

## **Taiwan Mobile 1Q09 Results Conference Call**

Date: 30 April, 2009 (Thursday)

Time: 1600 Taipei/Hong Kong/Singapore

**Harvey Chang, CEO & President:** Hi, welcome to our 1Q conference call. I'm going to start with a very brief presentation. And then give you our forecast and then update. Before I start my presentation, I have to direct your attention to following statement:

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### **Results Summary**

With that, I'm going to start to talk a little bit about our 1Q results. For our 1Q 2009, you can see that our revenue number is roughly NT\$16.8 bn, which means we meet our guidance not only in terms of revenue, also in terms operating income and, also on the net income, we are slightly short primarily b/c there are some non-operating items. These are the write-off that occurred earlier than we expected.

We were able to meet our 1Q revenue guidance primarily due to better-than-expected HBG performance and higher handset sales which compensated for telecom service revenue drop.

Despite the revenue pressure, our 1Q09 EBITDA achieved the guidance, due primarily to marketing expense savings. Selling expense plus mobile device subsidy netted 17.7% of total service revenue in 1Q09, 1% reduction from 4Q08.

On the non-operating front, due to network consolidation completed a little ahead of schedule, assets write-off losses exceeded our guidance. This is what we have for the 1Q.

### **1Q Divisional Performance**

If you go to the next page, which gives you a breakdown of the performance of our different business groups, our 1Q revenue growth in EBG and HBG failed to offset CBG's revenue decline. As a result, our consolidated revenue decreased 2% from a year ago.

On the profitability front, CBG's YoY decline in EBITDA mainly reflected lower service revenue as cash network cost and operating expense was cut from a year ago.

EBG's EBITDA in 1Q did not increase along with the growth in revenue, because it had higher percentage of revenue coming from lower-margin product such as ISR.

HBG had a healthy 6% YoY growth in EBITDA due to consumer's spending on cable TV and broadband was not negatively affected by the financial turmoil.

### **Wireless Peer Comparison**

On the next page, that will give you a comparison with our peers, as you can see our mobile subscriber number grew 1.9% YoY, coming largely from 100K data card subs addition. Compared to our closest competitor, we stood out in terms of mobile EBITDA, EBITDA margin and total subscriber number.

### **VAS and 3G**

And then, on the next page, which talks about VAS and 3G, TWM's VAS revenue grew 22% in 1Q and it is the most visible among the three major operators. This was mainly aided by 68% revenue increase in mobile internet. The strong growth in mobile internet revenue was a combined result of strong growth in data card subscribers as well as more mobile users adopting data price plans.

Our 3G post-paid subscriber number in 1Q09 have exceeded 2.5m, up 78% YoY. And our 3G data revenue was up 1.6 times from a year ago.

And then, on the next page, which is the balance sheet. I will turn the mic over to Rosie.

### **Balance Sheet Analysis**

**Rosie Yu, Finance VP & Spokesperson:** Good afternoon. I'm going to talk about balance sheet. The 1Q09 cash level rose sequentially from the previous quarter on the back of stable operating cash inflows.

Net PP&E balance at the end of 1Q09 was down by NT\$0.94bn from 4Q08 as 2G assets write-offs and depreciation charge was higher than new 3G equipment purchase in the quarter. The 2G's net book value was NT\$19.74bn as of the end of 1Q09 while that for 3G rose to NT\$12.17bn.

On the liability side, gross debt reduced to NT\$16bn from NT\$20.7bn a quarter ago, as a result of paying down NT\$5.2bn of syndicate loan.

### **Cash Flow Analysis**

Now, let's turn to cash flow analysis. Our operating cash flow remained stable in 1Q09. The 1Q09 investing activity cash outlay was mainly for NT\$1.5bn in cash capex. 83 3G base stations were added in 1Q and close to 100% of our 3G stations are HSDPA enabled.

In terms of financing activities, we repaid syndicate loan of NT\$5.2bn, and increased short-term borrowings by NT\$0.5bn. NT\$0.32bn cash inflows were from selling treasury shares to employees in 1Q09. Treasury shares balance amounted to 829mn shares as of the end of 1Q09.

So let me turn this back over to Harvey for 2Q forecast.

### **2Q09 Forecast**

**Harvey:** We forecast mobile service and cable TV revenue to rise sequentially in 2Q09. With contained SAC per sub, the QoQ rise in selling expense of our forecast is largely to reflect stronger gross adds of wireless data and planned marketing campaigns. The sequential pick-up in EBITDA is expected to help stem the decline in profits. We will try to maintain discipline over spending as implemented in 1Q09.

### **Event/ Regulatory update**

And then, give you a very quick events update. First is on earning distribution. On March 5, 2009, TWM's board meeting approved the proposal to distribute NT\$14bn out of our retained earnings as cash dividends to shareholders. Dividend per share will be NT\$4.7 based on share count of 2.97bn, net of treasury shares held by our subsidiaries and shares bought from the market.

And for new product and service, we are ahead of the pack and we launched own-brand netbooks earlier this year and we are providing the best mobile broadband services to customers. And then also, we are planning to introduce DTV in our

CATV operating area in Taipei County in June and the other regions we are operating in September.

And, also, we have some more news in terms of award we've received early this year. We were awarded "5th Corporate Governance Asia Recognition Awards" in Asia Pacific region by *Corporate Governance Asia* magazine. This is the third year in a row. We received "IT Best Choice" awards from Institute for Information Industry in three categories. We were also awarded by *CommonWealth* magazine in "Excellence in Corporate Social Responsibility". This also is the third year in a row that we received this award. We are one of ten companies to receive this award. We also received seven commendations from NCC, the most among peers, for the efforts of bridging digital gap in remote areas in Taiwan.

On the regulatory front, on March 18, 2009, NCC announced to require SOs to provide performance guarantee on advance receipts from CATV customers. The new regulation is expected to take effect starting next year. But this is not very significant.

### **Key Message**

Our key message that, for this quarter, although we are continue facing worldwide financial turmoil and depressed economy, due to the weakness of the economy as a reflection, we inevitably posted a decline in EBITDA in 1Q, however we are still able to meet the guidance. Looking ahead, the economic outlook remains bleak. However, Taiwan Mobile will strive to sustain EBITDA levels in line with guidance to maintain shareholder return.

With that, we are happy to take questions.

### **Q & A**

**Anand Ramachandran, Citicorp HK:** *I have two questions. Firstly, what's your perspective into China Mobile investment into FET yesterday? How do you see that impacting TWM at all in terms of proportionally and in terms of threats on a 12 month view?*

*Question #2, you have indicated 2Q estimates, can I take that to mean that the FY estimates you gave back with the 4Q results, those stay the same?*

**Harvey:** I'll answer your 1<sup>st</sup> question and I'll let Rosie answer your 2<sup>nd</sup> question. While it was a surprise to see that announcement made both by FET as well as by China Mobile, however, first of all, they still have to meet some regulatory challenges. Our understanding is that it might not meet the compliance standards. Secondly, from the limited information we have, we do not see that much impact on the competitive landscape in Taiwan.

**Anand:** *I don't know if this is answerable, but were you involved in any discussions with any Chinese operators at all?*

**Harvey:** I have not spoken to anyone with China Mobile for maybe a year; quite a long time.

**Rosie:** Anand, to answer your 2<sup>nd</sup> question, our original guidance still holds.

**Tim Story, JP Morgan HK:** *Just a question on capex, given the trends you indicated earlier on the success of products like mobile internet and netbooks, these are obviously more bandwidth-hungry stories. I'm just curious about your thoughts on capex in light of the need to continue to provide more and more capacity for these types of services. How you see the match b/w the economic environment encouraging you to curtail capex by the demand environment from consumers on these data services to require investments to remain high, if not, increasing?*

**Rosie:** We have already trimmed down our CAPEX from last year NT\$8.4 bn to NT\$6.9 bn and currently we have slightly reduced it down to NT\$6.5 bn. That has already reflected our determination to cope with financial weakness in the economy.

**Tim:** *You're not worry that the increase in the demand as the supply of more and more affordable netbook and smartphone products from electronic vendors will make it possible for people to be using more and more internet applications that you might be under-investing in the next 1 or 2 years in the context of the lower capex that you're looking at?*

**Harvey:** No, we don't think it will cause that effect.

**Tim:** *The 2<sup>nd</sup> question is a follow-up on the announcement yesterday b/w China Mobile and FET. What's also obviously interesting is the money that FET is getting*

*they have basically indicated is going to be earmarked in sort of venture capital approach to investing in internet-related companies, content companies perhaps in TW, but more likely in China. Assuming this goes forward, on the one hand, the possibility of you having a Chinese strategic partner is there, but, on the other hand, the other interesting thing that I would love to get your insight on, is whether or not you think there is a story to be focusing more on investing in the VAS chain similar to what FET talking about now and perhaps more similar to what Telstra's already done with the internet investment they've made in China in the last year or two. Any comments on that kind of strategy?*

**Harvey:** I wish them all the best of luck.

**Tim:** *It's not something interestin– TWM wants to stick with being a mobile operator in Taiwan is that basically what I should take away?*

**Harvey:** No, that's not what you should take away. I only said is that I wish them the best of luck. That's all I said. We have a small operation in Beijing already for a couple of years. We did not give up the China market. Making investments in China is a challenge. I don't think you people will be please that we tell we set aside \$20 mn for making investment.

**Arthur Pineda , RBS Singapore:** *I have two questions. With regards to the asset write-down, is it merely front loading of your FY guidance or will this mean an increase going forward?*

*With regards to your 2Q09 guidance, it's seems to me that TWM is quite unique in saying it posts sequential earning growth and margin expansion. What did you think will allow you do this and what are you doing differently from your case in order to achieve this?*

**Rosie:** To answer your first question, we don't think our write-off amount for the FY will exceed our guidance that based on our current estimate.

As to your 2<sup>nd</sup> question, I think our focus is mainly on the EBITDA. As Harvey mentioned earlier, we will try to exercise discipline over the spending in the 2Q as an implement in the 3Q to achieve the goal.

**Arthur:** *You don't think there will be competitive pressures out there that actually*

*require you spend more going forward as compared to 1Q levels?*

**Harvey:** Well, the competition is a very dynamic game. Given what we have seen so far, we think that we are giving you reasonable estimate. Come on, it's only 2 ½ months away, we are not telling you this is going to happen three years later. Whether or not this is going to come true or not, you will know fairly shortly. So, I don't think you have that much to worry about. We announce our monthly results every month.

**Kathy Chen, Goldman Sachs:** *Two part question related to the cable business. Firstly, can you talk a bit more about the digital TV rollout and what impact on financials that will have, including color on what the pricing looks like compared to the basic analog cable and what kind of set top box subsidies are being provided?*

*Secondly, regarding some recent news that NCC may establish rules requiring channel operators to provide the same program on both cable and CHT MOD platform, what is your view on the potential impact to your cable business as well as the overall cable industry?*

**Harvey:** Kathy, the digital TV rollout is a new attempt. Each of the MSOs are now in the process of lining up their content. We don't want to be behind. We also want to join crowd. Initial subscription maybe 10,000, 20,000 subscribers in the 1<sup>st</sup> 3-6 months, it's not a whole a lot. So, financially, I don't see any significant impact one way or another. As to the PRC companies making investment here in TW in the area of Cable TV, I thin it will take awhile. It's not going to be easy. There is going to be some regulatory constraints. So, for the time being, I really don't worry that much about it. But, on the other hand, by the time if they are really able to come and make an investment, it might present a real opportunity for us. But, right now, it is not our focus.

**Kathy:** *Sorry, to clarify, my second question was actually related to some recent newsflow where the NCC is looking to establish rules where content has to be the same on both cable TV platform as well CHT IPTV platform.*

**Rosie:** Kathy, can you please clarify your question?

**Kathy:** *Uh, yeah, it was basically some newsflow the NCC in response to some customer complaints that the content on CHT MOD platform is different from what's*

*being offered on the cable side. I think NCC made some statement saying they may establish some rule where the content has to be the same or something along those lines.*

**Harvey:** I never heard that before. I don't think the NCC will want to get involved in that.

**Kathy:** *Okay. Also, a follow-up on the first part, just to clarify, for digital offerings now, is the ARPU also capped or do you have a la carte packages that you can offer and is it still the first set top box being fully subsidized?*

**Harvey:** It will not be fully subsidized. Right now, we are, the digital content is treated as VAS of the CATV. So, there will be additional charges on that. There will be additional revenue from digital content. We are in no position to offer that for free or subsidize that heavily.

**Kathy:** *Okay. Thank you.*

**Harvey:** Thank you all for attending this phone call. We will talk to again next quarter. Have a very good afternoon.



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