Taiwan Mobile 4Q10 Results Conference Call
January 27, 2011

Moderator: Good morning, good evening, ladies and gentlemen. Welcome to Taiwan Mobile Conference call on 4Q results. Our chairperson today is Ms. Rosie Yu. Please begin your call and I will be standing by for your question-and-answer session. Thank you.

Rosie Yu, CFO & Spokesperson: Thank you for joining us for our 4Q conference call. The conference call is chaired by our two new Presidents, Cliff Lai and Vivien Hsu. I'll turn this over to Cliff.

Cliff Lai, President of Business Operations: Welcome to our 4Q results conference. Before I start the presentation, let me read this disclaimer:

The information contained in this presentation, including all forward-looking information, is subject to change without notice, whether as a result of new information, future events or otherwise, and Taiwan Mobile Co., Ltd. (the "Company") undertakes no obligation to update or revise the information contained in this presentation. No representation or warranty, either expressed or implied, is provided in relation to the accuracy, completeness or reliability of the information contained herein, nor is the information intended to be a complete statement of the Company, markets or developments referred to in this presentation.

Let's turn to the first powerpoint.

Results Summary

For the 4th quarter, as the three business groups all posted better-than-expected revenues, our 4Q10 consolidated revenue surpassed guidance by 1%. In terms of EBITDA, both HBG and EBG outperformed their targets. This helped to alleviate pressure from higher-than-expected smartphone sales volume for the quarter. As a result, the 4Q10 consolidated EBITDA came in line with our expectations.

The non-operating expense also came in less than guidance due to lower-than-expected assets write-off losses and disposal gain from selling an idle property, resulting in 101% achievement rate for the 4Q10 net profit.

As for the 2010 Full-Year results, 2010 Full-Year consolidated EBITDA edged down, due to rising smartphone subsidies designed to grow our wireless data revenue. Nevertheless, we still reported a stable EPS on the back of 1) stringent opex controls, namely cutting down network cost, bad debt expense, and non-smart phone subsidies, 2) beefing up the EBITDAs of EBG and HBG, 3) fewer interest expenses and assets write-off losses, and 4) lower statutory tax rate.

4Q Divisional Performance

Let's look at our operating performance by business group.

For 4Q10, EBITDA of both EBG and HBG continued trending up sequentially and YoY. However, EBITDA of CBG hit its lowest level of the year as close to 40% of full-year smartphones were sold in 4Q, which weighed on margins.

In terms of full-year results, CBG's EBITDA was negatively affected by TWM's smartphone sales volume more than quadrupling from a year ago. In return, our wireless data revenue grew 26% YoY in 2010.

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

HBG's profit rise came from 1) better economies of scale and 2) higher blended ARPU.

Wireless Data Growth

Let's turn to the next three slides. I would like to highlight our current sources of growth.

First on wireless data, in 2010, our wireless data continued its robust growth momentum, leveling its revenue as a percentage of mobile service revenue up to 16% from 13% a year ago.

The voice revenue softness and the revenue decline from the mandatory price cut were almost offset by increases from both the data and the roaming businesses.

As a result, TWM maintained a stable mobile ARPU, in contrast to rivals' ARPU drops.

Our Smartphone Strategy

For our smartphone strategy:

In light of smartphone users generating an ARPU more than two times postpaid's with only slight difference in terms of payback period, we have spent more resources toward increasing smartphone sales volume since 2010.

By leveraging a better product line-up through exclusive arrangements with leading vendors, we garnered the leading position in this segment in 2010.

Apart from the eight smart device models we introduced in 4Q10, we currently have more than twenty smart devices on the market, more extensive than our peers.

CATV Growth Catalyst

In 2010, we were not only dedicated to growing basic-TV subscriptions, but also selling more services, such as cable internet and digital TV, into the same household.

As indicated in the table, our internet subscriber number increase of 20% and DTV customer number growth of 258% are all higher than the 3% rise in analogue TV services in 2010. These have contributed to a 5% YoY increase in blended ARPU for HBG.

Given that only 24% of our customers are using our internet services and 5% of our customers have subscribed to DTV services, we expect further expansions in internet and DTV service take-up.

Let me turn this microphone to Rosie, who will give us a cash flow analysis.

Cash Flow Analysis

Rosie, CFO & Spokesperson: Operating cash flow for the quarter increased to NT$7.63bn, as there was tax payment in 3Q.

Cash outlay on investing activity were mainly for NT$1.4bn in cash capex and an incremental NT$150m investment in our 49.9%-held Taipei New Horizons Co., Ltd. in 4Q.

On the financing front, a NT$5.1bn decrease in short-term borrowings was partially funded by NT$2.3bn of new long-term borrowings in the quarter.

In terms of 2010 full-year cash flow, we had a net cash inflow of N$3.05bn instead of a net cash outflow of NT$0.87bn in 2009, mainly due to 1) lower tax payments, 2) falling capex , and 3) lesser debt repayments in 2010.

Free cash flow came in at NT$19.8bn for the year, translating into an annualized yield of 7.5%.

<u>Balance Sheet Analysis</u>

On the asset side, our cash balance at the end of 2010 increased from a year ago.

Net property and equipment value decreased from 2009 level because depreciation and write-off continued to be higher than capex. The net PP&E balance at the end of 2010 consists of $37.3bn of mobile, $4.4bn of fixed network and $1.9bn of cable-TV assets.

With higher cash and lower borrowings, our net debt declined to NT$7.95bn, at the end of last year, leading to 0.29x net debt to EBITDA ratio.

Let me turn this over to Vivien for 2011 forecast.

<u>2011 Forecast</u>

Vivien Hsu, President of Administration: As to this year's guidance, regulatory factors including continuous mobile mandatory price cut and the newly implemented fixed to mobile price cut combined will reduce our EBITDA by an estimate of NT$1.7bn. However, aided by doubling smart-phone penetration in both 2010 and 2011 in order to foster wireless data revenue, TWM's EBITDA in 2011 is expected to reverse its previous declining trend quarter-by-quarter with the increase in revenue sufficient to cover increased handset subsidies.

Lower asset write-off losses, tax expenses, and fewer number of share counts after the capital management of this year will provide cushions to our bottom line as expected. The EPS will edge down by a mere 1% in 2011.

<u>Event Update</u>

The following page of our 2011 capex guidance and the update of management and regulation changes is for your reference.

We want to highlight that the F2M price reduction is not evenly distributed in the six-year period from 2011. Around 50% of the tariff/interconnection reduction will be realized in 2011, which means much lesser impact for the rest of the period.

The following page of the awards we recently received and our newly launched products and services are also for your reference.

<u>Key Message</u>

To wrap up the presentation, the last slide summarizes the key message that we would like to deliver. Now, we would like to take questions from the floor.

Moderator: Ladies and gentlemen, we will now poll for question. If you would like to register for a question, please press #1 key now. Once again, it's #1 key for questions.

<u>Q & A</u>

Tien Doe, GIC Singapore: ***Hi, good afternoon. Thanks very much for the opportunity to ask a question. Your HBG ARPU was pretty strong. I don't know if you said it was combination of rising internet penetration. Your expectation for that ARPU going forward. It's been steadily increasing over the last couple of years. You expect that continued growth in 2011 or do you think that's going to flatten off in 2011? What are you seeing competition-wise from the other cable operators and from Chunghua?***

Cliff: We believe the cable internet ARPU will edge up a little bit because, currently, we are in the process of converting a lot of low ARPU users to high-speed internet users. As a matter of fact, more and more users are switching to high-speed. So, we expect the ARPU will increase a bit for this year.

Tien: *Right. And overall, the blended ARPU for cable TV, you expect that to continue upwards as well?*

Cliff: Not really because this year, several SOs need to implement a mandatory price cut required by the county government. So, we expect that the APRU will be flat or even a little lower. Not all the SOs are affected.

Tien: *That is the majority of SOs or just a few of those? And what is the extent of the cut?*

Cliff: The extent is not significant. It will certainly affect our ARPU increase. That's why we expect the ARPU to be pretty much flat.

Veysern Ling, UBS HK: ***Hi, thank you for the opportunity. My question is, of your estimated $1.7bn in actual EBITDA from the mandatory tariff reduction or the price reduction of fixed-to-mobile, what is the breakdown between the two? How much is from the tariff reduction and how much is from the fixed-to-mobile?***

Rosie: For the F2M regulatory change, the total impact on EBITDA is about NT$950mn. And for the mandatory tariff cut, it's about NT$700mn. So, combined, the EBITDA impact is NT$1.6bn

Leo Anderson, HSBC HK: ***Just two questions on the wireless data side. Firstly, you've obviously seen strong growth in smartphones. How is that been reflected in terms of your network utilization? Do you see any bottlenecks in urban areas because of strong data traffic demand? And, secondly on the pricing side, can you give us your thoughts on how you see data pricing evolving? We've seen quite a strong shift toward peer pricing in the US and Europe, but Taiwan and much of Asia still seems to be on a flat rate basis.***

Cliff: On the first question, currently, we don't see there is a bottleneck in our network deployment. Up until now, our network can meet the needs of significant growth in data traffic. So, for 2011, we don't see any problems.

As for the 2nd question regarding whether there's a tier pricing for data rates, currently, the operators are talking with NCC because most of the operators will offer 21mbps service in this year. We're trying to convince NCC to allow us to offer tier pricing instead of all-you-can-eat pricing. But, up to now, the NCC hasn't agreed that we can have tier pricing. We're actually trying to convince the regulatory body regarding the tier pricing.

Joseph Quinn, Macquarie: ***Hi there. Thank you very much for the call. Two questions. Firstly, can you go into a little more detail in terms of how you see your mobile revenue growing this year in terms of by year end what sort of extent will data revenue make up of overall mobile revenue? In addition to that, can you also go into a little bit detail in relation to your handset cost of how you expect that to translate in the year, do you expect a consistent level of you've seen it in the 4Q or should this pull back throughout the year? In your presentation on slide 6, you***

refer to payback period being quite normalized for smartphones vs. your regular feature phones or your normal phones, can you elaborate a little more what that payback period is?

Cliff: The mobile revenue is basically flat. In 2011, basically we see that our data revenue growth really can cover the loss from the voice and from the mandatory pricing cut, those government requirements. So, basically, in 2011, we see the data revenue will cover most of the voice revenue loss. This is for the first one.

The data revenue growth for this year is roughly around 35%. So, most likely, by the end of this year, we are in 20% range of total mobile revenue. This year as in the past, TWM not only focus on smartphone, but we are also focusing on Android platform and we see that the handset price on the Android handset may go down. This will help us to alleviate our subsidies in the smartphones. The payback time for Android handset may shorten in this year. As for most of the smartphone, the payback time is between four to eight or ten months. It depends on the different kinds of handset, depends on the price.

Joseph: *Ok, thank you. Just a follow up, you're looking for roughly 5% revenue growth for the year in 2011. What makes up the largest components of that?*

Rosie: If you're talking about the 5% revenue growth, it will mainly be driven by the handset sales.

Gary Yu, Morgan Stanley HK: ***I just have two questions from my side. First is on your smartphone penetration, what is the current percentage of the subscriber base already on smartphones? On the incremental growth of your subscribers, what's the percentage of new sales coming from smartphones as well? The 2nd question, I had a follow up on your previous guidance of 5% revenue growth this year, if I excluded handset sales, if I only look at service revenue, what kind of growth rate are you expecting for this year? If you can break it down to mobile and cable, that would be helpful as well.***

Rosie: Basically, just as Cliff mentioned, the pickup in data growth will offset the decline in voice service this year. So, basically, we are seeing 1% growth excluding handset sales.

Gary: *And that is including both mobile and cable, 1% service revenue growth.*

Rosie: For mobile, it's 1%. Cable, on average, is 4%.

Gary: *I guess I still have one more question, which is my first question regarding your smartphone penetration and the percentage of new sales on smartphones as well.*

Cliff: In year 2010, we sold around 450,000 smartphones. But, for this year, the projection is around 650,000 to 700,000 smartphones. And, currently, in last December, smartphones sales roughly take up close to 45% of our total phone sales. And, this year, our projection is close to 50% of our total phone sales.

Rosie: So, the smart device penetration among the subscribers is about 10%, about 11% by year end.

Dan Mitchell, Nomura HK: ***I noticed for the mobile division capex, it increased by about 10% from 2010 level. Is it possible to share with us what kind of total data traffic flow increment percentage-wise you're forecasting in order to increase that 10% capex? Is it possible just by increasing the capex by 10% and handle all the additional data traffic that you're forecasting for 2011?***

Cliff: The forecast for the data traffic growth for 2011 is roughly 80% more than 2010. And our estimation is with a 10% increase in capex can cover the needs of the 80% growth. Plus, we have negotiated with our vendors to reduce the equipment price. That's why we only need a 10% increase in capex to cover the need for the traffic growth.

Dan: *So, just to re-confirm, 10% increase in capex is enough to cover 80% increase in data traffic for this year, right?*

Cliff: Yes.

Leo Anderson: ***Just one follow up question on the smartphone issue. 45% of handset sold in December were smartphones. And, as you say, the cost for Android phones in particular is going to decrease significantly through 2011. Do you not think your forecast for 50% of phones sold to smartphones this year might be a little conservative given that trend?***

Cliff: At the end of 2009, smartphones sales only take up maybe less than 10% of our total phone sales. Last year, it was tremendous. So, we grew from less than 10% to almost 45%. That's why we are a little conservative regarding growth of this year. Plus, in the 1Q and 2Q, I think a lot of vendors are adjusting their product lineup, so, as a matter of fact, one of the key drivers for smartphone penetration is iPhone. And, iPhone sales will slow down in the 1Q and 2Q. Therefore, in the 4Q of last year, we have seen a very strong demand for iPhone, but the iPhone demand will drop off in the 1Q and 2Q. That's why the total projection for next year is due 50%. On the 4Q, we have full impact of the new iPhone 4 launch.

Rosie: And, also, to clarify Gary's question on smart device penetration, the figure I mentioned was incremental. So, actually, by end of this year, we should have over 20% of our subscribers using smart device. Postpaid customers.

Lucy Liu, JP Morgan HK: ***I just wonder which quarter do we expect to see the inflection of your CBG margin? I understand that the 2011 margin will pick up, but can you maybe pin down the exact quarter you will see the recovery of the margin trend?***

Cliff: EBITDA will turn the corner in the 4Q.

Rosie: Based on our forecast.

Alastair Jones, New Street Research London: ***I was wondering if you could detail the extent of fixed-to-mobile price cut the regulators demanded. What the current tariff is and how quickly that is going to down? I know you said 50% of the cut is coming through 2011. But just to gauge how big the cut is overall. And, also, what percentage of your revenue on the mobile side comes through interconnect fixed-to-mobile revenues?***

Rosie: The price cut is roughly 30% in the first year. From about NT$5.2/ minute to NT$3.65/ minute.

Alastair: *And in subsequent years?*

Rosie: Subsequent years, the difference will be 17 cents for the 2nd year. And 27 cents each year later on.

Alastair: *And the percentage of your revenue on the mobile side that comes through* *from this traffic?*

Rosie: Less than 7% from fixed-to-mobile currently.

Piyush Mubayi, Goldman Sachs: ***Could you remind us what your capital reduction plans for 2011 are? Second, if you could shred some light on one of the earlier questions asked about data usage by smartphones on your network. Third, if you could talk a little through how tablets are faring in Taiwan.***

Cliff: Regarding smartphone and tablets, currently, the transmission bandwidth consumed by the smartphone is only $1/10^{th}$ of the data card or tablet, so smartphone tends to give us a better margin than data card or tablets.

For 2010, we didn't see too much growth in the tablets. However, we expect when the iPad 2 announce and when the Android platform are ready in the 2^{nd} quarter of this year, we expect a very strong take-up rate for tablet starting 2Q onward to the 4Q.

Piyush: *You mentioned that it's $1/10^{th}$ of data cards and tablets in terms of usage for smartphones, what's the usage for data cards and tablets?*

Cliff: For data cards, it's roughly 7 to 8g per month. For the smartphone, it's only $1/10^{th}$ of the data card usage.

Rosie: Ok, thank you.

Cliff: We wish a happy Chinese New Year.