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ASE Inc Q4 Earnings Release / Presented by: Chief Operating Officer, Dr. Tien Wu

Good afternoon, I would like to wish you a happy Chinese New Year, to begin with. Also, I would like to express on behalf of the ASE Group, to all of you throughout 2014. 2014, to say the least, has been a very interesting and challenging year for ASE. It turns out, that also became the best year ever for ASE Group. I would like to give you a brief presentation about some of the highlight, on the business, for 2014 summary, as well as looking forward to 2015.

To begin with, I would like to show you the first chart. In this chart, I have two messages. The first message is, on the semiconductor revenue, for the past 10 years, the CAGR was 4.6%. In 2014, worldwide semiconductor has grown 7.9%, including logic and memory. If you're looking at the logic only, 2014, the worldwide semiconductor has grown 4.9%. During the same time frame, ASE Group revenue has grown 8%, higher than the global semiconductor CAGR. In 2014, the ASE Group revenue collectively, has done 14.3%, also higher than the 7.9%, or the 4.9% of logic revenue. In the following chart, I will give you the breakdown on the ASE Group, on the IC ATM, as well as EMS 10 years CAGR. That number will be higher than 8.0%, because the double counting on some of the SiP revenue, which is being accounted for, on the EMS, as was on the IC ATM side. On this chart, on the IC ATM, throughout the same 10 years span, the IC ATM ISE, the CAGR was 8.2%. In 2014, 9.3%, which is higher than the 7.9%, higher than the 4.9% worldwide semiconductor, in the logic space. During the same time frame, the EMS revenue, the CAGR was 8.9%. On 2014, the EMS revenue fared 31.9%. So to say the least, on the revenue side, 2014, was a very good year for ASE Group. In the same time, 10 year span, if you look at ASE Group net profit, we have also shown a long term steady growth. On the ASE Group net margin, we have noted the 2012, 2013, and 2014, for the last three years, the ASE Group has grown—revenue, net margin, as well as the net margin percentage, the net income.

Many of you are concerned about the industry CapEx, so what we've done here is, we've basically summarized the CapEx spent, for the backend of semiconductor, from 1980, all the way to last year. As you can see that, the backend CapEx has steadily increased, it touched 7.3 billion, came down during the financial crisis, went back up to the 7.3 billion. The purpose of this chart is to show you that, industry, collectively, has been quite disciplined, in terms of managing the total backend CapEx. If you look at the last few years, you look at the ASE, as well as our top four competitors, we are spending more CapEx in our space. The reason being, the industry has consolidated, therefore, the CapEx requirement, has to be shouldered, managed by the remaining field. In other words, even though ASE is spending more CapEx, together with some of our competitor, overall, on the industry base, the CapEx has been extremely disciplined, which also accounted for, some of the ASP stability, as well as the supply and demand balanced for the last few years. More specifically, if you look at the ASE, over the last 10 years, our CapEx, as a percentage of the industry CapEx, has migrated from 5.9%, to about 11 to 12%. In other words, ASE is spending an increasing percentage of the industry backend CapEx as a total.

If you look at the ASE market share, in the outsource space, we're about 21% to 22%. If you assume, that industry do outsourcing about 55%, our global market share in the backend space, in anywhere between 11 to 12%. In other words, if ASE CapEx accounted for the global backend around 12%, we're right on the mark. That is another dimension to show you, ASE has been extremely disciplined in managing our own CapEx, based on the industry dynamics to customer requirement, as well as our own cash flow, and the margin management.

So if I give you a simple recap, the three highlights I would like to point out:
The first is: we continue double-digit growth in advanced packaging. In 2014, we came in 16% YoY growth; part of growth is driven by SiP.

The second highlight: the copper wire bond. Wire bond package still accounted for the largest unit, in the backend in semiconductor. It is one area we should not forget how important it is. In the wire bond area, we are one of the few company, if not, the only one, that continued to show wire bond 15% YoY revenue growth. We believe this trend will continue, we are migrating into automotive, as well as the IDM. Just keep in mind, the wire bond is a very good cash cow for ASE. The investment has been made, the IP has been developed, we are merely expanding from the fabless, into the IDM, that ASE has a very strong position, comparing to our competitor.

In the third highlight area: ASE has invested for a number of years, what we call, the building block of SiP, including the flip chip copper pillar, wafer level packaging, fan-out 2.5, or the so-called silicon interposer, and the embedded technology.

It is my wish, within this year, we will report to you on the good news, how do we bring this building block technology, into a market place with customer, and revenue. So those are the three highlights I would like to point out for 2014. So, in the advanced packaging, I have pointed out already, 16% YoY growth, we believe, in the advanced packaging, this growth momentum will continue well into 2015. In the copper wire bond, I would like to highlight, the IDM penetration. As you can see, the IDM part of the wire bond revenue for ASE group, continue to improve YoY. The penetration rate, with the IDM packaging, is 37%, today. We believe the number, should be well-above that number, probably between

60 to 70%. So we do believe the wire bond has a long tail, has more momentum to go, and ASE is determined to be a big player, in the copper wire bond.

Finally, we've been talking about the joint force of EMS, as well as our IC ATM. In the last few years, we have launched a few SiP product, on the IC ATM space. I'm happy to report that, throughout all of the effort, this year, we will launch the first SiP product on the EMS space. Not only we will launch the first product, meaningful product, throughout 2015, we do expect we will continue to launch additional product in the SiP space. So the whole concept about SiP is, it is not semiconductor-oriented only, it is not EMS-oriented only, it takes a joint force, between the design, the semiconductor technology, logistics, and the business management. We would like to show you some good news throughout 2015. By the end of 2014, SiP product accounted for about 18% of our revenue base. We expect it, by the end of 2015, the SiP product will account for about 30% of our revenue. So again, 2015 will be another strong momentum year.

Finally, I would like to show you a schematic. In 2015, we're likely to announce a few new product, as well as customer. The concept is, you take a typical printed circuit board that is well-adopted in the industry, with the optical sensor. Most of the wearable, the IOT, the sensor becomes a critical, essential element in the overall packaging. Our job is to combine the traditional printed circuit board, as well as the multiple type and layers of sensor product, into a very smaller scale of multi-dimensional of SiP product. To do this, you're going to have to have multiple building blocks, which ASE spent the last 10 years developing it. For example, shielding, compartment shielding, on the antenna design, on the integrated passive device, IPD, on the embedded substrate, for the part management, and also the cross talk, and the noise isolation, the double-sided (sorry couldn't see it, because my eyes are), on the double-sided structure (I apologize, don't laugh) Now, also on the multi-sensor integration, as well as the other advanced SiP technology, such as interposer and the TSV. So the concept to show is, we believe, ASE has a leadership in wire bond. I believe ASE is competing head to head with everybody in advanced technology. I believe ASE has a very unique position, on the semiconductor, as well as EMS joint force side, from design, logistics, to turnkey, on the SiP product. Throughout 2015 and the years beyond, you will see additional launch and announcement, on product, as well as customers.

So just to give you a wrap up, the outlook for 2015, we see a continual growth pattern, we see the market share gain, and we do see the system integration, becoming the new trend, for the wearable and the IOT space. We will maintain CapEx disciplined, and operational efficiency, to guard-band revenue growth as well as the margin improvement, and that has always been the focus of the group (ASE). Leadership in the advanced packaging, and the SiP, we will continue to work with our key customers, as well as all of our IC and EMS customers, continue to explore the SiP opportunities.

With that, once again, I would like to wish you, Happy Chinese New Year. Thank you!

(Ok, last time I speak only English presentation was about 20 years ago, so bear with me here. I'll spend.. you know it's really unfair, Tien only has about.. what do you have.. you have 8 pages? And I have 18, and I have only 15 minutes as well, so I'll go very quickly to go through the financial results, both for the fourth quarter last year, as well as the full year numbers.)

Let's start with the (and the seating arrangement is also very awkward). I'll start with the fourth quarter numbers (if I stand up, I can see; that's fine). Anyways, fourth quarter, we had a very good quarter, actually, consolidated revenue grew about 15% to about 76.6 billion, and of which, in the assembly was relatively flat, from last quarter, but bear in mind, that as a reminder, the assembly revenue here does not include the SiP revenue, that we produced, because that number was eliminated through the consolidation process. Test, we had about 2% decline, reaching about 6.7 billion dollars, and direct material sales, also came down about 17%, to reach about 861 million. This is the result from a soft demand from wire bonding, which is a seasonal softness, in the wire bonding segment of the business. The margin, actually we had fairly good margin performance in the quarter as well, as you can see, the gross profit margin, was pretty much flat at 21.4%, since we guided that it would be slightly down on the gross level. It turned out, it has a slight improvement; part of the reason is because of the NT Dollar depreciation, which helped about 0.7% on the margin side. Because of the better operating leverage, mostly through the SiP operation, the improvement in the operating margin level is actually greater than gross profit margin; it reached 12.8% in the quarter. Also, in the quarter, in terms of non-op, we actually has a loss of up to 267 million dollar, comparing to a gain of 504 million, in the previous quarter. That difference has really resulted from the ECB mark-to-market losses that we have to recognize in the quarter, which amounted to about 280 million dollars. In the previous quarter, there was a gain of 640 million in a quarter, and that resulted from non-operating turning from a gain in previous quarter, to a loss this quarter.

As a result, the net income, at 7.8 billion dollar, although it has a 9% growth from the previous quarter, but in terms of net margin, actually came down from 10.8 to 10.2% this quarter. EPS for the quarter, is NT Dollar $1.02 (one dollar and two cents), also up 9% from previous quarter. Looking at a YoY comparison, on a quarterly performance, you can see our revenue grew about 19%, whereas packaging on YoY basis grew 11%, test, 7, and direct sales of material, 15%, EMS grew 31%.

With the expanded operation, the profit of margin also improved at the gross level from 19.5 to 21.4, operating level from 10.8 to 12.8%. Looking at a full year number, our consolidated revenue, reached 250, almost 257 billion NT, up about 17% from previous year. If you look at each business unit separately, packaging, reached to 121 billion, up 8% from previous year, and test, reached close to 26 billion, and direct sales of material, about 3.5 billion. EMS, close 106 billion dollars, up 35% from previous year.

Looking at the gross profit margin, improved from 19.5 to 20.9, operating, up to 11.5% for the year, which is a, you know, very good, profit margin performance for us, actually in terms of both revenue and profit margin, I think we had a record year, as Tien pointed out earlier on. For the net income, this year, we have a total net income of 23.6 billion, up 50% from previous year, and also in the EPS, basic EPS is 3.07 (three dollars and seven cents) NT dollars, up 47% from previous year; so we had a very good year.

Now look at the IC ATM separately, in the quarterly performance, in fourth quarter, our total IC ATM revenue grew about 4%. Here, the packaging revenue does include the assembly revenue basically for the SiP business, and if we count that in on a sequential basis, it was up 6%. Testing, as I mentioned, is down 2%, and direct material sales down 17%.

Now the gross profit margin improved quite a bit from 28.6% to 31.3%. In terms of all the cost of goods sold items, all the items has improvements, in terms of percentage of sales, all came down, except for depreciation, actually went up by 0.4% in the quarter, because of the additional investment that we've made in CapEx. Other than that, in terms of raw materials, in terms of labor, in terms of overhead, it all came down as a percentage of revenue that resulted from quite a bit of an improvement in the gross margin level. With also improved operating leverage, operating margin also improved of 17.4 to 20.3% in the quarter.

(Alright, let's move onto next…)
On YoY basis, total revenue, IC ATM revenue grew 16%, and IC packaging grew 18, test, 7%, and direct material sales, about 16%. Also, if you look at the net income, it was a growth, as I mentioned that already. Looking at full year IC ATM, the total revenue reached close to 160 billion dollars, up 11% from previous year, you'd see a respective growth. In terms of packaging, 13, test, 5%, and direct material about 20%. We did had a pretty good progress, in terms of both on the SiP business, as well as in the materials business, which had a 20% growth in the direct sales, largely, supplying to a lot of the DRAM manufacturers in the world.

Ok, In terms of margin, it improved from, gross margin from 24.4 to 28, and operating from 13.3 to 16.6%. I think the margin improvement largely coming from, of course, a better economy scale because of the expanded operation, but also on the product is favorable for product mix change.

Ok, looking at packaging operation, over the past eight quarters, you can see that this year, we repeated the same quarterly movement pattern; basically, is a sequential growth on the quarterly basis pattern continued. Also, the profit margin, actually, the gross profit margin actually reached a new high at 29.6%, in the fourth quarter. And again, the improvement in the gross profit margin is largely because of all the cost of goods sold; cost items actually came down as a percentage of revenue aside from depreciation again.

In terms of revenue breakdown, you can see the advanced, so-called, advanced packaging revenue percentage, actually came up quite a bit, from 29% in the previous quarter, all the way to 38%, thanks to the full ramp up of our SiP operation. In fact, the SiP revenue accounted for about 12% of our overall packaging revenue in the quarter.

Test operation in the quarter, we have slight decline about 2%, and with that, the gross profit margin also came down a little bit from 39.8 to 38.8%.

Material operation, actually as a whole, it had about 11% drops in the quarter. In terms of direct sales to third party buyers, I think that percentage dropped to about 17%, and with that, the gross profit margin also came down a little bit.

Now coming back to the previous two slides, some more additional information I would like to provide. In terms of packaging, actually what I want to mention is the utilization for the quarter for wire bond, is about high 70s, and for the advanced packaging, flip chip, and also the SiP and bumping, we're running at full capacity of up close to 85%. In terms of <28:49>bonder count in the quarter, we added about26 bonders, and retired about 228 (that's right, thank you), and with a total count of 15,792 (that's right), and 86% of it, 13,543 is for copper.

In terms of copper revenue, it accounted for about 66% of the total wire bond revenue, down from 68% a quarter ago, because of the seasonal softness of wire bonding business.

In terms of CapEx for packaging, we had a 65 million dollars invested in packaging, of which cost 26 million dollars for flip chip and bumping, the others for common equipment also including SiP.

Test, the utilization was about at high 70s percentage as well, and in terms of CapEx, we spent 26 million dollars for test, and in terms of tester counts, (this is really painful) we added 94 testers, and retired 122, with total test count at about 3,267 units coming out of the quarter.

In terms of a segment of exposure, in fourth quarter, you can see that communication really picked up from 53 to 58% of the overall, as a result of the full ramp-up for our SiP, SiP operation, and this is at the expense of really both the computer, consumer and automotive. computing actually came down to 11%, and consumer automotive came down from 35 to 31%. I think going into quarter one this year, I think that percentage will change, because it went to the down-cycle for SiP. Therefore, the communication entered, the percentage will be smaller in quarter one.

EMS operation, we actually had a blown-out quarter, in terms of revenue growth in the quarter four last year, we actually had a sequential growth of about 39% to reach, revenue to reach 37 billion dollars. The growth is really fueled by the SiP, as well as the Wi-Fi module ramp up, which together account for about 61% of the overall revenue in the quarter; and with that, the margin, gross profit margin came down to, from 8.6% to 7.9%. Although at the operating level, the EMS operating margin is maintained at about, at around 3.3% level, pretty much the same as previous quarter. So, we do see a lot of the operating leverage, I think at the SiP business as well.

In terms of segment breakdown, again, same as IC ATM, you can see that communication really came up a lot from 55% a quarter ago, to 67%, which is pretty much the same pattern as we saw in the previous year. Where in the Q4/13, that percentage was about 61, and this quarter, it grow further to 67%, as we increased the SiP business that we have in this year.

Looking at the balance sheet, overall cash and cash equivalent, plus financial asset, current asset, is about 58 billion dollar, up about 11 billion from previous quarter. In terms of interest bearing debts, short term, long term put together, we have total about 99 billion, up from 94 billion a quarter ago. So, there's nothing to worry about, because our cash actually increased by 11, whereas debt only increased by 5.

With that, I think the current ratio, improved actually to 1.44, and net debt to equity also improved from 0.43 to 0.26. Also, in the quarter EBITDA was 17 billion dollars of 86% from the previous quarter, so our balance sheet remains to be very healthy.

Here is the CapEx for the quarter, altogether we spent 148 million dollars, out of the total EBITDA of 563 million dollars, so it remains to be financially positive. In the quarter, out of 148 million dollars, we had 65 million in assembly, 26 in test, about 55 in EMS, and very small number for inter-connect or material.

All in, I think the total CapEx for the year, last year as well, 1 billion and 54 million. The final number is a bit higher than what we've indicated from earlier on, because we had a very late investment, in preparation for the new SiP product, that we're going to be launching this year, on EMS side, so the total number is a bit higher.

Out of this 1 billion dollar CapEx of the year, we have close to, little over 650 million dollar invested in assembly. (Hold on a second…) we have about 180 million dollars invested in test, about 21 million dollar in material, and then 185 million dollar for EMS including some SiP project that we've put in. (I mean SiP project, not sick project).

With that, I think I have concluded my 15 minutes of financial results, and I'd like to give you some colors about first quarter.

Before that, actually, came back to why is that our cash increased that much, is because in the quarter, USI Shanghai had a share offering, raised about, a little over 2 billion dollars, close to over 300 million US dollars fund-raising, so with that, we successfully sustained the dissolved price of USI Shanghai. Right now, USI Shanghai, we still own about 82%, and the total market cap of that company is about 6, over 6 billion dollar (US dollar) comparing to ASE as a whole, it's just a little over 10 billion dollars today.
Ok, so you see what I'm trying to say here

Fourth quarter color, I think in terms of IC ATM, if we'd assume that production capacity and blended ASP remains the same as last quarter, the utilization of such capacity will come down, because of the seasonal factors, and also because of the production cycle of our SiP business, the utilization will come down to by 10 to 15% in a quarter. As for the EMS business, I think the pace for our Q1 sequential change, should be very similar to what happen, in the first quarter of last year. And with that, with the above two, our consolidated gross margin, operating margin, should also be very similar to what we achieved in quarter one of last year. So that's pretty much I'm giving you some color of what we're expecting for quarter one. Thank you very much!

Joseph Su: Thank you, now let's open the floor for questions

Attendee from live audience—Randy Abrams / Credit Suisse
Question 1: Thank you, I appreciate the update. On SiP business, and you talked a little bit more about projects and I think also potential new customers. Could you just give a frame work on type of projects, as we look over the next year or two for SiP, what you're working on? For the customer base, how concentrated, I'm getting most will be with the major customer, or do you see much diversification, to additional customers?

Answer 1 (by Dr. Tien Wu):
Ok, the objective here is, after years of preparation on the SiP building block, we landed major customers, and we launched the first major product back to 2012. So in 2012, 2013, and 2014, all the way into 2015, we have seen the momentum of that SiP product. So the objective this year is to launch additional product, not only with that customer, but also with other customers. I would not be able to comment what type of product, what type of dollar framework, but my promise to you is, by the end of this year, you will see a few. All right? It will be good project

Question 2:
For the capital spending, where you came in a little bit about last year, if you could give a framework about this coming year, total CapEx, and then where you plan to allocate that CapEx?

Answer 2 (Mr. Joseph Tung):
We're not allowed to give you a specific numbers, because it has to go through the board approval first, but I think what I can share with you is, I think the total CapEx number will be a little less than what we had last year, but it won't be that much different, at least it will not be lower than total depreciation expense we had last year, which is about over 800 million dollars. I think for this year, it will be very very minimum for wire bonding capacity investment. I think if there is some, and it will mostly for automation of that process. I think may be two-third will be for assembly, and mostly in the advanced packaging. I'm sorry, Joe say 50% for assembly, and then we have well 15% for test, and then the remaining for material, as well as for some SiP projects, as we come along.

Question 3:
Final questions I wanted to ask on the gross margin. For first quarter guidance, you're guiding back to first quarter, 2014 levels, but the base for fourth quarter this last year, was a few points higher, than what you did for fourth quarter in '13 (year 2013), so I'm just curious, why you're guiding. If we compare what you just reported your 31%, but a year ago, exiting your year about 27% and 28%, so I'm curious why you're guiding down to similar levels in first quarter. If there's a product mix, or some other factor that's causing a bigger decline from Q4 to Q1, why you're not seeing that improving margin trend carried forward to first quarter?

Mr. Joseph Tung: You mean margin
Randy Abrams: Yeah, for the gross margin

Answer 3 (by Mr. Joseph Tung):
I think it's really the product exchanges, therefore there will be some impact on the margin itself, but I think as a whole, we were pretty happy with what we have achieved on the annual basis last year, both in terms of gross, and operating margin level, so although quarter to quarter, there will be fluctuation to gain the different business composition, but as a whole, we will strive to make what we have achieved in terms of margin, a sustainable level, for the year, and the future as well.

Randy Abrams: Thank you!

Attendee from live audience—Rick Hsu / Daiwa Securities
Question 4:
Good afternoon, COO, CFO, and Joseph. I got couple of questions here. The first question is more of a housekeeping one. Can you give some number about your first quarter capacity, how many more of wire bounders you're going to add, tester, and also your free chip bumping capacity? Thanks.
Answer 4 (by Mr. Joseph Tung):
I don't have the exact unit counts on first quarter. I think the overall CapEx for first quarter is going to be very low. As I mentioned, most of the SiP project on the EMS level, also we're already invested, and I think for this year, it'll be very similar to last year's pattern. The overall business will have a fairly healthy improvement. Starting from second, actually late, very late first quarter, and so second quarter we'll have a pretty good jump, in terms of overall revenue.

I think in terms of utilization, and of course across the board, the utilization in the first quarter will be lower in quarter four, in terms of assembly, I think it will be around mid-70s, whereas in the blended, on the blended level. For test, it will be at the mid-70s level.

Question 5:
The second question, I think you provide the first quarter margin on consolidated basis. Can you break it down a little bit? How much do you guys expect for ATM, and how much for EMS, roughly?

Answer (by Mr. Joseph Tung):
Well, I think on the EMS side, there will be some drop as well, in terms of at the gross level, and we're trying to maintain it at the operating level for the quarter. So we have about 7.9% in fourth quarter, so that number will be less than that percentage points lower for EMS, and then you can look up the rest.

Rick Hsu: Sure, that's fair enough

Question 6:
A little bit longer for you, 2015 outlook. Now you talked about CapEx, can you share with us what about your revenue outlook? I know COO mentioned about continued market share gain, so I'd assume your revenue growth should be well-above industry average. Can you share with us your view on that?

Answer 6 (by Dr. Tien Wu):
I don't think we're allowed to give a specific number, but we will outperform the market. Right now, the market outlook is 5%. 5% typically means that they don't know, but I want to go by the 2011, '12, '13, '14, we have always been getting 5%, we're right every single time. So this year, I think everybody is guessing 5%, and I think Andrew probably have a better guess; I think he doesn't know either. So with that, I think our market share will gain, and we continue to maintain a strong rebound in Q2, and follow by sequential growth, quarter-on-quarter, which my CFO warned me not to say that, but I feel pretty confident. We should see quarter-on-quarter growth. With that, you can just work out the number.

Rick Hsu: Sure

Question 7:
When you mentioned 5% growth, you mean global semi this year, it's not OSAT right? Not OSAT, for global semi. What about your OSAT? Any idea about your OSAT growth?
Answer 7 (by Dr. Tien Wu):
The OSAT is a little bit confusing now, because of a lot of consolidation, and also because of how aggressive some of the Chinese operators are. I think in China, the OSAT growth tends to be much higher than the normal IC, so I won't be able to comment what's going to happen in 2015, it's very dynamic. But if you look at global semi-conductor performed by 5%, with all of the margin management, product mix, the SiP differentiation, and we tried to do the CapEx discipline as much as we could. Within ourselves, we hope to manage a revenue growth together with margin sustainability, that is really the main focus for this year.

Question 8:
Ok thank you, one last question is: can you talk a little bit about your cash dividends this year?

Answer 8 (by Mr. Joseph Tung):
Well, this is of course, the board's decision, but as a reference, last year, we had a 65% payout ratio, all

in cash, as a reference.

Rick Hsu: So this year is going to be at least, maintained, or higher?
Mr. Joseph Tung: It's up to the board, but you know, I'm just giving you last year's number as a reference.
Thank you so much!

Joseph Su: Sorry, but when you speak your question, please also speak your name and company, thank you! Our next question, will be from Mr. Szeho Ng / BNP Hong Kong

Online caller: Mr. Szeho Ng / BNP Hong Kong
Question 9:
Hi good evening, couple of question. First one, what's the copper wire bonding revenue in Q4, and as a percentage of the wire bonding revenue?

Answer 9 (by Mr. Joseph Tung):
The percentage, the copper wire bond revenue as a percentage to total wire bond revenue is about 66%, down from 68 a quarter ago.

Question 10: And what's the total dollar amount?
Answer 10 (by Mr. Joseph Tung): Total dollar amount is 415

Question 11:
All right, and also, regard your CapEx this year, you mentioned it would be similar to the depreciation run rate, that's what you said earlier.

Joseph Su: I'm sorry, can you repeat that?

*Repeat question 11:
Mr. Szeho Ng: Yeah, for the CapEx this year, are you guiding similar to the depreciation run?

Answer 11 (by Dr. Tien Wu):
We said we will be greater than the depreciation; sorry, greater.

Question 12:
Oh ok, sorry; and last one, how should we model the tax rate this year, is it going to be around 15% or all pass?

Answer 12 (by Mr. Joseph Tung):
For model building purpose, I think for this year, we are modeling at about 17.5%.
Ok, all right.

Question 13:
And last question, sorry, you did a really good job for backend gross margin in Q4, should we expect more to come, sometime in may be later part of this year?

Answer 13(by Mr. Joseph Tung):
We certainly hope so, now as I mentioned earlier on, we were pretty happy with what we achieved last year, and hopefully, on the annual basis, both gross and operating margin, we actually had a record year; we very much so want to keep it at the sustainable level, and use it. Of course, from the operation point of view, I always look at Tien and say if there's any further improvement that we can get, and he's nodding.

Mr. Szeho Ng: So we should expect a 31.3% gross margin this year, so we should expect that, even better toward the end of the year.

Mr. Joseph Tung: Well, we'll certainly hope so.
Mr. Szeho Ng: Ok, all right, great job; congratulation.
Mr. Joseph Tung: Thank you!

Joseph Su: Thank you Szeho. Our next question will still be from an online guest—Mr. Dan Heyler, from BOA Merrill Lynch. Dan, please speak your question

Online caller: Mr. Daniel Heyler / BOA Merrill Lynch
Question 14:
Thanks. Hello Joseph and Tien, appreciate the presentation, sorry I couldn't make it to the conference this quarter. So couple quick question, so as you look interestingly, at the ATM margin, I think you can sustain kind of those margin levels that you achieved in 2014 and 2015?
Answer 14 (by Mr. Joseph Tung):
This is Joseph Tung from ASE. Of course, this is something we like to see, but you know as I mentioned, on a quarterly basis, there will always be some fluctuation, depending on different business condition and / or operation condition; so yes, we will try our best to keep our margin, or whatever we achieved at a sustainable level. You know, we'll do our best.
Question 15:
Ok, because as I see some puts and text there, the SiP project last year was some margin created for ATM, I guess you're building up some capacity for the new product, is that one of the factor that may be a little bit of a drag for first half of the year, until you know, you see the margin pick up there, and at what run rate I guess, for your new project, do you become margin accretive?

Answer 15 (by Mr. Joseph Tung):
I think for SiP, you can spread across a very wide spectrum of different devices or products. Some may have more or higher IC ATM contents; some may have more or higher SMT or EMS types of contents,

depending on the product. The new product, or new projects that we are taking on, is more toward the EMS side of it, and therefore, it'll be more similar to the EMS margin

Mr. Daniel Heyler: Ok, but as the existing product grows, that'll offset at that drag

Mr. Joseph Tung: But I think the real issue here, is that whether it's return accretive or not, and base on what we have, the SiP remain to be very lucrative from a return standpoint for us.

Question 16:
Got it; and then on the revenue side, nothing has been coming in, as you commented on the second quarter rebound <*unclear> across to the semi and <*unclear>, yet the seasonality a little bit more moderate this time, so should we think that the second quarter rebound may be more moderate, say last year <*unclear> or the second quarter, the semiconductor is a little bit more muted? Just want to know what your feeling is for second quarter, either the..<*unclear>

Answer 16 (by Mr. Joseph Tung):
Well, I guess all we can say is, it's going to be a very healthy jump in the second quarter, without being that specific.

Mr. Daniel Heyler: Ok, in terms of end market, should we <*unclear… assume> that mobile area is coming back, <*unclear…could you give some thoughts on the end market?>

Mr. Joseph Tung: No, I think it's really across the board, but it's more so, on the consumer side

Mr. Daniel Heyler: Finally, on the CapEx side, so I just want to clarify some comment you made earlier. Did you said that you thought that <*unclear> CapEx may be flat and you need board approval. Did you say 50% would be ATM of that, and I'm wondering what was the last year, because that's a big drop I think, from last year, from ATM though.

Mr. Joseph Tung: 50% for assembly, and then another 15% for test
Mr. Daniel Heyler: I see.
Mr. Joseph Tung: Yeah, so IC ATM is about 65%.
Mr. Daniel Heyler: Ok, that's down from last year though.
Mr. Joseph Tung: Yeah
Mr. Daniel Heyler: Ok, that's it from me, thank you very much!
Dr. Tien Wu and Mr. Joseph Tung: Thank you!

Joseph Su: Thank you, Dan.

Attendee from live audience—Eric Chen / UBS
Question 17:

Dr. Tien Wu, Joseph and Joseph, good afternoon. First, congratulations for your numbers, it's very good. My first question is regarding to the EMS business. My understanding, for USI Shanghai, the EMS for specific client, the revenue is probably more than doubled this year. Can we get the roughly idea, and also because of their strong EMS business, what kind of revenue helpful, and for this year, what kind of revenue we can give expectation, and for whole year, the EMS revenue growth?

Answer 17 (by Mr. Joseph Tung):
I don't think we're in a position to give you a number for that.

Mr. Eric Chen: Ok, let me say this way. Based on the USI Shanghai and their expectation, more like our EMS revenue, just like the growth pattern, just like last year. Does that make sense?

Mr. Joseph Tung: I think it will be similar,
Mr. Eric Chen: Very similar right, in terms of EMS revenue growth this year; ok.

Question 18:
How about the operating margin? We have very good operating margin last year, and with EMS revenue percentage quite a significant, in terms of revenue portion. So what kind of operating margin we should be looking for, the YoY base?

Answer 18 (by Mr. Joseph Tung):
As I mentioned, we will do our best to keep whatever we achieved at a sustainable level,

Mr. Eric Chen: I remembered, Joseph, you mentioned before, for more like this year versus last year, the operating margin, either flat, or steady up, is that true or?
Mr. Joseph Tung: I'm sorry, again?
Mr. Eric Chen: I mean the operating margin verse last year, more like YoY flat, or slightly up. Will that be the case either way?
Mr. Joseph Tung: I can't say that.
Mr. Eric Chen: Ok, you cannot say that, ok.
Mr. Joseph Tung: I am not saying that.
Mr. Eric Chen: Ok, you are not saying that, but that pretty make sense, right, from annual point of view, to give that kind of forecast, as the YoY flat, or slightly up?
Mr. Joseph Tung: Can't comment on that either.
Mr. Eric Chen: ok.

Question 19:
There is one argument, our operating margin probably will decline on second half of this year. Does that make sense from your point of view, because of EMS revenue growth, and probably even lower than the last year

Answer 19 (by Mr. Joseph Tung):
Well, I mentioned here, depending on the composition of your business, also, I think depending on the stages of that particular business in the given quarter, there could be fluctuation on the margin. I think the end goal, is really to sustain at whatever we have achieved last year, on annual basis, I won't be able to comment on quarterly basis.

Mr. Eric Chen: ok, that's the bottom line right?
Mr. Joseph Tung: that's the goal
Mr. Eric Chen: that's the goal, ok

Question 20:
The last question is regarding to your business in China. Could you give us the idea on how many revenue percentages from our China client, and in Q4 last year, Q1 this year, and how about the whole year, what kind of number we should keep in mind?

Answer 20 (by Joseph Su):
For IC assembly in test, the revenue from our China operation, right now is about 12%.

Mr. Eric Chen: ok, how about from China client?
Joseph Su: China client?
Mr. Eric Chen: Yes.
Joseph Su: For IC assembly and test business, about only 2% of our revenue is coming from our Chinese customers.
Mr. Eric Chen: only 2%
Joseph Su: Yeah
Mr. Eric Chen: ok, I see. How about for the whole year, roughly, I mean the China operation?
Joseph Su: Roughly, 12 and 2
Mr. Eric Chen: ok
Joseph Su: Hopefully, it'll be more than 2

Question 21:
Do you have any idea, regarding to the chip shipped to China, probably for Taiwan handset smart phone maker, their business, their product shipped to China, do you have the idea for the revenue percentage-wise?

Answer 21 (by Dr. Tien Wu):
I don't think we have those information, we can track part number, but even if we track part number, I'm sure we couldn't release those information.

Mr. Eric Chen: Ok I see, thank you.
Joseph Su: Andrew, please.

Attendee from live audience—Andrew Lu / Barclays Capital
Question 22:
Dr. Wu, big Joseph and small Joseph, <*spoke in Mandarin> (English translation: "greeting, I have a few questions hoping to seek for your response". The first one: assuming the revenue growth will be higher than 5%, which business do you think will grow faster than this number, which of your business will grow slower than this number?

Answer 22(by Dr. Tien Wu):
I think all of our business will be higher than our number…

Andrew Lu: No no, just say...I'm asking you, the 5% is the low bound right?
Dr. Tien Wu: Sure
Andrew Lu: Assuming your growth rate is something like 8% or 10%, so business is higher than 10%, which one is lower than 10%?
Dr. Tien Wu: Well, I think you already know the answer, I think the communication, the automotive will be above the bar.

Question 23:
How about between SiP and backend, IC ATM?

Answer 23(by Dr. Tien Wu):
SiP, majority of SiP will be in the communication space. The SiP, per se, the percentage will be much higher, because I already talked about it, by Q4 of last year, the SiP account for about 18%, and then by Q4 of this year, hopefully we'll be approaching 30%.
Question 23:
Can we have a roughly number on year over year basis? For example, full year last year, SiP account for 1% of your revenue, full year for this year, what's your roughly in mind?

Answer 23(by: Joseph Su):
For the year of 2014, SiP accounts for 11% of the consolidated revenue.

Question 24:
What's the likely arrange for this year?

Answer 24 (by Joseph Su):
For this year, it should be, may be, 20% or higher.

Dr. Tien Wu: it should double

Question 25:

So assuming all other business remaining flattish, your revenue will grow 9% because of SiP,

Mr. Joseph Tung: that's very good.
Dr. Tien Wu: You can say that, I'm not allowed to say that
Andrew Lu: If your growth is below 9%, that means some other business is declining.
Dr. Tien Wu: that is correct.
Mr. Joseph Tung: that's very some math
Andrew Lu: thank you.

Question 26:
The second question I have a depreciation cost. What number should we monitor for this year, and Q1 for full year?

Mr. Joseph Tung: For the whole year this year, we have, 26 billion something?

Answer 26 (by Joseph Su):
For the whole year of 2015, I think the depreciation cost should probably grow at maybe low ten percentage point.

Andrew Lu: Low teen percentage?
Joseph Su: yeah

Question 27:
What about Q1?
Answer 27 (by Joseph Su):
For Q1, it should increase by low single-digit

Andrew Lu: Q to Q basis
Joseph Su: Yeah

Question 28:
Thank you, another one is regarding the guidance, is that all the guidance number you provided on the white board, or including the foreign exchange adjustment?

Executive team: yes
Andrew Lu: so this is included, OP margin and whatever.
Executive team: yes

Question 29:
The blended ASP?

Joseph Su: the what?
Andrew Lu: the blended ASP, is US dollar basis or NT dollar basis?
Mr. Joseph Tung: NT dollar basis
Andrew Lu: interesting, thank you

Question 30:
The last two questions are about fan out—what's your view on the fan out, what do you see from competition from TSMC, from this angle. Do you see fan out would be more important revenue for the backend as well?

Answer 30 (by Dr. Tien Wu.):
Fan out, right now, is a small percentage of the backend, even from the bumping and advanced technology perspective. We do see that as device technology moving forward, fan out will be an important for specific class of clientele, and it's our objective to develop the fan out, to meet the transition of the requirement from the customers. We never view TSMC to be a backend competitor; we would like to view TSMC as our customer, as well as a technology and business collaborator. So from that perceptive, I believe the eco-system will decide whose technology will prevail, and what is the pricing model, and how do we manage the multiple sourcing requirement for fan out But as of today, fan out is a very small percentage of what we do, but we do have plan, in terms of making the capital investment. In other words, fan out is part of the technology and product off roadmap on the ASE side.

Question 31:
Are we expecting more investment next year?

Answer 30 (by Dr. Tien Wu.):
You can expect. We have committed, so the investment will start, actually, it has already started, and you will see additional investment on fan out this year, not next year.

Question 31:
The last one is regarding JCET STATS ChipPAC merger. What's your take on that?

Answer 31 (by Dr. Tien Wu.):
On the short term, we have a few customers moving loading, from STATS ChipPAC, or the JCET combo to ASE. I do not want to show an over-enthusiasm on a few specific customers, because of the uncertainty of their concern. However, what I'm trying to say is, on the short-term basis, I do believe that there will be some incremental plus for ASE; we're likely to get additional loading. On a mid to long-term, I believe the competitive landscape may be a little bit more fearful. However, since day one, semiconductor has always been competitive, and I don't think there's a year that it's NOT competitive, so I think the market had to carve it out.

Question 32:

<*question asked in Mandarin>
*Interpretation by Joseph Su: so the question is about fan out, is fan out going to be a factor for the customer to consider shifting the orders from our competitors to ASE?

Answer 32 (by Dr. Tien Wu.):
I think different customers will have different concerns, and I think fan out really depends the customers, which IP space they're located, and also the overall reliability requirement; each customer will make a different decision. But when I talked about a specific customer moving from STATS ChipPAC to ASE, fan out was not part of the consideration, at least in this realm. In the future, it is hard to tell, but what I'm trying to say is, there will be customers, moving from ASE to JCET. There will be customers moving from JCET combo to ASE; however, for the last 30 years, that is semiconductor, customers go, customers come back, depending on the value of differentiation. I also want to comment on the EMS, the SiP, and the IC ATM product mix, I think it's very very difficult to model what the material contain on SiP, especially when we're trying to ramp up SiP, on the EMS side. So I think what we should look at is really the return, in addition to the margin. But what's important is, do we have a differentiated offering to the market plate that the market likes. If they like, how does that contribute to the return on investment, as well as net income. Margin, becomes a very classical measurement when you have a steady state; you understand the cost model, you understand the depreciation, you understand the margin structure. I think we are entering into a new era, where the IC assembly test side, we understand how to manage this. But when we start enabling the SiP EMS side, the margin becomes one of the metric we look at, but the most important thing we look at is differentiation as well as how does that contribute to the return on investment, so margin will not be the most critical concern.

Question 33:
Mr. Andrew Lu: When you guide the 20% revenue from SiP, as additional comparison to the last year on 9%, what kind of wearable devices volume shipment on the watches side, are you focusing your model?

Answer 33 (by Dr. Tien Wu.):
You know I cannot answer that question.

Andrew Lu: No, I'm talking about the broader customers, not just as one customer
Dr. Tien Wu: I will not comment
Andrew Lu: thank you.
Joseph Su: we got only 3 minutes left, our next question will be from our guest—Jean-Louis, from online. Jean-Louis, please speak your questions.

Online caller: Mr. Jean-Louis Lafayeedney / JI Capital
Question 34:
This is all the way from <*unclear>Asia. Hi, just one question from me, I'll make it quick, it's more of a broader question. Basically, with what we have seen in China, in terms of the backend space with past

couple of years and in 2014, and including, of course, JCET, and presuming more aggressive CapEx movement next year, how has that shaped your strategy for 2015, when you're looking at CapEx, and also the type of product that you want to go into? Has everything that you see in China, and which you believe will happen in China, had some bearing impact on your strategy going forward, in terms of your product allocation, and perhaps the type of technology that you had some more emphasizing, for example: looking more at advanced, such as bumping flip chip etc. Thank you!

Answer 34(by Dr. Tien Wu.):
I think the best way to answer this question is to use number. If you look at the backend investment, every year, we're roughly between 5 to 7.3 billion; we've already established the number. That number was established by a very competitive, collective body, of semiconductor backend. With a giving efficiency that all of the competitor worked it out. So when the JCET and the China big fund moved in, the central government announced that, with 20 billion US dollars, over 10 years, so I would assume, it's about 2 billion dollars a year. The local number varies from 0 to 4 billion per year. Assuming you have central plus local, of 6 billion US dollar for fund into China, I believe that'll be the worst case. Then you have to talk about it, the 6 billion distribution, how much dollar allocated for merge acquisition, how much dollar allocated for foundries, how much dollar allocated for backend? So in my assessment, the big fund allocation to the backend capacity would be no more than 1 billion US dollars, per year. Now, if we believe that assessment is correct, 1 billion over 7.3 billion, is two substantial number, therefore we do understand, when the Chinese believed to pull in 1 billion of selective funding in the backend. If that happens, how would the industry collectively react and respond? I believe, 7.3 billion of total required backend CapEx, was the introduction of 1 billion big fund from Mainland China that can be managed. I am assuming the same level of efficiency; however, if you look at the China central government, the local government, how does the funding will be managed with the enterprise. You will have multiple bodies to make decision. One of the things that ASE, as well as Taiwan semiconductor strived the best is the speed of decision, and the way we execute.
Therefore, we are counting on dollar, with less efficiency, competing with collective body, managed by the global semiconductor. It's a very long answer, to a short question. However, I do believe we need to put all of the parameter into landscape. In 2015, I do not believe we will see anything major. I believe the real effect will only surface three years down the road, probably in 2017, 2018 time frame. You will start seeing the local imbalance of capacity and supply and demand. That is my view.

Mr. Jean-Louis Lafayeedney: Thank you, so just to sum on the comment, no major CapEx change on this year, and your allocation, thereof, because of what is in China. Not yet then.

Dr. Tien Wu: Ok, let me just rephrase the comment. What Joseph has said, is that our CapEx, will likely to be less than last year. We will manage the business dynamics, as well as the allocation to different business unit. For example, if there is a wire bond requirement, which we don't see it. If there is a stronger copper wire bond requirement, there will be copper wire bond CapEx. If the SiP in any kind of product, on the EMS side, or on the IC ATM side show a strong demand, we will allocate the CapEx. The CapEx is not an issue. The issue is your CapEx discipline, how does that translate into operation efficiency and your net income? As long as that efficiency and the translation is there, the more CapEx you spent, the better for the business, and I want to make sure people understand the strategy of ASE Group. Now, in this campaign, China becomes an essential element of the ASE Group, because majority of the USI revenue in SiP, are already executed in China. The 6 billion dollar market cap about USI in China, is listed in Shanghai Stock Exchange. China is an essential element in ASE campaign and strategy.

Joseph Su: Sorry Jean Louis, sorry guys, our time is up. If you have any further question, please feel free to contact us, through phone or email. Thank you attending our Earnings Conference, thank you!
<End of Conference>