

Taiwan Mobile 2Q11 Results Conference Call
July 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. Vivien, please begin your call. I'll stand for the question and answer session. Thank you.

Cliff Lai, Co-President: Good afternoon. Welcome to our 2nd quarter conference call. Before I start our presentation on the 2Q results, I would like to direct your attention to our disclaimer page, which states:

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Let's turn to the 1st page, business overview.

Robust Wireless Data Growth

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

First on wireless data:

In 2Q, despite regulatory interventions which dragged down our voice revenue by 5% YoY, we still managed to increase mobile service revenue by 2%, on the back of 48% 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 the pack in 2Q.

Please turn to the next page.

Our Smartphone Strategy

For our smartphone strategy:

Apart from the 8 smart device models we have introduced in 2Q , we currently have close to 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 2Q11, smartphone sales volume doubled from a year ago and accounted for 52% of total handsets sold. As of the end of 1Q, smartphone penetration reached 15%, in line with our target.

Please turn to the next page.

CATV Growth Catalysts

As indicated in the table, our internet subscriber number increase of 15% and DTV customer number growth of 107% YoY are all higher than the 2% subscriber rise in analogue TV services in 2Q11. This has contributed to a 2% YoY increase in blended ARPU for HBG.

Given that only 26% of our customers are using our internet services and 6% 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 3% from a year ago with 70% of our newly acquired customers subscribing to 10Mbps or above services in 2Q11, up from 50% a year ago.

Please turn to the next page.

New Product & Service

This page of new products and services we launched during the 2nd 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 page 9, the results summary of financial overview. Our 2Q operating revenue rose 3% YoY, underpinned by mobile data

revenue growth. That said, the 2Q EBITDA still reported a decline due to increased handset subsidies. With lower non-operating expenses, 2Q EPS grew to \$1.16, up 3% YoY.

The 1H consolidated revenue and EBITDA surpassed our guidance, mainly attributable to better-than-expected wireless data revenue. Separately, 1Q non-operating expenses also came in less than guidance, because of lower-than-expected asset write-offs and interest expenses. As such, our net profit achieved 52% of full-year guidance.

Please turn to the next page, our operating performance by business group.

Divisional Performance

For the quarter, due to improved mobile service revenue coupled with less smartphone subsidies, CBG's EBITDA rose 5% QoQ and YoY decline narrowed.

Benefiting from a higher blended ARPU as a result of a rising broadband subscriber base, HBG's 2Q profit had a 10% YoY growth and its EBITDA margin was up 2.7% from a year ago.

EBG's 2Q EBITDA increased both QoQ and YoY, driven by a rise in enterprise mobile revenue and cost management.

The YoY rises in the EBITDAs of EBG and HBG, coupled with a reduction in CBG's EBITDA decline, mitigated the company's EBITDA decrease in 2Q.

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

Balance Sheet Analysis

Rosie, CFO & Spokesperson: Let's turn to the balance sheet analysis. On the asset side, cash balance continued rising along with steady operating cash inflows.

Other current liabilities increased QoQ in 2Q, which was a reflection of the NT\$12.4bn cash dividend payment made on July 21.

Gross debt balance fell to NT\$9.03bn due to continuous year-to-date debt repayments. As a result, we turned into a net cash position as of 2Q. In 3Q, we expect to be back to a net debt position in the wake of the dividend payments.

Now, let's turn to cash flow statement.

Cash Flow Analysis

2Q operating cash inflow remained at a comparable level to a quarter ago.

On the investing activity front, capex for the quarter was similar to previous levels, accounting for 8% of total revenue in 2Q. Cash outflow of NT\$99mn was injected into our 49.9%-own subsidiary, Taipei New Horizons Co., Ltd.

The NT\$0.33bn debt repayment was the main cash outflow for financing activities during the quarter.

Total free cash flow for 1H was NT\$9.09bn, translating into an annualized yield of 6.1%.

On July 28, the Board approved an additional capital for 2011 to purchase real estate for IDC (Internet Data Center) purposes and the expansion of the fixed network. The group's capex budget would be raised by NT\$0.9bn to around NT\$7.3bn.

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

Event Update

Vivien: On event updates:

The board approved the capital reduction schedule this morning. The record date is September 26, which means the shareholders on September 26 are entitled to receive the capital return on October 13.

On the Momo acquisition, we have completed the transaction and consolidated Momo's financials since July 13.

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

Please turn to the page of key message.

Key Message

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

That is all we would like to say for this first half of our financials and we would like to open the time for questions.

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

Chate Bencha, Credit Suisse HK: *I have in total five questions. Number one, I have noticed your subscriber growth momentum has been picking up very nicely. Is this because of your prepaid effort or, in particular, certain exclusive things that are driving the subscriber growth momentum?*

Second question, we have seen some improvement in the fixed line and cable EBITDA margin, what drives this? Is it just the revenue scale or some certain things on the cost side?

Number three, how are you planning to get Momo into your business plan right now? Has there been some business synergies, business opportunities that you're exploring with Momo?

Number four, regarding Momo, is there any capex from the Momo side that would be significant or already included in your revised capex budget?

And, lastly, your mobile capex looks relatively low still relative to peers, in the wake of higher than expected mobile data growth, should we expect capex to trend up as well?

Cliff: Regarding your first question, regarding the subscriber growth, I think we have seen improvement in both postpaid and prepaid. So, the subscriber growth really reflected both our advancement in the postpaid and prepaid market. As for the 2nd question, the improvement in the EBG and HBG EBITDA reflected our cost management in the EBG business, while in the HBG business, the revenue increase was due to the cable modem growth. HBG's EBITDA improvement was a reflection both in the revenue and the cost.

As for the third question, we are still working on forming a very clear strategy to take advantage of the Momo acquisition. Currently, we have a project team to work on those issues. And the capex of Momo, at the moment, we don't see any major or big capex scheduled for this year. As for the mobile capex, even though as you all are aware of, we have launched our 21 Mbps services before all the other competitors, we think our current capex is adequate enough to support our mobile broadband initiatives. We are very confident in our capex level.

Chate: I would just like to follow up a little bit on Momo. I understand from the financial statements, it's generating an EBITDA margin around 9%. How should we view this, should it improve over time or decline in the near term? Any guidance on the Momo EBITDA margin at all? And from the Momo capex, I understand nothing major is coming in, but how much is the regular capex that business is spending right now?

Rosie: Momo's performance in the 1st half of this year is behind their schedule according to our understanding. We will include their financials into our consolidated statements starting from July 13. The less than satisfactory performance in the 1st half was partly due to some plasticizer event in Taiwan. I don't know whether you heard about this, some of the food was found to have plasticizer content.

Chate: Ok. On Momo regular capex, I understand there's nothing major, but what's the normal run rate in terms of capex, like a couple hundreds of million dollar a year?

Rosie: In the first half, they incurred about NT\$65 mn in capex.

Chate: Alright, thank you very much.

Neale Anderson, HSBC: Just a couple of questions on the smartphone trends. Firstly, on slide 5, you showed a number of new products you've launched in 2Q. Can you give us an outline on what the pipeline looks like in Q3 and whether you expect the smartphone % of phones sold to increase from the 52% or stay flat? Secondly, can you give any details on the smartphone mix of Android phones relative to other platforms? And if you think your smartphone sales will slow down ahead of the likely launch of new iPhone in September?

Cliff: We have a number of smartphones in the pipeline. In July, we launched the Samsung Galaxy S2. It's a very popular smartphone and it's actually the leading

Android smartphone in Taiwan. And, in August, we are going to launch the 1st 3D smartphone from HTC. So, we will have exclusive rights to sell that phone for a month. And we are going to introduce a 4.3" screen smartphone manufactured by ZTE in September 2. It's a low-cost smartphone we expect to sell a lot in the 3Q. I think the 3Q, we will see more Android tablets ready for sale, especially from Samsung. Currently, most of the Android tablets are not as competitive as iPad, but with the launch of Samsung products, we can see that major improvement in the Android tablet sales. As for the mixture of smartphone platform, currently in our portfolio, Android take-up compared with Apple is 2.5-to-1. So, Android smartphones sells far more than Apple. We are expecting a slowdown of iPhone 4 in the coming months due to the rumor that Apple is going to launch iPhone 5 in September.

Neale: *Could I just follow up on the tablet side, have you seen already quite strong demand for tablets? I know there have only been a few Android versions launch. Do you get a sense that customers are interested?*

Cliff: Currently, for TWM, we sell more tablets than netbooks. So, the tablets has become the major sellers in our portfolio. We don't get any rights to sell iPad, so all the tablets are Android. However, we are negotiating with Apple to get the rights to sell iPad 2. So, we are in the process of negotiating with Apple.

Neale: *I see. Thank you very much.*

Danny Chu, Nomura HK: *Just got three quick questions. First, in terms of data as a % of your mobile service revenue, do you think by the end of this year, data as a % of mobile service revenue can get close to somewhere like 25%, do you think it is doable?*

Second question, just to clarify, on the Momo acquisition, since after mid-July, you will consolidate Momo's results. So, basically, right now, the full-year results guidance that you gave out was excluding Momo and should we expect when you announce 3Q results, you will give out a revised full-year guidance including Momo's results?

And, the final question, on the slide that you mentioned about the regulatory update, "NCC suggests domestic operators not to import Chinese telecom equipments", is it just a suggestion or is it a ruling that the operators have to

follow? And, if the operators have to follow that suggestion and not use Chinese telecom equipment given that normally they are much more competitively priced, do you expect you have to spend more on capex if you start to use foreign teleco equipment?

Cliff: Regarding your first question, whether our value-added service will reach 25%, I didn't do the calculation. But, based on my intuition, it is not possible to reach 25%, but we expect our value-added service growth will be the highest among all the operators until the end of this year. We expect we will still have the highest growth rate.

Rosie: Momo's results, actually in our guidance, we did not include any numbers of Momo in our guidance. But in our 3Q results, we will definitely include that in the numbers.

Danny: *So, we should expect a revised full-year guidance when the company announce 3Q results.*

Rosie: According to Taiwan regulations, we don't need to revise the guidance, but we will tell you how much we have added to our 3Q results. We will separately tell you how much Momo makes. And on your 3rd question, whether non-Chinese equipment will cost more, I will turn this back to Cliff for reply.

Cliff: Currently, we have used some foreign equipment in our network for transmission purpose. That part of the infrastructure is not very significant. According to the instruction from the NCC, we are not supposed to use Chinese-made equipment in the core network. So, we are planning to replace those equipments with non-Chinese ones, but I think that will have little impact on our cost of operations.

Rosie: Basically, the prices now offered by non-Chinese manufacturers are very competitive, let's put it this way.

Danny: *So, if the foreign telco equipments are competitively priced vs. the Chinese telco equipments, then basically there's no point in using Chinese telco equipments, then?*

Rosie: Right.

Danny: *Ok, thank you.*

Ravi Sarathy, Citigroup HK: *I have four quick questions. The first one relates to tablets. I want to get a rough feel for the number of tablets on your network and understanding that it's complicated by the fact that the Android tabs can be sold through the network plus a bit of retail and the iPad are not sold through telecom operators. And I'm guessing that you have a feel for the number of iPads on the network because of the number of micro-sims and data packages sold. So, if we were to add together roughly the number Android tabs that you sold plus the number of micro-sims with data packages, I want to get a feel for what that number might be as a % of total subs or an absolute number.*

My second question, just a quick clarification, I wanted to get the ZTE model that you're planning to launch for the low-cost smartphone and just to clarify what the price of that would be at retail before subsidy and, if you can look through the package, what the price of that would be with the subsidy?

Third question follows up on the color you gave around the split of the smartphones on your network. Now I just want to clarify, the 2.5-to-1 is the run rate of sales at Android-to-Apple or is that the share in your embedded subscriber base at Android-to-Apple? Also, want to get a handle on how much of that 15% is non-Android or Apple, so how much is Symbian legacy, old Windows legacy and Blackberry?

The final question, the reason for the Momo acquisition, as I understand it, was to reframe that asset and start to differentiate by offering some interesting m-commerce propositions via smartphone apps. I wanted to get handle on any progress you've made in that direction in terms of development of those apps or that process.

Cliff: Regarding to your 1st question, how many tablets are in our network, I think there are close to 20,000 tablets in our network. So, the iPad consist of 40% of the total tablets in our network.

The 2nd question, the suggested retail price will be around NT\$8,000; with the subsidy, it could go to zero dollars.

Ravi: Which model is that?

Cliff: It's manufactured by ZTE, but it's under the brand name of Taiwan Mobile. And, the third question, it's sales ratio, it's most recent month sales ratio. Android's 2.5 vs. iPhone's 1. It's not the installed base.

Ravi: *If you were to split the installed base, how would that look?*

Cliff: Installed base, let me check the numbers. Installed base, Android has 47%, Apple has 26%, Windows Mobile has 9%, and Symbian has 16%, the rest is Blackberry.

Ravi: *And guessing it's too early for Windows Mobile 7, so that 9% is legacy Windows Mobile, right?*

Cliff: Yes.

Lucy Liu, JP Morgan HK: *I just have one big picture question. If I look at smartphone as a % of handset sold, the ratio actually declined a little bit in the 2Q on QoQ basis, that explained why your handset device sales revenue dropped on a QoQ basis, and the cost of handset sold also dropped. My question is if we look into 2H this year, what would be the trend of smartphone sales volume and also how much impact it will be on your EBITDA margin, because it seems like your margin has already bottomed out in the 1Q this year, can we assume that margin will start to climb up based on better economics of the smartphones you're going to sell in the future?*

Cliff: I think even though we sold a lot of smartphones, as you know, the Apple iPhone tends to have the highest subsidy, so the EBITDA margin, to a certain extent, has something to do with how many iPhones we sell. We expect in the 3Q, due to the scheduled launch of iPhone 5 or iPhone 4S, the sales of iPhone will drop, it's going to help our EBITDA even though we may sell more smartphones in the 3Q compared to the 2Q. But, the subsidy may not be as high as we expected.

Lucy: *So, say, if the US, the iPhone 5 will be launched in September, but normally Asia and the other countries, it will be several months later than the US launch. So, say, if we can get the iPhone 5 by the end of this year in December time, probably the impact this year will be not that much, right? Can we assume that without iPhone 5, just based on the current smartphone pipeline, your margin trend should be relatively ok?*

Cliff: That's a reasonable assumption. Actually, we're not looking forward to the launch of iPhone 5 or iPhone 4S.

Ravi Sarathy: *A quick follow-up on Momo. I was wondering if you had any color around your progress of evolving Momo toward an m-commerce proposition around some apps you're developing or something like that?*

Cliff: The m-commerce is definitely something we're trying to work with Momo to come up with some good results. But, currently, I'm not at a position to disclose what kind of things we are working on.

Gary Yu, Morgan Stanley HK: *I have two questions. The first one is are you seeing any increase in competition in terms of the mobile data segment? We are hearing about some promotions from Chunghwa on cutting some of the data plan pricing.*

The second question I have is do you have any guidance on Momo's financials for this year or do you have the numbers for what they have achieved in the 1H of this year?

Cliff: For the first question, whether the competition in mobile data will intensify, currently CHT has suffered a lot of complaints about their network regarding the mobile broadband service they offer. And, as far as I know, FET is not aggressively implementing 21Mbps service. Only TWM is providing 21Mbps service. So, I don't see mobile broadband sector, the competition will intensify in the 2H of this year due to the lack of capacity of our competitors.

Rosie: As to the second question of guidance on Momo, we haven't had any concrete numbers for you for the full-year guidance, but we will let you know their 1H results on August 10 when we announce our July results because we will include their financials starting from July 13.

Lucy Liu, JP Morgan HK: *Seems like Taiwan telcos in general are quite welcoming the tablets on the network, although the traffic consumption on the tablets are very high. But the trend we are seeing in other parts of the world, operators prevent tablets adding on the network, but promoting more on the smartphones, which can generate better economics. But, do you think, given that the network condition in Taiwan, we are not yet to the status that our*

networks are facing constraints, so that at the current stage we are still welcoming tablets or you think it will come later and then we will probably deal with this issue later?

Cliff: Well, based on our current data, the tablets consume less data than netbooks. Actually, netbooks consume more data bandwidth than tablets. So, right now, the shift from netbook to tablet actually reduces our pressure on our network, but however, the tablet certainly consumes more bandwidth than smartphone. So, of course, the strategy is to focus on smartphone to increase the mobile internet service revenue. However, we see big opportunity with the tablets because the tablet is a very good device for the distribution of content. So, if we look at the tablets, we need to look at from non-connectivity service revenue, which we are working on trying to see how we can leverage the sales of tablets to increase our non-connectivity sales revenue. In the meantime, from TWM's point of view, the current consumption of either smartphones or tablets has not caused any constraint in our capability in providing a good service to our subscribers. Maybe it caused a problem for CHT, but TWM currently has no problem with it.

Lucy: *I see. I have a quick follow-up. Are you seeing a higher ARPU from tablets than smartphone? If so, how much higher now?*

Cliff: The Tablet wouldn't contribute higher ARPU because currently the packages are all-you-can-eat. So, you wouldn't contribute higher ARPU.

Steven Liu, Standard Chartered: *I have two questions. How many WIFI hotspots do you have? And how many new WIFI hotspots will you build in the coming two years?*

And the second question is how many 2G and 3G base stations? And do you see any capacity bottleneck or constraint given the mobile data traffic is surging?

Cliff: We are building a few hundred WIFI this year because our strategy is a little different from CHT and FET. Currently, in many many places, we don't see how can WIFI offload the network traffic. In the meantime, our focus is really to build a better 3.5G network instead of WIFI. After all, we are Taiwan Mobile, not Taiwan WIFI. Our major focus is really mobile network construction. However, due to many smartphone will have WIFI capability, we will build up our WIFI locations through the years. So, it will reach a few thousand across the island, but we will

only provide WIFI services to those areas where we think it can offload our traffic and also provide better results to our bottom line.

As for our many 2G, 3G base stations, currently we have over 7,000 2G and 3G base stations in our network. As I have said, we don't have a problem with the current traffic. As a matter of fact, we think we have currently the best mobile broadband network in Taiwan.

Ravi Sarathy, Citigroup HK: *I want to get a handle, if possible, on the average level of megabits of data usage a month for an iPhone user and an Android user and also for an iPad user and an Android tab user. And, finally, if we can benchmark against the average monthly data usage of a dongle user, that would be really helpful if possible.*

Cliff: For iPhone user, the average is 1.2GB per month. For Android, it's 800MB per month. For Window, it's 625MB and, for Symbian, it's 160MB. For netbook, for dongle, it's roughly 5GB per month.

Ravi: *Any feel for Android tablets vs. iPads?*

Cliff: In general, based on the information we have, the iPad tends to have 20-25% more consumption than Android tablets.

Ravi: *In terms of absolute usage, how does your average tablet compare with your average smartphone? Do you have a feel for what the average absolute data usage is on the tablets?*

Cliff: The dongle user consumes 5x more than smartphone user.

Ravi: *And what do you think a tablet user is?*

Cliff: Tablet user consumes maybe 2.5x than smartphone user.

Chate Bencha, Credit Suisse HK: *Regarding the device sales revenue, basically we should not be expecting reversion to NT\$1.2bn or NT\$1.6bn again at least in the 3Q, is that correct?*

Cliff: I think the sales of devices; my projection is that the 2H will higher than the 1H. In the 1H, it's NT\$2.7bn and I think 2H will definitely be higher than NT\$2.7bn.

But, as far as how much higher, I don't have a feeling at the moment.

Tien Doe, GIC: *Just following on from Ravi's question on the differences in data usage between smartphone, iPad and tablets, your idea in the medium term on how to monetize those differences in usage, you think the day is close where we're able to see differences in ARPUs between iPhone users vs. Android users vs. iPad users or you think largely the data usage is going to be independent of the devices and we're still going to be seeing sort of flat rate usage plans?*

Cliff: This is a tough question and, to be honest, I really don't have a good answer for it. Based on the information I have gathered, the iPad or iPhone users tend to be more data savvy, potentially subscribe more value-added services. This may be due to the fact that the iPhone and iPad are more expensive. So, I don't have a good answer for your question.

Steven Liu, Standard Chartered: *Final question is regarding your data revenue, accounting for only 20% of total mobile service revenue. I think it's quite low percentage compared with Japan, Korea and Hong Kong. Can you give me some color on why and the reason for the low data usage or the low revenue contribution from data?*

Cliff: Well, this is a phenomenon not unique to Taiwan Mobile. It's across the industry in Taiwan. If you look at CHT, if you look at FET, as a matter of fact, our % of data revenue is the highest among all the players. I think maybe it has something to do with QWERTY keypad handsets have never been popular in Taiwan. So, the short message service and many other services are not so popular in Taiwan. If you look at China, Japan, those countries which have high value-added services or data service revenue, in general, they tend to use the QWERTY or use the handset to send information.

Steven: *Do you make any effort to solve this problem?*

Cliff: As a matter of fact, when we analyze our information, it's very interesting that, for our smartphone users, they tend to use short message more. Because I guess, in the past, the feature phone, in Taiwan, is not very friendly for Chinese typing. But, once they had smartphone like iPhone, you can use hand-based input. Then, certainly we see uptake in short message service. I think smartphone will change the behavior because it's more user-friendly and it has more features. So,

this is the reason why, in Taiwan, the data service has been 12% or 13% for a long time. But, once you have smartphone, then certainly data service become very, very popular now. I just hope this situation will continue. And, people will use smartphone to purchase more services and to do more things.

Cliff: If there are no further questions, thank you.

Rosie: Thank you.