

Taiwan Mobile
Conference Call
September 25, 2014

Rosie, CFO & Spokesperson: We made an announcement less than an hour ago. James will speak about these major announcements.

James Jeng, President: With an aim to provide superior 4G services with faster-speed as well as increase 4G investment return, the board today (September 25) approved cooperation agreements with Ambit Microsystems Corporation (Ambit), which include TWM's acquisition of 5MHz on the 700MHz frequency band from Ambit and the investment of a 14.9% stake in Ambit. The board also approved a subsidiary's disposal of TWM shares as payment for the aforementioned expenditures. Looking ahead, TWM will have the largest 4G spectrum of 35MHz, in particular the biggest continuous spectrum of 20MHz on the 700MHz band. Thus, TWM will be in the leading position to provide the fastest 4G service to the consumers and increase corporate value to our shareholders.

Wen Du, Barclays HK: *I have two questions. I'm wondering first if we may know what price for these 5MHz spectrum that you're going to pay for?*

And what's rationale for investing in investing in Ambit for this additional 15% share apart from buying the spectrum?

Rosie: For 5MHz as mutually agreed, we will pay the cost plus a slight interest. As to the rationale, James will give the answer.

James: As I mentioned before, I think there is five key factors to the success of the 4G services. First is the coverage, second is the speed, third is the handset and the fourth is the sales channel and fifth is the content. I think to acquire 5MHz and invest 14.9% stake in Ambit definitely enhance and speed up the success of the 4G services. And besides that, I think there are a lot of benefits. First, we will share network equipment cost and also avoid duplication of investments and reach the economies of scale at a faster scale compared to our competitors. And we will derive roaming revenue with only a slight increase in the network capex at the initial stage of the 4G network rollout. I think there is a lot of synergies from this event.

Wen: *Just a follow-up. As Ambit is likely to be a greenfield operator, as both of you mutually work together, would you worry about them taking shares?*

James: You are talking cannibalization. I think the possibility is there, but we will try to reduce by providing differentiation of the services for both parties. For APT, most of their customers are students or younger aged, between 19 to 24. However, for TWM, most of the customers is focused in the business side or higher income, higher ARPU. In terms of customer base, there's a big difference.

The second part, through the channel operation, we can avoid possible conflict in the channels. I think we will be very careful in handling that.

Katerina Irwan, Eastspring Singapore: *My question is a follow-up question about the price. Basically, on the Ambit spectrum cost, which is around NT\$9.2bn for 15MHz, am I right?*

Shirley Chu, Senior Director of Investor Relations: We are buying the 700MHz spectrum from Ambit, they only spent NT\$6.8bn for 10MHz at the 700MHz frequency band.

Rosie: So, for half of it, it will be NT\$3.4bn plus some interest. So, in our major announcement today, you can see the number of NT\$3.43bn.

James: Actually, the cost is lower than our bidding price for the 5MHz.

Rosie: in the same frequency band.

Katerina: *How will you fund this acquisition?*

Shirley: One of TWM's subsidiaries is selling TWM shares.

Katerina: *What's the rationale of the funding? Why do you need to sell shares at this price?*

Rosie: No, it's not at this price. The price will be decided after receipt of approval. The price of TWM shares will be decided only until then.

Katerina: *What do you offer to Ambit? If you open your channels to them, it's probably bad for you. If you let them in your network, it's probably not good you.*

Shirley: I think we mentioned five synergies that we can generate from this alliance.

Rosie: Just as James mentioned earlier, we are not saying that we are opening all the channels. What's he's talking about was that we can just use channel operations to minimize any impact of cannibalization from Ambit.

Katerina: *Can you share a timeline?*

Rosie: Timeline is up to the NCC. The transactions involved may require NCC approval. So, it's up to NCC to decide a timeline. And, for 5MHz, also requires fair trade commission's approval.

Katerina: *Is there any changes to your long-term strategy? For example, the next two auctions in 2016 and 2017, will that affect your decision for those auctions or is it too early to talk about?*

James: No, I don't think so. As I mentioned, right now, on the 700MHz band, we have 15MHz with an additional 5MHz acquired from Ambit. This will push the 4G speed from 100Mps to 140Mps. And that put us in the very leading stage in the competition. So, as I mentioned, success of the 4G service, speed is one of the key factors. Once you get the continuous 20MHz spectrum, we can give you the fastest speed in this market. And this will put us in a very good position.

Katerina: *Does that mean you will not participate in the next auction?*

James: No, no, we will definitely participate in the next auction because while speed is one of the factors, capacity is another. Once your 4G subscribers increase, you need capacity.

Steven Liu, Standard Chartered: *Now that you will become a strategic investor, would you open your backhaul fiber network in the future if Ambit wants to build a 4G network?*

James: I think because Ambit or APT, they are an independent operator. For the regulations, they need to build their own backbone, billing system, etc. However, the regulations do allow the access part, meaning the base stations and the backhaul or the switch side, to be shared by the other parties. So, I think Ambit, they will have their own fixed-line backbone, however, we will share the base station in the first stage.

Since Ambit is an independent operator, they need to build their own as well. That's why

there is mutual benefit when their coverage is not enough, they will roam to our network, so we will share each other's network.

Steven: *So, you will also enter a roaming agreement to Ambit because initially Ambit cannot build out a national network, so you will provide roaming service for the company.*

James: Yes, that's why I just mentioned in the beginning is we will have roaming revenue from Ambit.

Steven: *2G, 3G, 4G, all the roaming services you will provide to them.*

Shirley: As well as 3G voice.

Steven: *Ok, thank you.*

Shirley: And, to give you some background, Ambit will merge with APT once it's approved by the regulators.

Steven: *Any timeline?*

Rosie: It's up to the regulators.

Gopakumar, Nomura India: *Do you have an option to buy just the spectrum without the 14.9% stake in Hon Hai?*

Secondly, the payment you said is \$3.4bn plus interest. Does it include the 14.9% stake or just the spectrum?

Thirdly, on the synergies you talked about, especially coverage, handsets and sales channels. I understand Hon Hai definite advantage when it comes to handsets, but for sales channels and coverage, TWM has a clear advantage on Hon Hai. Apart from handsets, what is the real synergy that you're looking to realize from this deal?

Rosie: On your third question, the synergies were mentioned by James in the beginning. So, it's not only the handsets that is our major consideration, we will have roaming revenue, and because of that we can share our cost with them. As you know, APT doesn't have 3G network, so they will have to depend on one of the incumbents to provide circuit switch fallback. That's why we entered in this strategic alliance with them. By buying this 5MHz and also

investing in 14.9% stake, we expect to mutual benefits.

Gopa: *Did you have an option to buy only the spectrum without the 14.9% stake in Hon Hai? And, secondly, the \$3.4bn you paid, is just for the spectrum or does it include the 15% stake?*

James: I think the two issues are really independent because buying the 5MHz from them is one issue and investing in 14.9% is another. It was not a requirement that we have to invest in 14.9% to get 5MHz. It's an independent issue.

And the reason we invest in 14.9%, we see the synergy there because Ambit has a network as well, so we can share the network to increase the coverage. Ambit is owned by Hon Hai, the largest ODM in the world, and we will see on the terminal side, there will be some synergy there that is very important. And, also, Hon Hai Group is very strong in the internet of things, IOT, so for the 4G, one of the key factors to the success is the content or value-added services. The IOT is our next target for value-added service and Hon Hai can contribute a lot.

Rosie: As to the price of \$3.4bn, that's only for the 5MHz. The 14.9% stake in Ambit, we expect to participate in their rights issue at a par value, which is NT\$10. So, the total amount is NT\$2.98bn.

Gopa: *You mentioned that you plan to bid for 2.6GHz spectrum auction next year, is that right?*

James: Yes.

Gopa: *In terms of Hon Hai's access to your infrastructure and network, will they have complete access to your network?*

James: As I mentioned, Ambit/ Hon Hai has their own network as well. However, they just started deploying, so their coverage wouldn't be enough. In the initial stage, they definitely need TWM's network to improve their coverage and their speed. So, for them, there is a very big benefit from this strategic alliance, which is time to market. If they were deploy on their own, it will take another year in order to get to the market. But with this alliance, they can immediately get into the market with very good coverage and speed.

Gopa: *Isn't that slightly negative to the incumbent given that your advantage has been your network and now that you're opening it up to Hon Hai, isn't it bad for you guys?*

Shirley: We actually eliminate the market competition. We hope that in the future, the market can be dominated by two major players and the other smaller players. We are not helping competitors. We are actually consolidating the market and trying to eliminate potential competition.

Rosie: And, also, we want to derive synergy from this alliance.

Gopa: *The advantage of the incumbents is the networks and, thus, Hon Hai and Taiwan Star won't be able to make a big impact because they lack the networks. But, now that it's being open up through this deal, isn't it strategically negative for you guys? Once Hon Hai launches 4G, wouldn't they be looking for a much wider market?*

Rosie: We will have different target markets. Secondly, APT will merge with Ambit, so if APT doesn't have a 3G network, they will have to rely on one of the incumbents to help them out on circuit switch fallback. So, if we don't form a strategic alliance with them, they may be approached by other people. And, for us, we can get more benefit than others because we will have 20MHz continuous spectrum in 700 frequency band to offer better coverage and better user experience for our customers. Secondly, the 700 frequency will help us reach our economies of scale at a much faster pace than others. We are not helping our competitors. We are trying to help the competitive landscape to more benign than the current situation.

Neale Anderson, HSBC HK: *Did your discussion with Ambit include APT or was your transaction solely with Ambit?*

Rosie: Our stake in Ambit once done will be transferred to be APT shares after the merger between Ambit and APT. Thus, we will have a small stake in APT in the future because of this investment.

Shirley: Network-related cooperation will also cover APT.

Neale: *In terms of these operational agreements and the roaming, have those discussions included APT management or has that been with Ambit directly?*

Rosie: It will start soon with APT.

Neale: *Do you have any commitment from Ambit that the competition can be rational in different segments or does your 15% stake give you any say in how the Ambit business and Ambit strategy is set? How can you be sure the resulting competition with a stronger Ambit/*

APT will be rational and benign and focusing on different market segments?

Shirley: I think the alliance arrangement has all taken into account the potential negatives you have mentioned. So, it's all been arranged.

James: A lot of things have a trade-off. One is you have competition with other two big ones and the other two small ones or you can get along well with the small ones and work together to compete with the big one. We have developed a lot of synergies, a lot of scenarios and we figured out the latter one is the best way. Of course, there are a lot of issues I cannot disclose at this point. I think the APT and TWM with the network sharing, the handsets, etc., we figured out from this trade-off, we will benefit from it rather than get damaged.

Neale: *APT/ Ambit will benefit as a result of this transaction, so will TWM. So, the potential losers are the other three entities in the market.*

Rosie: Yes.

Charmian Long, Fidelity Singapore: *The total spend is NT\$6.38bn. Would it all be paid in cash or will there be any share swap so that Ambit would own stake in TWM?*

Rosie: As you know, in our announcement today, we also announced that the board has resolved to allow one of our wholly-owned subsidiaries to dispose of some of their holdings in TWM shares to pay for the transaction.

Charmian: *So, Ambit would receive cash, not shares.*

Rosie: Ambit will be getting cash for sure. And whether they will be getting shares is up to them. They can use the money to buy TWM shares if they want.

Charmian: *In terms of base stations, is there an agreement for TWM to open your entire portfolio of towers for Ambit as well?*

James: As an independent operator, Ambit is required to build their own network as well as the fixed line, backhaul, IT system, etc. This alliance is mutually beneficial because we can share the network to improve the coverage. As you know, APT is very strong in the east coast because the train railroad is the backbone for them and TWM has some weakness in the east coast. So, we can leverage their backhaul there to increase the coverage and improve

the service quality in the east coast.

We don't open up the base stations. It's a roaming agreement. We will build our own base stations. Ambit will build their own base stations, but we will try to reduce duplication. The metropolitan area is TWM's strength. Before they can cover the entire metropolitan area, they will roam on our network. And, in the east coast, which is a strength of APT, we will leverage their base stations there.

Rosie: Also, let me go back to your previous question about the share sale by our wholly-owned subsidiary. The reason why I said Ambit could get the cash or they could get the cash to buy the shares is because it's not yet decided. It could be Ambit or it could be one of Hon Hai's entities to buy our shares. The sale of our treasury shares will not be sold to the market directly. It will be done through paired block trade once they have the entity decided by the Hon Hai Group.

Charmian: *After the merger of Ambit and APT, what is the final stake that TWM will own in the combined entity?*

Rosie: After acquiring the 5MHz from them, we will have 3.45% of APT.

Peter Milliken, Deutsche Bank HK: *Do you expect Ambit to focus on the younger subscribers?*

Rosie: I think their main focus after today will be to solidify their customer base, to retain their customers and to upgrade their CDMA customers profile and ARPU.

Peter: *Do you think they will focus on price or content or some other unique promotion when they do come around to launching?*

James: As a newcomer or a small player, price is always one of their weapons. But, for Ambit/ APT, besides pricing, they do have another tool to use to gain customers. They are very strong in handsets. So, in terms of handset subsidy, that is one of their major weapons that can compete in the market. In terms of content, they will focus on the Internet of Things and use some of their spectrum on the IOT. So, they do have some differentiation over there. The pricing of handsets is one of their more powerful weapons in terms of competition.

Peter: *Do you think there might a similar deal announced by Taiwan Star or will they go it alone?*

James: The possibility is there, but we don't know.

Gary Yu, Morgan Stanley HK: *Is there any mechanics or non-compete or mutual understanding that assure that the market share doesn't come from TWM but from CHT and FET?*

Shirley: I think in future, we together with Hon Hai will be one of the largest shareholders at APT and, of course, we will spend effort to make sure that we will have more influence over this kind of advice.

Rosie: As you may know, APT's shareholding is very spread-out with Taiwan Railway being the largest shareholder who had previously only held 12% stake.

James: After the rights issue, Hon Hai is the biggest shareholder in APT right now, bigger than Taiwan Railway. Also, as you know, the chairman of APT is appointed by Hon Hai.

Gary: *In order to assure that this partnership continues to go on, is it fair to assume that TWM will continue to invest in this Ambit/ APT combined entity going forward on top of its 3.5% stake.*

James: We don't rule out the possibility.

Rosie: If there are synergies and if it's mutually beneficial.

Gary: *Is it fair to assume there is a target buyer of the treasury shares sold by the subsidiary and it would be some subsidiary or related company of the Hon Hai Group?*

Rosie: Yes.

Gary: *Hon Hai has also previously indicated some overseas ambition on the telecom business, is it also an area TWM will consider in terms of overseas expansion?*

James: Not at this moment, but, as you know, the telecom market in Taiwan is at the saturation stage, so we do explore possibilities in China or other SEA telecom markets.

Rosie: So far, we haven't found anything interesting.

Gary: *Given the fact that the treasury shares have previously forfeited dividend payments and after the issue of new shares, there will be some dilution on the dividend per shares, is there any commitment on the DPS side, there won't be any dilution from these transactions?*

Rosie: I think as always we are very committal to stable dividend policy as you know. We will not say that we will have what kind of dividend policy for the next year because it will be resolved by our board next year. I agree with you there will be a slight dilution because of the treasury shares sale, but if we could derive some benefit from this alliance, it will not affect our EPS.

James: We can't speak very precisely, but don't forget that we do have a roaming agreement with Ambit. The incremental revenue from the roaming services will be significant. Whether it will compensate the dilution, I cannot say for sure right now, but I am pretty confident that the incremental revenue will be quite significant.

Steven Liu, Standard Chartered HK: *Will you more focused on rolling out 4G service on the 700MHz band than on the 1800MHz band in the coming two years?*

James: Right now, in terms of the 700 and 1800, the 700 will have very good coverage, but the 1800, we only have 5MHz, same as FET. But, right now, it's still occupied by the 2G subscribers. So, for the coming two years, none of us, FET or TWM, can use the rest of the 10MHz spectrum on the 1800 band.

After we acquire this 5MHz, we will have 20Mhz in 700 band and 5MHz in the 1800 band, so that's 25MHz available today. Our total spectrum will be 35MHz.

Rosie: CHT's major spectrum is in the 1800 frequency band and most of ours is in the 700 frequency band.