

Taiwan Mobile 4Q09 Results Conference Call

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Moderator: Good morning, good evening, ladies and gentlemen. Welcome to Taiwan Mobile Conference call on 4Q results 2009. Our chairperson today is Ms. Rosie Yu and Mr. Harvey Chang. Rosie, please begin your call and I will be standing by. Thank you.

Harvey Chang, CEO & President: Hi, everyone. Welcome to our 4th quarter conference call. Before we start our presentation of 4Q results, let me direct your attention to the 1st page, the disclaimer:

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Our presentation today basically contains a summary of P&L divisional performance and some analysis, financials and then we will talk about our forecast for this quarter as well as event update. First, next page give you the results summary.

Results Summary

Our last quarter, actual operating revenue is NT\$16.8bn, which is compared to our forecast is 96%. But our operating income is NT\$5.1bn, which is 102% of our guidance. And then our lending count is right on target, which is NT\$3.5bn. EPS is NT\$1.17. EBITDA is 44%.

If you look on our total year basis, you can see that our total revenue was down 1% YoY, with rising handset sales revenue and newly added content agency business partially offsetting the drop in telecom revenue.

We continue to control our cost expenses effectively, which help us minimize the

impact on the net income arising from revenue decline. As a result, we complete the year with a net income of NT\$13.8bn, or NT\$4.66 in EPS.

Turn to the next page, which deals with the divisional performance. The first one is our consumer business.

4Q Divisional Performance

CBG

In 4Q, CBG continued seeing a narrowed mobile revenue decline. EBITDA YoY change turned positive this quarter from negative in the previous quarters.

HBG

With growing pay-TV, content, and broadband business, HBG reported double-digit YoY increase in revenue and EBITDA. It's also worth mentioning that our cable broadband EBITDA margin expanded to 47.2% in 4Q09 vs. a year ago, which is only 29%; this is primarily due to economies of scale.

EBG

EBG 's mobile revenue remained stable YoY basis while fixed-line revenue dropped YoY last quarter. However, in terms of EBITDA, EBG reported YoY growth due to better control of our operating expenses.

Next page is a comparison of the wireless business with our competitors.

Wireless Peer Comparison

Our mobile subscriber number rose 2.2% YoY basis, coming largely from 114K data card subscriber additions.

Compared to our closest competitor, we stood out in terms of mobile service revenue, mobile EBITDA, EBITDA margin as well as total subscribers.

VAS and 3G

The next page, in terms of the VAS as well as 3G, we continued our very healthy VAS revenue growth momentum of 24% on YoY basis in 4Q. This mainly came from a 54% revenue increase from mobile internet users.

Our 3G post-paid subscriber number in 4Q09 exceeded 3.3m, up 48% YoY, and make

up 58% of total post-paid. And our 3G data revenue was up 96% from a year ago.

Let me turn the mic over to Rosie to talk about the financials.

Cash Flow Analysis

Rosie Yu, Finance VP & Spokesperson: Hi, good afternoon. Our 4Q09 operating cash flow rose from a quarter ago mainly due to the payments of corporate tax in 3Q last year.

The 4Q09 investing cash outlay was largely for NT\$1.83bn in CAPEX.

In terms of financing activities, total borrowings decreased by NT\$6bn in the last quarter, as we borrowed NT\$3.8bn of new short-term debts to repay NT\$2.3bn of syndicate loan and NT\$7.5bn of corporate bond due.

Our total cash CAPEX in '09 was NT\$6.67bn (or 9.7 % of revenue): of which, NT\$4.88bn was for mobile; NT\$1.35bn for fixed-line; and NT\$0.44bn for cable TV.

For 2009, we generated NT\$17.28bn in free cash flow, of which NT\$13.97bn was used to pay dividends.

Balance Sheet Analysis

On balance sheet analysis, our cash balance remained stable and net PP&E balance at the end of 4Q09 was down sequentially, with depreciation and write-off higher than CAPEX. The 2G's net book value was reduced to NT\$16.9bn, while 3G's book value rose to NT\$12.6bn as of the end of last year.

With a NT\$6bn reduction in borrowings in the previous quarter as mentioned earlier, our gross debt dropped to NT\$15.6bn, and net debt was down to NT\$12.6bn, respectively. Net debt to equity and net debt to EBITDA was 24% and 0.43x in 2009.

So, let me turn this over to Harvey for 1Q forecast.

1Q10 Forecast

Harvey: For this coming quarter, we forecast total revenue to edge up by 1% YoY, with cable TV, broadband, wireless data, and mobile device sales showing growth.

Among three business groups, both EBG and HBG are expected to show positive profit growth in 1Q10. CBG 1Q10 is estimated to have a flat revenue change from a year ago and stable subscriber acquisition and retention related expenses. That said, company's increased number of direct stores will also lead to an increase in operating expense.

On a consolidated basis, G&A expense in 1Q10 would see a 7% YoY increase, explained by this one-time expense reversal last year first quarter and our conservative estimate of the bad debt expense.

Our non-operating expense in 1Q10 is estimated to be NT\$247m, down 52% YoY with 41% less in asset write-off than a year ago.

Event/ Regulatory update

Some event update and I will leave that to you to refer in the next couple of pages.

Key Message

The key message is we are able to meet the 2009 guidance through our expense discipline. With a firmer outlook on the economic front for 2010, we expect to face stiff challenges from the regulatory interventions.

The approval for the acquisition of Carlyle's cable assets is still pending. Before we get approval, we continue to fine-tune our business to meet the challenges.

That wraps up our presentation today and we would be happy to take questions.

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

Q & A

Terry Chan, Credit Suisse HK: *Hi, good afternoon. Thank you for the call. I have three questions. The first question is can you give us some updates on the cable acquisition deal? Where is it up to now? And are there any regulatory hurdles?*

My 2nd question is what is the dividend for 2009?

And my last question is do you have any earning estimate impact from the tariff

reduction policy which has just been put out by the NCC?

Harvey: Not much can be reported on this cable acquisition deal. Right now, we are still waiting for the regulatory approval, which is not most pleasant thing to deal with. Anyway, we just have to hopefully work through it. It's always a challenge to talk to the regulators. I can not tell you the 2009 dividend at this point. I think this subject will be discussed in our next board meeting which is scheduled in late April. At that time, we will make an announcement on dividends for the year 2009. And then, as far as the earning impact, right now actually we have done some calculations, but I think we are still waiting for NCC's final decision. If they are going to do what they want to do, it will be an impact on the net income in the range of NT\$800 mn or so in terms of net income before taxes.

Vina Gupta, RBS Singapore: *Hi, thanks for the call. I have three questions. First, what's the timetable in your viewpoint in terms of integrating Kbro into your books? Second question I have is with regards to your PayTV subscriber base, what % of that will actually be impacted by the price cap reduction? Is there any implication on Kbro's areas as well?*

The last question I had is with regards to the NCC's mandatory price cuts, what do you think is the certainty of them pushing as is? And what can you actually do or what are you doing to avert this?

Harvey: I don't have a timetable. As right now, we still don't know that when the regulator is going to approve the deal. We are still wrestling with the regulatory agencies. So, right now, I really don't have a very clear timetable when we are going to integrate it, the Kbro into our books. I will leave the rest of the questions to Rosie.

Rosie: On the cable fee reduction announcement made by NCC, it will not affect our own operating areas. It will only affect Kbro's. About 39% of Kbro's subscriber base will be affected.

Vina: *Ok, the last question with regards to the tariff changes?*

Rosie: Sorry?

Vina: *I'm sorry. The last question I had pertained to the tariff changes on the*

mobile side. What can you actually do in order to mitigate this? Is there any negotiation ongoing with the NCC?

Harvey: We rather not talk about this. This is not something to be talked about publicly.

Vinas: Understood. Thank you.

Dee Senaratne, CSLA HK: *Hi, guys. Thanks very much for the call. Just two questions. The first one being on the operating expenses in the year, you're down 6%. That's quite a good effort. Just wondering, within that, what was the drivers there? What were the areas of business that you cut costs in? What can we expect going forward? Will that sort of run rate be continued into 2010?*

The second question I have was on one regulation corporate lower reforms. I know the FSC in Taiwan is looking at making distributions from legal reserve and capital surplus a lot simpler. Do you have any update on that and, if those go through, will you be changing your policy around capital management?

Harvey: I think, on the corporate law amendment, I think we're looking at 2nd half this year. I think, optimistically, 2nd half this year. And this thing is not in the legislative process. Our legislators are very unpredictable. So, I must stress the word, so if we take the optimistic view, it's 2nd half this year.

And whether they will change our capital management policy or not, we actually do not know at this point, but I really do not see a very aggressive capital reduction.

Kathy Chen, Goldman Sachs: *Hi, thanks for the call. I have three questions as well. The first one is also on the Kbro acquisition, is there any update you can share in terms of the updated price for the acquisition? Because I remember correctly since you pass the deadline now, there will be a new calculation for the last 12 months EBITDA.*

The 2nd question is on the CAPEX and asset write-off guidance. For the CAPEX guidance, is there anything you can share in terms of how much Kbro would add to the CAPEX if the deal closes? And then, on the asset write-off side, in the prepared comments, you said that would be less than 2009, but is there a more concrete figure?

And then, lastly, I just have a follow-up on the dividend for 2009. I think on the last call, you mentioned that you'll try to maintain a DPS of 4.2. Is that still the board speaking?

Harvey: Kathy, on your 3rd question, I think you are correct. What we are saying there, with or without the deal, our dividend payment will not be affected. So, if you look at our 4.6, minus 10% reserve, that's roughly 4.2. That's what we're saying. Estimate and you can say that. It should not be less than that benchmark number. But we haven't decided whether it will be more. That's something remain to be discuss in our April board meeting.

I will leave the other two questions to Rosie.

Rosie: On your CAPEX question, this year we expect to incur NT\$6.9 bn in CAPEX, of which NT\$4.7 bn is mobile-related and NT\$1.6 bn is fixed-line-related and the rest cable. On your 1st question on Kbro update on the valuation price, their EBITDA is expected to grow on a month-to-month basis. So, we haven't really calculated the numbers yet because we haven't got their numbers yet. It will be calculated on a last twelve months EBITDA basis. But basically, their monthly EBITDA is growing at about NT\$180 mn a month on a month-on-month basis.

Kathy: *Ok, thanks. Just a follow-up on the CAPEX side, do we have any guidance available on CAPEX related to Kbro?*

Rosie: Nope. That number does not include any number for Kbro and we don't have a number from Kbro on their CAPEX for this year yet.

Kathy: *And just the last one I had was on the asset write-off guidance for this year.*

Rosie: It will be NT\$1.5 bn for this year.

Gary Yu, Morgan Stanley HK: *Hi, thanks for the call. I just have one last question from my side. Given the delay in the Kbro acquisition, do you think the Carlyle Group will be entitled to the '09 dividends? Or it will likely be delayed after you declare your dividends in April?*

Harvey: Sorry, can you repeat your question again?

Gary: *Sorry, my question is more related to the Kbro acquisition and how is it going to impact your dividend payout because if the transaction is going to be delayed after your dividend payout, would that mean that Carlyle will not be entitled to your '09 dividends?*

Harvey: It all depends on when the transaction will be closed. If they are closed before the ex-dividend date, they are always entitled to it.

Gary: *And if there's any-, I pretty much presumed that the previous deal was agreed based on the assumption that Carlyle will be entitled to the '09 dividend because the initial expectation of completion was by the end of last year. Would that be any impact on your transaction price or any of the terms of the transaction?*

Harvey: No.

Gary: *Ok, thanks.*

Rosie: Kathy, going back to your question on the price that we are to pay to Kbro, sorry, the NT\$180 mn/ month is 10x already. So, EBITDA is growing about NT\$18 mn/ month.

Dee Senaratne, CSLA HK: *Hi, good day, guys. My question previously wasn't really answered. Just had a follow-up one on the expenses because you did quite a good job, in fact a very impressive job on cutting operating expenses in the year down 6%. I'm just wondering is that expected to see a similar run rate for 2010 and what are sort of the initiatives being taken in the business to cut cost and whereabouts are they and can you give more detail in that place?*

Harvey: First, I think I must clarify that, we, in 2009 first half, there was this financial crisis that contributed by everyone-knows-who. So, there was a little bit cost, it's not cutting, it's cost-sharp reduction mode and that stop end of first half. Actually, that is not the only result, there are other results due to better-than-expected bad debt ratio and also we have better control on our retention and handset subsidy, expenses and all that. We do whatever we can when we see an opportunity to do so. But, for this coming year, we are basically not in cost reduction involvement. We look to increase our acquisition numbers. Meanwhile, of course, after these years, particularly last year, you should know we are very cost and expenses conscientious.

So, we will try to deliver a good number, but I don't think that there's a cost reduction run rate there. I think if we continue to do that, our sales and marketing will raise hell with me.

Dee: Ok, great. Thank you very much.

Moderator: Excuse me, Rosie, there seems to be no further questions at this point in time.

Harvey: Ok, if there are no more questions, I just want to thank you all for attending this conference call. Also, wish you all have a very Happy New Year for the year 2010.

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