

Taiwan Mobile 3Q08 Results Conference Call

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Time: 1500 Taipei/Hong Kong/Singapore Time

Harvey Chang, CEO & President: Good afternoon. Welcome to our 3Q conference call. Before we start our presentation, I have to direct your attention to the following statement:

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On today's presentation, we will talk about the results, improving P&L, divisional performance, some of the mobile operational analysis, some financial information and then go to our forecast for 4Q and a little update of some of the events that took place last quarter.

Results Summary

Now, if you turn your page to the result summary, our 3Q revenue was NT\$17.6bn. Compared to guide-line, we missed our 3Q revenue guidance by 1% due to weaker economy and lower revenue per minute. But we still exceeded our operating income guidance by 3% because of lower marketing expense & G&A expense.

On the non-operating front, some asset write-offs will be pushed into next quarter, our 3Q asset write-off loss of NT\$190m, which is lower than our expected number. As a result, our net income reached 109% of the official guidance.

EPS for the first three quarters of 2008 reached NT\$4.12.

3Q Divisional Performance

Next page, during 3Q, the 5% CATV revenue increase together with 32% growth in fixed-line sales to third party compensated for mobile revenue drop. As a result, our consolidated revenue was flat from a year ago.

On the profitability front, we still sustained mobile EBITDA margin over 45%, despite revenue dip and rising handset subsidies.

Fixed-line's EBITDA margin came slightly down from last quarter, as lower-margin wholesale voice business rose in 3Q08.

For cable business, EBITDA margin in 3Q08 improved from last year due to better economies of scale.

Wireless Peer Comparison

And then, on the wireless business peer comparison, TWM outperformed peers by reporting a mere 2% YoY decline in terms of recurring mobile service revenue, leading to further expansion in market share.

This was mainly credited to a 14% YoY rise in pre-paid revenue, coupled with 13% YoY growth in value-added services.

VAS and 3G

A bit more information on the value-added services, non-voice mobile revenue rose 13% YoY; this is primarily aided by a 61% revenue growth in the usage of mobile internet.

Our 3G post-paid subscriber number at the end of 3Q reached 1.9m, up 82%. And we have doubled our 3G data revenue in the period.

I will turn this over to Rosie.

Balance Sheet Analysis

Rosie Yu, Finance VP & Spokesperson: Good afternoon. Let me guide you through the balance sheet.

Gross debt balance reached NT\$25.2bn at the end of 3Q08 as a result of NT\$900mn repayment on long-term debt and NT\$4.3bn increase in short-term debt as a bridge for the employee bonuses and dividend payments in 3Q.

Other current liabilities as of the end of 3Q decreased from 2Q after we made a NT\$7.8bn payment of employee bonuses and dividends on July 24.

Our treasury shares with carrying cost of NT\$31.89bn represent 21.4% of total shares. Unappropriated earnings together special reserve totaled NT\$5.75bn, as of the end of 3Q.

Our Net Debt to EBITDA remained at a healthy level of 0.71x with a Return on Equity maintained above 40%.

Debt Maturity Schedule

To turn to next page on our debt maturity schedule, we have priced a five-year NT\$8bn bond with 2.88% coupon to be issued in November. This bond has been approved by the FST. Additionally, we will draw down our 3-year NT\$13.5bn syndicate loan by the end of this year. All of these measures are aim to refinance our short-term debt with long-term borrowings to enhance our balance sheet stability.

Cash Flow Analysis

And, if you turn to the next page on our cash flow analysis. On the investing cash flow for this quarter, besides the NT\$2bn cash capex in this quarter, we had NT\$310m sales proceeds from the disposal of switching office premises. Overall, investing cash outflow came off from same period last year when it had a cash outflow of NT\$1.65bn associated with increase in TFN stakes and TTN acquisition, on top of ordinary capex of NT\$2bn.

For the financing activities, short-term borrowing had a net increase of NT\$3.4bn to facilitate the NT\$7.8bn in dividend and bonuses payment.

Group capex in this quarter were maintained at the same level as a year ago, and accumulated cash capex reached NT\$4.72bn as of the end of the 3Q.

With good core business cash earnings and stable cash capex, annualized free cash flow yield for the first nine months was at 10%.

So, let me turn this back to Harvey for the 4Q guidance.

4Q08 Forecast

Harvey: For this coming quarter, we forecast that our revenue will probably have a modest 1% YoY decline in mobile and a 4% growth in cable, a 12% for fixed-line. On a full year basis, we forecast our 2008 full-year revenue and EBITDA expected to

be NT\$69.8bn, which is up 6% YoY basis, and NT\$30.4bn, which is up 1% YoY basis, respectively, with EPS of NT\$5.27, which is up 2.1x YoY.

On the network cost front, we expect full-year cash network cost to be flattish YoY on the back of maintenance cost savings. Our marketing spending in 4Q08 will be contained. That said, overall cash opex will increase YoY in both 4Q and full-year 2008 due to higher handset subsidies on company's self-procured data cards and certain handset models.

Our asset write-off in 4Q is forecast to be NT\$522m, up from NT\$190m in the 3Q but down from NT\$11.4bn, that was last year's number.

Event Update

A couple of updates for the 3Q. First is on the shares buy-back plan that our board has given approval on Oct. 7 to buy back up to 25mn shares, which are 0.66% of total issued shares outstanding for employees with a price range of NT\$45~60 for two months effective on Oct. 8.

Also, we have received a new recognition from the Consumers' Foundation that we are ranked as the highest customer satisfaction telecom services firm in a 2008 survey.

Key Message

So, our key message is, for the past three quarters, we are able to outperform our peers and our guidance despite a competitive landscape. We're looking to achieve over NT\$30bn in EBITDA and NT\$15.6bn in net profits for the whole year, 2008, which would translate into an EPS of NT\$5.27. With all our efforts towards strengthening our foothold in the marketplace as well as enhanced financial stability, we are confident that we will be able to navigate through the economic storm and increase shareholder value.

And I'll be happy to take questions.

Q & A

Henry Cobbe, Netsky: *Good evening. Thank you very much for the call. Just wanted to check up on the capital management policies. You mentioned the buyback that's been authorized, but what are the plans for capital returns over the six months?*

Harvey: There won't be any cash return for the next six months. I think, during this period, you'll find that no companies will want to return cash to shareholders.

Henry: *Ok, and for next years on a 12-month basis?*

Harvey: That, we don't know. We haven't looked at that yet.

Henry: *Will you continue to be accruing your unappropriated earnings and building up the equity base?*

Harvey: Yeah.

Henry: *Are you able to comment anything progress on negotiations with any potential cable assets?*

Harvey: No comment can be offered.

Kathy Chen, Goldman Sachs: *I have a few questions. The first one is a follow-up on a comment about the capital reduction. In the case that there is no progress made on the cable acquisition front over the next 6-12 months, do you still plan to have the treasury shares to continue to forgo dividends?*

Harvey: Yeah, that most likely will be the case.

Kathy: *In terms of the guidance given, can you give any color in terms of the EBITDA margin that you expect from mobile in the 4Q and then any outlook you have going into 2009?*

Rosie: As we mentioned, there might be some rising handset subsidies for the self-procured handsets and data cards, so that will eat into EBITDA margin. So, that's the situation for the 4Q and, for the whole year, EBITDA margin or EBITDA will also be affected. If you look at the 4Q EBITDA on the mobile from the EBITDA margin, it's estimated to be 43.1%.

Kathy: *And that's mostly from the higher handset subsidies. Is that right?*

Rosie: Sorry?

Kathy: *The dip in mobile margin is mostly assuming the higher handset subsidies?*

Rosie: Yes.

Kathy: *Actually, can you give some color on how much are the subsidies for the data cards compared to the average blended handset subsidies? Is it substantial higher?*

Rosie: I think it's slightly higher, but I can not give you the details.

Kathy: *The last question is on the debt schedule that was given. Just to clarify, the only thing that's missing on this table on page 9 is that you do plan to drawdown NT\$13.5bn syndicate loan, right? Assuming that's drawn down at the end of this year, actually in 2011, you'll have that amount that needs to be matured as well?*

Rosie: 2011? Yeah.

Kathy: *What is the coupon rate on that? What is the borrowing rate for that NT\$13.5bn syndicate loan?*

Rosie: It's a floating rate loan and we have a spread 30 basis points only.

Terry Chan, Credit Suisse HK: *I have three questions. The 1st question, can you remind us your full year CAPEX for this year? The 2nd question is, for next year, do you expect to see further asset write-off? The 3rd question is, the board has approved to buy back 25 million shares, how much have you bought so far?*

Rosie: To answer your 1st question of full year CAPEX, it will amount to NT\$6.63 bn, of which NT\$5.2 belongs to mobile, and about NT\$0.9 bn is for fixed-line and the rest for cable.

And, for your 2nd question, asset write-off for 2009, there will be some, but the amount hasn't been decided yet. And for this year, we estimated to have about NT\$1.3bn asset in write-off loss for the whole year.

And, on the share buy back of 25 mn shares, we can not disclose current status to you. But we will duly announce the progress once the amount is over each NT\$300mn

threshold.

Harvey: We made our 1st announcement (inaudible), right?

Rosie: It's the 2nd time. So, I can also tell you the 2nd announcement we made, actually, on Oct. 27, we have brought 14.8 mn shares. And we have already exceeded that number. And it's not yet up to the next announcement yet, so I can not give you the details.

Anand Ramachandran, Citicorp HK: *If I look at your 4Q estimate for guidance, it seems to indicate you have been expecting fixed-line revenue to decline quarter-to-quarter. I'm wondering if that was indeed correct. If so, what would be the reason for that?*

On the bond, who would be buying this? The reason I ask is obviously because credit market are wedge tight shut, so do you see any execution risk regarding the bond going through at all in November?

Rosie: For the bond buyers, there are quite a lot of institutional investors. Actually, it's been fully booked. So, the bond issue will be quite okay. Actually, it's been described by the security firms for (inaudible) attributed to the institutional investors, so they are all sold out.

On the revenue for fixed-line for the 4Q, it will be declining 2%.

Anand: *It's been growing very well, right? So, I'm just wondering as what is the reason for the quarter-to-quarter decline or is it just one of those things?*

Rosie: I think that we just made a conservative estimate on this. It mostly could be the fluctuation of volume commitment. The wholesale avoid business that's leading the fluctuation.

Harvey: It's has very limited impact on the margins.

Eleanor Ro, CSLA: *I have two questions. The first question, are you still maintaining a payout ratio of 80-90% of your earnings? 2nd question, you're forecasting a decline in revenue in 4Q, is it 100% come from slowing economy or is it because of competition? Can you comment on the competition right now in terms of the mobile market?*

Harvey: The competition in the mobile market has always been very intense. We see our ARPM sort of declining QoQ basis. So, that's probably the main contributing reason that our mobile revenue is declining. Nothing dramatically irrational, but certainly the tension is there. I don't the trend will probably continue.

Eleanor: *Is the competition mainly from the smaller operators or FET and Chunghwa?*

Harvey: It's from everyone, not just the small operators.

Rosie: On the payout ratio, after expensing our employee bonus and director bonus, the payout ratio could go up to 90%

Harvey: Yeah, close to 90% or equal to 90%.

John Kim, Merrill Lynch: *I have three questions. First, without asking a specific question regarding your interest in cable, how do you think the recent financial market conditions has affected management's thinking or interest in acquiring cable assets, if any?*

Second, if the economic conditions were to continue to be difficult throughout 2009, which area of your main businesses from top-line perspective could come under most pressure?

And, third, could management remind us again of your asset write-off for 2009?

Harvey: There's really no significant write-off plan for 2009, so right now I can not really give you a number. But we don't expect anything as dramatic as it was in 2007. So, I think if you use this year's number as a benchmark, I think it would be a good benchmark. Sometimes, it depends on the progress of some of our projects. And we're actually not really 100% in control. We have to wait until the thing actually happen and then we are allowed to write-off. Otherwise, we are not even allowed to look at that. That's for 2009.

As to the economy uncertainty ahead of us, we are fortunately still in a fairly stable business. So, if you look at the three different lines of business, I don't see any one of them will be dramatically impact. There could be some slowdown, for example, in terms of usages because our past experience basically tells us the growth in minute of use is in line with our GNP growth number. So, if the GNP growth slow down,

this might cause a slow down of minutes of use. These are mild effects. I don't see anything dramatic even when the economy turned bad.

And then, I think we continue to maintain our interest in acquiring cable asset. The key issue is valuation. If valuation is right, I think we do have the resources to go into more acquisition. If the valuation is not up to our expectation and then we have to take a pass. Of course, if you want to know what is the valuation, you really also float with the market. When the market is bad, our expectation to pay the multiple also goes down.

I hope those have answered your questions.

Shirley Tse, UBS HK: *Can I check if you have capex guidance for next year yet? If not, what's your expectation on the mobile side? Would you be increasing the CAPEX to sale given you're pushing into the mobile broadband area? And, secondly, you mentioned that, for mobile broadband, the subsidy levels are slightly higher than mobile devices. I was wondering if that would be just for UBS devices or that include potential bundling with laptops where you would be subsidizing a certain proportion.*

Harvey: We have already started bundling with the laptop computers. So, I think what we are doing now when we mentioned that the subsidies are slightly higher than our standard handset subsidy, it applies to that as well. I don't think that thing is going fairly up.

Shirley: *And on the CAPEX side?*

Rosie: We haven't finalized our CAPEX guidance for 2009.

Harvey: On the broadband internet, I think until the end of this year, we have completed a fairly high percentage of our HSPDA application in our base stations. So, I don't see a dramatic increase in that area.

Shirley: *A quick follow-up, you've been doing extremely well on the prepaid side. There's been talk of more new entrants on the MVNO side such as Carrefour and others. Would you see that as direct competition more for your prepaid business?*

Harvey: Well, we don't know. It depends on how it plays out. MVNO is a tough

business here. We wish them good luck.

Harvey: Well, there are no further questions; we are going to adjourn this meeting. Maybe, we wait another thirty seconds if anyone comes up something.

Kathy Chen, Goldman Sachs: *Can you give us an update on the regulation side? I think there was some news about some operators talking to NCC about lifting the 3-year price cap plan. Is there any progress there, any possibilities of that happening?*

Harvey: I think the operators did meet with the NCC last week. I don't see, I didn't hear any sort of conclusions. The operators expressed some of our, their views. I think they have talked about value x. On this price cap thing, we expressed our view. But I don't think there was any conclusion, any direct feedback from the NCC.

Kathy: *Do you know if there are any key items that they're focused on that we can see in the next several months?*

Harvey: No.

Kathy: *So, not much progress.*

Henry Cobbe, Nevsky: *Can you give the book cost of the treasury share on a price per share basis?*

Rosie: You mean the cost?

Henry: *Yes, the cost per share.*

Rosie: The cost per share now on consolidated basis is NT\$39.3.

Harvey: Thank you all for participating in this. I know you're going to be busy for the next one at 4pm. So, we'll see you next time. Bye bye.

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