

Taiwan Mobile
3Q14 Results Conference Call
October 31, 2014

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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Let's turn to business overview.

Largest LTE Spectrum Holdings

In the next few slides, I would like to go through our operating performance by business.

First on the mobile business. Taiwan Mobile made an announcement regarding its partnership with Ambit last month. Combining the 5MHz spectrum acquired from Ambit, we will have a contiguous 20MHz spectrum on the 700 frequency band which will result in much better coverage and better deep-in-door penetration than the 1800 frequency band in comparison with our peers.

Adding in our other 5MHz in use on the 1800 frequency band, the optimal speed we can provide would reach 180Mbps through inter-band carrier aggregation of 25MHz in total, the fastest speed among all operators.

In other words, Taiwan Mobile is best positioned to capture the business upside of the LTE services due to its possession of the largest sub-1GHz low frequency spectrum and total number of spectrum holdings both in the short-term and long-term.

Please turn to the next page of our smartphone strategy.

Mobile Operating Performance

On a like-for-like basis with our peers, TWM's third quarter mobile service revenue was flat year over year, with a 14% YoY increase in the wireless data.

On the 4G front, take-up rate grew faster than expected. As of today, 4G penetration rate has reached over 9% of our postpaid installed base, with 74% of our 4G users migrating from our existing customers.

Please turn to the next page for our smartphone strategy.

Our Smartphone Strategy

Regarding our smartphone strategy, the ecosystem for the 700 LTE enabled phones has never been an issue in the Taiwan market. Currently we have 27 smartphone models and another 5 tablet products supporting the 700 LTE band available to our customers, in particular, the newly launched iPhone 6.

Following the 700 LTE service launch in early June, we have also been providing 1800 LTE service since September.

In addition, mobile data adoption rate went up to 60% of the postpaid installed base, from 51% a year ago. This led to a 18% YoY growth in mobile broadband revenue in the third quarter.

Steady CATV Business

On the cable TV business, as indicated in the table, our internet subscriber base increase of 4% and DTV customer base growth of 45% were both higher than the 1% subscriber rise in analogue TV service in 3Q14, representing the trend of a growing take-up rate of two or three services.

Growing Online Shopping Business

In 3Q14, momo's revenue increase resulted greatly from a solid 38% YoY revenue growth in the online shopping business.

On the EBITDA front, momo's EBITDA in the online shopping business grew around 150% YoY credited to strong revenue growth and margin expansion. EBITDA in the TV home shopping service grew by 62% YoY largely due to channel cost cutting. As a result, momo

registered a 113% YoY increase in EBITDA on an expanding margin of 7.3% for the quarter from 4.2% a year ago.

Let's turn to the financial overview section.

Performance by Business

In terms of performance by business in 3Q14, telecom revenue was mainly affected by lower handset sales as a result of a higher mix of low-end smartphones in 3Q14 compared to a year ago. Telecom's service revenue and EBITDA were both negatively affected by bundle sales adjustments and a decline in voice revenues. The well-received iPhone6/6plus introduced in late September also increased our handset subsidies QoQ.

Thanks to a 44% YoY revenue growth in the DTV business and the continuously growing cable internet business, cable TV business saw a YoY increase in EBITDA and an expanded EBITDA margin compared to a year ago.

As mentioned in the previous page, momo's strong EBITDA growth came from both its TV home shopping and online shopping businesses and rising margins.

In a nutshell, TWM's consolidated EBITDA managed to grow 1% YoY on the back of profit increases in all of the business lines, except for telecom business.

Let me turn the presentation over to Rosie for income statement, balance sheet and cash flow analyses.

Results Summary

Rosie, CFO & Spokesperson: Good afternoon. In 3Q14, we reported total revenue of NT\$27.8bn, EBITDA of NT\$8.1bn, and EPS of NT\$1.39.

3Q14 YoY Analysis

TWM's 3Q consolidated revenue and EBITDA grew 3% and 1% YoY, respectively, as James mentioned earlier. Nonetheless, higher non-operating expenses and D&A expenses from the telecom business inevitably weighed on TWM's net income in 3Q14.

3Q14 Guidance Achievement Rate Analysis

The lower-than-expected revenue was mainly due to a handset sales shortfall resulting from weaker demand for high-end 3G smartphones. Consolidated EBITDA exceeded our guidance by 3% due to lower-than-expected telecom opex and higher-than-expected profit from momo.

D&A and non-operating expenses also came in lower than forecast. As such, 3Q14 net income was ahead of our forecast by 9%.

Balance Sheet Analysis

Assets

In 3Q14, cash balance increased QoQ resulting from a higher operating cash inflow. Inventories increased at the end of 3Q in preparation for meeting the strong demand for the iPhone 6. The sequential increase in PP&E mainly came from the continuous addition of 4G equipment.

Liabilities & Shareholders' Equity

Compared to a quarter ago, TWM increased its gross debt by NT\$12.18bn to fund cash dividend payments made in 3Q14. The YoY increase in debt level resulted from an investment in the LTE spectrum acquired in 4Q13.

Other current liabilities decreased QoQ due to the \$15.06bn cash dividends payable paid in 3Q14, but increased YoY as a result of greater handset and 4G equipment related payables.

Cash Flow Analysis

In 3Q14, operating cash inflow increased QoQ and YoY mainly due to larger payables booked in the quarter as mentioned earlier.

The 3Q14 net investing cash outflow was mainly for a NT\$3.59bn cash capex. Continuous investments in the 4G network resulted in a YoY increase in cash capex. Compared to a quarter ago, 3Q14 cash capex decreased due to momo's spending on the logistics and warehousing center made in 2Q14. As a result, free cash yield was back on track to around 6% for the quarter.

In terms of financing activities, the net cash outflow of NT\$2.94bn was mainly a combination of a NT\$15.06bn dividend payment and a NT\$12.18bn increase in borrowings in 3Q14.

Let me turn the mic back to James for 4Q14 guidance and board resolutions.

3Q14 Guidance

James: We expect both 4Q14 handset sales and momo revenue to see higher YoY growth. Mobile service revenue is forecasted to have a low single-digit percentage annual increase in 4Q. That said, softness in IDD, ISR and other legacy businesses are expected to result in a flat YoY change in telecom service revenue.

The EBITDAs of cable TV and momo will continue to rise YoY in 4Q. Telecom EBITDA, on the other hand, may not go up due to anticipated higher 4G take-up which will push up handset subsidies in 4Q, especially for the iPhone 6.

D&A expenses are expected to increase both YoY and QoQ, largely due to increases in 4G spectrum fee amortization and 4G equipment depreciation. Asset write-off losses and income tax expense, nonetheless, will come off both YoY and QoQ.

For the full year of 2014, TWM expects to register a consolidated revenue of NT\$112.71bn and EPS of NT\$5.51.

Board Resolution

To take the lead in the 4G network roll-out, TWM's board approved this morning an additional capex budget of NT\$0.5bn for 2014, bringing the full-year capex to NT\$16bn. Thus, by end of this year, we will have close to 95% population coverage.

Event Update

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

Key Message

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

With the acquisition of 5MHz on the 700MHz frequency band from Ambit, TWM will have the largest 4G spectrum of 35MHz, including in particular, the biggest contiguous spectrum of 20MHz on the 700MHz band, leading TWM to be best positioned to provide the fastest 4G service to the consumers and increase corporate value to our shareholders. Additionally, we will adjust 4G product offerings to better monetize our 4G investments.

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

Q & A

Anand Ramachandran, Barclays Singapore: *I have two questions. Firstly, we've had FET and CHT both say they have market leadership in 4G in excess of 35% market share. So, by mathematics, your 4G base appears to be smaller. Now you talked about being best positioned into 4G given spectrum, so is market leadership also something*

you inspire for or do you want to focus on the right subscriber, the value than just market share?

Question #2 is on dividends. I just wanted to hear your latest thoughts and, in particular, the spectrum auction potentially coming up later in 2015. Would dividend policy be impacted by that or you want to maintain the dividend policy you've always had, which has been very consistent?

James: I think, at the end of 3Q, we were slightly behind our peers, but, to me, the 4G market share is like a 1,000 meter race and we are just in the beginning of 10 meters. So, it's too early to say who is leading. But, for your information, in the 3Q, we didn't put a lot of marketing effort, including the handset subsidy and commission, in the market, because the 4G network needs a lot of optimization and fine-tuning in terms of coverage and reliability. However, we will save all our bullets for 4Q. So, our October figure for the 4G new subscribers is very significant. I think the meaningful checkpoint for the 4G market share in 2014 will probably be in December. We will probably reach close to 1 million 4G subs at the end of this year, which I believe will be around 33-35% market share. In 4Q, we will really work on catching up and being one of the leading companies in terms of 4G market share.

Rosie: On the dividend front, as you all know, we always want to maintain a stable dividend policy. I am not in a position to disclose how much the payout ratio. As you all know, our dividend policy is decided every April when the board resolves our dividend policy for that particular year. But, also, you all know that we have a lot of cushion to top up our dividends. So, that's all we can say at the moment. It has nothing to do with the 2.6GHz auction for next year. We are confident in our debt financing capabilities and we have no concern over our debt ratio at the moment.

Danny Chu, Macquarie HK: ***In your presentation, you mentioned that for 3Q, handset sales is lower than expected, but, at the same time, you gave out guidance that in 4Q you expect handset sales to be very strong and I believe probably it's because of the iPhone 6 sales in the 4Q, but going into 2015, do you expect as the smartphone penetration becomes much higher, the sales of high-end smartphones will slow down sharply in 2015?***

Can you help us better understand that since CHT and FET all indicate 2014 is the year that the capex will peak out, should we assume the same case for Taiwan Mobile that 2014 is the peak capex year?

Since management said that going into 4Q, Taiwan Mobile is saving all its bullets to compete with its competitors for the 4G landscape, in that case should we assume the current promotion of unlimited data plans could continue into the 4Q since both CHT and FET indicated in their respective conference calls a wait-and-see approach to what the competitors will do before they decide on tiered pricing?

James: Yes, in terms of the volume of handset, we actually exceeded our expectations, however, the low- and mid-end handsets, in the first three quarters, were the majority and, that resulted in the handset sales revenue not meeting our expectations. But you are right, thanks to the iPhone 6, we expect the handset sales revenue to significantly increase in the 4Q. Right now, there is a big queue for the iPhone. For Taiwan Mobile, only less than 10% of the iPhone 6 pre-order subscribers got the handsets. And the remaining 90% haven't. That's why not only 4Q this year, but I also 1Q next year will have high demand for iPhone 6.

This year will probably be the peak of the capex and next year, because the network deployment of 4G will more or less be completed in the 1Q or 2Q of next year, after that, the capex will decrease. I don't have the figure right now, but it will definitely decrease.

Yes, we will wait-and-see, but officially our all-you-can-eat tariff for 4G will end at the end of October. For November and December, we will wait-and-see based on what our competitors will do.

Tina Hou, Goldman Sachs HK: *I have four questions. The first one is that with APT aiming to launch their 4G by the end of this year, do you have any defensive mechanism in place, since you are one of their shareholders, to prevent them from grabbing Taiwan Mobile's customers and how do you make sure that they do not come to market with very aggressive pricing plans and compete for your subscriber market share?*

The second question is regarding the 2600 MHz spectrum auction. So, now since you and APT have formed an alliance, will you be approaching the auction more in a competitive manner or more in a collaborative manner? And how do you view the strategic importance of the 2600 vs. the 700 and 1800 spectrum band?

The third question, on page 18 I see that you stated that you will adjust 4G product offerings to better monetize your 4G investment. I think this is very good to hear, but can you give us more details on that?

The fourth question is on the iPhone 6. The president just mentioned that the demand will likely last until the 1Q 2015, so I'm just wondering will that mean in 1Q15 EBITDA margin will sort of be depressed by the higher handset subsidy of iPhone 6?

James: I think APTG will launch their service by the end of this year. Since we have an alliance, I think we will utilize our channel policy and try to minimize cannibalism among TWM and APTG. We already have some policy in mind, but I can't disclose at this point.

Regarding the 2.6GHz spectrum auction, actually right now there is a lot of dispute whether the NCC will start the auction in 4Q15 because the wimax operators are still arguing with the government. But, if that happens in 4Q, of course TWM will pursue the auction and I think APTG will pursue the auction as well. But since we are both an independent company, I think we will have our policy and spectrum strategy to well utilize our spectrum and do it very efficiently. Basically, for the 4G traditional services such as data, mobile internet or voice services, the existing spectrum should be sufficient enough, and, the additional spectrum, would basically be used for differentiation of services such as IOT (Internet of Things) and we are thinking and planning for some brand new services related to Internet of Things and to provide unique services by utilizing this additional spectrum.

I can't disclose, but, from the iPhone 6 plus and the additional spectrum, we will definitely offer quite unique services to monetize our 4G investment. I apologize I can't disclose right now, but hopefully you will get surprised by the result probably first quarter next year.

Right now, the iPhone supply is not sufficient and not in time. And this causes problems for us because there's a long queue and a lot of reservations, a lot of complaining for the iPhone 6, especially the plus. So, if Apple can provide sufficient iPhone 6, I would say there would have a big subsidy of these iPhone, however, the ARPU for the iPhone subscriber is highest. From the figure we have right now, for the customers that migrate from 3G to 4G, their ARPU is 10-12% increase. We are pretty confident that can compensate our big subsidy for the iPhone and, for the mid-term or the long term, we will definitely benefit from this higher ARPU from the iPhone customers.

Tina: *You mentioned for iPhone users, 3G to 4G premium is 10-12%, what about for the average 4G subscriber?*

James: I can't disclose this figure right now, but the figure will have so far because the billing cycle we will have right now is only up till August, the sample is still not sufficient enough to really make a statement right now. The ARPU premium for average 4G users with a full

billing cycle is around 12%, but the sample is still not sufficient enough to make a conclusion. I can't disclose the exact ARPU for 4G users right now, but it's pretty good.

Steven Liu, Standard Chartered HK: *First, on the capex, you're still spending a lot on cable TV. Can you elaborate what area are you investing? From the investments, can we expect revenue growth in these segments to pick up?*

The second question is on the spectrum. If you can acquire some 2.6GHz next year, will you use the spectrum for TDD LTE or FDD LTE?

On tiered pricing, are you offering tiered pricing in 4G plan?

James: Regarding cable TV, I think the capex for cable TV is mainly in cable internet. We have been investing a lot in cable modem and CMTS headend equipment. We've been experiencing quite a good growth in terms of the cable modem subscriber increase and ARPU. We are offering 200mbps service right now, that is leading the cable industry, and the ARPU is quite good. As you can see, the ARPU is increasing right now and the EBITDA margin is increasing as well. Cable modem is one of the areas we are focused on.

The other part that is very promising is the digital TV service. We spent money mainly for set-top box of digital TV because it is mandatory requirement from the NCC that we have to digitalize the whole network before 2017. So we have to put a lot of digital TV set-top box to the customers. We are experiencing a good revenue growth and EBITDA margin as well for DTV service. So, these two areas are really good investments.

The second question whether we will utilize FDD or TDD technology on 2.6GHz spectrum is a very good question. We are still evaluating right now. Initially, MOTC only reserved 50MHz for TDD and the rest 140MHz is for FDD. But people keep arguing with the government whether they should expend more spectrum for the TDD because TDD is the mainstream of China's 4G service. And we are evaluating and doing field trials right now for TDD and FDD. Basically, we will pursue for FDD, but I do not rule out possibility that we will adopt TDD. Right now, we are still evaluating.

Regarding the 3rd question on tiered pricing for 4G, that is for sure. The whole mechanism and IT system or technical part is ready for tiered pricing. As I mentioned, we will wait and see how peers react to these so-called flat rates.

Stephen: Can I know how many homepass in your cable broadband right now?

James: Right now, our homepass for cable TV is around 580,000 right now. Our broadband is 185,000. About 32% penetration rate.

Gopa Kumar, Nomura: *Just two questions. Firstly, you're talking about this 30-35% market share aspiration for 4G. FET mentioned they don't want to go back with some 35% and CHT saying 40%. I was wondering how do you think that's going to work, who do you think is most at risk on this?*

Secondly, this 20MHz contiguous spectrum, I was wondering when can you start deploying that and what's the expected benefit you're hoping to see from this spectrum?

James: Regarding your second question about the additional 5MHz from Ambit, I think it's subject to NCC's approval right now. Ambit has to get the operational license in order to sell their 5MHz to us. From my understanding right now, the timeframe will probably be at the end of this year. So, at the end of this year, we should be able to acquire the 5MHz on 700 band from Ambit and we can start to provide service on the 20MHz contiguous spectrum probably 1Q next year and this will put us in very good position in terms of coverage and speed.

Regarding the first question, I think I addressed just two minutes ago. Once again, we will put all bullets in the 4Q, starting from the October timeframe. From the figures we have right now, in October, we are doing very well, momentum is good, of course, thanks to the iPhone 6. As I mentioned, at the end of this year, we should be able to reach very close to 1 million subscribers, which will be probably 1/3 of the market share.

Jack Hsu, Sinopac Taiwan: *I have two questions. First, what's your strategy for 4G for 2015? And the second is what's your strategy for momo in 2015?*

James: The 4G strategy for 2015 is to gain market share and, secondly, get ARPU premium from the customer side, that's very important. If we just migrate customers from 3G to 4G without any ARPU premium, that's not the right strategy. So, in the 3Q this year, our 4G subscriber number may be a little bit lower, but our 4G subscribers were at least moving one tier up in terms of tariff plan. So we have seen a 12% ARPU liftup so far. To gain the ARPU is a very important strategy for us. The third strategy is to have more value-added services on top of the 4G. As I mentioned before, the mobile business cannot just be a dumb pipe. We need to enhance our value-added services in terms of music or video or interactive services as well as the commerce part, mobile payment. We are working on it. So, next year, we

should be able to gain these subscribers' stickiness by our very bountiful value-added services. So, that's basically our strategy.

Jack: *Will the subscribers of Taiwan Mobile get any premium or better pricing if they buy something from momo?*

James: momo shopping is one of our subsidiary company, but we operate independently. Our myfone shopping mainly focuses on mobile shopping and momo focuses on TV and ecommerce, so we have slightly differentiation between momo and TWM myfone shopping right now.

Anand Ramachandran, Barclays Singapore: *In your presentation, did you mention a portion of subscribers that are on 4G? I missed that number. Can you repeat it?*

James: At the end of October, 4G penetration rate is over 9% to our postpaid subscribers. But, by the end of this year, it should be around 15-16%.

Anand: *Do you have a number as to what it was at the end of September or do you not want to share that right now?*

James: I cannot disclose that right now, but the end of this year, we should reach close to 1 million.

Tina Hou, Goldman Sachs HK: *Just wondering, of the 4G subscriber you're signing up now, what is the rough split between iPhone subscribers and Android subscribers? And going forward since you're seeing very good momentum and there's currently supply constraint from Apple, do you expect more of the 4G subscribers from the Android handset side?*

James: Regarding your first question, the tariff plan iPhone users signing up is much higher than that signed up by Android users. I believe most of the iPhone subscribers is on the NT\$1599 tariff plan. That's the majority. For the Android, the rate plan that users choose. Did I answer your question?

Tina: *Actually, I was asking about the 4G subscriber split, how much is Apple?*

James: It's about 85% to 90% Android. Apple is the minority right now.

Shirley Chu, Director of Investor Relations: That's for total smartphone subscriber base.
We don't have the 4G subscriber split by operating system.