

Taiwan Mobile
4Q14 Results Conference Call
January 29, 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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Let's turn to business overview.

Mobile Operating Performance

The 16% of 4G user take-up rate at 2014 year end has started contributing to the 25% YoY increase in wireless data revenue in 4Q14, accelerating from 14% a quarter ago. As such, mobile service revenue increased YoY for the quarter.

Please turn to the next page for our CATV operation.

Steady CATV Business

On the cable TV business, as indicated in the table, our internet subscriber base increase of 5% and DTV customer base growth of 35% were both higher than the 1% subscriber rise in the analogue TV service in 4Q14, representing the trend of a growing take-up rate of two or three services.

Growing Online Shopping Business

In 4Q14, momo's revenue increase was mainly due to a solid 24% YoY growth in the online shopping business.

In addition to revenue increase, momo's EBITDA grew 29% YoY for the quarter credited to channel cost

cutting measures implemented in the TV home shopping business primarily. As such, its EBITDA margin expanded to 6.1% from 5.3% a year ago.

Let's turn to the financial overview section.

Performance by Business

Telecom revenue was up by 4% YoY due to a surge in device sales, mainly the well-received iPhone 6 and 6 plus introduced in late September. This weighed on telecom EBITDA accordingly.

Thanks to a 35% 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.

momo's EBITDA grew 29% YoY as explained earlier. The sequential EBITDA decline for momo was due to a lower revenue mix in high-margin products.

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

Results Summary

Rosie, CFO & Spokesperson: Good afternoon. Let's go over our 4Q14 financials.

4Q14 Guidance Achievement Rates

We achieved our 4Q14 total revenue target for the quarter. Consolidated EBITDA and EBIT came in at 102% and 106% of the quarterly guidance as a result of lower-than-expected telecom opex and D&A expense, respectively. Non-operating expenses came in lower than forecasted due to a one-off income related to a lawsuit won against a dissenting shareholder on the Mobitai case a long time ago. To sum up, 4Q14 net income was ahead of our forecast by 5%.

2014 YoY Analysis

In 2014, both mobile service revenue and telecom service revenue increased by 1-2% YoY.

Despite a strong 24% YoY growth in mobile data revenue, our 4G revenue in the early stages of the LTE service launch has not been enough to cover the rising opex related to handset subsidies and the relatively rapid rollout of the 4G telecom network. However, our consolidated EBITDA still managed to grow 1% YoY on the back of profit increases in other business lines of CATV and retail. Rising D&A expenses resulting from the LTE network deployment and 4G spectrum fee amortization caused full-year EPS to settle at NT\$5.56, slightly lower than a year ago.

Balance Sheet Analysis

Assets

In 4Q14, cash balance increased QoQ, which I will explain later in the cash flow analysis section. The rises in available-for-sale assets and other current assets in 4Q14 were due to momo's cash management with cash raised from its rights issue at its IPO. Long-term investment increased mainly resulting from TWM's acquisition of a 14.9% stake in Ambit.

Liabilities & Shareholders' Equity

TWM's gross debt decreased sequentially to NT\$54.68bn, after NT\$2.47bn in bank borrowings and commercial paper payables were repaid. Capital surplus increased due to a combination of: 1) the sale of 32mn of TWM's treasury shares, 2) momo's rights issue for its IPO and 3) TWM's disposal of some momo shares for greenshoe purposes. Shareholders' equity also rose accordingly.

Cash Flow Analysis

4Q14

4Q14 operating cash inflow remained flat QoQ.

The 4Q14 net investing cash outflow was mainly for 1) a NT\$4.07bn cash capex, 2) an investment of NT\$2.98bn in Ambit by TWM and 3) a NT\$3.18bn investment made by momo for cash management purposes.

In terms of financing activities, 4Q14 net cash inflow was a combination of 1) NT\$2.97bn in proceeds from the sale of TWM's treasury shares, 2) NT\$3.27bn in cash raised from momo's rights issue and 3) NT\$2.47bn in bank loan repayments.

2014

The 2014 full-year operating cash inflow increased due to lower cash outflows from working capital. In contrast to gearing up in 2013 to fund the 4G license fee, we have started paying down bank borrowings in 2014 on the back of the company's ability in generating cash.

Full-year cash capex was up YoY mainly due to accelerated 4G network deployment and momo's spending related to the set-up of the logistics and warehousing center. Having said that, full-year free cash flow in 2014 was on the rise benefiting from higher operating cash inflows compared to a year ago.

2015 Guidance

James: This slide shows our 2015 guidance for your reference. I would like to highlight some of the growth drivers.

Telecom business

We expect the mobile industry to continue benefiting from rising 4G adoptions. Taiwan Mobile

estimates to reach 3mn 4G subscribers by the end of 2015, up from 1.1mn a year earlier. Our mobile postpaid ARPU is expected to rise 5% in 2015.

The telecom segment is expected to deliver an improving operating leverage in 2015 with an estimated 3-5% YoY increase in EBITDA.

Other businesses

The combined EBITDA of CATV, retail and other businesses will increase by 9% YoY in 2015 and represent 17% of our total EBITDA.

Event Update

TWM's board approved a capex budget of NT\$13.9bn for 2015 which include NT\$9.8bn for mobile, NT\$1.7bn for fixed-line, NT\$0.9bn for CATV and NT\$1.5bn for momo and other subsidiaries.

NCC has approved TWM's 5MHz spectrum purchase from Ambit on January 7, 2015. That results in TWM becoming the owner of the largest contiguous 20MHz on the 700 frequency band. With the same total 4G spectrum holding of 35MHz, TWM's license cost is NT\$6.6bn lower than that of the other competitor.

Event Update- Awards and Recognition

This page lists the awards and recognition we've received in the fourth quarter of 2014 for your reference.

Key Message

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

Taiwan Mobile will be reaping the benefits of the 4G LTE service in 2015 from the extra spectrum acquired on the 700 frequency band and more spectrum to be freed up on the 1800 frequency band.

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

Q & A

Anand Ramachandran, Barclays Singapore: *I have three questions. Firstly, if I look at the mobile service revenue breakdown, data growth has clearly accelerated, but voice decline seems to have accelerated as well. Is there something going on in terms of how you recognized voice revenue of the bundle plans? And would you expect voice to continue to decline into the future?*

Can you give us some data points on 4G ARPU? 1.1mn subscribers, where are they relative to your

average postpaid ARPU as it stands today?

In your guidance, what is your 4G amortization cost for the full year that you baked in for 2015?

James: The data revenue actually grew quite fast and is expected to further increase in 2015. Voice will decline this year mainly due to user behavior as more and more people using instant messaging instead of using voice to communicate with other people.

Secondly, regarding 4G, we see a very promising rise in the 4Q. I can't give you the exact number, but, for this year, the postpaid ARPU will have at least a 5% increase compared to 2014. One more data point that will be of interest to you is every time we mention that a subscriber has migrated from 3G to 4G, we pay attention to their ARPU uplift. In 3Q14, we saw about a 12% ARPU lift from the customers who migrated from 3G to 4G. We don't have the figures for December 2014 yet, but from the figures for October and November, the ARPU uplift was within the range of 12-14%. So, I think the ARPU looks very promising for the year.

Anand: *Does your revenue guidance incorporate unlimited promotions continuing throughout the year or do you incorporate them coming off at some stage?*

James: Based on our assumption for this year's revenue, EBITDA and EPS, the unlimited rate plans will continue throughout the year. If there is a tiered pricing, then we shall see an upside.

In terms of D&A, I'll turn it over to Rosie.

Rosie: 4G amortization is about \$1.5bn vs. \$0.5bn last year. And, for the 4G depreciation, it's slightly over \$2bn.

James: So, on a YoY basis, the group D&A will increase by \$2.4bn. That will result in about a \$0.8 EPS reduction.

Danny Chu, Macquarie HK: *I have four questions. You mentioned earlier about in 2014 because the 4G subscriber base was not enough to offset a lot of the increase in the operating expenses, so by the end of 2015 when you get 3mn 4G customers, just for the 4G business stand alone, should we assume the revenue from the customers will be enough to generate a positive EBITDA just for 4G business by itself?*

As a follow-up on the all-you-can-eat data allowance plan, you mentioned that, at the moment, your basic assumption is that this will continue throughout the rest of the year, so can I assume

Taiwan Mobile will not be the leader in withdrawing the all-you-can-eat data allowance plan? You will be taking a follower role, i.e., you want your competitors to withdraw before you?

Third question, you mentioned about the ARPU uplift when people migrate from 3G to 4G was about 12-14%. Can you tell us on the mobile data usage side when these people jump from 3G to 4G, how much data usage increase you see from them?

The last question is can you share with us how much revenue growth and EBITDA growth are you expecting from momo, the online business?

James: In response to your first question regarding whether 4G business will see a positive EBITDA, I think there is a big chance that we will reach a balance in term of the 4G EBITDA.

Danny: So, just to clarify, for 2015 when we get 3mn subscribers, we should be EBITDA breakeven for the 4G business. Is that correct?

James: Yes. Regarding your second question, that's a good question. My logic is whoever started the unlimited rate plans should be the one to withdraw them first; it means Chunghwa should be the one. So, yes, we will be a follower.

And the third question regarding data consumption, 3G users' monthly data usage was about 6GB and 4G users' was close to 10GB per month.

And, lastly, the question is about momo's revenue and net profit. Since momo had its IPO, I cannot disclose its guidance, but it's very promising.

Chate Bencha, Credit Suisse Singapore: ***In terms of the revenue guidance you provided, can you help break down between the service revenue growth and the growth from handset sales?***

The second question is regarding the capex guidance, I understand the capex for 2015 includes \$9.8bn for mobile, which is an increase YoY. Can you explain because I understand, in 2015, you slowed down the investment in 3G already, so why would it still be increasing?

Within your EBITDA guidance, how much are you baking into the EBITDA contribution from the Taipei New Horizon?

James: Let me answer your 2nd question first about the 4G capex. This year, we have \$9.8bn for mobile business, mainly for 4G 1800 frequency band. Last year, we only had about 2,000 base stations

for the 1800 frequency band. This year, we will accumulate close to 8,500 base stations for the 1800 frequency band. Meanwhile, for the 700 frequency band, it will increase from 6,000 to more than 8,000 base stations. So, probably, in the 3Q, we can reach about 16,000 base stations in total, with 8,000 for 700 frequency and the other 8,000 for the 1800 frequency band.

In terms of population coverage, by the end of last year, 700 frequency band already reached 99%. With this 1800 expansion, I think, by 3Q, we should be able to reach close to 95% population coverage. Some LTE phones owned by our 4G users only support 1800 frequency band, so we would like to focus on the 1800 frequency band expansion.

For the first question, Rosie, can you answer that?

Rosie: Yes. For the mobile service revenue, we expect to have a 5% growth and for the handset sales, we expect to have 20%. And, to clarify a bit on your question on the capex, actually our mobile capex for 2015 will be down, not up. It's from \$10.5bn last year to \$9.8bn this year.

Chate: *And just one last question on the Taipei New Horizon EBITDA and, also, I would like to follow up on the 1800MHz spectrum if I may. I understand that you currently use the 5MHz block you got from Far EasTone through the spectrum swap. And you mentioned that there will be a further free-up of the 1800MHz. Can you elaborate on that?*

James: I personally believe by the end of the 1Q, we should be able get additional 5MHz frequency band. So totaling it up, we will have 10MHz in 1800 and 20MHz in 700 band. So, it will be a very good frequency band combination and will provide good speed.

Chate: *That 5MHz in 1800 will come from?*

James: From Far EasTone. Both of us will free up the spectrum for each other.

Chate: *If I may, the EBITDA contribution from Taipei New Horizon?*

Rosie: Actually, our subsidiaries' EBITDA, excluding cable, are rather small as you know. And for the Taipei New Horizon, its EBITDA will be up by about \$100mn because the occupancy rate will be higher and the hotel will be operational.

Gopa Kumar, Nomura India: *I understand you guiding for 11% revenue growth next year. Can you please give your outlook for each segment for momo and mobile?*

Question #2 is regarding news coming out this morning that the HonHai / APT deal has been denied by the regulator under its current form. Can you please give a little more color on that? What happens to the roaming agreement? Will you have to go back to table and re-negotiate?

Question #3 is, on a longer term, do you think the capex is going to go down from here on an absolute basis? Or you think this is the level we should look at?

Last question is any outlook on dividends given that you had some gains from the momo stake sale?

Rosie: Let's answer your last question first. Our dividend policy will be decided in April every year. For the stake sales at momo's IPO and in the TIGER Board, the capital gains were slightly less than \$100mn.

Gopa: *Will you be giving that out as dividends? Or have you not decided that yet?*

Rosie: It's been a part of our consolidated process, so, of course, if we are to distribute our dividends for this year, we will definitely include that part.

James: In response to your first question regarding 11% total revenue increase, I think in the telecom part, it will be 5% YoY growth and momo will have a 16% revenue increase.

The second question about HonHai, I think they will re-submit the proposal and I personally believe, by the end of 2Q, the NCC will approve it under certain conditions. But that doesn't affect our 5MHz spectrum acquisition.

And the third question regarding the capex for mobile, I believe next year 2016, it will be significantly reduced in terms of the mobile base station expansion. I think we will reach a very stable level and the coverage will be good and sufficient enough, so next year I believe the capex will be significantly reduced.

Gopa: *Just a follow-up regarding the APT agreement, does this mean that the current roaming deal will have to be stopped or can you continue with the roaming you're currently giving APT subscribers?*

James: Well, in terms of the roaming agreement, according to the regulations, it's commercially negotiated among all the operators, I don't see it as a big problem. I think basically the NCC will require Ambit to construct and to deploy the base stations on their own. I think that's the key. Once Ambit fulfills the NCC requirement to speed the deployment of their base stations, I personally believe the roaming issue will be resolved.

Jack Hsu, Sinopac Securities Taiwan: *My first question is regarding the 2600MHz spectrum, will this spectrum be auctioned in 2015?*

My second question is what's the growth driver of momo in 2015?

James: For the 2600MHz frequency band, the original plan for the NCC was to start the auction in 3Q and the auction will start with the TDD spectrum and then followed by the FDD spectrum. However, the parliament recently required the NCC to clean up the spectrum first before they start the auction. So there are some uncertainties. But I personally believe the NCC will still start the auction in 3Q or maybe delay a month or two. So, I think the auction will take place in 3Q or 4Q this year.

Rosie: momo's growth drivers will still come from its online shopping business. For details, since they do not disclose their guidance, we cannot comment more.