

Taiwan Mobile
3Q16 Results Conference Call
October 28, 2016

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 would like to highlight our growth areas.

Mobile Growth Leading the Pack

For the first three quarters of this year, TWM's mobile growth led the pack in different metrics. In terms of total subscribers, even though the mobile market was more competitive in 3Q, TWM still outperformed in terms of sustaining its mobile subscriber base.

The 4G service take-up rate reached 60% of the postpaid installed base and helped mobile postpaid ARPU grow by 3% YoY in the first three quarters. As a result, TWM was the only one among the big three to report a positive YoY increase of 1.3% in mobile service revenue, on a like-for-like basis.

TWM also stood out in telecom EBITDA growth, aided by an industry-leading top-line growth and handset subsidy disciplines.

Online Shopping - A Bright Spot

With a 15% YoY top-line growth, online shopping remained the brightest spot for momo.

For 3Q, momo's 6% YoY increase in EBITDA came not only from revenue growth in its online shopping business but also from the TV home shopping business turnaround in China.

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

Performance by Business

Rosie Yu, CFO & Spokesperson: Despite rising mobile service revenue, telecom EBITDA decreased QoQ and YoY, mainly due to higher handset subsidies associated with the iPhone 7 launch during the quarter.

On the cable front, though cable TV revenue remained stable, 3Q16 CATV EBITDA was down due to higher broadband IP bandwidth cost and personnel expenses.

momo's growth in revenue and EBITDA were already elaborated on earlier by James.

Results Summary

The earlier release of the iPhone 7 in 3Q16 vs. the iPhone 6S in 4Q15 resulted in a YoY rise in handset subsidies. However, TWM's 3Q16 EBITDA was still resilient compared to a year ago.

Compared to our 3Q16 guidance, consolidated revenue slightly missed our forecast for the quarter mainly due to lower-than-expected handset sales. However, fewer-than-expected handset subsidies helped us beat our EBIT and EPS targets by 3% and 6%, respectively, in 3Q16.

Year to September, our annual growth rate in consolidated EBITDA was 5%, the highest among peers, credited to better operating leverage. In addition, EPS for the first nine months accumulated to NT\$4.36 and reached 85% of our full-year target.

Balance Sheet Analysis

Following the payment of NT\$15.24bn cash dividends in 3Q16, our current liabilities decreased from 2Q, leading to a QoQ rise in current ratio.

Net debt to EBITDA increased sequentially in the quarter because of raising cash to pay dividends through bank borrowings. Having said that, the ratio in 3Q16 was lower than its level a year ago.

ROE at the end of 3Q came in at a high of 28%.

Cash Flow Analysis

3Q16 operating cash inflows increased sequentially due to more handset payments and corporate income tax paid in 2Q16.

The major investing activities in 3Q16 were the NT\$3.05bn capex and a NT\$0.75bn time deposit made by momo. For the same period a year ago, the cash outflow of NT\$1bn refundable deposit provided to the regulator was to participate in the 2.6GHz spectrum auction.

On the financing front, a total of NT\$10.15bn in short-term borrowings was raised in the quarter to fund the NT\$15.24bn cash dividend payment.

For the first three quarters, FCF netted NT\$15.66bn, up 90% YoY, attributed to higher cash earnings and reduced 4G related spectrum & capex spending. The accumulative FCF translated into an annualized FCF yield of 7%.

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

Event Updates

Change of TWM's Chairman

Following Mr. Richard M. Tsai's being named the Chairman of Fubon Financial Holdings and Fubon Life Insurance, Mr. Daniel M. Tsai was elected as Taiwan Mobile's Chairman by the board on Oct. 12, 2016.

Earlier Return of Partial 2G Spectrum

To optimize mobile network resources and be better prepared for the 2G network switch-off, TWM returned its 5MHz x 2 2G spectrum in the 1800MHz frequency band, which was approved by NCC on Sep. 14, 2016.

During the last quarter, TWM has introduced new fleet management services for its enterprise customers.

The lower part of this page lists the awards and recognition we've received in the third quarter of 2016 for your reference.

Key Message

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

Taiwan Mobile's optimized spectrum investments and disciplined handset subsidies led to the steady EBITDA growth in the first three quarters of 2016. The company's progress in achieving the 2016 full-year guidance is on track. A sound mobile spectrum and network

investment strategy as well as healthy balance sheet management will allow the company to enhance shareholder returns in the future.

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

Q & A

Danny Chu: *In terms of percentage, how much did the handset subsidies reduce for 3Q16 compared to 3Q15?*

In your presentation, handset sales were lower than company expectations. Was it because the response from customers towards the iPhone was lower than expectations or was it because there was not enough inventory to meet demand? If that is the case, can we expect handset sales in 4Q to pick up again and then handset subsidies will correspondingly increase in 4Q?

Based on your current run rate, should we expect the budgeted full-year capex amount to be fully spent? For 2017, what kind of trend should we expect in terms of the capex spent?

James: When comparing the iPhone 7 and the iPhone 6S, there was shortage in supply on Apple's end, particularly for the iPhone 7 Plus. So, when you compare the sales amount of the two models, there was a significant drop from last year to this year. And, it was mainly due to the supply shortage. So, that explains why in the first month of the new iPhone launch, the handset sales and subsidy was not as high as we expected.

Since we decided to drop of the 2.6GHz auction, we have focused much of capex investment on the core transmission for the base stations on the 1800MHz. For the 2CA (carrier aggregation) on the 700MHz and 1800MHz bands, we have already reached 78% of our island-wide coverage, which is higher than that of the other two peers. According to our figures, the other two peers have only reached 40%. That resulted in a very good response from the subscribers, such as enterprise customers, due to a consistent speed island-wide. And that's one of the main reasons why Tesla has chosen Taiwan Mobile as the partner for their connected car services. I believe Tesla will launch the service in the beginning of next year, but the whole connected car platform is ready for service now. This validates our deployment strategy because our goal was not only to deliver island-wide coverage, but to provide a service with consistent speed no matter in metropolitan areas or remote areas.

Danny: *You mentioned the shortage of the iPhone that led to the lower than expected*

handset sales. Since October is about to end, did the same situation improve in October?

James: Two days ago, I called Apple regarding the supply of iPhone not meeting our sales needs. Compared to last year's supply of iPhone 6S Plus, this year's supply of the iPhone 7 Plus was 30% less. And this has caused a lot of marketing issues here. Hopefully, in November, the situation will improve.

JinJin Wang, UBS: *You mentioned your EBITDA grew 5% YoY in the first three quarters, outperforming your competitors. And you mentioned it was due to better operational leverage. Can you further elaborate what's the differentiation? Why is your EBITDA growth better than the other two's?*

You also mentioned the earlier return of the 2G spectrum. I was wondering if this earlier return could give you an advantage for the spectrum auction next year. Is there any update regarding timing and other details of the spectrum auction?

Rosie: Our EBITDA growth was more phenomenal than our peers because of our better growth in revenue and also savings in handset subsidies.

James: Our 2G subscriber number has been reduced significantly to 120,000 left only. Thus, the spectrum utilization has become very inefficient. So, we decided to return it to the NCC. One of the reasons is to save the frequency usage fees. The other reason is that the NCC can fully utilize this spectrum for 4G use, which we think is good for the industry.

As of now, the details of the spectrum auction, even the rules, are not very clear. From what I understand, the 2.1GHz auction will probably take place in the 3Q or maybe 4Q of next year.

Varun Ahuja, Credit Suisse: *Can you comment a bit on the competitive dynamics on the cellular side? On yesterday's call, CHT commented that the competitive dynamics are a bit high. Just wanted to hear your comments given that all three telcos have increased the threshold for the unlimited plans, but a lot of high competitive intensity turned out to be on the low-end side. So, just wanted to hear management commenting on how you are seeing the competitive dynamics currently?*

Secondly, can you comment on the take-up of the NT\$1,399 plan? I think last time you commented that less than 35% of your new customers took up the NT\$1,399 and last quarter you said there was traction with that.

What is management's view on the broadband side of the business? It seems it declined a little bit during the quarter and it seems like CHT had a decent quarter for the first time in recent several quarters, they had a net positive subscriber addition on the broadband side. So, is there anything where you're feeling a lot of competition from CHT's side?

Any comments on the recent news article saying that you might be interested in buying Yahoo Taiwan?

On IoT, there are a lot of news stories about Taiwan telcos looking at IoT. Just wanted to hear your thoughts on IoT in Taiwan.

James: Right now, it looks like the unlimited data plans will stay around for a while. There's currently a phenomenon where the price of the unlimited data plans is getting lower and lower. It started at NT\$1,399 and then dropped to NT\$699 and recently one of our peers announced a NT\$499 unlimited rate. For me, my instruction to my team is clear. Market share or quantity of subscribers is important, however, the quality of the subscriber is even more important. Because, at the end of the day, you still have to evaluate the effectiveness of a rate plan. For 3Q, if you look at the total subscriber bases of the big 3, even though we declined a little bit, our subscriber decline was the lowest. We have a -0.4% YoY change while that of the other two are -1.2% and -3.8%. Thus, we always adjust those tariff plans slightly if competition dictates it.

Varun: *My understanding is that tariff rate for the unlimited was raised from NT\$999 to NT\$1,399, so are you suggesting now that it's been cut?*

James: Two or three months ago, CHT announced a NT\$699 unlimited tariff plan.

Varun: *But that tariff plan is only valid for one year.*

James: I think it's valid for two year, but, regardless, there is always a trade-off. If you have a lower unlimited tariff rate, you will have less handset subsidy.

Rosie: They said it's a short-term promotional campaign.

James: Regarding the NT\$1,399 unlimited tariff plan, the good news for Taiwan Mobile is that from September to October, the % of our new customers signing up for tariffs above NT\$1,000 reached 51%. With retention customers, it's also above 50%. And that's reflected

in our ARPU improving quite significantly. So, it seems to me that the middle part of the tariff pricing range is gone. The price is either above NT\$1,000 such as NT\$1,399 or down at around NT\$699, NT\$599. That's the phenomenon we've seen so far.

Regarding CHT's fixed-line broadband, I think cable is doing pretty well in terms of customer acquisition. Of course, due to competition, the tariff might drop a little bit, but in terms of the customer acquisition quantity as well as the EBITDA margin for the cable modem, it seems quite good right now.

Regarding Yahoo Taiwan, I was told and have seen in the newspapers that they are on the market for sale, but there hasn't been any official announcement so far. Of course, we will explore this situation and I know two of our peers are very interested. But, we already have momo, so we might not be interested in the ecommerce part.

With IoT, there are a lot of areas that people are looking into as far as business opportunities, but for Taiwan Mobile, our targets are very clear. Our first focus is in the connected cars. That's why we have the cooperation with Tesla where we built the SIM management platform. We also provide fleet management product for the enterprise sector. And we are exploring opportunities, such as property insurance and usage based insurance, with our affiliate company.

JinJin Wang, UBS: *You mentioned that you believe unlimited tariff plans will not be going away anytime soon. And, so far, we have seen after the re-pricing launched first from CHT and then TWM and FET in April and May, the effect on ARPU has been quite limited. What needs to happen to cause the industry to move to tiered pricing given that your previous answer indicates that unlimited pricing will not be going away in the short term?*

James: It really depends on the peers and their market strategies. If they think market share is much more important than ARPU or profit, then perhaps their preferred strategy is lowering the pricing of the unlimited plan. When CHT officially announced lowering the unlimited pricing to NT\$699, from my understanding, it was only meant to be a short-term promotion ending at the end of October. But it is already the end of October and I haven't seen any announcement saying they will end this tariff plan. So, the NT\$699 will stay for a while, probably until the end of this year.

JinJin: *So, is it fair to say that competitive pressure only exist among the big three with the smaller two not presenting too much competitive pressure?*

James: I think the two smaller operators will encounter even more difficulties, particularly if the NT\$699 tariff plan continues for a while.

Livia Wu, Yuanta: *CHT recently mentioned they will implement new policies regarding their open channels. Will you change your strategies or policies with the open channels such as increasing commission cost?*

You mentioned that a peer launched a NT\$499 4G unlimited plan. Will TWM also launched a NT\$499 plan going forward?

Regarding the Tesla connected cars, can we expect that TWM will gain additional SIM cards or additional subscribers from this venture?

James: Based on my experiences, as recent as a few years ago, CHT rarely gets involved in the open channel. But, you're right, recently, they have gotten pretty involved with the open channel, especially this year. TWM used to be very strong at open channel, but then CHT and FET have gotten much more involved. Once everyone jumps into the open channel, the channel commission and the customer quality gets affected because those stores in the open channel will manipulate your commission by moving customers around from A to B and then three months later from B to C. In my opinion, this is not a good situation. So, we would definitely not follow CHT and raise the commission for the open channel to gain market share because the quality of the customer is just as important as the quantity of customers.

Regarding the NT\$499 one-year tariff plan contract, we will evaluate it as far as how it will impact our top line and bottom line. We haven't decided yet, but at this point, we haven't followed this pricing.

Regarding the connected car, we will certainly gain some enterprise customers. But I would say in the beginning, the amount of customers will not be very significant because IoT and the Connected Car are at a very early stage of implementation. And I think this is important in terms of the mid-term and long-term strategies. We have to enter this segment as soon as possible. But, I think in terms of top line or bottom line, the impact is probably not that significant at this point.

Livia: *Is the connected car partnership with Tesla based on the sharing of data the user already has?*

James: The purpose of connected car partnership is to build a SIM management platform and to manage and monitor the SIM card and make sure it is properly used in the car only. So, when we developed the SIM management platform, we had to develop it in a way that prevents the driver from abusing the data traffic by removing the SIM card from the car and using it with their handset.

Livia: *So, we can assume that an enterprise customer who already holds a mobile SIM card will also have an additional data plan for a smart car?*

James: Yes, it is a totally separate tariff.

Varun Ahuja, Credit Suisse: *For the NT\$699 plan, I remember it was mainly for 3G customers, students, senior citizens, has the range been widen and it's applicable to everyone?*

Secondly, is the commission CHT is paying to the open channel now in line with you or is it higher than you?

James: From my understanding, CHT's open channel commission is currently the highest among peers. And TWM is probably the lowest right now.

With the NT\$699, originally the target customers were students, seniors and NP customers. But, right now, it seems like it's available to everybody. But, again, it was supposed to be a short-term promotion that would end by the end of October. However, according to the newspapers, CHT plans to continue it until the end of this year, maybe into next year.

Varun: *Have you also open it up to everyone?*

James: I think among the big 3, once one opens it up to everyone, the other two will definitely follow.

Varun: *How many of the new customers come from open channels? Because if the pressure is coming from the commission, do you need to raise commissions? I know you mentioned that you won't raise commission, but if it's a substantial portion and CHT continue to take market share, would you be forced to respond?*

James: From my observation, most of the NP customers, probably more than 50%, are from the open channel because the open channel offer much better subsidies for the customer

right now. The commission in the open channel generally is much higher than the other channels. Currently, TWM will not follow because this will simply spoil the whole open channel market and the customer quality will not be good.

Emerson Chen, Merrill Lynch: *The handset subsidy for the NT\$699 promotion is much lower than that of the NT\$1,399. Should I assume, the net profit contribution in terms of absolute amount is the same? If not, how much is the difference?*

James: Yes, you are right. Normally, for the lower tariff plans, you have a lower subsidy and channel commission. That's the general rule. But, in terms of absolute amount and bottom line, I think it varies from company to company. I cannot comment on that. But, in terms of the absolute bottom line, NT\$699 is worse than NT\$1,399.