

Taiwan Mobile 4Q08 Results Conference Call

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Harvey Chang, CEO & President: Hi everyone. Allow me take one minute of your time to wish you a very Happy New Year of the year of Ox. We're only a couple of days away from Chinese New Year's Eve. And thank you very much for attending this conference call. I am going to start my presentation by giving you this disclaimer that:

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With the disclaimer out of the way, I will first talk about our 4Q results, P&L, divisional performance, some analysis on mobile operational, balance sheet and cash flow analysis. And then I'll give you 2009 full year forecast, followed by key message.

Results Summary

So, if you follow to the page of results summary. On our 4Q, our revenue is roughly \$16.9 bn, so we are slightly behind our 4Q guidance, primarily b/c of the economy situation. We see some of consumers are cutting back on their mobile usage.

The savings from cost control plans were largely offset by rising marketing expenses due to our efforts to grow data card subscriber base. As a result, EBIT and EBITDA both came in 4% below than our guidance.

Also, this quarter we generated some asset write-offs originally scheduled for 1Q09, we had slightly higher than expected write-off losses in 4Q.

For full-year 2008, our consolidated revenue was up 5% YoY due to higher revenue contributions from fixed-line and cable business. This, coupled with lower

depreciation expense, resulted in a 2% YoY growth in EBIT. Stripping out asset write-offs and disposal gains, the recurring profits grew 2% YoY.

4Q Divisional Performance

And we'll go to the next page, which talks about divisional performance, in 4Q, revenue growth in fixed-line and cable business failed to offset the mobile revenue decline. As a result, our consolidated revenue decreased 2% from a year ago.

On the profitability front, 4Q08 mobile EBITDA margin contraction was due to revenue decline arising from economic slow-down and our fast ramp of 3.5G data card business.

On a recurring basis, both fixed-line and CATV EBITDA margins remained stable in 4Q.

Wireless Peer Comparison

Comparison with our competitors in the wireless operations, you can see on this page, there is a comparison of the operating data with both CHT and as well as FET. As you can see, our revenue dropped slightly higher than our competitors. The market, on an average basis, dropped around 3.0% for 4Q. Our revenue contracted by roughly 4.9%. There are several reasons for that other than the economic slowdown. Also, the structure of different customer base that, in the past several quarters, we have grown our prepaid business revenue that will offset some of the decline in the postpaid. As the base of prepaid got to a higher level, we started to see that there less offsetting factors that can be put in from the prepaid factor. In the past, the prepaid primarily generated by foreign laborers on the IDD business. Those are lower. Also, I think there are a couple of products, rate plans that we are offering to the postpaid customers that we see that some of our customers seems to be taking too much advantage of. So, we are taking some steps to revise that so we can fix that problem. Also, there is a small reverse on our FMC revenue, which is reflected in this quarter that has something like a half percent effect on this. As a result of the total, our wireless operation was not as satisfactory as we expected, but I think we are monitoring that very closely and we are on top of the issues and will fix it in the following quarters.

VAS and 3G

And then, the next page talks about VAS and 3G performances. For the 4Q08, our VAS grew 20% y/y basis, which is a very good performance. Our VAS accounted

for roughly 10.7% of our revenue. On the 3G front, 3G subscriber number at the end of 2008, the SIM holders has exceeded 2.4mn, which is up 96% y/y basis. Our 3G data revenue was up 1.5 times from a year ago.

I will turn the mic over to Rosie to talk about balance sheet and cash flow.

Balance Sheet Analysis

Rosie Yu, Finance VP & Spokesperson: Good afternoon. The 4Q08 cash level was similar to that in the previous quarter.

Our net PP&E cost at the end of 2008 was NT\$49.47bn, of which 2G's net book value was NT\$20.93bn.

We raised NT\$5.2bn from a three-year syndication loan and a five-year NT\$8bn corporate bond to pay back total of NT\$15.24bn short-term borrowings and corporate bond of NT\$2.5bn due in 2008 year end. As a result, our current liability balance was down a lot, except for a NT\$7.5bn corporate bond issued in 2002 to mature in this year end.

On top of 812m treasury shares, which are held by our 100%-owned TFN, with a carrying cost of NT\$39.28/share, treasury share balance under shareholder equity account rose in 4Q08 due to the additions of 24.193m share buybacks in the quarter for employee incentive.

Cash Flow Analysis

And our cash flow analysis, 4Q08 operating cash flow remained stable.

For the full year, our recurring operating cash flow reached NT\$27.3bn, up from NT\$26.7bn in 2007.

On the investing cash flow, the 4Q08 investing activity cash outlay was mainly for NT\$1.8bn cash capex and another NT\$250m long-term investment in a BOT property development project for our headquarters through a newly established 49.9% owned development company called Taipei New Horizons Co., Ltd. Total investment of this project is estimated to be NT\$7.3bn to be spent 2009 through 2012, of which TWM's equity investment will be NT\$1.92bn. We will be able to centralize all employees in the new office premises in the future.

For the full-year, we had NT\$2.09bn investing cash inflow from divestment of Fubon

Financial Holding, while a NT\$6.54bn outflow for capex.

On the financing cash flow, for the financing activities in 4Q08, we refinanced short-term debt by long-term borrowing as mentioned in balance sheet section. Separately, we spent NT\$1.06bn buying back 24mn shares from the market, of which 7.28m shares were sold to employees in January this year.

For 2008, we in total return NT\$17.03bn to shareholders in the form of both regular cash dividend as well as capital return. The NT\$13.5bn proceeds from the sale of 6% treasury shares were used largely to pay down our short-term borrowing.

So, I'll turn it over to Harvey for the 2009 forecast.

2009 Forecast

Harvey: For the whole year 2009, given the soft economy, we estimate 2009 consolidated revenue to be flat with household business group (HBG) growing 4% YoY while enterprise business group (EBG) and consumer business group (CBG) down by a respective 3% YoY and 1% YoY.

Profit-wise, EBITDA is expected to be down by 4%, which is a reflection of flattish revenue and our continuous investment into data card promotions, despite our efforts on network cost savings.

Our full-year capex budget approved by the board is NT\$6.87bn, down from NT\$8.4bn budget in 2008.

The asset write-off loss in the year 2009 is forecasted to be NT\$1.6bn which may evenly spread out into four quarters.

In a nutshell, we forecast our 2009 EPS to come in at NT\$4.66.

Key Message

Our key message is that we concluded year 2008 with net profits of NT\$15.4 billion, slightly below our annual budget. To enhance shareholder return, TFN's board has approved to forfeit dividends from TWM, leading to a 27% increase in DPS for other TWM shareholders. For 2009, though the financial crisis is not yet over, we have stepped up efforts to drive growth from wireless data and cable TV/broadband. We are in firm belief that these efforts will pay off over time and will enhance shareholder value.

With that, I have wrapped up my presentation and would like to take questions.

Q & A

Tim Smart, Macquarie: *Wondering if you can just take me through, in terms of the guidance, your revenue guidance for '09 is flat YoY and, yet, in the 4Q, revenue was down 2% YoY, 4% QoQ. So, it does appear that revenue is under some pressure. What is in your, in terms of macro environment, you're putting that guidance against, what is your assumption to get you to a flat revenue growth in 2009? That's question #1.*

Question #2, can you take me through the significant increase expected in 2009 on asset write-offs and give some more details on the nature of those asset write-offs?

Harvey: I will let Rosie answer the asset write-off details. For the 2009 revenue forecast, basically, the economy will continue to be slower. We will see customers cutting back some on voice usage. But, on the other hand, we will also see some growth in the area of HBG, primarily from cable business as well as from the cable modem business. We see a few percent there. And we see also some growth from 3.5G data card revenue. And, of course, there are also the composition of the revenue will change slightly. We will spend a little bit on the revenue from the handset, which means, in order to promote more active usage of the wireless data service, we try to introduce more custom made handsets to our customers. And these handsets will be from our own account and there will be more revenue from these handsets. And, of course, they are brought to the customers not without cost. That's why our cost will also increase a bit. That does have a little bit of an impact on our profit and EBITDA.

Rosie will you try to talk about –

Rosie: Asset write-off. Tim, first, I must mention that the amount is not significantly different from last year. As we mentioned earlier to you all that it is very hard to estimate the amount of the asset write-off each year. It's roughly ranging from \$1bn to \$2bn a year depending on the process. This year is \$1.63bn, last year it was \$1.49 bn. So, that's just a \$1bn difference. Oh, sorry, it's about a \$150 mn difference. The asset write-off is mostly for integration of our southern network and some for the demolition of a base station due to protest.

Tim: *Just to clarify, is there any reason why, in advance of knowing that the useful life of that asset is going to be shorten, you won't just accelerate depreciation? Say, for the depreciation line. Just a technical question.*

Rosie: The assets to be written off are those assets that will become obsolete and due to some regulations, we will have to complete certain processes before we can claim that these assets are obsolete and can be written off.

Tim: *And just the final follow-up, beyond 2009, is there an expectation of further ongoing asset write-offs or is there an end date in sight for which these charges will be taken?*

Rosie: It could still continue because there are always assets becoming obsolete.

Lei Tang, Nomura: *Can you talk the potential impact of the consumption vouchers in Taiwan?*

And, second, in the presentation, there's mention about stepping up efforts to grow the cable business, can you tell us in little more details about what specific plans you have for the cable business?

Harvey: The consumption voucher from what we read in the newspaper seems to be boosting up the atmosphere. In the past week, you can't expect to walk into any restaurant and got a seat. We see more people in the restaurant. It has boost up people's propensity to spend. As our own situation, we do see more people visiting our stores. Actually, in the past couple of days, data card sales seem to be hitting new records, which is a positive thing for us.

As to the cable business, primarily what we are doing is we are introducing new packages to bundle our cable modem service with our CATV services to push our ARPU, our customers from low broadband usage to medium to high broadband usage, which will step up their monthly bills. We have already started that 2nd half last year, we will continue that strategy in a bigger scale. We think we will able be to see a good increase from the cable modem side.

Kathy Chen, Goldman Sachs: *Thanks for the call. I have three questions. Related to the comments to the cable side, given that TFN has foregone dividends this year, does that mean that we may not see anything in the 1st half related to*

potential cable acquisitions with the treasury shares?

Secondly, also related to TFN, I saw some news that there's been some digital capex plans. Can you share with us, for the '09 capex budget of \$6.9 bn, how much of that is related to digital TV rollout and if you have any updated number in terms of amount of capex that's required for that?

The last question, the BOT project with FuBon, can you elaborate on what TWM's strategy is here? Is this is just related to the office or is there any plan to go further into property development?

Harvey: Kathy, I can assure we have no plans to go into property development. This is primarily a plan to, we see an opportunity to be able to find a permanent home for TWM. Right now, as you know, we are in three separate different buildings. One building is quite far away from us. We haven't been able to find a satisfactory solution. But this project, so far from what we've seen, seems to have a very good chance to find a solution for ourselves. So, that's why we're in this.

As far as the digitalization plan is concerned, I'm not sure we have a number there. But I can tell you one thing that our regulators right now don't seem to have a very clear mindset and attitude on what they want to see on the digitalization side. If we want to go fully digitalized, we certainly expect that we be able to turn off the analogue signal. And we'll be able to run by a different business model by changing different tier of customers different rates. But our regulators as well as the local government don't seem to agree with that approach. They still like to see us charging a flat rate for a basic program; actually that basic program is not so basic for already it comes close to 100 channels. So, that thing is not going to change. So, which means if we want to charge premium on the digitalized services, we got to be able to come out with other programs, programs other than what we have already been broadcasting on the air. The costs of all those programs are all fairly significant. So, I guess, so far, we are not the only ones. We are all very interested in stepping up our services on the CATV side and try to generate more revenue from tier-ing our video programs. But, so far, it doesn't seem to be a very easy goal to be accomplished. We don't want to move too fast that we end up paying increasing amount of cost and not able to generate more revenue. So, that's for the digital TV.

On then on the last one on TFN, I'm not sure if I heard your question right. This is only a simple resolution that TFN is giving up its cash dividends for the year 2008.

The remaining shareholders will be able to increase what they will be able to get from cash dividends in 2008. I don't think there are any other implications.

Kathy: *Ok, right, because, I guess, my understanding is, in the past, you've mentioned that you're looking to potentially use the treasury shares for a cable acquisition, but, in case that does not come through, then you would have them forgo dividends?*

Harvey: Yeah, I think you can say that if we didn't use it. Most likely we will, but who knows.

Kathy: *And just one follow-up question on the BOT project, for the \$1.92 bn equity investment, how would that be spread out over 2009 to 2012?*

Rosie: Kathy, for '09, we have already spent roughly \$250 mn, right? For 2010, we will spend NT\$471 mn or NT\$472 to round up. And, for 2011, we will have NT\$748.5 mn. And, for 2012, we will have NT\$499.1 mn.

Kathy: *Ok, thanks, and this is not going to be consolidated, right?*

Rosie: no.

Kathy: *Will there be income coming in from this project?*

Harvey: What do you mean consolidated? On the balance sheet?

Kathy: *On the P & L.*

Rosie: Equity (inavailable).

Kathy: *Will there be income coming in from this project? There should be some rental income, right?*

Harvey: Rental income won't come in until 2013. So, that's a few years down the road, so we're not thinking too much about it.

Terry Chan, Credit Suisse: *About the BOT project, what is your plan for the existing building after you have centralized your operation/ moved your staff to the*

new office building?

Harvey: Terry, I don't know. I don't have any plans right now. I don't want to think about it until we get to, at least, 2012. When the project is near completion, then, at that time, we will make a decision whether or not we will actually move in. Are there any barriers? We don't know because this is a BOT project. There can be some unforeseen practices into this. If everything goes as planned and if we are getting prepared to move everybody into the new building and then we'll look at the situation and look at the real estate market at that time. When is it a good time to sell or is it a good time to rent it out for awhile, we just don't know. So, right now, it's very difficult to tell you what we're going to do with it.

Terry: *Ok, thank you.*

Harvey: There are other choices we can arrange. There are other things we can do.

(?) BMT (?): *This year's capex budget, the \$6.87 bn, can you tell the breakdown of fixed, cable and mobile?*

Rosie: Out of \$6.87 bn, \$5 bn will be for TWM wireless part, and for the fixed \$1.35 bn and cable about half a billion.

Shirley Tse, UBS: *Harvey, you mentioned earlier about some of the new packages where you see customers are taking too much advantage of your plan, I was wondering if you could elaborate little on that?*

Also, you mentioned that the weaker economy is having some impact on your mobile ARPU. Do you think it's more b/c from the lower usage or maybe some of customers are starting to migrate to the smaller operators who appear to be offering a cheaper tariff?

On the BOT project, I understand the total cost for the TWM subsidiaries is around \$4.3bn, does that mean you're only doing an equity injection of around \$1.9 bn with the rest being raised via debt and if so, is that being raised on the TWM's side or in the subsidiary?

Harvey: Yeah, I think your assumption on the last one is correct. I don't want to take everyone's time to repeat that.

As to our rate plans, I'm sorry, Shirley, I don't want to tell you. Who knows who's listening on this. But I think it's become a little sensitive.

On the slow economy, we have done different versions of analysis. Basically, we see the customers cut back the usage from a level somewhere between 5 to 10%. It could be either they have become more conscientious; they tried to keep their conversation short on the phone or there's also the possibility that they get a second SIM from the smaller mobile operator to use the cheap, actually the free on-net calls with their close contacts. All of these are likely. I tend to think the first one is because all these smaller operators have been around for a long time, for several years. I don't see any dynamic difference they're offering. But the economy is different since September. I tend to think that there are more usage cutback than switching mobile operators.

Kathy Chen, Goldman Sachs: *Back to Rosie's comments earlier about asset impairment, given that you are integrating the network, can we expect any material opex savings on the back of that?*

Secondly, on regulation side, is there any update that you can provide on what NCC is doing, particularly on the telecom side?

Harvey: I don't really see anything exciting from the telecom side as far as what NCC is doing these days.

Rosie: Kathy, for the integration of network in the Southern part of Taiwan, it's been continuing for some time. The amount isn't very significant. It will reduce our depreciation expense slightly.

Harvey: Basically, you can see from our PnL that during 2008 as well as our forecast for 2009, although our opex increase, those are primarily increase on the promotional side. We did not actually allow our network cost to increase. Keep in mind we are adding a lot of expenditure on the 3G side, so actually the increase on the 3G opex has been offset by savings on the 2G and part of it will be reflected in impairment. There are also other measures we are taking

If you want to know the details, you can spend time with Rosie on the phone. You might get bored about it though. (laughs)

Sundip Bihani, Prudential Singapore: *On 3.5G datacards and value-added services, but isn't this the area that gets affected the most from economic slowdown and customer cutback on spending and, so, I guess, this area could be most risk to year-on-year decline.*

2nd question, do you expect any pressure from the government to reduce status for all the three wireless operators?

Harvey: We did not see any obvious action from the government. So we don't know. The regulators are always unpredictable.

As far as 3.5G is concerned, basically a lot of people don't understand they can use our 3.5G data card service to substitute the ADSL they are subscribing. It's an awareness issue. As we expend and step up our effort to educate our consumers, there are more and more people are making the switch. And then actually the economic downturn does not necessarily have a negative impact. Actually, it might have a positive impact on the country because right now the bills are getting from ADSL is actually, higher from the data cards.

Sundip: *And, if I may know, on the 3.5G datacards, what would be your revenue or subscriber growth target for this still?*

Rosie: For 3.5G, subscriber growth for 2009, it will be somewhere around 170,000.

Sundip: *So, you plan to increase it from 100,000 to 270,000?*

Rosie: No, it's net increase of 170,000, so we are actually tripling the growth, uh, tripling the volume, the subscri-

Harvey: About 14,000 each month that we are adding, right?

Rosie: Yeah, roughly. So, by the end of last year, we had 85,000 data card subscribers; by end of '09, we expect to have over 250,000.

Moderator: Excuse me, Mr. Chang, there seems to be no more questions at this point in time.

Harvey: Thank you very much for attending the call. Again, wish you all have a

prosperous year of the Ox. We see a bull market running for the year 2009. Thank you very much. We'll talk to you after the Chinese New Year.

Rosie: Happy New Year.

Harvey: Happy New Year.

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