

Taiwan Mobile 1Q11 Results Conference Call
April 28, 2011

Moderator: Good morning, good afternoon, ladies and gentlemen. Welcome to Taiwan Mobile Conference call. Our chairperson today is Mr. Cliff Lai and Ms. Vivien Hsu. Mr. Lai and Ms. Hsu, please begin your call. Thank you.

Cliff Lai, Co-President: Good afternoon. Welcome to our 1st quarter conference call. Before I start our presentation on 1Q results, I would like to direct your attention to our disclaimer page, which states:

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Robust Wireless Data Growth

In the next three slides, I would like to highlight our growth areas.

First on wireless data:

In 1Q, despite a 4.8% YoY mobile voice revenue decline due to the regulatory interventions, we still managed to increase mobile service revenue by 1%, on the back of 46% YoY growth in wireless data revenue.

In terms of data revenue growth and data revenue as a % of mobile service revenue, Taiwan Mobile is ahead of the pack in the 1Q.

As a result, we reported the highest mobile ARPU among the big three.

Our Smartphone Strategy

For our smartphone strategy:

Apart from the 10 smart devices we have introduced so far this year, we currently have more than 20 smart devices on the market.

Smartphone users' ARPU remained at more than 2 times that of postpaid's, and their payback periods are very similar.

Our smartphone sales volume in 1Q11 grew 180% from a year ago as a result of more mid-range smart devices sales.

CATV Growth Catalysts

As indicated in the table, our internet subscriber number increase of 18% and DTV customer number growth of 160% are all higher than the 3% subscriber rise in analogue TV services in 1Q11. These have contributed to a 3% YoY increase in blended ARPU for HBG.

Given that only 25% of our customers are using our internet services and 5.3% of our customers have subscribed to DTV services, we expect further expansions in the internet and DTV service take-up.

It is worth mentioning that cable internet ARPU was up 3% from a year ago with 65% of our newly acquired customers subscribing to 10Mbps or above services in 1Q11, up from 42% a year ago.

Now, let me turn to Vivien for our financial overview.

Result Summary

Vivien Hsu, Co-President: For the 1Q11 consolidated revenue and EBITDA surpassed our expectations and achieved 25% and 24% of full-year guidance, respectively, mainly due to better-than-expected wireless data revenue as well as higher-than-expected handset sales.

Separately, 1Q11 non-operating expenses also came in less than guidance, due to fewer-than-expected asset write-off losses. As such, our net profit achieved 25% of full-year guidance. However, full-year write-off losses will stay as guided.

Please turn to the next page for the divisional performance.

Divisional Performance

For the first quarter, the company's increased smartphone subsidies were largely offset by strong data revenue growth and savings from G&A. Nevertheless, CBG's

EBITDA still reported a decline attributed mainly to the mandatory tariff cut and lower F2M tariff regulated by NCC.

HBG's profit rise came from better economies of scale sending its EBITDA margin to a new high of 51.9% and higher blended ARPU as explained by Cliff in previous slides.

EBG's 1Q11 profit growth is underpinned by rising enterprise mobile and roaming revenue, coupled with contained expenses.

For the 1Q, both EBG's and HBG's EBITDAs maintained a healthy double-digit YoY growth and made up 22% of total profits.

Let's hand over to Rosie for the details of financial numbers.

Balance Sheet Analysis

Rosie, CFO & Spokesperson: Cash balance at the end of 1Q11 remained stable from the previous quarter while inventories were up as a result of more smartphone procurements.

Net property and equipment value at the end of 1Q11 continued trending down, with depreciation and asset write-offs higher than capex.

Our gross debt balance fell to NT\$9.36bn due to a NT\$4.64bn debt repayment in the quarter, which caused net debt to further decline to NT\$3.4bn, or just 0.13 or 13% of EBITDA.

Now, let's look at cash flow analysis.

Cash Flow Analysis

Our operating cash flow for the quarter decreased by NT\$1.6bn QoQ due to a reduction in payables. In addition, a drop in EBITDA also resulted in a YoY decline in 1Q11 operating cash flow.

1Q11 investing cash outflow was similar to previous levels. Cash capex was on track and accounted for 7% of total revenue in the 1Q. We estimate group capex to be more back-end loaded and the full-year capex guidance of NT\$6.4bn to remain unchanged.

The NT\$4.64bn debt repayment was the main cash outflow for financing activities during the quarter.

Free cash flow of NT\$4.7bn generated in 1Q11 was equivalent to around 7% annualized yield.

Guidance

On the 2Q guidance, as you may all recall, we expect both revenue & EBITDA to trend up sequentially. With slightly higher asset write-off losses in 2Q, our 2Q EPS is forecasted to be NT\$1.1, which is equal to that of 1Q.

Let me turn this over to Vivien for event update and key message.

Event Update

Vivien: TWM's board meeting this morning has approved a proposal to distribute NT\$12.4bn of cash dividends or 90% payout to shareholders. Dividend per share is NT\$4.16 as our 100%-owned affiliates agreed to forfeit their share of dividends from Taiwan Mobile.

Some regulatory updates on this page are for your reference. And the next page for new products and services we launched during the first quarter and the awards we recently received is also for your reference.

And the last page, to wrap our presentation, this line summarizes the key message we would like to deliver.

Key Message

Our thrust into smartphone penetration has paid off in the first quarter in helping mitigate the impact from regulatory intervention.

Pending approval from the FTC, the Momo acquisition as announced will further support our drive to diversify into other core businesses. Meanwhile, regulatory uncertainties remain. TWM will step up our efforts to grow non-voice businesses to enhance shareholder return.

That is all we would like to say and we would like to open the time for questions.

Moderator: Ladies and gentlemen, if you would like to register for a question, please press #1 telephone touchpad now. Once again, it's #1 key for questions.

Q & A

Alen Lin, BNP HK: *Thank you for taking my call. A couple of pretty straightforward questions regarding the smartphone portion here. Back to page 5 of your presentation, you talked about the smartphone sales, if you measure smartphone penetration as a % of total subscribers, what % you seeing in Q1 and what do you estimate will be in Q2?*

And then the second part of the question is also related to that, of the 209,000 smartphone handsets sold, what % of that is compared to total handset sold during the quarter?

Cliff: As regards to the 1st question, if I recall correctly, our smartphone user penetration rate is roughly b/w 10-15% of the total subscribers. And for 200k smartphone sales in the 1Q is roughly 57% of our total phone set sales.

Alan: *Do you expect the 57% to increase further in Q2 or pretty much that same level?*

Cliff: We expect to be roughly the same level because the iPhone 4 has entered to the end of the product cycle. People are waiting for the next generation of the iPhone. So, the iPhone sales will drop off in the Q2.

Ravi Sarathy, CitiGroup HK: *Thank you very much for giving us the opportunity to ask questions and congratulations on your results. A quick follow-up on the smartphone answers that you just gave. A couple of questions; the first one is does your smartphone additions and the way you define smartphone, does that include Symbian? And, if so, what % of the current smartphone installed base would you say are Symbian?*

The next question is of the 57% of adds that comes from smartphone, what % would you say in the period were from the iPhone and from Symbian if they're included in there?

Cliff: Ok, this is a very good question because different operators have different definition of the smartphone. As far as we are concerned, our definition of smartphone is Symbian 3 and above. So, we don't consider Symbian 40 or 50 they

are smartphone. So, when I talk about the penetration rate, it's really Symbian 3, Android, Windows and iPhone, this kind of platform. If you consider Symbian, the penetration of smartphone will be even higher. But our definition will only include Symbian 3 and above to be consider a smartphone.

Ravi: *Understood. What % of your overall smartphone base are using Symbian 3 and above?*

Cliff: 19% of our smartphone user installed base.

Ravi Sarathy, CitiGroup HK: *Thank you for the opportunity to ask a couple of quick follow-up questions if I may. In terms of average usage in megabits per month for your smart subscribers, I was wondering if you had a feel for what those numbers were at and what was happening to those numbers sequentially, whether they were stable going up or coming down?*

Rosie: Our data usage for smartphone averages about 500 mbps. For iPhone, it's about 900 mbps. But you're asking for sequential change, right?

Ravi: *Roughly. The trend that you're seeing.*

Rosie: It's still going up.

Ravi: *Understood. A quick follow-up if I may. What % of your smartphone subs would be iPhone?*

Rosie: You mean in terms of total smartphone users?

Ravi: *Exactly.*

Rosie: It's about 25%.

Ravi: *Thank you very much.*

Joseph Quinn, Macquarie Taiwan: *Just got two brief questions. The first one is can you explain a little bit more about where your current leased lines are as a % of internal leased lines and can you also give a little more color in terms of the fiber-to-base station for your base stations currently? Is that % going to increase? What's your target for year end?*

And the final question is on the competition from the data ARPU side. At the moment, it doesn't seem like there's very much competition between data ARPUs between yourselves, CHT and FET. I'm just wondering, do you feel anything in particular would trigger this? Would maybe competition from the smaller guys increase this potential for a decrease in data ARPU?

Rosie: To answer your 1st question on the leased line, our internal leased line now accounts for 83% and we are still trying hard to improve the ratio as much as we can.

Joseph: *And, sorry, in terms of those leased lines, do you have a certain % of fiber to your base stations at this stage?*

Rosie: All of them are fiber.

Joseph: *Ok, thank you.*

Ravi Sarathy, CitiGroup HK: *Quick question on page 14 on the regulatory update. Clearly, the Executive Yuan has already passed the law around which is the block for Kbro, and interesting in the terms of that liberalization of capping competition across regions. Do you have any color or feel for the likely progress and timing of that moving through the Executive Yuan going forward?*

Rosie: No, we don't have any clue as to the timeline.

Ravi: *Understood. Thank you very much.*

Joseph Quinn, Macquarie Taiwan: *Sorry, have you got any comment on the data ARPU competition?*

Cliff: We don't see there will be severe data ARPU competition for this year because I think APTG or Vibo will not pose any threat in the near term as far as I can see in this year. So, I think with the current revenue, I think all the operators will try to maintain data ARPU because we see a decrease of voice ARPU and since data ARPU is our major driver, I don't foresee there will be serious competition in this arena to further drove down the data ARPU.

Rosie: And, just to elaborate a bit on this issue, as you all know that APTG and

Vibo have been exercising stringent financial discipline because, for APT, they haven't really turned into EV-DO and, for Vibo, they just don't have the muscle to spend more. So, the competition, on this particular front, should be rather limited to the big three and the big three are still quite rational.

Joseph: *Ok, can I follow up in terms of the competition? When I look at the different packages that's offered between the three of you, it does seem that CHT tends to be a little bit marginally cheaper. However, what I'm more concerned about is that when you move to higher speed packages and you may be offer two different packages, do you think those packages are offered at a significant premium to the existing rates or do you have to offer them at what the current rates are and discount back from there?*

Cliff: This year, we are considering to launch the 21 Mbps service, the HSPA+ service. But we are actually waiting for NCC's approval regarding the new tariff and NCC has different ideas and opinions regarding how much we can charge for this new higher speed data service. We are actually working with NCC to finalize the pricing. So, we don't know whether we can offer a data service pricing significantly higher than the current one.

Joseph: *Ok, so on that, that's what I'm more curious of, if you can't offer higher than the current one, do you offer the current existing package so the current speed, do they become cheaper?*

Cliff: I don't think so. We are not considering that.

Joseph: *Ok, thank you.*

Ravi, CitiGroup HK: *Thank you very much. Three quick follow-ups if I may. The first one is again toward data pricing, kind of flipping the discussion on its head and looking at this explosion in data usage 50x to 90x of a voice user for a smartphone in terms of megabits. Do you see on a strategic 12, 24 month view the possibility that you'll move from flat-rate to tier pricing, which would imply, of course, a market increase in data pricing and, as an adjunct to that, in terms of mandatory tariff decrease, would that be doable within the structure of the baskets?*

The 2nd question is which of your 19% smartphone subs, which comes from Symbian 3 and above, and 25% which are iPhone, would it be fair to them to angulate, based on that fact its too early for Windows Mobile 7 and Window C

was terrible, that 55% roughly are Android?

Cliff: From our point of view, we would like to see a tier pricing to offer a higher speed mobile internet service. But, as I said, we are still trying to talk to NCC to try to see whether they agree. We don't have a timeframe for that because that's really up to NCC.

Ravi: *And just on that tiering about speed, what about tiering associated with data usage?*

Cliff: This is something NCC also has its view. Because currently, the package we offer is unlimited and doesn't involve how much data involve. NCC thinks this is the kind of pricing they would like to have.

Ravi: *And the follow-up on the 55% from Android based on the 25% for iPhone and the 19% for Symbian?*

Rosie: Android now accounts for slightly over 40%. As to the future estimates, Cliff will give you more color on that.

Cliff: I think Android will eventually grow to more than 50%.

Ravi: *Agreed. Just doing the math, so you got 19% of your smartphone subs from Symbian, 25% from iPhone of your installed base and 40% – I think I'm missing something on the math. Which is the bit that I'm missing because I can't imagine Blackberry and Windows makes up the balance so much?*

Rosie: The rest is Windows Mobile and Blackberry.

Ravi: *It's that high? 15%.*

Vivien: Yes.

Ravi: *Wow. It's a bit early for Windows Mobile, Windows C was awful, so lion's share is Blackberry, right?*

Cliff: Windows 7 is not successful in Taiwan because up until now, they don't have a Chinese version of Windows 7. But Windows Mobile phones do have a significant installed base. They use 6.5 or 6.0.

Ravi: *And final question if I may and, again, a strategic question. Just looking at the trajectory of your numbers, would it be fair to say that on a run rate basis, by the end of this year, say, 4Q/1Q of next year, the incremental data ARPU that we're seeing would fully offset declines in voice, but also offset the incremental burden of handset subsidies or would that be more like a little bit later?*

Rosie: Sure, according to our estimates, the revenues from our data growth will outnumber or make up for the decline in voice revenues. So that's our expectations.

Ravi: *And probably next financial year when it also makes up for the increased investment in handset subsidies and the drag there.*

Rosie: Yes.

Ravi: *Very interesting. Thank you very much.*

Ravi, CitiGroup HK: *Final question. I don't want to overstay my welcome with too many questions on the call. In terms of early stage data points for tablet usage, I know it's been pretty much a one horse race thus far, but we're probably going to see as of the computer electronic show last year the next phrase being a whole plethora of tablets in different flavors and 2nd generation. Any early data points in terms of tablet usage in megabits per month terms?*

Rosie: 1 giga.

Ravi: *1 to 1.5.*

Cliff: 1 to 1.5 gig.

Ravi: *Ok, so circa 1.5x an iPhone. Interesting. And presumably the lion's share of that is iPad.*

Cliff: Yes because the installed base is mostly iPad 1.

Ravi: *Got it. Thank you very much ladies and gentlemen.*

Rosie: Thank you very much for your time.

Cliff: Thank you.