

Taiwan Mobile
1Q15 Results Conference Call
April 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.

Mobile Operating Performance

The 4G user take-up rate reached 23% of the postpaid installed base at the end of 1Q15. In fact, as of today, end of April, we already hit 24.7%. This helped accelerate mobile data adoption rate to 65% in the quarter. Thanks to a higher ARPU, revenue from 4G users made up 32% of the mobile service revenue in the quarter.

Adjusting for a higher base for mobile game revenue in 1Q14, our mobile service revenue would have grown 1% YoY in 1Q15. We also had higher 3G customer churns and voice traffic drop since the 1Q last year, which hindered part of the revenue growth. But there are some good news. We have just passed the worst contract expire period, which started from 1Q last year until end of 1Q this year. It means the churn will be significantly improved from now on in April. So, if you look at the net NP-in sub, we still remain in the leading position since the first quarter this year due to the excellent performance in 4G service in terms of speed and coverage.

Please turn to the next page for our CATV operation.

Steady Growth in the CATV Business

As indicated in the table, our internet subscriber base increase of 6% and DTV customer base growth of 27% were both higher than the 1% subscriber rise in the analogue TV service in 1Q15, representing the trend of a growing take-up rate of two or three services.

We have been successful upselling our cable internet service, migrating customers from the mainstream speed of 24Mbps to 60Mbps. As a result, the customer mix on high-speed service, i.e. above 50Mbps, rose to 30% from only 19% a year ago.

Brisk Performance in the E-Commerce Business

In 1Q15, momo's revenue increase was driven by a solid 21% YoY growth in its online shopping business. In order to upgrade our service quality, momo invested more in the warehousing, logistics, and call center areas, which had a short-term impact on its margin for the quarter.

Though the TV home shopping business failed to see a YoY increase in revenue, it still registered EBITDA growth from a year ago, on the back of better profitability.

Without a loss similar to the NT\$46m loss from its discontinued cosmetic store operations in 1Q14, momo's net profit increased by 35% YoY in 1Q15.

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

Results Summary

Rosie, CFO & Spokesperson: Good afternoon. Let's go over our 1Q15 financials.

YoY Analysis

In 1Q15, consolidated revenue increased by 7% YoY credited to strong handset sales and revenue rises in the retail and CATV businesses. EBITDA in the quarter did not rise largely due to more handset subsidies arising from higher bundled 4G handset sales volume.

Nonetheless, the 2% EBITDA YoY decline in 1Q15 narrowed from a 5% YoY drop in 4Q14. Our operating income and EPS drops were a function of higher 4G D&A.

Guidance Achievement Rate Analysis

We missed our revenue target by 2% due to lower 3G and TV home shopping revenues in the quarter. With strict expense disciplines and tax expense write-back, we managed to beat our EPS target by 14% in 1Q15.

Performance by Business

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

Balance Sheet Analysis

Assets

Cash balance remained stable at around NT\$8bn in 1Q15. Long-term investment increased YoY mainly resulting from TWM's acquisition of a 14.9% stake in Ambit in 4Q14. The YoY increase in PP&E mainly came from the continuous addition of 4G equipment and momo's land purchase made in 2Q14 to build its own warehousing and logistics center. The QoQ and YoY increases in concession were due to TWM's purchase of the 5MHz spectrum from Ambit in 1Q15.

Liabilities & Shareholders' Equity

TWM's gross debt increased slightly by NT\$1.74bn from a quarter ago, mainly due to the purchase of more LTE spectrum.

Other current liabilities decreased QoQ as more payments related to handsets and employee bonuses were made in 1Q15. Compared to a year ago, 1Q15 accounts payables were higher as a result of more purchases for handsets and the retail business.

Ratio Analysis

Current ratio and ratio of net debt to EBITDA remained stable. ROE improved QoQ from higher net profits reported in the quarter.

Cash Flow Analysis

1Q15 operating cash inflow decreased both QoQ and YoY mainly due to a higher handset payment made in the quarter.

The 1Q15 net investing cash outflow was mainly for 1) a NT\$3.29bn cash capex and 2) a NT\$3.43bn payment to acquire the 5MHz spectrum on the 700MHz band from Ambit. The level decreased from 4Q14 when we had a NT\$2.98bn investment in Ambit and a NT\$3.18bn cash management investment made by momo. The cash investment made by momo was mainly because of their proceeds from the IPO.

In terms of 1Q15 financing activities, as we are still in the process of 4G infrastructure roll-out, gearing still went up compared to a year ago. But it has been reduced from last quarter's level.

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

Event Update

TWM's board has approved a proposal to distribute 2014 cash dividend of NT\$5.6 per share,

translating into a 102% payout to shareholders, pending AGM's approval.

On the regulatory front, TWM presently has more LTE spectrum available, in particular on the 700MHz band. For the 1800 frequency band, TWM will obtain an additional 5MHz on top of the existing 5MHz in the beginning of May. As a result, the total spectrum will add up to 30MHz x 2, i.e. 20MHz in 700 band and 10MHz in 1800 band. By utilizing the carrier aggregation technology, the spectrum can provide up to 210Mbps in downstream speed. This is the fastest speed among all peers in Taiwan, and even for Asia, we are in a leading position.

Event Update- Awards and Recognition

This page lists the awards and recognition we've received in the first quarter of 2015 for your reference. I would like to highlight that our superior 4G network quality resulting from our edge of spectrum holdings has already earned recognition from various independent surveys.

Key Message

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

Taiwan Mobile is committed to enhancing shareholder returns, evidenced by the board's resolution to maintain a stable DPS in 2015. Steady expansions in the 4G revenue streams will continue to absorb the high 4G start-up costs. The company saw a sequential improvement in EBITDA in 1Q15. Nonetheless, the speed of profitability enhancement will hinge on when the industry will have a structural change in 4G pricing.

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

Q & A

Jack Hu, Sinopac Securities Taiwan: *I have two questions. My first question is what is our capex in 2015? Is there any change in comparison with the guidance released in the beginning of the year?*

My second question is what is your 4G strategy, especially the rate plans? What will be your following rate plans in this year?

James: For the capex, as of today, we don't see a major change in the capex. Basically, we follow the guidance.

In terms of the rate plans, at this point, we have a short-term promotion starting mid-April. The rate for the unlimited data dropped from NT\$1399 to NT\$998. But this short-term promotion will end at

the end of June. Besides this, I don't see any major tariff plan change in the future.

Jack: *I have one follow-up question. Will we provide the TD services in the future?*

James: For the upcoming 2.6GHz spectrum auction, there are two portions. One is FD, the other is TD. Right now, from TWM's standpoint, we will still focus on FD, however we don't rule out the possibility of exploring further TD technology. Right now, it seems that the TD technology, the whole ecosystem, especially the handsets, is better-supported at this point than before. But we will see.

Livia Wu, Yuanta Securities: *Out of all 4G subscribers, how many take the unlimited data plans? And how many take the limited data plans? And, for those who take the unlimited data plans, what's the average data usage for these subscribers?*

James: By end of April, our 4G subscribers reached 1.64mn and penetration rate was up to 24.7%. In terms of the usage, the average in 1Q is 10.7GB per sub per month for 4G and 6GB per sub per month for 3G, so blended is about 7.8GB.

Livia: *What's the percentage of the current 1.6mn 4G subscribers that take on the unlimited plan?*

James: For NT\$1,399 and above, we have 48%.

JinJin Wang, USB: *Recently, there has been some unlimited data plans introduced for 4G in Taiwan. This has aroused some investors' concerns regarding the raising pricing competition. Can management comment on this and whether this will have any implication for your revenue and margin outlook in the second half of the year?*

James: I just got data from my staff that says in April, we didn't see much downside. For the acquisition part, the customer mix of NT\$1,399 unlimited plan did not decrease, actually it increased 1%. For the retention, it dropped 4%. However, in terms of NT\$998 plan, customer mix increased 18% for AQ and increased 9% for retention. From what I can see, we're doing pretty well. But it needs more observation for May.

Robin Leung, Credit Suisse: *Regarding the recent promotion, we know it is only available to the mid- to low-end handsets and they have a lower ARPU. So, given the first quarter number that ARPU remained flat, is there any change to the 5% YoY increase in the ARPU guidance in 2015?*

James: We pay a lot of attention on the ARPU lift when the subscribers changes from 3G to 4G. From the data I have, in January of this year, we have a lift of 11%. In February, the ARPU was up to 12%.

I'm very confident with this 4G ARPU lift when people change from 3G to 4G. It looks good to me and I am quite encouraged.

Gopa Kumar, Nomura: *It seems like a lot of subscribers churned especially in the postpaid segment, what's driving this?*

And, secondly, on the momo segment, I agree that revenue growth has been very strong, but EBITDA seems to be coming off, especially on the margin side, going to 5% from 6-7% earlier. What's the strategy here?

James: I will respond to the first question and hand it over to Rosie regarding momo. For the postpaid, you might notice that the mobile service revenue on a YoY basis, we didn't increase much. Actually, it was close to 1%. And the main reason is we have encountered the worst contract expiring period. It started from the 1Q14 until March of this year. However, in April, the number of expired contracts significantly reduced. So, the postpaid churn was greatly improved.

Gopa: *Are you seeing the expired contracts not getting renewed or are you seeing them churning out to other operators?*

James: Of course, we have encountered some difficulties retaining this type of customers last year. This year, we shall be ok. In April, we already saw a positive increase in the number of postpaid customers.

Rosie: The margin erosion was a function of their investments in warehousing, logistics, and call center areas, which had a short-term impact on its margins. Also, the product mix had some impact on its margins because one of its best-selling products couldn't be sold in the 1Q. Looking forward, they already have the product back on its shelves for sale because they got the approval and clearance from the government. That's mainly for the so-called dietary supplements segment. So, they will be able to regain their growth momentum in the coming quarter.

Also, the setup of their warehousing and logistics center will pay off because that will help them save some costs and expenses in the future.

Peter Milliaen, Deutsche: *You came up with a very interesting data point on the upgrade on ARPU from 3G to 4G being 11-12% on your recent numbers. If I look at the ARPU trend though, I'm wondering why are we not seeing ARPU rising? So, ARPU is flat compared to 1Q14 numbers, why won't ARPU be rising given that 24% of users are on 4G?*

James: As I mentioned, we have encountered the peak of contracts expiring last year. In order to maintain the whole subscriber base, we increased a lot of subscribers from prepaid. And the ARPU from prepaid is lower. That's why you are not seeing the ARPU lift from 4G ARPU improvement because the mix of the prepaid customers increased.

Wen Du, Barclays: *Can you please give us some updates in terms of the roaming deal reached between Ambit and APT and any developments on that front?*

James: No comment on this issue.

Wen: *Has that got regulatory approval or is it still in process?*

James: I think it's still under the public hearing process held by the NCC. So, we have no comment on this issue.

Jack Hu, Sinopac: *Can you inform us your 4G subscriber target in 2015?*

James: We forecast 4G subscribers to reach 3mn at the end of this year. Right now, it looks pretty promising.

Jack: *What's the number at the end of April?*

James: Right now, we hit 1.64mn 4G subscribers at the end of April.