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TWM Consolidated

NT\$bn	<u>2Q21</u>	<u>YoY</u>	<u>1H21</u>	<u>YoY</u>
Revenues	38.42	23%	73.73	17%
Operating Income	4.26	3%	7.90	-8%
Non-op. Income (Expenses)	(0.14)	2741%	(0.13)	-18%
Pre-tax Income	4.12	0%	7.77	-8%
(Income Tax)	(0.78)	-3%	(1.17)	-26%
(Minority Interest)	(0.50)	85%	(0.93)	80%
Net Income	2.84	-7%	5.67	-11%
EPS (NT\$)	1.01	-6%	2.02	-11%

Highlights of Operating Results

2Q21

Supported by our robust e-commerce momentum and improving telecom business, consolidated revenue and consolidated EBITDA grew by 23% and 10% YoY respectively in 2Q21, the highest among the Big 3. While 5G D&A still weighed on telecom profitability, successful 5G upselling and momo's upbeat performance helped consolidated operating income turn YoY positive in 2Q21.

1H21

1H21 consolidated revenue and EBITDA were both ahead of our FY21 guidance released earlier this year. With better operating cash flow and stabilized capex, free cash flow improved sequentially in 2Q21 and 1H21. 1H21 free cash flow calculated with pre-IFRS 16 operating cash flow reached NT\$7.66bn, translating into an annualized free cash flow yield of 5.3%.

Key Message

We have weathered through telecom EBITDA compression and restored its YoY growth in 2Q21, while accelerating momo's EBITDA upswing. This turnaround in our operations shows our strategic resilience amid the pandemic. The societal shift to "everything from home", where the world increasingly relies on digital connectivity for work, education and more will lay the foundation for our continuous expansions going forward. In this new normal, our accelerated transformation into a regional tech+telco group will position us for even faster growth while creating further long-term value for shareholders.

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## I. Revenue Analysis

**Table 1. Key Operational Data**

Residual Value (NT\$bn)	2Q21	1Q21	2Q20	QoQ	YoY
Mobile Service Revenue	11.78	11.76	11.70	0%	1%
Postpaid ARPU (NT\$)	650	649	654	0%	-1%
090 Postpaid ARPU (NT\$)	667	665	662	0%	1%
Blended ARPU (NT\$)	540	541	545	0%	-1%

Revenue (NT\$bn)	2Q21	1Q21	2Q20	QoQ	YoY
<b>Telecom</b>	<b>15.06</b>	<b>15.90</b>	<b>14.36</b>	<b>-5%</b>	<b>4.9%</b>
Service	11.23	11.16	11.18	1%	0.4%
Device Sales	3.84	4.75	3.17	-19%	21.0%
<b>CATV revenue</b>	<b>1.55</b>	<b>1.55</b>	<b>1.54</b>	<b>0%</b>	<b>0.5%</b>
Pay-TV	0.82	0.83	0.86	-1%	-4.2%
Broadband <sup>1</sup>	0.43	0.42	0.38	3%	12.3%
Content & channel leasing	0.30	0.30	0.30	-1%	-1.2%
<b>momo</b>	<b>22.26</b>	<b>18.36</b>	<b>15.83</b>	<b>21%</b>	<b>40.6%</b>
E-commerce	20.90	16.96	14.46	23%	44.6%
<b>Others<sup>2</sup></b>	<b>0.13</b>	<b>0.14</b>	<b>0.13</b>	<b>-4%</b>	<b>-0.3%</b>

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.

	2Q21	1Q21	2Q20	QoQ	YoY
<b>Mobile Subscribers (K)</b>	<b>7,293</b>	<b>7,239</b>	<b>7,171</b>	<b>1%</b>	<b>2%</b>
- Postpaid	5,819	5,797	5,741	0%	1%
<b>Monthly Churn</b>	<b>1.0%</b>	<b>1.2%</b>	<b>1.3%</b>		
-Postpaid	0.8%	0.9%	1.0%		
<b>MOU (bn)</b>	<b>0.90</b>	<b>0.87</b>	<b>0.95</b>	<b>3%</b>	<b>-6%</b>
<b>Pay-TV Subs (K)</b>	<b>542</b>	<b>545</b>	<b>551</b>	<b>-1%</b>	<b>-2%</b>
Cable Broadband Subs (K) <sup>1</sup>	272	269	260	1%	5%
DTV Subs (K)	290	286	270	1%	7%

CATV ARPU (NT\$)	2Q21	1Q21	2Q20	QoQ	YoY
Pay-TV	504	506	517	0%	-3%
Broadband	532	522	495	2%	7%
Blended <sup>2</sup>	769	762	749	1%	3%

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

After one year of 5G commercial service, Taiwan Mobile's 5G postpaid penetration rate reached 13-14%, underpinned by our timely infrastructure roll-out and effective marketing strategies. With steady ARPU improvement driven mainly by 5G upselling, 2Q21 marked the first quarter with YoY mobile service revenue growth since 4Q16.

Our differentiated packages including Double Play with a minimum mobile monthly fee of NT\$799 and momobile (mobile data + momo coins) gained further traction amid growing home broadband and online shopping demand. We also saw a YoY increase in our direct carrier billing and gaming revenues in the quarter.

Looking at the enterprise side, data & access, remote solutions and cloud services posted healthy growth in 2Q21, while IoT subs continued to rise and accounted for a mid-single-digit percentage of our postpaid subs at the end of 2Q21.

### Cable TV

In 2Q21, demand for faster home broadband access continued to swell amid the pandemic, lifting cable broadband-related revenue by 12% YoY, where half of the growth came from Double Play packages.

### momo

Thanks to the stay-at-home economy boom and superior order fulfillment rates, e-commerce revenue surged by 45% YoY to a record high in 2Q21, with the total number of transactions increasing by 48% YoY.

## II. EBITDA Analysis

**Table 2. EBITDA Breakdown**

NTSbn	2Q21	1Q21	2Q20	QoQ	YoY
<b>EBITDA</b>	<b>8.49</b>	<b>7.85</b>	<b>7.71</b>	<b>8%</b>	<b>10.1%</b>
- Telecom	6.28	5.91	6.19	6%	1.5%
- CATV	0.73	0.74	0.74	-1%	-1.1%
- momo	1.34	1.07	0.66	24%	103.0%

NTSbn	2Q21	1Q21	2Q20	QoQ	YoY
<b>D&amp;A</b>	<b>4.24</b>	<b>4.21</b>	<b>3.58</b>	<b>1%</b>	<b>18.4%</b>
- Telecom	3.76	3.74	3.16	1%	19.0%
- CATV	0.19	0.19	0.18	1%	6.6%
- momo	0.23	0.23	0.20	2%	18.5%

NTSbn	2Q21	1Q21	2Q20	QoQ	YoY
<b>EBIT</b>	<b>4.26</b>	<b>3.64</b>	<b>4.13</b>	<b>17%</b>	<b>3.0%</b>
- Telecom	2.53	2.17	3.04	17%	-16.8%
- CATV	0.54	0.55	0.56	-1%	-3.5%
- momo	1.10	0.85	0.46	30%	139.1%

**Table 3. Non-operating Item**

NTSbn	2Q21	1Q21	2Q20	QoQ	YoY
<b>Non-Operating Revenue (Expense)</b>	<b>(0.14)</b>	<b>0.01</b>	<b>(0.00)</b>	<b>nm</b>	<b>2741%</b>
- Net Interest Expense	(0.14)	(0.14)	(0.14)	-4%	-2%
- Write-off Loss	(0.03)	(0.03)	(0.02)	-18%	71%
- Other Revenue (Expense)	0.03	0.19	0.15	-84%	-81%

### EBITDA Analysis

With a smaller YoY rise in handset subsidies and a normalized base in roaming business vs. the previous quarter, telecom EBITDA turned to a YoY increase in 2Q21. While telecom D&A continued to post YoY growth given our 5G investment, the sequential hike diminished as a result of our front-loaded roll-out strategy.

With ongoing investment in broadband and new set-top-boxes, 2Q21 CATV EBIT fell YoY on the back of an increase in D&A.

Bolstered by scale economies and operating leverage, momo's e-commerce EBITDA soared by 129% YoY, and its overall EBITDA margin expanded by 184 bps YoY to 6% in 2Q21.

### D&A Analysis

Overall D&A swelled YoY in 2Q21 as a result of 5G infrastructure roll-out, followed by investments in broadband for CATV and momo's increasing satellite warehouse rentals.

### Non-Operating Item Analysis

The QoQ and YoY changes in 2Q21 non-operating income were mainly attributable to high bases from momo's divestment gains.

### III. Income Statement Analysis

**Table 4. 2Q21 Consolidated Results**

NTSbn	2Q21	QoQ	YoY
<b>Revenue</b>	<b>38.42</b>	<b>9%</b>	<b>23%</b>
Cash Cost & Expense	(29.93)	9%	27%
<b>Operating Income</b>	<b>4.26</b>	<b>17%</b>	<b>3%</b>
Non-op. Income (Expense)	(0.14)	nm	2741%
Pre-tax Income	4.12	13%	0%
<b>Net Income</b>	<b>2.84</b>	<b>0%</b>	<b>-7%</b>
EPS (NT\$)	1.01	0%	-6%
<b>EBITDA</b>	<b>8.49</b>	<b>8%</b>	<b>10%</b>

**Table 5. 1H21 Consolidated Results**

NTSbn	1H21	1H20	YoY
<b>Revenue</b>	<b>73.73</b>	<b>63.19</b>	<b>17%</b>
Cash Cost & Expense	(57.39)	(47.38)	21%
<b>Operating Income</b>	<b>7.90</b>	<b>8.61</b>	<b>-8%</b>
Non-op. Income (Expense)	(0.13)	(0.16)	-18%
Pre-tax Income	7.77	8.46	-8%
<b>Net Income</b>	<b>5.67</b>	<b>6.36</b>	<b>-11%</b>
EPS (NT\$)	2.02	2.26	-11%
<b>EBITDA</b>	<b>16.34</b>	<b>15.81</b>	<b>3%</b>

#### Income Statement Analysis

##### 2Q21

Supported by our robust e-commerce business and improving telecom business, consolidated revenue and consolidated EBITDA grew by 23% and 10% YoY respectively in 2Q21, the highest among the Big 3.

5G D&A continued to weigh on telecom profitability, but successful 5G upselling and momo's upbeat performance helped consolidated operating income turn YoY positive in 2Q21.

The difference in the YoY trends of pre-tax income and net income was mainly due to a YoY climb in net income attributable to minority interest.

##### 1H21

1H21 consolidated revenue and EBITDA were both ahead of our FY21 guidance released earlier this year.

## IV. Cash Flow Analysis

**Table 6. Cash Flow**

NTSbn	2Q21	1Q21	2Q20
<b>Operating</b>	<b>10.03</b>	<b>6.00</b>	<b>7.47</b>
Pre-tax Income	4.12	3.65	4.13
Non-cash Add-backs	4.65	4.64	4.07
--Depreciation <sup>1</sup>	2.04	2.02	1.73
--Amortization	1.19	1.19	0.87
--Others <sup>1</sup>	1.42	1.44	1.47
Changes in Working Capital & Income Taxes	1.11	(2.28)	(0.73)
Others	0.14	(0.01)	0.00
<b>Investing</b>	<b>(3.40)</b>	<b>(2.33)</b>	<b>(1.54)</b>
Capex <sup>2</sup>	(3.39)	(2.93)	(1.90)
Divestment (Acquisition)	(0.01)	0.59	0.39
5G License Fees	0.00	0.00	0.00
Other Financial Assets (Increase)	(0.00)	0.01	0.01
Refundable Deposits (Increase)	0.00	(0.01)	(0.01)
Others	0.01	0.01	(0.03)
<b>Financing</b>	<b>(2.23)</b>	<b>(3.08)</b>	<b>(6.79)</b>
Short-term Borrowings	(1.00)	(1.80)	(4.94)
Proceeds from Issuance of Bonds	0.00	0.00	0.00
Long-term Bank Loan	(0.05)	(0.06)	(0.05)
Repayment of The Principal Portion of Lease Liabilities <sup>3</sup>	(0.97)	(1.02)	(0.94)
Dividends Payments	(0.00)	0.00	(0.66)
Repayments of Bonds Payable	0.00	0.00	0.00
Interest (Payment) & Others	(0.21)	(0.21)	(0.20)
<b>Net Cash Position Chg.</b>	<b>4.40</b>	<b>0.58</b>	<b>(0.86)</b>

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 7. Capex & FCF**

NTSbn	2Q21	1Q21	2Q20
<b>Cash Capex<sup>1</sup></b>	<b>3.39</b>	<b>2.93</b>	<b>1.90</b>
- Mobile	2.75	2.08	0.88
- Fixed-line	0.45	0.56	0.35
- Cable	0.15	0.15	0.18
- momo & others	0.04	0.14	0.49
<b>% of Revenue</b>	<b>9%</b>	<b>8%</b>	<b>6%</b>
<b>Free Cash Flow<sup>1</sup></b>	<b>5.65</b>	<b>2.01</b>	<b>4.60</b>

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

### Cash Flow Analysis

Operating cash inflow swelled YoY thanks to 1) better cash earnings from our telecom and e-commerce businesses and 2) the scale effect of momo's negative cash conversion cycle.

In terms of investing cash outflow YoY change, as there was no 5G roll-out until 2H20, capex increased YoY. In addition, 2Q21 was shy of cash inflow from divestments, while 2Q20 and 1Q21 recorded share disposals of Taiwan High Speed Rail and Taiwan Pelican Express respectively.

2Q21 financial cash outflow dropped YoY given 1) we repaid our short-term borrowings in 2Q20, defrayed by the straight bond issued in 1Q20, and 2) momo's dividend payment will fall on a different quarter (2Q20 vs. 3Q21).

### Capex and Free Cash Flow Analysis

As we are in the process of making payments for 5G roll-outs, mobile capex edged up sequentially in 2Q21. However, telecom cash capex in 1H21 fell by NT\$1.68bn HoH from 2H20 when we started building out 5G infrastructure.

Aided by better operating cash flow and stabilized capex, free cash flows saw successive improvements in both 2Q21 and 1H21. 1H21 free cash flow calculated with pre-IFRS 16 operating cash flow reached NT\$7.66bn, translating into an annualized FCF yield of 5.3%.

## V. Balance Sheet Analysis

**Table 8. Balance Sheet**

NTSbn	2Q21	1Q21	2Q20
<b>Total Assets</b>	<b>188.93</b>	<b>185.00</b>	<b>177.39</b>
Current Assets	35.79	31.69	30.27
- Cash & Cash Equivalents	15.75	11.36	8.24
- Receivable & Contract Assets	14.28	13.97	13.77
- Inventories	3.92	4.66	3.72
- Short-term Investment	0.27	0.26	2.99
- Other Current Assets	1.56	1.44	1.55
Non-current Assets	153.14	153.31	147.12
- Long-term Investment	4.61	4.05	3.57
- Property and Equipment	46.36	46.32	38.55
- Right-of-use Assets	9.39	9.42	9.21
- Concession	62.65	63.73	66.96
- Other Non-current & Contract Assets	30.13	29.80	28.84
<b>Liabilities</b>	<b>122.63</b>	<b>109.61</b>	<b>110.89</b>
Current Liabilities	68.35	55.35	60.18
- ST Borrowings	24.14	25.13	21.69
- Accounts & Notes Payable	11.64	8.48	8.35
- Current Lease Liabilities	3.65	3.64	3.53
- Other Current Liabilities	28.93	18.10	26.61
Non-current Liabilities	54.28	54.26	50.71
- Long-term Borrowings	43.65	43.70	40.37
- Non-current Lease Liabilities	5.77	5.79	5.68
- Other Non-current Liabilities	4.85	4.77	4.66
<b>Shareholders' Equity</b>	<b>66.30</b>	<b>75.39</b>	<b>66.50</b>
-Paid-in Capital	35.12	35.12	35.09
-Capital Surplus	16.34	18.91	18.68
-Legal Reserve	31.50	30.17	30.17
-Treasury Shares	(29.72)	(29.72)	(29.72)
-Un-appropriated Earnings	0.00	0.00	0.00
-Non-controlling Interest	6.77	7.04	6.02
-Retained Earnings & Others <sup>1</sup>	6.28	13.85	6.24

1: Including YTD profits and other equity items

**Table 9. Ratios**

	2Q21	1Q21	2Q20
<b>Current Ratio</b>	52%	57%	50%
<b>Interest Coverage (x)</b>	32.2	27.9	31.4
<b>Net Debt (Cash) to Equity</b>	78%	76%	81%
<b>Net Debt (Cash) to EBITDA (x)</b>	1.62	1.83	1.68
<b>ROE (annualized)<sup>1</sup></b>	16%	15%	18%
<b>ROA (annualized)<sup>2</sup></b>	6%	6%	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

The YoY increase in cash was mainly driven by momo's business expansion as mentioned in the cash flow analysis.

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

For non-current assets, PP&E grew YoY following our 5G network roll-out since 2H20, while non-current contract assets climbed YoY as we featured 48-month long-term contracts.

### Liabilities & Shareholders' Equity

As momo's e-commerce business expanded rapidly, payable climbed YoY, while inventory growth was constrained due to shorter inventory turnover & receivable days than payable days.

As for other current liabilities, the YoY climb reflects higher 5G equipment payable to Nokia and momo's dividend payable. AGM's approval of dividend payments to both TWM and momo shareholders led to a NT\$12.9bn dividend payable rise in 2Q21 and a subsequent QoQ reduction in shareholders' equity.

### Ratio Analysis

Net debt to EBITDA improved YoY and QoQ thanks to the growth in EBITDA and momo's strong cash generations.

## VI. Management Remarks

### Key Message

We have weathered through telecom EBITDA compression and restored its YoY growth in 2Q21, while accelerating momo's EBITDA upswing. This turnaround in our operations shows our strategic resilience amid the pandemic. The societal shift to “everything from home”, where the world increasingly relies on digital connectivity for work, education and more will lay the foundation for our continuous expansions going forward. In this new normal, our accelerated transformation into a regional tech+telco group will position us for even faster growth while creating further long-term value for shareholders.

### Awards and Recognition

- The first telecom service provider in Taiwan to reach 50% 5G population coverage, certified by the National Communications Commission (NCC).
- Honored with *Global Views Monthly's* “ESG Comprehensive performance – Telecom Industry” award for 3 consecutive years and received the 2021 “Model Award” in the Education Promotion category.
- Ranked among the top 5% of listed companies in the “Corporate Governance Evaluation” conducted by the Taiwan Stock Exchange and Taipei Exchange for 7 years in a row.
- A constituent of *Taiwan Index Plus Corporation's* “FTSE4GOOD TIP Taiwan ESG Index” for 4 consecutive years.
- Ranked Top 10 in the “Greater China Business Sustainable Index” by *The Chinese University of Hong Kong (CUHK) Business School's Centre for Business Sustainability (CBS)* and *National Chengchi University (NCCU) College of Commerce Sinyi School*.