

Taiwan Mobile
3Q13 Results Conference Call
October 31, 2013

Moderator: Good afternoon, ladies and gentlemen. Welcome to Taiwan Mobile Conference call. Our chairperson today is Mr. Cliff Lai. Mr. Lai, please begin your call. I'll stand by for the question and answer session. Thank you.

Cliff Lai, President: Good afternoon. Welcome to Taiwan Mobile's conference call. Before I start our presentation, I would like to direct your attention to our disclaimer page, which states:

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. 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 business overview.

Higher Mobile Revenue Growth

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

First on the mobile business, on a like-for-like basis with our peers, TWM's mobile service revenue in the second quarter was up NT\$997m or 7% year on year, the highest among the big three. This is credited to healthy growth momentum in mobile data and contained decline in voice revenue.

Please turn to the next page.

Our Smartphone Strategy

Regarding our smartphone strategy:

Apart from the 21 exclusive smartphone models we currently have (listed on the slide), we also have around 54 smartphone and tablet products on the market.

In 3Q13, smartphone sales volume was up 50% from a year ago and accounted for 91% of total handsets sold.

Therefore, mobile data adoption rate went up to 51% of the postpaid installed base, from 37% a year ago. This led to a 40% YoY growth in mobile data revenue in the third quarter.

Please turn to the next page.

CATV Growth Catalysts

As indicated in the table, our internet subscriber base increase of 7% and DTV customer base growth of 62% were both higher than the 1% subscriber rise in analogue TV service in 3Q13, representing the trend of an expanding penetration rate in both the DTV and cable internet businesses.

Let's turn to the next page.

New Products & Services

This page of new products and services we recently launched is for your reference.

Let's turn to our financial overview.

Results Summary

In 3Q, we reported total revenue of NT\$27.3bn, EBITDA of NT\$8bn, and EPS of NT\$1.58.

Telecom revenue / cost

In 3Q13, our telecom service revenue showed a 2% YoY increase versus a flattish telecom cash cost. Therefore, telecom service profit increased.

Handset sales / cost

3Q13 handset subsidies only edged up slightly YoY. The opex increase was due to adding 83 more company stores from a year ago.

EBITDA

As CBG, EBG, HBG, and momo all had healthy revenue growth; this led to a 3% YoY increase in EBITDA in the quarter, growing from a 2% EBITDA increase in 2Q13.

1-3Q13 Results

For the first three quarters, our accumulated EBITDA and net profit were both ahead of guidance, benefiting from higher-than-expected telecom service revenue and contained handset subsidies.

Please turn to the page of divisional performance.

Divisional Performance

CBG's 3Q13 top-line growth more than offset expense increases related to 3G base station increases and new store openings. This helped CBG's EBITDA to grow 2% YoY in 3Q, growing from a 1% EBITDA rise in 2Q.

EBG's 3Q13 EBITDA YoY growth largely resulted from mobile business growth coupled with stable costs/expenses.

HBG's 3Q13 EBITDA continuously maintained stable.

In addition to momo's scaling down its cosmetic store operation, it sold its department store at the end of August. As a result, momo's EBITDA was up 10% YoY. Affected by a narrowing margin in the virtual channel business, momo's EBITDA for the third quarter decreased from a quarter ago.

Let me turn the presentation over to Rosie for balance sheet and cash flow analysis.

Balance Sheet Analysis

Rosie, CFO & Spokesperson:

Assets

The YoY increase in accounts receivable mainly reflected the expanding bundled handset sales and mobile service revenue. The QoQ and YoY increases in long-term investment were largely a reflection of the rising investment in Taipei New Horizons.

Liabilities & Shareholders' Equity

An NT\$7.96bn increase in short-term debt in the quarter raised our net debt balance to NT\$19.73bn or 65% annual EBITDA. Other current liabilities dropped after NT\$14.8bn of cash dividend was paid in 3Q13.

Ratio Analysis

Current ratio at the end of 3Q13 was higher than a quarter ago because of lower other current liabilities, following our payment of dividend. ROE remained at 32%.

So, let's turn to cash flow analysis.

Cash Flow Analysis

In 3Q13, operating cash inflow decreased sequentially due to drops in accounts payable and other payables.

Net investing cash outflow in 3Q13 was mainly for the NT\$2.67bn in cash capex and a NT\$0.3bn capital call from our 49.9%-held Taipei New Horizons. 3Q13 investing cash outflow decreased from a quarter ago due to proceeds collected from the sale of the money market fund and department store operations as well as dividend income.

The main financing cash outflow for the third quarter was the payment of cash dividend. 3Q13 financing cash outflow increased from a year ago due to lesser short-term borrowings made and higher cash dividend paid.

Capex in the first three quarters totaled NT\$9.31bn, up from \$5.95bn a year ago. This was largely due to the delayed payment into 1Q13 of the new IDC construction completed last year. In addition, mobile capex was up by NT\$1bn from a year ago while the remaining increase came from procuring more set-up-boxes.

I'll turn the mic back to Cliff for event updates and key message.

Event Updates

Cliff: In today's board meeting, there's a resolution on Oct. 31, the Board approved NT\$29bn spending to acquire A4 and C1 blocks in the mobile broadband spectrum auction and an additional NT\$0.66bn capital expenditure in 2013 to accelerate mobile data network deployment. The group's capex budget would be raised to around NT\$13.5bn, with actual cash payments subject to the time of acceptance on deployment.

The lower part of the slide lists the awards we have recently received for your reference.

Please turn to the next page for the key message.

Key Message

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

With an aim to better position the company and in accordance with our latest marketing and network deployment plans, TWM has resolved to increase expenditures, resulting in higher than forecasted expenses in 4Q. That said, we are confident in achieving our annual EPS target.

Second, having won 2 out of the 3 most valuable 15MHz blocks, TWM is confident in launching 4G services in both the 1800 and 700 MHz bands in the most cost efficient manner, setting the stage for superb 4G services.

Q & A

Lucy Liu, JP Morgan HK: *I have a few questions. It's good to see that your voice revenue declined lower than your peers. What's the reason behind that? And what's the trend are we expecting going forward?*

And, secondly, on the capex and opex guidance, why do you want to raise the capex budget this year? You also mentioned that in the 4Q there will be some increase in cost, what exactly are those cost items to be increased? Is that iPhone related?

And my last question is also on 4G, what kind of network deployment progress are you expecting given that C1 you probably need to swap with FET and A4 is still in 700MHz, which the value chain is less mature?

Cliff: Regarding the first issue, the reason we can contain the decline in our voice revenue is because we focus on acquiring high quality subscribers with a real need for voice services. Actually, our acquisition number may not be higher than our competitors, but the ARPU contribution and the voice contribution from our acquisitions actually is pretty good. That's why we can contain the voice decline.

The second issue regarding the capex rise in the 4Q is that even though we are planning to launch the LTE service in 2014. But, as you know, initially 4G LTE cannot provide voice services, so you really need to have a 3G network to fallback. So, it is still necessary for us to construct our 3G network in order to provide the capacity for data increase and also the 4G fallback for 3G voice services.

The third issue is cost. The cost increase has something to do with the bundle handset sales this year is higher than we had originally budgeted. So, we had to increase the cost and expenses related to the handset subsidies, but this would not affect our EPS or affect the total financial performance.

As for the 4G deployment, even though the C1 is currently occupied by FET, but, as you know, FET also has C4, which is occupied by TWM. I think we will go through business negotiations

and hopefully, with the help of the NCC, try to reach a satisfactory resolution so that both sides can have an 1800 LTE network to launch by 2014. So, our deployment plan is to have both 1800 LTE and 700 LTE networks to provide 4G to consumers by 2014.

Chate Bencha, Credit Suisse HK: *I have four questions. The first one is related to the capex. In light of the launch of 4G services in 2014, is there any early guidance we could look at in terms of the capex for 2014? Should we not expect it to be lower than 2013 or how should I look at?*

The second is regarding the financing of the spectrum fee, I understand it would be NT\$29bn. Would you chose to just pay it all up front and would there be any additional debt that you would need to raise on the back of that? In terms of accounting and amortization of spectrum cost, should it start right now or should start when you actually launch services at the end of 2014?

Cliff: About the capex level for 2014, we haven't finalized the selection of 4G vendors, so, at this moment, we are still evaluating. Therefore, it's still early to say what will be the capex level for next year. Hopefully, in next two or three weeks, we can finalize our selection process. And, by that time, we will have a better idea regarding the capex level we will have for 2014.

As for financing for spectrum amortization, let me turn it over to Rosie to answer your question.

Rosie: We will definitely go for 100% payment upfront. There's no point for us to pay in installments. As you know, the installments would require us to pay more than 5% per annum for the balance. And we will use short-term debt to finance the payment and actually, as you may have noticed, we have already raised NT\$14.8bn straight bonds since 4Q of last year through the 2Q of this year. One for NT\$9bn, the other one for NT\$5.8bn, all at a very low interest rate or the lowest in the market. For the 7-year straight bond, the interest rate was 1.34% and for the five-year straight bond, the interest rate was 1.29%. I believe it is the lowest in the market place for the five- and seven-year bonds, respectively.

And, the amortization of the spectrum will only begin when we get the license and commercially launch the service.

Chate: *So, that would probably be in the beginning 2015 or end of 2014 rather than now?*

Rosie: It depends on the time of the commercial launch.

Joseph Quinn, Macquarie Taiwan: *Congratulations on the solid set of results and obviously a very good result on the 4G. I just got two questions. One on the 4G side, you mentioned in terms of your planning to roll out both 700 LTE and 1800 LTE at the same time, is there any reasons behind that? Would you see any hindrance in the near term for the 700 LTE and just to chat through some of the issues you might see on devices and equipment available to you?*

And, the second, just in term of your EBITDA performance in the 3Q, as you seen, both your CBG and EBG have gone very well. Is that mainly a result of better control on handset subsidy or is there something else in there that we should be aware of also?

Cliff: Since we have paid for the 700MHz and 1800MHz, of course from our point of view, it would be better that we can utilize the spectrum in the 4G. So, hopefully, as I said, we need to negotiate with our counterpart, FET, to see whether we can have this 1800 MHz freed up to launch the service.

In 700MHz, even though a lot of people think that the 700 LTE is not mature enough, but, based on our talks with the vendors, they all promised they can deliver the 700 LTE equipment in due time. So, there will be no problem for us to launch 700 LTE for next year. And, as for devices for 700 LTE, based on my understanding, Qualcomm will come out with a 700MHz chip in 4Q this year. So, based on my talks with the handset vendors, they all seem to confirm they can have 700 LTE devices by the time we prepare to launch the 700 LTE service. So, there's no problem for us to launch 700. There's no problem on the devices side and there's no problem on the equipment side.

For the EBITDA, we did try to manage our subsidy level in 3Q. So, that's why you see a better EBITDA margin for the 3Q. As you know, in the 4Q, we have the iPhone. So, we will try to manage to save some. It's really a continuing effort, but, due to the iPhone, we still have to see how many iPhones Apple will ship to us in the 4Q. At this moment, it seems that they cannot deliver enough iPhones. But, we are not sure whether they can catch up in November or December and how the iPhone factor will affect our EBITDA level in the 4Q

Joseph: *Thanks, and just a follow-up on both of those, so, in terms of the vendor side as you said, you would expect the 700 LTE to be fully capable to have devices ready. But what would you be expecting in terms of speed capability given you have 15MHz, for example, if peers have only 10MHz in 700MHz and you have 15MHz, where would you see a difference*

in speed capability or what differences should we expect for that side?

Cliff: It's very easy. If we have 15MHz, the others have 10MHz, then our speed should be 50% faster than our competitors.

Joseph: *Ok, got it. So, likewise, if FET is able to negotiate with you on their C4 block, then they can benefit more from their 20MHz.*

Cliff: Well, it's a tricky question. I don't think, in the near future, FET can provide 20MHz service because it's subject to the business negotiations. But, let me assure you, I don't think they are able to launch 20MHz service in the next two or three years.

Rosie: Before 2017.

Cliff: Yes, before 2017. They can only launch a 20MHz LTE service after the 2G license has been returned to the NCC. By that time, they will have full control of C3 and C4. By that time, they can have 20MHz, but, before that, there's no way they can provide 20MHz. I think the best they can provide is 10MHz.

Joseph: *Ok, so should we read into that maybe, in the near term, you wouldn't have full access to C1 as well. How should we think about that?*

Cliff: I think it really depends on whether we can reach an agreement, so that both FET and TWM can launch 1800 LTE service at roughly the same speed.

Joseph: *So, you think it's maybe more of a negotiation on speed. You wouldn't want them to have an advantage necessarily until they have full access to the license.*

Cliff: Excuse me?

Joseph: *In terms of negotiations between you, them and the NCC, maybe you wouldn't want them to be able to have full access to 20MHz speed.*

Cliff: In the NCC regulations, it's stipulated that we can negotiate. Each one can get the other's spectrum. So, during the negotiations, we will try to have equal share or equal speed so that we can have equal access to the spectrum. Maybe Rosie will add some insight.

Rosie: It will easier for us to reach a consensus with equal speed or each share of the

spectrum. Otherwise, it is impossible.

Tien Doe, GIC Singapore: *My questions are on tiered 4G data plans vs. untiered. Given that the amounts paid for spectrum were a lot higher than market expectations, is there any kind of business case for untiered 4G data plans or, to make the economics work, you really have to have tiered data plans?*

Second question is, as the bidding was going along and the prices rose, how much interaction was there with the regulators on tiering for 4G? Were they becoming more open to that possibility as the prices rose so that you would be able to recover the amounts that you're going to pay?

And third question is just on what you are thinking in term of the potential revenue uplift from acquiring this 4G spectrum in terms of an acceleration in your growth rate, what are your ideas about that?

Cliff: Regarding the tiered pricing, I think even the NCC realize tiered pricing is the trend and is the way to go into 4G. So, I think the actual implementation of tiered pricing will happen in 4G, but, for 3G, we won't see this happen, but, in 4G, definitely.

So, in our business model, we have incorporate tiered pricing into our business model and, based on this tiered pricing, we expect a certain ARPU improvement from the subscribers. Therefore, even though we paid NT\$29bn for spectrum, but, based on our calculations, we can still get a decent return from our 4G investment. Our cost is the lowest compared to our major competitors. Therefore, we are optimistic regarding our 4G investment.

Rosie: And NT\$29bn, Tien, it isn't higher than expected.

Steven Liu, Standard Chartered HK: *I have two questions. First regarding I see you still use Nokia as your 3G, 2G supplier, are there still any restrictions from the NCC on using the Chinese such as Huawei and ZTE? Are there any restrictions on the access network?*

The second is when is the earliest time can you start offering 4G on 1800MHz? And what's the maximum block you can use for the time being in 1800MHz?

Cliff: Whether we can use Chinese-made network equipment is still an issue we need to check with the NCC. So, this is still something up in the air. We will try to find in the next

several weeks.

As for when we can launch 1800 LTE, due to the C1 is currently occupied by FET, it will be subject to negotiations. Based on NCC's regulations, any negotiation needs to be settled in the next six months in order to facilitate the launch of the 1800 LTE. So, we will try to work with FET. I think we both share the same interest. So, we will try to see whether we can reach a good resolution and hopefully we can launch the 1800 LTE in 2014.

Steven: *Do you still need to negotiate with CHT because there is some also occupied by CHT on the 1800?*

Cliff: In that case, I don't think we share mutual interest with CHT. So, I don't think CHT will release that spectrum. But, the fact of the matter is that we have the C1, which is occupied by FET, and FET has C4, which is occupied by TWM, therefore, we have mutual interest to reach a settlement.

Steven: *On momo, revenue is quite stable, but EBITDA margin is kind of declining still. Can you give me some outlook on stabilizing EBITDA margin going forward on the momo business?*

Rosie: They are expected to reach their target for this year despite declining EBITDA margin. So, we basically think they should be okay.

Steven: *Are they profitable on the bottom line?*

Rosie: Of course.

Gary Yu, Morgan Stanley HK: *I have three questions, which are all follow-ups from the previous questions. First one on voice revenue, do you have a breakdown of the current voice revenue between customers paying for the fixed monthly fee and customers paying for the additional voice usage beyond their monthly voice allowance?*

Second question on tiered pricing, you mentioned tiered pricing will be implemented when you launch 4G, but not quite possible for 3G. Just wanted to understand when you launch 4G, are you going to have a parallel set or different set of 3G service plans which customer can choose unlimited data on 3G or will you move to tiered pricing for 3G also when you launch 4G service?

Last question on your negotiations with FET, given that you own 15MHz in the 1800

band and they own 10MHz, in the negotiation process, do you think one of the parties will need to settle with a dollar amount given that they will have to release 15MHz and you will only have to release 10MHz.

Cliff: I'm not sure I understand the first issue. But let me answer the second question. The second question regarding tiered pricing, we are getting tiered pricing, but how to couple with our 3G is still something we are working on. I'm sorry I don't have any new information to disclose. I think we will have some idea maybe by the 1H of next year.

Regarding the negotiations with FET, I don't think it will involve any expense or cash transaction. It's really an exchange of spectrum. So, it will be on a fair basis, otherwise I won't agree. It won't happen that they have 15MHz and we have 10MHz or something like that. In the end, the settlement should be mutual beneficial.

Gary: *Let me try to rephrase my first question because right now when a customer paying for voice charges to TWM, a part of that is embedded in the monthly fee, which they paid a flat rate per month and then the customer is entitled to a certain amount of voice minutes and if the customer use beyond that, they need to pay an extra charge on the per minute basis. I just wanted to check with you on your current voice revenue, what is the contribution of the amount that customers pay on excess voice usage as opposed to the monthly fee?*

Rosie: We'll check into the numbers and get back to you soon. And you can continue your Q&A.

Jinjin Wang, UBS China: *I have two questions. First regarding capex, I understand the capex might go up particularly in the initial stage for 4G, but whether it is reasonable to assume the total capex for the 4G rollout should not be higher than that of 3G accumulatively in the next three to four years.*

Number two, based on the bidding results yesterday, what do you think of the potential competition from the new entrants particularly the Hon Hai Group because they won two blocks of spectrum?

Cliff: As for the capex, based on our understanding, the equipment cost for 4G, per unit cost, per mega cost should be lower than 3G. So, the accumulative capex expenditure for 4G logically should be lower than the accumulative 3G capex. But we haven't seen the end of the 3G lifecycle. As you know, right now, the 3G network only carry more than 3 million data customers. In the future, the 4G network may carry 7 million or 8 million. So, it's really not an

apple to apple comparison. But the cost per unit, per mega for 4G is significantly lower than 3G.

The second question is the competition from the new entrants. We don't see any serious competition in 2014. We may see some new entrants start to make some moves in 2015, but it's still early to say now. Whether the competition will intensify in 2015 is still too early to say. But, as for 2014, the competition is still limited to the major three.

Jinjin: *I have another question regarding the voice revenue because currently I see voice per minute tariff is still quite high in Taiwan compared to regional peers. MOU, as a matter of fact, is probably the lowest in the region. So, I'm just wondering because the investors are concerned the legacy risk is still very high with revenue share of 65%. So, I'm just wondering in the next 2-3 years if we lower the tariff per minute whether the price elasticity should kick in and help offset the tariff decline and whether there is a chance we could launch even flat rate plan, say, unlimited voice traffic? Is there such a plan in the next 2-3 years?*

Cliff: Well, each country has its unique market environment. Because of the interconnection fee and the nature of the market, traditionally the per minute charge is higher, but, on the other hand, the subsidy level in Taiwan is also a little higher than other countries. So, you either have lower per minute charge, then the customer may not get the kind of the subsidy they have. And, as far as I can see, in the next 2 years, I don't see you will have a situation like unlimited voice plan because the interconnection charge is still a major component of our cost. So, I don't think that kind of plan will work, but because of the smartphone and the popularity of the instant messaging, we will see continuing decline in the voice revenue. And I don't see by reducing voice charge per minute can stimulate the usage of the subscribers which in turn would compensate the discount out of the voice charge so that we will have better voice revenue. I don't think that will happen. I think all the operators will have this kind of status quo. Our strategy will remain the same; continuing to push for the data revenue while trying to stop the declining of voice revenue.

Lucy Liu, JP Morgan HK: *I still have a few quick questions. One is on 4G spectrum. I understand that you mentioned that you would do a fair trade with FET, but then even after the trade, you got the C4. But then that's the 2G spectrum for the time being, so does that mean, you need to clean up your 2G customers or migrate them first before you can return the 2G license to the NCC. Because you still 1 million 2G customers now, how quickly that migration could be done?*

Number two, you mentioned that you would do 4G both on 700MHz and C band, can we

assume you would negotiate with FET first in the next six months, if there is no deal that can be done, then you will be moving to A band for 4G launch, but if there's any deal can be done, you won't be touching A band for the time being?

And, lastly, on dividends, I'm wondering your dividend policy. You have definitely some special reserve to pay more special dividend given that EPS will see some downside due to the spectrum payment, so just wondering what's the dividend policy?

Cliff: Based on the mobile broadband regulations 81 and 44, TWM can swap spectrum with FET and, if we launch LTE, we can release the spectrum for each other. So, there will be arrangements where it's possible to have both FET and TWM to have 2G subscribers to put in certain spectrum and leave certain spectrum for LTE. This is the reason why, by the end of auction, TWM and FET can end this auction because we know there is a way to resolve this problem. If there was no way to resolve this problem, I don't think the auction would end. So, if you look at regulation 81 and 44, it's a little complicated to explain in this conference, but there is a way to resolve our situation. And, therefore, we will launch 700 LTE and we will also launch 1800 LTE subject to successful negotiations with FET.

Rosie: And, on the dividend policy, you all know that our dividend policy will be decided by the board every April each year. The 4G auction, the results is better than expected. So, based on the better than expected auction results, we don't think it's an issue funding-wise. I also would like to remind you that our major shareholders' interests are pretty much in line with yours.

Lucy: *On the cable side, we saw some re-zoning policies and some new licenses given to the new entrants. Is there any progress there?*

And, secondly, what is your data traffic of smartphone per user per month now?

Cliff: Even though the NCC allowed competition in each SO, there are some new entrants, but the new entrants would not start until roughly the second half of next year. Even if they start the service, they will be quite limited because cable is a big infrastructure business and operation. So, we won't see any major impact on our cable business. Whether this will happen in 2015, then it's too early to say whether there will be major impact. From my point of view, it seems that in 2014 even there is some new entrant, the impact will be minor.

Shirley Chu, Director of Investor Relation: For the smartphone user's average usage is around 2.6GB in the 3Q.

Cliff: The previous question regarding our voice revenue: how much is from monthly fee and how much is from the airtime? 53% is from monthly fee and 47% is from airtime.

Sydney Zhang, Merrill Lynch HK: *I have three questions. The first one still comes back to this negotiation with FET. I know you guys may have some hidden arrangement, but I still don't understand why FET has incentive to swap that with you. Because they don't do anything, they will still have C3 to launch 2 x 10MHz and you don't have anything on 1800MHz. Even though you guys can swap 2 x 5MHz, then you still end up with 2 x 5MHz on C1 to launch 4G. You still end up not as good as the other two companies. Or maybe you can build a commonly shared network on the 1800MHz? Maybe you can share a little more on that.*

My second question is on your 4G deployment strategy, are you focusing more on the hotspot deployment or are you going to try to cover the whole Taiwan island?

Third question is this afternoon we saw the news comments made by the Hon Hai chairman who said when they launch 4G services, they will have voice and SMS for free. Any comments from you on that?

Cliff: First, your understanding of FET and our issue is totally wrong. FET, if they launch LTE service in C3 first, in C3, they only have 8.75MHz, in order to launch LTE, you need to have 5MHz and if they launch 5MHz LTE, the performance is roughly like 3G, by regulation if they launch in C3 with a 5MHz LTE, they need to release the spectrum in C1 to us. So, TWM will have 11.25MHz empty spectrum, we can launch our LTE and then the FET wouldn't have enough spectrum to accommodate their 2G subscribers. So, there is no way for FET to launch any service in C3. So, your understanding is totally wrong.

Sydney: *So, the only thing they lack is less than 2 x 10MHz where they can't really launch on the C3. I thought they could move all their 2G customers to the C1 in the next 2-3 years.*

Cliff: They can move to the C1, but once they launch in the C3, the spectrum will be returned to the NCC and the NCC will give the spectrum to us and then they have to get rid of their 2G. Because based on NCC's original regulation, they don't want to see that each operator bid for other people's territory and launch certain services in other people's territory without releasing their existing 2G spectrum.

If FET has both C1 and C3 and if they launch in C1, they need to release spectrum in C3

because suppose you can launch LTE service in one place, you need to return the 2G spectrum on the same frequency to the NCC. It's a very complicated issue. You really have to read the regulations. Let me tell you definitely and firmly, there's no way for FET to launch any 1800 LTE services without any negotiations with TWM. No way. Period.

In the meantime, TWM can launch 700 LTE with 15MHz service, which is 50% faster than FET's 10MHz. So, our 4G deployment plan is, of course, island-wide. We will not just do hot spots.

Foxconn, Terry Gou is a very successful businessman, but, as you know, the 4G doesn't have voice network. Even if they launch 4G network, they still need to have a 3G fallback. So, it's very interesting to see how Foxconn is going to resolve the issue. Even they have 4G spectrum, they still need a 3G network to accommodate the voice traffic.

Neale Anderson, HSBC HK: *Just coming back to the idea of tiered data price with 4G. It seems clear that the NCC is supportive, which is great, but just wanted to ask you a general question. There's been some commentary that the government's gain in high spectrum revenues shouldn't be customers' losses in higher telecom fees. So, in other markets, the move to tiered pricing was okay by regulators because networks were under enormous pressure. But I don't believe that's the case yet in Taiwan. I know you can't give a straight yes or no answer to this, but I guess I'm wondering if you're able to introduce tiers, 2GB or 3GB, it would make a fairly quick improvement in your data revenues whereas 5GB or 7GB would be a different matter, it would just limit your downside risk to your network. So, can I get your views on that?*

Cliff: I think the NCC also realizes that this time the total cost is pretty high, so I think they understand. I think they know it's necessary to have tiered pricing otherwise the operators would have little room to maneuver. But, in the meantime, they would try to emphasize that even though you have tiered pricing, in the 4G network, you still have to have some lower monthly fee for average customers. So, I think they are really concerned the entry tariff for 4G, whether we could provide options for those low-end subscribers, and whether the low-end subscriber can use the 4G services. So, in a way, we will provide many different tiered pricing to accommodate different users, even for those people who cannot afford very high data fee. We will provide a very low monthly charge with a reasonable package, so that they can enjoy 4G. So, I think that is the focus of the NCC in the future to make sure we have packages and programs for the low-end subscribers.

Neale: *Could I ask one additional question on the EBG, particularly on mobile service*

revenue? I think there was 13% growth year-on-year in the second quarter, 18% this quarter, the reason given is a rise in mobile subscribers. Is there anything different that you're doing there that you weren't doing last year? And do you expect these growth rates to continue?

Cliff: Well, we, in the Enterprise Business Group, have focused on mobile solutions for enterprise. This is the reason why we have seen major improvements in our EBITDA and growth in revenue in the EBG. I think this trend will continue in the foreseeable future.

Steven Liu, Standard Chartered HK: *I have two more questions. One is how many 3G base stations do you have if you can disclose? And second, just to double confirm, all the 4G spectrum will expire in 2030?*

Cliff: We have over 10,000 3G stations. The license will end for 4G around 2030.

Steven: *Last question on your capex. Can you give some idea on your wireless capex breakdown between 4G 700 and 4G 1800 over the coming three years?*

Cliff: I'm afraid, at this moment, we cannot provide answer because we haven't finalized our selection of vendors and the final price tag for the equipment is not clear at the moment. Hopefully, in next half a year, we can have a better picture to provide to you.