

Taiwan Mobile 3Q11 Results Conference Call
October 27, 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. Vivien, please begin your call. I'll stand by for the question and answer session. Thank you.

Cliff Lai, Co-President: Good afternoon. Welcome to our 3rd quarter conference call. Before I start our presentation on the 3Q results, I would like to direct your attention to our disclaimer page, which states:

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Let's start with business review.

Robust Wireless Data Growth

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

First on wireless data:

In 3Q, despite regulatory interventions which dragged down our voice revenue by \$600mn, we still managed to increase mobile service revenue by 3%, on the back of \$1.1bn YoY growth in wireless data revenue.

In terms of data revenue growth and data revenue as a % of mobile service revenue, Taiwan Mobile continued to lead in 3Q.

Please turn to the next page.

Our Smartphone Strategy

For our smartphone strategy:

Apart from the 8 smart device models we have introduced in 3Q, we currently have around 30 smartphone and tablet models on the market.

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

In 3Q11, smartphone sales volume was up 46% from a year ago and accounted for 50% of total handsets sold. As of the end of 3Q11, smartphone penetration reached 18%, in line with our target.

Please turn to the next page for our cable TV.

CATV Growth Catalysts

As indicated in the table, our internet subscriber number increase of 14% and DTV customer number growth of 86% are all higher than the 2% subscriber rise in analogue TV services in 3Q11. This has contributed to a 3% YoY increase in blended ARPU for HBG.

Given that only 26% of our customers are using our internet services and 7% of our customers have subscribed to DTV services, we expect further expansions in internet and DTV service take-up.

It is worth mentioning that cable internet ARPU was up 5% from a year ago with 80% of our newly acquired customers subscribing to 10Mbps or above services in 3Q11, up from 53% a year ago.

Please turn to the next page.

New Product & Service

This page of new products and services we launched during the 3rd quarter is for your reference.

I will turn the mic to Vivien on our financial results.

Result Summary

Vivien Hsu, Co-President: Please turn to financial overview page.

For 3Q of our financial results, thanks to sound revenue growth that more than offset

the increase in both handset subsidy and new store expense, EBITDA growth in 3Q was a pronounced 11% YoY. Momo's contribution this quarter has provided additional growth to the company.

We mitigated the negative impact from the impairment losses of Taiwan High Speed Rail (THSR) by a strong core business performance and an over-accrued corporate tax expense reversal in 3Q. Additionally, 10% capital reduction in August helped boosted up our 3Q11 EPS.

For the first three quarters, our investments in smart phones paid off with mobile data revenue coming in higher than the increased handset subsidies. Separately, we halved the negative impact of the regulatory interventions on profits through cost savings and more profit contributions from the cable TV business and Momo. In a nutshell, accumulative EBITDA reached 79% of our full-year target.

Please turn to the next page and to divisional performance.

Divisional Performance

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

For the quarter, due to 1) telecom service revenue growth, 2) the reversal of over-accrued operating expense, and 3) well-contained G&A expenses, EBITDAs of CBG and EBG were both up QoQ and YoY.

Benefiting from a higher blended ARPU as a result of a rising subscriber base in both cable internet and DTV, HBG's 3Q11 profit maintained a stable double-digit YoY growth.

Momo contributed to 3% of TWM's consolidated EBITDA in 3Q11. Negatively affected by shifting from high-margin dietary supplements into higher-turnover lower margin consumer electronics as well as high start-up costs of its China operations, Momo's EBITDA failed to post a YoY growth in the quarter.

Let me turn this presentation to Rosie for balance sheet and cashflow analysis.

Balance Sheet Analysis

Rosie, CFO & Spokesperson: Now, let's look at the balance sheet. Cash balance decreased sequentially mainly due to cash outlays for the Momo acquisition.

The decrease in long-term investment is because of the NT\$1.21bn write-offs on THSR investment.

The increase in intangible assets was a reflection of the purchase of Momo with the purchase price higher than its net worth by NT\$7.5bn.

Net debt netted NT\$14.6bn or 54% annual EBITDA, following a NT\$13.27bn increase in short-term debt in 3Q11.

Paid-in capital decreased to NT\$34.2bn, following the 10% capital reduction or NT\$1/share effective from August 1, 2011. Carrying value of treasury shares also reduced by NT\$812m accordingly.

Now, let's turn to cash flow analysis.

Cash Flow Analysis

3Q11 operating cash inflow remained at a comparable level to a quarter ago.

On the investing activity front, the NT\$8.35bn investment for the acquisition of 51% stake in Momo and the IDC (internet data center) contract payments made in 3Q increased investment cash outflows.

In terms of financing activities, we increased short-term borrowing in the 3Q to fund the Momo acquisition and cash dividend payments.

Accumulative free cash flow reached NT\$12.46bn, translating into an annualized yield of 5.8%.

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

Event Update

Vivien: On event updates:

The regulatory update and the awards we received stated in the next slide are for your reference.

(The slide shows:

Regulatory Update

NCC approved a proposal to expand the CATV service areas based on city/county and to open licenses to new entrants. The implementation announcement is expected to be made in the first quarter of next year at the earliest as the details are still under deliberation.

Award & Recognition

- Received an “A+” ranking and ranked as one of the top 10 listed companies in “Transparency and Information Disclosure” for the sixth consecutive year by the Securities and Futures Institute.
- Awarded for “Excellence in Corporate Social Responsibility” by Common Wealth magazine for the fifth year in a row.)

Please turn to the key message.

Key Message

To wrap our presentation, this last slide summarizes the key message we would like to deliver.

Strong smartphone sales have laid a solid foundation for revenue growth. Increasing subsidies are expected to be offset by a rise in revenues, hence making a positive contribution to EBITDA. However, the timing of the iPhone 4S launch will still have a final defining impact on 4Q results.

That is our presentation and we hand over the floor to Q&A.

Moderator: Ladies and gentlemen, we will now poll for questions. If you would like to register for a question, please press *1 key now.

Q & A

Danny Chu, Nomura HK: *I have three quick questions. First is in the management report, you mention that the timing of the iPhone 4S launch might have a defining impact on 4Q results. Although I understand it's difficult to quantify how much that impact could be, but looking at last time when iPhone 4 launch, if you had to put it in a quantifiable number, how much of an impact are we talking about potentially on EBITDA margin and EBITDA by itself for 4Q this year?*

2nd question, with regards to regulatory updates, so if the announcement from the NCC is making the 1Q next year, what kind of implications we should make from that proposal getting approved 1Q next year?

And the final question is on the recent capital reduction, what is the number of treasury shares right now? And, including the treasury shares, how many shares total outstanding of the company?

Cliff: As for the first question, the timing of iPhone 4S, as you know, Apple is very secretive about the timing of the iPhone 4S. So, there's no way we have an idea regarding when it will be launched. Whether it's early November or late November or early December, this is the 1st issue. The 2nd issue is that it also depends on the kind of volume Apple can ship to us because even though we had a similar experience last year, in last year, when we launch the product, Apple didn't ship enough products. So, the sales volume was constrained by the volume that Apple shipped. But this time, iPhone 4S is not a totally new model. Whether Apple can ship more products, the volume will also determine the subsidy we have to put in. So, the straight answer is, at this moment, I can not give you a definite answer regarding the financial impact.

As for the implication of if NCC approve to have new license in new cable areas, even though if it gets approved, the soonest it is approved in 1Q. It wouldn't have any financial impact in the short term, for instance, for the 2Q because anyone who gets a license and needs to do implementation in order to provide the service and implementation time will take several quarters in order for them to be ready to offer the service. So, at the moment, short term-wise, I don't think there is any impact to our operation or performance.

As for the treasury issue, Rosie –

Rosie: Treasury shares outstanding are now 730 mn, so total share count after deduction of the treasury shares will be 2,689 mn shares.

Danny: *One follow-up question. Given management indicate that it's very difficult to quantify what is the impact of the iPhone 4S launch on 4Q result, so should we assume, at this moment, the company is still on track to achieve the EBITDA and earning margin full-year guidance?*

Cliff: Yes. Up to now, we have not received a price quote on iPhone 4S from Apple,

so this is another factor. But even with the iPhone, it wouldn't affect our commitment to achieve our EBITDA target for this year.

Chate Bencha, Credit Suisse HK: *I have two questions. Number one, with the smartphone penetration plan in Taiwan, how do you see that? Do you see it slow down in recent months or is the quota still really strong or is it accelerating?*

The 2nd question is what's happened at CHT. I understand that what is happening at your competitor is that they're offering some kind of discount to customers who use less data in order to help with the network quality. Are you facing any kind of network constraint as well or would you consider some kind of matching in form of discount or price reduction to cope with the competition?

Cliff: The 1st question about the smartphone penetration trend, we see that smartphone has become a very stable and consistent trend. So, the smartphone penetration will increase consistently. Even though there wouldn't be a big jump, but I think the smartphone penetration will get higher and higher. So, every month we see smartphone sales increase a little bit.

Secondly, CHT has problems with the network, so they offer a discount and this discount really doesn't affect us because that is due to their network can not deliver the kind of speed. In the meantime, TWM in July has offered 21 mbps service to general public in five metropolitan areas, so we are quite comfortable that our network can deliver a better quality service to the consumer. So, CHT's discount doesn't really impact our performance.

Chate: *Just a follow-up question on the 1st one. Would you be able to share with me what's the percentage of the smartphone sales as a percentage of the total handset sales currently? And, also, the 2nd question is that an indication into network utilization, how much you can cope with an increase in data?*

Cliff: Currently, 50% of our total handset sales is smartphone and as for the network, I believe currently we have installed more 21 mbps base stations and more 42 mbps base stations than CHT and FET. I'm sorry I can not disclose the number, but we are quite confident we have a better, higher speed network to compare with CHT and certainly FET.

May Lin, Yuanta Taipei: *First is about in the 3Q, there is a tax reversal and also*

operating expense reversal, can you offer us the details, the source of this reversal?

And the 2nd question is that can you remind us about your CAPEX guidance for this year and next two years?

Rosie: Let me answer your 2nd question first, which is an easy one. Our CAPEX target for this year is NT\$7.3 bn. It remains the same for the end of the year. And, for the next two years, we haven't finished our guidance for next year. So, you'll have to wait until January 19, the next conference call date.

And, on the reversals, we have finalized our tax appeal with the tax authority this year, so there were some tax reversals totaling about half a billion. And, also, some reversals of operating expenses of much smaller amounts due to over-accrued amount as compared to budget.

May: *May I have a follow-up question on the Momo side? The slide mentioned that this quarter, the margins suffered from the product mix and some start-up cost, can you give us more color about the future outlook about Momo on the margin side and also online growth?*

Cliff: As Vivien said in the 2Q of this year, Momo is trying to re-structure the product mix, moving away from the dietary supplements, which is a high-margin product, to some products which are more consumer electronics where the margins are lower. So, it takes some time for them to do this product mix adjustment. I think they are on-track and their performance is improving. As we move to the 3Q and 4Q, the operation results are getting better.

Gary Yu, Morgan Stanley HK: *I have two questions from my side. First question given you're starting to offer some of the mid-end handsets or mid-end smartphones in the market, in terms of ARPU comparison with iPhone or some of the other high-end HTC smartphones, what do you see in terms of the smartphone ARPU and do you see this trend coming down as you move more toward the mid-end segment?*

The 2nd question I have is if I look at some of the other markets who have already announced the pricing for the iPhone 4S, I realized some of these markets actually priced iPhone 4S a little bit higher than iPhone 4 in terms of the monthly data plan. As you are going to launch the iPhone 4S, do you have any room to increase your data plan compared to your previous iPhone 4 packages?

And, also can you share with us out of your total smartphone sales, what is the % of those mid-end smartphones account for in the 3Q?

Cliff: For high-end smartphone like HTC Sensation or Samsung Galaxy S2, the ARPU is roughly the same as iPhone. There really isn't much difference. And the % of iPhone has dropped in the 3Q in our total smartphone portfolio. It's less than 25% than our total smartphone portfolio. And currently we sell a lot of middle-end smartphones and lower-end smartphones. So, the high-end smartphones takes up roughly 30% of total smartphone sales. The rest is really middle-high, middle and middle-low smartphones. For instance, in October, the high-end is really roughly 30%. And for iPhone 4S subsidy, up to now, Apple hasn't really talked to us regarding iPhone 4S pricing and subsidy level. But the general feeling is our thinking that we try to control the subsidy level of iPhone 4S and this is something we have to negotiate with Apple. And we just have to wait and see what's the position of Apple. It is possible that iPhone 4S could be a little more expensive. It really depends on the pricing of iPhone 4S. So, the answer is we don't know at the moment.

Gary: *In terms of mid-end smartphone, are you seeing any difference in terms of ARPU compare to your high-end smartphone users?*

Cliff: Of course, the mid-end smartphone users tend not to subscribe to all-u-can-eat data rate plan, so their ARPU in general is lower than the high-end smartphone. High-end smartphone users tend to subscribe to our all-u-can-eat data plan.

Vey-Sern Ling, UBS HK: *I'm wondering where the NT\$500 mn of tax reversal is added into your financials. Is it in the EBITDA line?*

Rosie: No, it's not. It's in the tax expense. It's been reversed. If you look at the tax expense, you'll see a much less amount because it's been deducted by the tax reversal amount.

Vey-Sern: *I can see that you mentioned that the reversal of over-accrued operating expense is put into CBG's EBITDA line, can you share with us how much that is?*

Roise: It's about NT\$0.2 bn.

Vey-Sern: *So, quarter-on-quarter, your EBITDA grew by NT\$1 bn. NT\$200 mn is from the*

reversal and another NT\$200 mn is from Momo and the rest is basically from organic operational growth.

Rosie: Yeah, you can put it that way, but you probably should look at it differently from the reversal point of view. This kind of reversal happens some times because we over-accrued our expense according to the budget. The actual expense is much lower, especially for bad debt. For smart devices, to reduce our risk, we have demanded subscribers to pay upfront a certain months of deposit to secure our credit. That explains why there was some kind of reversal.

Vey-Sern: Got it. And the accrual is from this year? The over-accrual.

Rosie: This year and a little bit of last year.

Chate Bencia, Credit Suisse HK: *I have two follow-up questions. First is on the medium-end smartphone. You mentioned they are not subscribing to the unlimited package. So, is this a popular package? What name is this? Just in the middle-end, how much data this kind are basically subscribing to?*

The 2nd question is on the capital reduction. I'm not sure whether you can provide any indication if you want further capital reduction from here, any target gearing that you would want to be at or anything like that?

Cliff: For the middle-end, the most popular data plan they subscribe is US\$6.5 plan, which gives them 100 mb data package. And the other one is US\$15 and gives them 500 mb data. So, that's the two most popular data plan for them to use.

And for the capital reduction, Rosie.

Rosie: On the capital reduction front, we don't rule the possibility. It's up to the board to decide. There's still quite a lot of room for us to do some capital management. Of course, it's up to the board to decide. And I believe you know that we have NT\$3.1 bn in unappropriated earnings still and NT\$12.4 bn in capital surplus. And, in addition to these two numbers, we also have some room in the capital base.

Ravi Sarathy, Citigroup HK: *One quick question if I may, just follow-up on the potential that you have for capital management. Should the board be considering some activity in that area, what kind of timing would you expect*

that to be in terms of the board's decision? When's it usually happen? And is there any change to that timeframe this year in terms of consideration and decision there?

Rosie: As you know we just had capital reduction, so we don't have any time table for that. It's purely up to the board to decide. So, I can't give you a specific answer on that.

Joseph Quinn, Macquarie Taiwan: *I have three questions. Firstly, can you give us a little more overview on your new stores and actual number of self-run stores? I remember previously you had discuss increasing that percentage and am just wondering what percentages they are at the moment and how many new stores that you're referring to have you added to date?*

In addition to that, in terms of the smartphones, you talked about the percentage of smartphone growth penetration continue to increase. Can you give us an idea what we're looking at there in terms of that increase?

And, thirdly, on the digital TV for your cable subscribers, what exactly do you find is driving that? Is that going to come more from broadband penetration to cable subscribers, thus getting kind of a high percentage of our overall TV subs, or are you going to do new incentives? Just, what's your strategy there to continue to grow that?

Cliff: Currently, we have roughly 260 stores at the moment. So, we intend to open more. So, we are doing planning for next year. So, maybe by January next year, we can shed some light regarding how many stores we are going to open for next year. As for smartphone penetration, up to the 3Q, we have 18% penetration. And we expect to reach 20% penetration at the year end.

As for cable TV, the major driver is really in the cable broadband. In 3Q this year, CHT announce they are going to push for 20 mbps or 50 mbps service. However, in the cable TV area we control, we have the ability to offer 50 mbps service to compete with CHT. And we only have the penetration of cable modem is still only 20 something%. We expect in the next several years we still see some growth in this area because long-term wise, I don't see any reason why we can not reach 30 or 40% penetration in our area we cover. Of course, another growth area is DTV. And this year, as you can see that we have tremendous growth. But this is an area where the

ARPU is lower and it also depends a lot on government regulation regarding how to do it. And we are still talking with NCC, trying to see whether we can still increase the DTV penetration. In the meantime, cut down our expenses in promoting this service because, currently, the margins of DTV is lower, but it has a tremendous growth opportunity because we also present a lot of high definition programming in Taiwan. Therefore, we see a strong uptake in the future.

Rosie: And, also, basically, there is another area that can grow our business. It's not only increasing our penetration rate, but we could also upsell our higher speed broadband services to the same household to grow our ARPU. That has been going on and has been contributing to the growth.

Joseph: *Thank you. Just to follow up on both the smartphone and the cable side. On the smartphone side, if you're currently at 18% penetration and you're aiming to get to 20% by year end, so we say roughly 2% addition per quarter, would you say that has slowed on a quarterly basis compared to previous? I'm just trying to get an idea of how you see that progressing.*

On the cable side, if you're talking about the digital TV side, what exactly with the NCC do you think would help you cut the expenses? What exactly is the issue with expenses for the digital TV rollout?

Cliff: As for the first issue, smartphone, we see consistent demand for smartphone. So, we don't see the demand is softening. The penetration is increasing all the time.

As for digital TV, Taiwan is moving from analogue TV to digital TV. The government currently doesn't specify if you offer digital TV how many free setup boxes you need to offer to a household. From our point of view, one setup box is good enough for the household. But maybe NCC thinks that in order to convert from analogue TV to digital TV, we need to offer additional free setup box. Additional free setup box will increase our expenses. This is the kind of issue we're talking with NCC. We want to increase the digitalization of cable TV, but, in the meantime, we try to control expenses because the setup box is the major investment cost item for digital TV penetration.

Ravi Sarathy, Citigroup HK: *I have a quick question if I may about Momo. I know it's still relatively early days post-the acquisition, but also I know that one of the key strategic imperatives you talked about was evolving Momo toward an attractive smartphone-based m-commerce proposition perhaps through a set of apps and services. I was wondering if you can share with us if there are any data*

points with this early stage, any progress you made there or any updates on plans you have in that area.

Cliff: We do have some planning, but, at this moment, I do not feel to disclose anything in public now. As you know, m-commerce and e-commerce are also two areas where our competitors are focusing on. So, maybe we will wait until the right time to disclose.

May Lin, Yuanta Taipei: ***A quick question, EBG's EBITDA margin actually improved a lot this quarter. In your slide, it's due to cost savings and revenue increase. Can you also give us some color about do you think this EBITDA level can be sustainable going forward or is there something like a one-off impact inside it?***

Cliff: Well, I think we are making some progress in the enterprise business group. So, the EBITDA margin is improving. But we are also seeing a trend for enterprise business customers. They are switching to the smartphones more and more, so potentially this will increase the subsidy we provide to our enterprise business customers. Therefore, we are still doing planning, but other than the subsidy level, other than the device's subsidy, we see some improvement in our EBG EBITDA consistently.

May: *Ok, understood. So, is this correct that in terms of core EBITDA level, it's actually improving, but there might be some impact in the future due to some subsidy point change?*

Cliff: Yes.

Chate Bencia, Credit Suisse HK: ***Just to make sure I didn't miss anything, so you basically maintain the guidance for the 4Q and the full year, no change to that, is that right?***

Rosie: Right.

Joseph Quinn, Macquarie Taiwan: ***Just in terms of tablet PC, I see some of your competitors being very aggressive on that front. You do have some in your stores here locally, but not to a very large extent. Can you just talk over your thoughts on that in terms of how you would like that to balance out? Do you think tablet will be more of a netbook phenomenon replacing those types of users or do you***

think it's a new real growth area?

Cliff: I think we sell as many as tablets as our competitors. Some are our own-branded tablets like MyPad2 sell very well. Actually, the volume is higher than any of the tablets we have sold. However, as you know, the tablets in general can only have data ARPU, doesn't have voice ARPU. So, the subsidy level can not be as high as smartphone. This is the reason why all the three major operators are more conservative in selling the tablets. Another reason is that we expect to see strong Android tablets in the 2Q or 3Q, but that didn't materialize. I think with the Amazon Kindle Fire, Acer, ASUS, Samsung, these Android, they will be more aggressive in the tablet pricing and offering. And I see in the next year, the tablets will become a major sales item in our portfolio.

Ravi Sarathy: *For the 3Q, I was wondering if your total tablet additions including micro-sims that will be used for iPads, I was wondering if they make up a significant percentage of your adds for the quarter? I would expect kind of single digits or maybe even 10%. It would be interesting if you have a figure there.*

Cliff: In the sales number, we added roughly 15,000 to 20,000 tablet users in our network.

Ravi: *During the quarter?*

Cliff: During the quarter.

Cliff: Thank you for attending the conference.