Taiwan Mobile

2Q17 Results Conference Call

August 2, 2017

James Jeng, President: Good afternoon. Welcome to Taiwan Mobile's conference call. 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.

Steady Recurring Telecom Business

For our telecom business, our 2Q postpaid subscriber number dropped 1.8% YoY, partially due to the termination of 2G service. The 3&4G postpaid subscriber number edged down by only 0.3% YoY during the period.

In 2Q, we focused on handset subsidy and dealer commission rationalization. As such, we achieved shorter payback, compared to a year ago. With an aim to resume growth in mobile revenue, sign-up of high-end contracts in the quarter also rose YoY and QoQ.

On a recurring basis, we managed to deliver a 0.6% YoY increase in 2Q telecom operating income, should roaming business be excluded.

Compared to our guidance for 2Q, we still beat our EPS guidance for the quarter.

Milder CATV Competition

On the cable TV business, two consecutive quarters of sequential rises in basic TV subscriptions indicate less competition in the market.

The cable broadband business also fared better, with higher-speed mix rising to 21%, up from 14% a year ago.

In view of likely pricing downward adjustments in both channel leasing and content distribution in 2017, we wrote back part of the aforementioned YTD revenue in 2Q. Should this one-off be adjusted retroactively into each month starting from Q1, cable TV's 2Q recurring revenue would be up 1% QoQ and its EBITDA would be flat QoQ.

<u>E-commerce –Growth Engine</u>

The E-commerce business, growing 24% YoY in revenue and surpassing the growth rate of its closest peer in Taiwan, continued to be momo's growth engine in 2Q.

We note that momo implemented a cost-cutting measure for its TV shopping business in Taiwan, leading to a 19% YoY growth in its TV shopping EBITDA for the quarter.

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

<u>Performance by Business</u>

Rosie Yu, CFO & Spokesperson:

We believe that the recurring numbers excluding roaming and other one-offs better reflect our performance in 2Q.

In the quarter, our consolidated EBITDA was resilient with only a 1% YoY dip, of which telecom EBITDA was down 1% YoY while momo's EBITDA was up by a strong 12%, on a recurring basis.

<u>Results Summary</u>

Falling bundled handset sales, market competition, and APT's moving back to its own network resulted in a 2% YoY reduction in total revenue.

Apart from promoting iPhone6 (2017 version) to increase ARPU, we aggressively cut down major variable costs & expenses to sustain profits for 2Q. Mobile related handset subsidies and commissions came off 15% YoY in the quarter, offsetting the majority of our mobile service revenue decrease, excluding roaming.

At the non-operating level, we continued benefiting from property rental income increase, momo's growing equity income, and lower asset write-off & interest expenses in 2Q.

In a nut shell, the EPS decline in 2Q was attributable mainly to one-off factors including roaming and CATV revenue adjustments.

Year to June, accumulated EBITDA and EPS are on track and reached a respective 52% and 54% of our full-year guidance.

Balance Sheet Analysis

Now let's move on to balance sheet analysis.

On the asset front, major changes seen in 2Q included receivable reductions.
Receivable reductions in the 2Q mainly reflected our efforts to shorten international roaming receivable days and fewer bundled handset sales.

On the liability front, our good FCF generations continued to help bring down the net debt level QoQ and YoY to NT$38.9bn as of the end of 2Q. Following the AGM's approval of NT$15.2bn dividend distribution, other current liabilities increased accordingly from 1Q, while shareholders' equity reduced by the same amount which included NT$14.18bn in cash dividends from retained earnings and a NT$1.07bn cash return from capital surplus.

This resulted in a QoQ drop in current ratio while ROE further rose sequentially to 29% in 2Q17.

Cash Flow Analysis

In 2Q17, despite lower EBITDA, operating cash inflow still increased 32% from a year ago, due to favorable working capital change related largely to fewer handset payments as well as momo's stronger cash conversion capability in the quarter.

On the financing front, a 53% YoY increase in FCF enabled us to pay down more debts in 2Q.

An annualized FCF yield reached 7% while net debt to EBITDA decreased to only 1.18x in 2Q.

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

Event Updates

Upcoming Auction

James: The most important upcoming event is the 1800 & 2100 MHz spectrum auctions scheduled in 4Q this year.

This slide shows the basic bidding rules, the quantity of spectrums for sale and their reserve prices.

We as always will have a sensible spectrum investment strategy to provide good investment return to our shareholders.

Awards and Recognitions

This highlights CSR related award we received in the 2Q.

Key Message

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

Our differentiated offerings and expense discipline have offset some of the negative impact from mobile service competition. Though the reduced domestic roaming weighed on our profit growth profile, it did reduce our capex and benefit our FCF. We will strive for steady recurring profits to maintain stable dividends through expense discipline and firm growth of 4G value-added services and momo. For the upcoming spectrum auction, we will continue implementing a good strategy to enhance 4G investment return.

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