-9%	722	-10%
Blended ARPU (NT\$)	574	-2%	-8%	589	-11%
Telecom Service Revenue	13.43	-2%	-8%	55.14	-10%

Revenue (NT\$bn)	4Q19	QoQ	YoY	2019	YoY
Telecom	17.26	1%	-1%	67.38	-4%
Service	11.81	-2%	-7%	48.34	-10%
Device Sales	5.45	6%	14%	19.05	15%
CATV revenue	1.48	-3%	-6%	6.09	-4%
Pay-TV	0.88	0%	-4%	3.54	-5%
Broadband	0.37	1%	4%	1.44	3%
Content & channel leasing	0.24	-17%	-24%	1.12	-8%
momo	15.91	29%	28%	51.83	23%
E-commerce	14.25	31%	33%	45.48	29%
TV shopping & others	1.66	14%	0%	6.35	-4%
Others¹	0.15	2%	-1%	0.60	2%

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.

	4Q19	3Q19	4Q18	QoQ	YoY
Mobile Subscribers (K)	7,178	7,256	7,266	-1%	-1%
- Postpaid	5,687	5,679	5,617	0%	1%
Monthly Churn	3.2%	2.6%	2.3%		
-Postpaid	1.2%	1.2%	1.4%		
MOU (bn)	1.01	1.06	1.23	-4%	-18%
Pay-TV Subs (K)	554	556	566	0%	-2%
Cable Broadband Subs (K)	240	237	228	1%	5%
DTV Subs (K)	259	255	242	2%	7%

CATV ARPU (NT\$)	4Q19	QoQ	YoY	2019	YoY
Pay-TV	526	0%	-2%	528	-3%
Broadband	509	0%	-1%	511	-3%
Blended ¹	746	1%	0%	742	0%

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

Telecom

Despite the YoY decline in telecom service revenue caused by customers' growing appetite for SIM-only plans, our focus on profitability of our rate plans has yielded encouraging results in 4Q19. The average monthly tariff of our newly signed-up bundle plans increased handsomely YoY, as the sign-ups for \$999 and above rate plans increased 13% and 6% for iPhone and non-handset bundle plans respectively.

The YoY growth in device sales remained decent thanks to solid demand for iPhones and TWM's strong presence in online channels.

With the competitive environment stabilizing, the YoY trend in post-paid subscribers remained positive on the back of low churn rate. Healthy demand for IoT connectivity also led to a 25% YoY climb in M2M (machine to machine) connections for the quarter.

In 2019, the enterprise segment recorded healthy revenue momentum from ICT, IoT and cloud solutions, with a combined YoY revenue growth of 32%.

Cable TV

Our effective bundling strategy, including the "Double Play" bundle that consists of unlimited mobile data and high-speed home broadband services, continued to pay off. This is evidenced by the healthy growth in our broadband & DTV subscribers which led to a stable blended ARPU in 4Q19. The percentage of customers subscribed to broadband plans with speeds of 100Mbps rose by 7ppts from a year ago.

momo

4Q19 marked another stellar quarter for momo with 33% YoY growth in e-commerce revenue. With its continued success with retail brands and versatile marketing campaigns, B2C average ticket size further rose by 1.3% YoY to NT\$2,235 and the number of transactions climbed by 8.5% YoY. Additionally, momo enhanced its logistic capabilities via adding ten satellite warehouses in FY19.

II. EBITDA Analysis

Table 2. EBITDA Breakdown

NT\$bn	4Q19	QoQ	YoY	2019	YoY
Pre-IFRS 16 EBITDA	7.27	-1%	-5%	29.48	-7%
- Telecom	5.86	-3%	-5%	24.05	-8%
- CATV	0.69	-9%	-11%	3.02	-5%
- momo	0.62	46%	14%	2.01	16%
Reported EBITDA	8.25	-1%	8%	33.39	5%

NT\$bn	4Q19	QoQ	YoY	2019	YoY
Pre-IFRS 16 D&A	2.91	-4%	-13%	12.29	-9%
- Telecom	2.57	-4%	-10%	10.79	-7%
- CATV	0.19	-13%	-38%	0.93	-26%
- momo	0.10	8%	9%	0.36	12%
Reported D&A	3.89	-3%	16%	16.20	19%

NT\$bn	4Q19	QoQ	YoY	2019	YoY
Reported EBIT	4.36	2%	2%	17.19	-5%
- Telecom	3.30	-1%	1%	13.26	-9%
- CATV	0.51	-7%	6%	2.09	8%
- momo	0.52	56%	15%	1.66	16%

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	4Q19	QoQ	YoY	2019	YoY
Non-Operating Revenue (Expense)	(0.35)	1370%	236%	(0.61)	29%
- Net Interest Expense	(0.08)	-39%	-42%	(0.46)	-15%
- Write-off Loss	(0.23)	1181%	786%	(0.28)	162%
- Other Revenue (Expense)	(0.04)	nm	nm	0.13	-25%

EBITDA Analysis

Reduced dealer commissions, lower interconnecting costs and spectrum usage fees mandated by NCC (National Communications Commission) helped us contain the YoY decline in pre-IFRS 16 telecom EBITDA at 5% in 4Q19. Telecom EBIT, however, went up by 1% YoY as D&A tapered off.

Reflecting the latest channel leasing pricing we charge TV home shopping companies, 4Q19 pre-IFRS 16 CATV EBITDA dropped by 11% YoY. However, CATV EBIT increased by 6% YoY in the quarter, aided by the falling depreciation of set-top boxes.

In addition to robust YoY growth in momo's revenue, its pre-IFRS 16 EBITDA increased by 14% YoY in 4Q19, on the back of shaping up profitability in TV shopping & catalogue divisions.

D&A Analysis

In 4Q19, pre-IFRS 16 D&A further decreased by 13% YoY vs. FY19 decline of 9% as we are in late stage of 4G equipment spending.

Non-Operating Item Analysis

In 4Q19, non-op expenses soared YoY due to write-off losses of 3G/4G equipment. The plunge in net interest expenses was attributable to one-off interest income associated with litigation.

III. Income Statement Analysis

Table 4. 4Q19 Consolidated Results vs. Forecast

NT\$bn	4Q19	QoQ	YoY	% of 4Q19 Forecast
Revenues	34.11	11%	8%	100%
Operating Costs	(25.75)	13%	11%	102%
Operating Expenses	(4.00)	4%	-3%	94%
Operating Income	4.36	2%	2%	95%
Non-operating Income (Expenses)	(0.35)	1370%	236%	153%
Pre-tax Income	4.02	-6%	-4%	92%
Net Income	2.95	-9%	-5%	91%
EPS (NT\$)	1.05	-10%	-7%	89%
EBITDA	8.25	-1%	8%	96%
EBITDA (Pre-IFRS 16)	7.27	-1%	-5%	

Table 5. 2019 Consolidated Results vs. Forecast

NT\$bn	2019	YoY	% of 2019 Forecast
Revenue	124.42	5%	100%
Operating Cost	(91.61)	9%	101%
Operating Expense	(15.62)	-4%	93%
Operating Income	17.19	-5%	101%
Non-op. (Expense)	(0.61)	29%	86%
Pre-tax Income	16.58	-6%	102%
Net Income	12.48	-9%	101%
EPS (NT\$)	4.51	-10%	100%
EBITDA	33.39	5%	100%
EBITDA (Pre-IFRS 16)	29.48	-7%	

Income Statement Analysis

4Q19

Strong e-commerce growth and handset sales more than offset the decrease in mobile service and cable TV revenues, resulting in 8% YoY increase in consolidated revenue.

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

With expense rationalization, consolidated operating income increased 2% YoY, marking the second consecutive quarter of YoY growth.

Our low-single-digit decline in pre-tax income and net income was due mainly to one-off equipment write-off losses.

2019 full-year

Consolidated revenue was in line with company forecast, due to our robust e-commerce business.

With prudent cost control and group synergies paying off, operating income slightly beat the guidance.

In addition to better-than-expected telecom EBIT, the combined EBIT of the cable TV business and momo also surpassed our expectations, representing 22% of our total EBIT in FY19.

Non-operating expenses only accounted for 86% of our FY19 forecast due mainly to lower-than-expected interest expenses and one-off interest income related to litigation. Net income reached 101% of our guidance.

IV. Cash Flow Analysis

Table 6. Cash Flow

NT\$bn	2019	2018	4Q19	4Q18
Operating	30.22	29.78	2.88	7.31
Pre-tax Income	16.58	17.69	4.02	4.16
Non-cash Add-backs	18.92	17.37	4.47	4.22
--Depreciation ¹	8.85	9.90	2.05	2.43
--Amortization	3.44	3.66	0.86	0.92
--Others ¹	6.63	3.81	1.56	0.87
Changes in Working Capital & Income Taxes	(5.97)	(5.83)	(5.99)	(1.20)
Others	0.69	0.55	0.38	0.13
Investing	(8.37)	(5.53)	(2.88)	(2.01)
Capex ²	(7.14)	(8.49)	(1.62)	(1.87)
Divestment (Acquisition)	(0.21)	0.08	(0.22)	0.01
Other Financial Assets (Increase)	(0.15)	2.22	(0.05)	(0.16)
Refundable Deposits (Increase)	(1.01)	(0.03)	(1.00)	(0.01)
Others	0.13	0.69	0.02	0.03
Financing	(20.67)	(23.38)	(4.36)	(3.74)
Short-term Borrowings	6.40	(3.50)	1.30	3.98
Repayments of Bonds Payable	(4.50)	(7.40)	(4.50)	(4.50)
Proceeds from Issuance of Bonds	0.00	14.98	0.00	0.00
Long-term Bank Loan	(2.30)	(11.21)	(0.05)	(3.05)
Repayment of The Principal Portion of Lease Liabilities ³	(3.78)	0.00	(0.95)	0.00
Dividends Payments	(16.06)	(15.86)	0.00	0.00
Interest (Payment) & Others	(0.43)	(0.40)	(0.15)	(0.17)
Net Cash Position Chg.	1.16	0.87	(4.36)	1.56

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	2019	2018	4Q19	4Q18
Cash Capex¹	7.14	8.49	1.62	1.87
- Mobile	4.73	5.70	0.84	1.37
- Fixed-line	1.46	1.28	0.47	0.30
- Cable	0.56	0.72	0.14	0.12
- momo & others	0.39	0.80	0.16	0.07
% of Revenue	6%	7%	5%	6%
Free Cash Flow¹	19.19	21.28	0.28	5.44

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

Cash Flow Analysis

4Q19

The typhoon at the end of 3Q caused momo's 3Q payments into 4Q. This coupled with higher iPhone11 payments led to the YoY drop in operating cash flow.

On the investing front, investing cash outflow increased YoY, as a result of making NT\$1bn deposit with NCC for 5G spectrum auction.

The YoY increase in financing cash outflow was due mainly to the implementation of IFRS 16 in FY19 which classified rental expense payments as financing cash outflow, as opposed to operating cash outflow previously.

2019 full-year

Pre-IFRS 16 operating cash flow decreased YoY, mainly attributable to a high EBITDA base in 2018 for the lack of \$499 negative impact.

Despite a fall in capex, investing cash outflow increased YoY, owing to the NT\$2.2bn cash inflow from guarantee deposits taken back in 2018.

Capex and Free Cash Flow Analysis

FY19 mobile capex came off YoY, as 4G approached the tail-end of the investment cycle. Separately, momo's cash capex came in lower than expectations and recorded a YoY decline, because only 10% of the land acquisition cost for its Southern Automated Center was paid in 2019.

FY19 free cash flow of NT\$19.19bn translates into free cash flow yield of 6.2%.

V. Balance Sheet Analysis

Table 8. Balance Sheet

NT\$bn	4Q19	3Q19	4Q18
Total Assets	153.92	158.83	147.67
Current Assets	29.91	34.23	29.07
- Cash & Cash Equivalents	8.66	13.02	7.50
- Receivable & Contract Assets	14.07	14.80	15.21
- Inventories	5.67	4.71	3.95
- Short-term Investment	0.25	0.25	0.34
- Other Current Assets	1.26	1.45	2.08
Non-current Assets	124.01	124.60	118.60
- Long-term Investment	6.72	6.43	6.20
- Property and Equipment	39.17	39.97	41.86
- Right-of-use Assets	9.66	9.93	0.00
- Concession	37.71	38.41	40.53
- Other Non-current & Contract Assets	30.76	29.86	30.01
Liabilities	79.74	89.43	79.67
Current Liabilities	44.52	52.66	41.88
- ST Borrowings	18.47	21.67	18.57
- Accounts & Notes Payable	7.80	12.08	6.94
- Current Lease Liabilities	3.53	3.53	0.00
- Other Current Liabilities	14.72	15.38	16.38
Non-current Liabilities	35.22	36.77	37.79
- Long-term Borrowings	24.49	25.85	33.31
- Non-current Lease Liabilities	6.12	6.37	0.00
- Other Non-current Liabilities	4.61	4.54	4.48
Shareholders' Equity	74.18	69.40	67.99
-Paid-in Capital	35.09	34.96	34.24
-Capital Surplus	20.27	19.11	12.58
-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	6.16	6.01	6.11
-Retained Earnings & Others ¹	12.95	9.63	13.83

1: Including YTD profits and other equity items

Table 9. Ratios

	4Q19	3Q19	4Q18
Current Ratio	67%	65%	69%
Interest Coverage (x)	35.2	37.2	29.0
Net Debt (Cash) to Equity	46%	50%	65%
Net Debt (Cash) to Pre-IFRS 16 EBITDA (x)	1.16	1.16	1.40
ROE (annualized)¹	18%	18%	20%
ROA (annualized)²	9%	9%	9%

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 4Q19 as a result of momo's business expansion and solid iPhone demand. The litigation-related interim payment accrued in 2Q18 was reversed in 2Q19, causing the YoY drop in other current assets.

The YoY increase in long-term investment was attributable to the share price appreciation of Taiwan High Speed Rail. Our board has resolved to sell 90m shares of THSR in 2020.

Cash & cash equivalents and accounts & notes payable dropped sequentially as momo's delayed payment due to the typhoon holiday on Sep 30th was made in 4Q.

Liabilities & Shareholders' Equity

Among current liabilities, the YoY increase in accounts & notes payable stemmed from revenue & cost increase at momo, as well as stronger sales momentum of iPhone 11 series vs. the previous generation.

The main contributors of the YoY decline in other current liabilities include 1) lower payables for 4G equipment, and 2) savings in operating expenses.

Gross debt declined by 17% YoY to NT\$43bn, following CB holders' conversions and repayment of the 7-year straight bond matured in 2019.

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\$0.93bn at the end of 4Q19. As a result, share count for 2019 EPS calculation totaled 2768m shares.

Ratio Analysis

Benefiting from our de-leveraging efforts in 2019, our net debt to pre-IFRS 16 EBITDA remained at a low level of 1.16x.

VI. Guidance

Table 10. 2020 Guidance

NT\$bn	2020	2019	YoY
Revenues	134.53	124.42	8%
Cash Cost¹	(86.09)	(75.42)	14%
Expenses	(16.78)	(15.62)	7%
EBITDA	31.67	33.39	-5%
D&A	(15.89)	(16.20)	-2%
Operating Income	15.78	17.19	-8%
Non-operating Income (Expenses)	(0.98)	(0.61)	61%
Pre-tax Income	14.79	16.58	-11%
Net Income	11.17	12.48	-11%
EPS (NT\$) ²	3.96	4.51	-12%

Note 1: Including handset sales costs, but not including D&A.

Note 2: EPS is based on the share counts of 2.820bn in 2020 and 2.768bn in 2019.

Revenue

- 5G, cloud gaming, streaming content revenue, enterprise cloud and enterprise connectivity solutions will be the growing areas among telecom business in 2020. Taken into account the legacy revenue decline and conservative estimate of 5G service adoption for the first year, telecom revenue inclusive of device sales will increase 2% YoY in 2020.
- In 2020, momo top-line is expected to grow 18% YoY underpinned by expanding e-commerce business. Pay-TV revenue will turn into a growth trajectory, aided by premium fixed broadband bundle services.

EBIT

The combined EBIT of the cable TV business and momo will grow 4% YoY and make up 25% of our total EBIT in 2020. That said, consolidated EBIT is forecast to decrease. This is because profitability for 5G, cloud gaming, streaming content investments, etc. takes time to kick in.

Capex Guidance

The board approved a NT\$14.5bn capex for 2020, including NT\$11bn for mobile, NT\$1.8bn for



fixed-line, NT\$0.8bn for cable TV and NT\$0.9bn for momo and other affiliates. We expect telecom capex to double YoY, driven mainly by 5G infrastructure rollouts; cable TV capex to increase due largely to more demands for advanced set-top-boxes; momo capex to rise as major payments for its new South Automated Center will start in 2020.

VII. Management Remarks


Key Message

Taiwan Mobile will be the only telco among the big three in Taiwan to be able to have partnerships on 5G network/spectrum sharing and create incremental benefits. 60MHz of spectrum in the 3.5GHz frequency band is sufficient for Taiwan Mobile's 5G business in the next ten years. In due course, we won't have capex inefficiency issues that others may encounter. We believe we have a sensible 5G winning strategy in view that our total 5G spectrum and capex spend in the 20-year spectrum concession period may be the least among the big three without sacrificing 5G network quality. Progressing on the 5G journey, our overarching goal is to maximize related investment returns.

Event Updates

-  5G spectrum auction results
 - For 3.5GHz frequency band, we acquired 60 MHz for NT\$30.45bn, with no extra payment for locations of F22, F23, F24, F25, F26, and F27.
 - For 28GHz frequency band, we acquired 200 MHz for NT\$0.206bn, with locations of G24 and G25.
 - Total spectrum cost - NT\$30.656bn
-  NT\$20bn straight bond issuance
 - Following Board's resolution on Jan 21st, TWM plans to issue its 6th of unsecured corporate straight bond with total amount of NT\$20bn by end of March.

Awards and Recognition

-  Won ten awards at the 2019 Taiwan Corporate Sustainability Awards, and was the only five-time winner to receive the "The Most Prestigious



Taiwan Mobile

Sustainability Awards - Top Ten Domestic Corporates” among telecom firms in Taiwan.

- Recognized for the “Best Customer Service Team” and “Best Telemarketing Team” of the CSEA (Customer Service Excellence Awards) by Taiwan Contact Center Development Association in 2019.
- Won the second prize and special award for “2019 Buying Power - The new product and service of social innovation Purchase Reward Program” by SME Administration, Ministry of Economic Affairs.
- Received the internationally renowned Swiss SGS QualiCert certification for its direct stores channel (myfone) and customer service for the eighth consecutive year.
- Won 2019 Water Saving Award in non-industrial sector by Water Resources Agency, Ministry of Economic Affairs.
- Honored with two outstanding store managers and eight excellent store managers in 2019 by Taiwan Chain Stores and Franchise Association, ranking No.1 among telecom firms in Taiwan.
- Won 2019 Voluntary Energy Saving Award by Bureau of Energy, Ministry of Economic Affairs.