

Taiwan Mobile 3Q10 Results Conference Call

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Moderator: Good morning, good evening, ladies and gentlemen. Welcome to Taiwan Mobile Conference call on 3Q results. Our chairperson today is Mr. Harvey Chang and we have Ms. Rosie Yu as a speaker. Mr. Chang and Ms. Yu, please begin your call and I will be standing by for your question-and-answer session. Thank you.

Rosie Yu, Finance VP & Spokesperson: Thank you for joining our 3Q conference. Harvey will start the conference now.

Harvey Chang: Good afternoon, everyone. Welcome to our 3Q conference call. Before we begin our presentation for the quarter, let me direct your attention to the disclaimer page which says:

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With that out of the way, let me begin by talking about two things and then I will come to the summary of 3Q results. As most of you are already aware, this morning our board of directors has decided that my successors, Mr. Cliff Lai, who is our head of CBG, and Ms. Vivien Hsu, who is our CFO. So, Cliff Lai and Vivien Hsu will be co-Presidents of the new management team. And I will be providing all the assistance that I can to ensure there will be a smooth management transition. Later on, I think I will get Cliff to talk about the business. And, the second thing I want to talk about is the capital management. This morning, our board also passed a resolution on capital management, which is a reduction of capital by 10%. And later on, Vivien will give you more details about it. Now, let me come to the summary of the 3Q results.

Results Summary

Our 3Q10 revenue surpassed our guidance by 1%, with revenues of the three business groups coming in better than expected.

In terms of EBITDA, both EBG and HBG exceeded their 3Q targets, aided by higher-than-expected revenue and lower expenses. This helped to offset higher-than-expected smartphone subsidies in this quarter. As a result, 3Q10 consolidated EBITDA was in line with our expectations.

Our 3Q10 net income managed to grow 4% YoY due to lower asset write-off losses and income tax expenses.

The next page, I will turn the mic over to Cliff, who will talk to you about our business performance.

3Q Divisional Performance

Cliff Lai: Thank you, Harvey. Let's look at the 3Q performance by business groups.

For CBG, despite network cost reduction and expense discipline, consumer business' EBITDA in 3Q was still affected by increased smartphone subsidies to grow our wireless data business.

For HBG, benefiting from a larger subscriber base and higher speed broadband service adoption, the growth momentum of its EBITDA remained good.

For EBG, EBG's EBITDA improved both QoQ and YoY, backed by higher enterprise mobile revenue and contained operating expenses.

Wireless Data Growth

In the next three slides, I would like to highlight our two main growth drivers: wireless data and cable internet.

First on wireless data, despite revenue pressure on mobile voice, wireless data had a pronounced growth of 27% in 3Q to sustain our ARPU. In 3Q, revenue from wireless data went up to account for 16% of the mobile service revenue.

We attribute accelerating wireless data revenue growth to a 57% YoY increase in mobile internet access revenue. Our bundling of smartphones with data rate plans leveled up wireless data ARPU by more than 40% and the number of active data users by more than 10% YoY.

Our Smartphone Strategy

On page 6, smartphone users generated more than two times the ARPU of the company average. Smartphone sell-through as a percentage of total rose from 10% a year ago to 35% in 3Q10.

Our smartphone strategy focused on the following:

- More exclusive models from leading vendors to differentiate from others
- A more diversified handset portfolio to sustain margins

Let's turn to page 7.

CATV Growth Catalyst

We managed to grow our cable internet subscriber number by 23% YoY. Separately, we sold more higher speed broadband service to our clients which leveled up broadband ARPU by 4% YoY.

Benefiting from better economies of scale with 24% penetration, our broadband internet had a 49% jump in EBITDA in 3Q from a year ago.

Additionally, starting from July 2009, we have launched digital TV as a premium service to existing analogue cable television subscribers. We expect DTV service to raise our ARPU in the future.

Let me turn the mic over to Rosie.

Cash Flow Analysis

Rosie: I'll talk about cash flow and balance sheet. 3Q operating cash flow grew to NT\$5.78bn on better operational performance and less tax payment.

The 3Q10 cash outlay on investing activity was mainly for the NT\$1.97bn in cash capex while the divestment of NCIC generated NT\$0.24bn of cash inflows.

In terms of financing activities, NT\$15.03bn of cash dividend payment was funded by the combination of our internally generated funds and NT\$7.95bn of new borrowing in the quarter.

Please turn to page 9 for balance sheet analysis.

Balance Sheet Analysis

Our cash balance was down by NT\$3.11bn from 2Q for the payout of cash dividend on July 23.

The net PP&E balance consists of \$37.8bn of mobile, \$4.1bn of fixed and \$2bn of cable assets.

Other current liabilities dipped substantially as 2Q dividend payable was paid in 3Q.

Let me turn this over to Vivien for 4Q guidance.

4Q10 Forecast

Vivien Hsu: For the forecast of the 4Q10, mobile service is expected to turn the corner due to data revenue increase more than sufficient to offset mobile voice revenue decrease through our continuous attempt to grow smart device sales. For the quarter, we also expect both cable TV and fixed-line revenues to grow at a healthy single digit rate from a year ago.

The cash cost will continue to increase both QoQ and YoY for rising handset subsidies.

The asset write-off is estimated to be NT\$181m in the 4Q, leading to NT\$1.5bn of full-year write-off loss. 4Q EPS is forecasted to be NT\$1.06, sending full-year EPS to NT\$4.62, down 1% YoY.

Stable Shareholder Return

As Harvey mentioned earlier, our board of directors approved a capital management plan of NT\$1/share capital return. After that, our paid-in capital will become NT\$34.2bn from current \$38bn. With a full-year estimate EPS of NT\$4.62, a stable dividend payout is expected.

Event Update

In the event update page, the awards we received for this quarter is for your reference.

- Received an “A+” ranking and ranked as one of the top 10 listed companies in “Transparency and Information Disclosure” for the fifth consecutive year.
- Awarded for “Excellence in Corporate Social Responsibility” by Commonwealth magazine for the fourth year in a row.
- Placed 1st in both the mobile/fixed-line communications and the 3C store channels categories in Next magazine’s “2010 Top Service Awards”.

Key Message

To wrap our presentation, we would like to deliver some key messages. The first one, with succession made internally following Harvey Chang’s resignation as the CEO & President, a smooth transition of management is expected.

Enhancing shareholder value remains a priority of TWM. And, Cliff?

Cliff: Growth of data revenue continues to be an important initiative for management the coming quarter.

TWM is confident in concluding the year with an EPS of NT\$4.62 as guided.

Rosie: Now, let’s open up for Q&A.

Moderator: Thank you, sir. And now are polling for questions. Ladies and gentlemen, if you would like to register for a question, please press #1 key now. Once again, it’s #1 key for questions.

Q & A

Joseph Quinn, Macquarie TW: *Good afternoon, guys. Thanks very much for the call. Can just I ask one question? On relation to the capital reduction, can you talk in little more detail on when should we expect this? Is it in the beginning of next year? And, also, what was your thinking behind the need to do a capital reduction? Thank you.*

Rosie: Capital management plan is still subjected to AGM approval next June. So, theoretically, the payment date will be scheduled for mid-October next year.

Joseph: *Sorry, can you expand a little bit?*

Vivien: I think the main purpose of the capital management is to maintain the stability of dividend & cash return to shareholders.

Harvey: This is Harvey. Let me chip in on this. In the past almost 10 months, we have not been talking about the capital management primarily because the uncertainty of the cable acquisition, we are not sure how much cash we should remain on hand. Everything freed up. Of course, when it came to the middle of the year and we know the NCC was not going to approve our acquisition. Then, there's a different deal going on. And we still don't know what road we're going to take. Now, it seems to be pretty clear that we're not going to use that cash. That's also one of the reason we're doing this.

Joseph: *Ok, that's very helpful. Can I just add one other question? When you say you're focus on more exclusive models, and I've seen in your presentation you're talking about Samsung, Motorola and different devices, is there any reason then why we've seen such a large increase in handset subsidies? Are these devices not generally cheaper than what we would expect from the iPhone 4, for example? Or is the iPhone 4 still going to make up a very large part of this product mix?*

Cliff: The reason we focus on exclusive models is that, as you know, the current market is very mature. So, only by providing exclusive models you can switch customers from our competitors. Secondly, by having a heavy exclusive model, we can reach a better arrangement with the vendors, so that we can have better pricing. Currently, the focus of TWM is to sell android platform handset. In general, the subsidy level of android mobile handsets is much lower than iPhone, but, in the past quarter, we see there are strong needs for iPhone 4. The customers in Taiwan seem to have a new passion for iPhone 4. That demand is higher than we have expected earlier.

Vey-vern Ling, UBS HK: *This is a follow up question on the capital reduction. You mentioned now that the cable acquisition is not going to happen for TWM, you can do a capital reduction. So, going forward, does that mean that TWM has abandon plans to look at other cable MSOs? And, if so, what does it mean for TWM's cable plans and does it also mean that capital reduction can be maintained on an ongoing basis?*

Rosie: For the moment, we are restricted by the law, which prohibits us from

acquiring Kbro directly due to indirect government stake in our company as a result of direct government stake in Fubon. Once the law gets revised, we don't rule out the possibility of getting the cable assets. In that case, if NCC approves the Tsai family acquisition this time, then we will have to negotiate with the Tsai family entity.

Vey-vern Ling: *So, if I understand you correctly, there are plans if NCC approves Tsai family acquisition of Kbro, for TWM, will you truly look at acquiring Kbro from the Tsai family?*

Rosie: We don't rule out this possibility, but we have to get the law revised first.

Vey-vern Ling: *In the event that there are no further cable acquisitions, can we expect capital reduction to be lengthy?*

Rosie: It's still subject to the board approval. What we can tell you now is that this time we did get board approval. So, of course, as you know, we have more flexibility to do capital management. Currently, based on our balance sheet, we have \$12.4 bn in capital surplus and about \$3 bn in retained earnings, which can be used as additional source for capital management in the future. Apart from that, there is still some room in the capital base, which may provide us with more cushion to do capital management in the future.

Vey-vern Ling: *If I may, just one more question. Then how do we think about your regular dividends going forward, will that then be reduced because of the capital reduction?*

Rosie: No, basically, we are very committal to enhancing shareholders' return. So, basically, we will distribute 90% of our EPS, which, of course, is subject to board approval.

Joseph Quinn, Macquarie: *Just on that capital management payout, will we be right in assuming that this would happen at the same time as the dividend being paid out next year?*

Rosie: The dividend is normally paid in July. It should be distributed by end of July every year. For the capital return, capital reduction of \$1 is expected to be paid in mid-October next year. As I just mentioned, it requires AGM's approval in June.

Leping Huang, Nomura HK: *I have two questions. First question is about the competition landscape of cable TV industry in Taiwan. So, after the top two MSOs' ownership changes, your company cable TV operator is still scale-wise quite small. What do you plan to grow the business? Or is there any progress to cooperate with Kbro or, basically, what is the plan with cable TV industry in Taiwan?*

Rosie: The competitive landscape in the cable TV market is still quite stable. As you know, we enjoy regional monopoly. As to how we can scale up the business, we will still grow both organically and inorganically. Organically, meaning that we will have to step up the penetration of cable broadband to grow the business. And, the same time, we will grow the digital TV business, which accounts for a small part of our revenue currently. And, in terms of subscribers, it's still below 10%, so there's ample room for growth. As to inorganic growth, we will have to rely on acquisitions when the law gets relaxed. At this moment, before the law gets revised, we can not have any cooperation with Kbro.

Heping Huang: *You can not have any cooperation without any shareholder relationship, like co-marketing.*

Rosie: In that case, we may run a foul of anti-trust law.

Heping Huang: *Second question is can you briefly introduce background of the new management team and what will be the time schedule for the new management team to form the new plan of the company?*

Rosie: Cliff is our COO. He has EE degree and has extensive working experience with telecom-related companies in the past. Vivien used to be working for various telecom companies like KG Telecom and, also, she was the CFO of Cathay Financial Holdings before and she is the CFO of TWM. And, also, she was the president of Taiwan Fixed Network in 2007.

Heping Huang: *What would be the roles?*

Rosie: Cliff will be heading up operations and Vivien will be heading up the administration part of the company. So, they will have divided roles in the future. The new appointment actually will be effective next January.

Ravi Sarathy, Citigroup: *Good afternoon and congratulations on a solid set of numbers. I have a question relating to slide 5 where you spoke about wireless data revenue and the difference in ARPUs, that you also refer to between smartphone subscribers and regular blended. In your current total subscriber base, what percentage is made of smartphones roughly that you believe today? I guess, in terms of defining smartphones, I'm referring to Android plus iPhone not really including Symbian.*

Cliff: Currently, the smartphone user base in our total network is still less than 10% of our subscribers. The number is increasing rapidly. So, we will expect the smartphone pickup rate will increase in the future. And, even though there are many platforms, the current focus of TWM is really on Android and Blackberry. But, we try to provide all the different platforms. For instance, we provide Windows, Symbian, and Apple. We are the only operator in Taiwan which provides a complete OS to our end customers.

Ravi Sarathy: *One quick follow-up question, in terms of the average monthly data usage, I think the global average for an iPhone is 500 Mbs/ month, for an Android phone is 300 Mbs/ month. I wonder what is your experience is on two those platforms within your subscriber base?*

Rosie: Our case is very similar to world markets. The average monthly data usage for iPhone users is slightly above 400 Mbs.

Rosie: If you don't have any further questions, thank you all for participating in our 3Q conference.

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