

Taiwan Mobile
2Q15 Results Conference Call
July 30, 2015

Moderator: Good morning, good afternoon, ladies and gentlemen. Welcome to the conference call. The chairman today is Mr. James Jeng. Mr. Jeng, please begin the call and I'll be standing by for the question and answer session. Thank you.

James Jeng, President: Good afternoon. Before I start our presentation, I'd like to direct your attention to our disclaimer page, which states:

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For the business overview, I will start with the mobile operating performance.

Continuous 4G Business Expansion

The 4G service take-up rate reached 29% of the postpaid installed base as of the end of 2Q15. In view that 4G postpaid ARPU was 1.7x company's postpaid ARPU, a rising 4G postpaid subscriber number helped mobile postpaid ARPU grow by 3% YoY in the quarter.

Please turn to the next page for our CATV operations.

Steady Growth in the CATV Business

As indicated in the table, our internet subscriber base increase of 6% and DTV customer base growth of 22% were both higher than the 1% subscriber rise in the analogue TV service in 2Q15, representing the trend of a growing take-up rate of two or three services. A respective 33% and 31% of our basic TV customers also subscribed to the cable internet and DTV services.

In addition to our continuous upselling strategy, we also launched the 300Mbps cable broadband service in 2Q15, the fastest speed offered by MSOs. As a result, customer mix on the high-speed service, i.e. above 50Mbps, rose to 33% from only 22% a year ago.

Retail Business

In 2Q15, momo derived around 66% of its revenue from the online shopping business which registered a healthy 16% YoY growth. The TV home shopping businesses in Taiwan and China remained lackluster.

momo's EBITDA margin contraction in 2Q15 was due to 1) higher start-up cost associated with its new B2B2C business, 2) higher channel costs for its TV home shopping business and 3) lower revenue mix from its higher-margin TV home shopping business.

Having said that, momo's 2Q15 net profit was underpinned by the following three factors: 1) higher interest revenue, 2) more equity income from overseas affiliates in Thailand and China and 3) no similar loss from its discontinued cosmetic store operations in 2Q14.

Let me turn the presentation over to Rosie for the financial overview section.

Results Summary

Rosie, CFO & Spokesperson: Good afternoon. Let me talk about the results summary first.

Compared to a quarter ago, device sales did not grow sequentially from 1Q15 as demand switched to lower-end phones. Mobile service revenue, on the other hand, registered a very good QoQ increase. This, coupled with lesser handset subsidies in 2Q15, led to a sequential increase of 9% in consolidated EBITDA.

In addition to solid sequential improvement, a healthy YoY increase was also recorded in 2Q.

On a YoY basis, 2Q15 consolidated revenue increased by 5% credited to revenue rises in all business lines, namely telecom, CATV and retail.

In contrast to a 2% YoY drop in 1Q15, 2Q consolidated EBITDA rose 2% YoY, aided by expanding EBITDAs in the telecom and CATV segments.

We missed our revenue target due largely to lower-than-expected handset sales and retail revenue in the quarter. However, with strict expense discipline and lower-than-expected non-operating expenses, we still managed to beat our EBITDA and EPS targets by 1% and 21%, respectively, in 2Q15.

For 1H15, the continuous push in leveling up 4G penetration rate has paid off. Year to June, the consolidated EBITDA has caught up to the same level as it was prior to the 4G launch a year ago. 1H15 net income reached 56% of our full-year target.

Performance by Business

This slide provides revenue and EBITDA breakdown by products for your reference.

I only want to highlight that the EBITDA of the telecom business grew 3% YoY, which suggest a much improved 4G profit profile for 2Q15.

Balance Sheet Analysis

Assets

Our cash balance increased QoQ due to a steady rise in operating cash inflows.

The QoQ change in other current assets was a function of 1) momo's redemption of a NT\$2.3bn time deposit & money market investment and 2) the reclassification of NT\$0.5bn worth of Taiwan High Speed Rail Corporation (THSR) preferred shares from long-term investment into the short-term as the shares can be redeemed on August 7.

Our long-term investment increased sequentially as a result of 1) TFNM's investment of HK\$130mn in Media Asia Group Holdings Limited convertible notes and 2) momo's NT\$0.67bn investment of 20% stake in Global Home Shopping (Beijing).

Liabilities & Shareholders' Equity

Gross debt balance fell to NT\$54.7bn with a NT\$1.72bn repayment made in the quarter. The QoQ increase in other current liabilities was due to the \$15.2bn cash dividends payable which was paid on July 17, 2015.

Ratio Analysis

Net debt to EBITDA improved due to a lower debt level in 2Q15. And our ROE also improved from 1Q15 on the back of our high dividend payouts

Cash Flow Analysis

In 2Q15, the operating cash inflow rose sequentially bolstered by a higher cash earning.

The 2Q15 net investing cash outflow was mainly for a NT\$3.57bn cash capex. Other activities were investments in Global Home Shopping (Beijing) and convertible notes of Media Asia Group Holdings Limited that I mentioned earlier.

The source of funds came from 1) momo's liquidation of its time deposits & money market funds with a net proceed of NT\$2.3bn and 2) NT\$37mn proceeds from TFN's sale of an unused property in the quarter.

On the financing front, we managed to pay down NT\$1.72bn in short-term debts in the quarter. Other financing cash outflows were largely the NT\$0.67bn dividends paid to momo's minority shareholders.

Our 2Q cash capex came off from a year ago, due mainly to momo's spending in 2014 on its new warehousing and logistic center.

Let me turn the presentation back to James for the event updates.

Event Update

James: Today TWM's board resolved to participate in the 2.6GHz spectrum auction, which will release a total bandwidth of 190MHz with an aggregate reserve price of NT\$14.4bn and take place in mid-to-late October.

Taiwan High Speed Rail (THSR) announced on July 6, 2015 to buy back and cancel its issued preferred shares. Accordingly, TCC Investment, TWM's 100%-owned subsidiary, expects to receive NT\$500mn from its investment in THSR at cost.

On the new products front, we launched two new 4G rate plans, 298 and 698, with a fixed monthly data allowance to target the lower-end segment in 2Q15.

Event Update- Awards and Recognition

This page lists the awards and recognition we've received in the second quarter of 2015 for your reference.

Key Message

To wrap up our presentation, this slide summarizes the key message that we would like to deliver:

Deeper 4G penetration has enabled us to record a historical high postpaid ARPU and consolidated EBITDA. Should tiered-pricing be implemented, it will pave the way for a brighter industry outlook. We expect the growth momentum to continue and endeavor to deliver stronger shareholder value.

Now I would like to open the floor for the Q&A section.

Q & A

Anand Ramachandran, Barclays Singapore: *Firstly, I'm looking at the 4G ARPU, which you indicated was 1.7x postpaid ARPU. Would you have or could you provide us with a comparison of what that is on a like-for-like basis? I.E. what was the users' average 4G ARPU before they moved to 4G and*

what is it now? And also, can you also give us an indication of the average data usage for 4G now relative to a quarter ago?

Question two, you talked about the key message where you mentioned "Should tiered-pricing be implemented, it will pave the way for a brighter industry outlook". I'm wondering how do you think this gets implemented. Has there been any movement in pricing in the industry which leads you to believe this is possible?

On the spectrum auction, is there anything specific with regards to this spectrum that you are looking at as a strategy? Is this spectrum essential or can you live without it?

James: In response to your first question, actually we saw as a very good sign for the subs migrating from 3G to 4G having a 16-17% ARPU growth. As of today, 4G subscribers reached 2.1mn. In my view, it has already reached an economy of scale. For the coming 2H, 4G will contribute more revenue and EBITDA.

As for the data consumption, we already reached 11GB per month per user in 1Q15. In the second quarter, it slightly increased, but not that significantly. It's about the same at 11GB. I think in terms of customer usage, it's already reached the cap. For the 2nd half, it will be somewhere around 11-12GB. It will not increase that much.

Regarding tiered pricing, we will follow CHT's tariff strategy. According to their announcement last quarter, they will probably end the unlimited tariff probably sometime next year.

Regarding the 2.6GHz auction, which will take place in October, from Taiwan Mobile's standpoint, we don't think this spectrum is that urgent because right now our existing 4G spectrum total adds up to 35MHz x 2. We still have quite a lot of capacity. So, the strategy for the 2.6GHz will be deploying lightly in some metropolitan areas. That means next year even though we have a 2.6GHz spectrum, the capex will still be reduced because we have passed the peak of the capex expansion.

Anand: *Quick follow-up, do you have a 4G subscriber target by year end?*

James: About 3mn. And we are quite confident about this number.

Peter Milliken, Deutsche Bank HK: *About the ARPU, we are still seeing some competition on pricing with the 998 plans, which CHT has said they're going to remove, but you're going to continue for awhile. With those 998 plans, would they be driving ARPU on the 3G to 4G migration or are they more neutral in terms of the uplift you see as people migrate?*

James: The 998 tariff has a good and a bad part. The good part is it will move a lot of customers from 799 or 599 up to 998. However, there is also some portion of customers that move from 1399 down to 998. Right now, my personal view, it's just about balanced.

Rosie: If you look at our ARPU change, our postpaid ARPU is up 3%. Our postpaid ARPU is NT\$861, so 998 while it may help, it takes time for us to verify the situation.

Peter: *I can see why you have the plans. It's good to drive the users on to 4G and into these higher usage behaviors. When I look at these 298 and 698 plans, it does look like the market is getting more competitive and yet your ARPU and profitability are growing, so it seems like a right strategy. But you can also argue the market is getting more competitive because we are seeing these plans and we are also seeing some aggression between you guys. I think FET is taking you to court over the spectrum you are swapping. Has the market gotten less friendly or is it still relatively benign competition?*

James: The whole market competition has been very keen, especially in the high-end customers. Because for the high-end customers, they are very sensitive to speed, 4G speed. As of now, TWM really takes full advantage of it because our 4G speed is significantly ahead of the other two peers. So, that might cause some issue right now, but I think that should be settled very soon.

Danny Chu, Macquarie: *With regards to the 2.6GHz spectrum auction, just want to clarify, Taiwan Mobile will only be interested in bidding for the paired spectrum for FDD technology and will not be interested to deploy TDD LTE over the unpaired spectrum. Is that correct?*

Just based on some of the data points released in the management pack, I worked out that the 4G subscriber, as of the end of June, is about 1.74mn and the company's target is to have 3mn 4G subscribers by the end of this year. So, in the first half, company has achieved close to 40% of its 4G subscriber target and you mentioned that you're very confident to achieve the full year target. Any particular reason behind that? For example, does the company intend to do much more promotion in 2H?

When I compare the mobile service revenue versus the peers, it seems your mobile service revenue YoY growth is slightly lower than those of FET and CHT. Is there a reason behind that?

Lastly, just a clarification, when you mentioned 2G or 3G subscribers migrating to 4G, their ARPU jump by 50-70%?

James: Regarding the 2.6GHz, our priority is the FDD spectrum. However, if you see the price that the

NCC announced for the TDD, the price is really attractive. It's very low, much lower than I expected. So, I don't rule out the possibility that we would also bid on the TDD at this point.

In terms of the subscriber number at the end of June, we are at 1.955mn and, as of today, we have already reached 2.1mn and the reason we are confident is that right now most of the high-end customers have already moved to 4G. So that's why we introduce the low 4G tariff and that will probably push a lot of the 3G subscribers or even 2G subscribers to move to 4G. We expect the mid- and low-end customers will take the low tariff and move to 4G in 2H15.

Danny: *When I looked at the monthly update report from CHT, they report a 7% YoY growth in 2Q for their monthly mobile service revenue. So, I was just wondering, any particular reason why you're growing your mobile service revenue slower than peers?*

James: I think one of the main reasons is the 3G subscriber ARPU dropped a bit more than I expected as voice revenue dropped quite significantly for TWM. And the second reason is that, on a YoY basis, the base of our mobile service revenue last year was a bit higher than our peers. So, the growth rate will not be as much as the peers'. But the upside for the 4G ARPU is really good and more than what we expected.

Danny: *Ok, as a follow-up, when 2G, 3G customers migrate onto 4G, their ARPU jump by "five zero" to "seven zero" %, right?*

James: No, it was about 16-17% ARPU uplift during their migration to 4G.

Gopa Kumar, Nomura India: *Is it possible to disclose, of your total mobile service revenue and EBITDA, how much is contributed by 4G?*

Assuming that tiered pricing is not implemented this year and probably next year and unlimited plans continue in the market, would you still expect earnings growth to come back to the business especially given higher D&A from the 2.6GHz spectrum?

Rosie: The 4G revenue accounted for 39% of our mobile service revenue in the 1H. And, there are certain cost allocation issues, so I don't think we are supposed to disclose the EBITDA of 4G alone.

Gopal: Can I know how much the revenue contribution of 4G in 1Q and 2Q?

Rosie: Sorry, we don't the numbers with us.

Olivia Wu, Yuanta Taiwan: *How much do you expect the capex to decrease next year? Because coverage for 700MHz has already reached 99%, and it already reached 90 to 95% for 1800MHz, so may we expect there will only be a little incremental base station investment for 4G, and there will be a bigger decrease in capex next year.*

We know that FET is expecting you to return the C4 spectrum back to them and now you just mentioned that the issue is going to settle down. Do you plan to return said spectrum to the NCC late next year?

Do you have a separate D&A cost number for the 2Q? How do you expect blended ARPU to grow this year and next year?

James: In response to your question regarding capex, yes, you are right, the population coverage for 700MHz already reached 99%. The 1800 band, by the end of this year, we will reach more than 90%. For the next year, even with an additional spectrum of 2.6GHz, the capex will still be significantly reduced from this year. I have no figure to tell how much it will decrease, but once we finish our next year forecast, we will be able to come up with a figure.

Olivia: *Will there be incremental capex for 4G related to the 4G subscriber penetration rate because I know you already have 2mn subscribers now, but if your subscribers reach 3mn or 4mn next year, will there be a demand to increase the capacity?*

James: I don't think so. If you recall, for the 3G services, we have only 15MHz spectrum. For 4G, we have 35MHz. So, we still have a lot of unused capacity. My prediction for the coming 2 to 3 years, the existing capacity will still be enough. So, for the 2.6GHz, it will be only used to enhance the capacity for some metropolitan areas.

Olivia: *Will you still plan to return the C4 block back to the NCC in June next year?*

James: Yes, according to the agreement, Taiwan Mobile will return C4 spectrum to FET. Yes, we will.

Olivia: *Do you have the separate number for D&A?*

Rosie: For overall, D&A in total is NT\$3.3bn in the 2Q. We will get back to you offline as we don't have the separate numbers on hand.

James: Regarding blended ARPU, I think we have significant growth in 2Q, but for the 3Q and 4Q, it will only increase slightly. The growth won't be that significant because we will concentrate more on

the mid- or low-end customers.

Jack Hsu, Sinopac Taiwan: *Why did the EBITDA margin for the company as a whole decline YoY?*

Rosie: That's because our revenue growth actually came mainly from handset sales and retail, which is momo. Also, the cost increased because we included the so-called subsidies. We bought 150,000 more handsets in the 1H. So, that's affecting our overall performance on EBITDA.

Jack: *EPS for 1H was NT\$2.85. Will you change the forecast for the full year?*

Rosie: Not yet. We will see if there is a need for us to change our forecast.

Gary Yu, Morgan Stanley HK: *In your 1H or 2Q, was there any contribution from the Ambit roaming agreement in terms of mobile revenue or the mobile ARPU that you reported? And, if there was contribution, what was roughly the percentage of revenue coming from roaming?*

James: Yes, there was some contribution to our revenue as well as our EBITDA, but I can't disclose the percentage at this point.

Gary: *When we reported postpaid or blended ARPU, do we include roaming contribution from Ambit as well?*

Rosie: Yes.

Sydney Chang, BoAML HK: *Given your 1H results, you have already achieve more than 50% of the full year guidance, do you have intention to revise up the full year guidance and what is the outlook for the 2H?*

James: The outlook for the 2H is quite optimistic so far. So, I personally expect the earnings for the whole year to outperform. I have no figures at this point, but, as I mentioned, the earnings, the EPS should be better than what we forecasted at the beginning of the year.

In 3Q, our budgetary EPS forecast is NT\$1.36.

Peter Milliken, Deutsche Bank HK: *The NCC recently ruled you can do network sharing if they approve your business plan. Does that mean that you're in a difficult position until you get that approved in allowing APT to roam on your network?*

James: No, there is no difficulty. Actually, it's been approved; we just have to change the business plan. It's more of a formality. So, from now on, the roaming should be legal and approved by the NCC.

Peter: *Will a user have an equivalent experience on APT as on Taiwan Mobile for the 4G network? Would there be any difference that one could notice between the two?*

James: I cannot comment on that.