

Taiwan Mobile 2Q10 Results Conference Call

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Moderator: Good morning, good afternoon, ladies and gentlemen. Welcome to the Taiwan Mobile 2Q 2010 results conference call. Our chairperson today is Mr. Harvey Chang and we have Ms. Rosie Yu as the speaker. Rosie, please begin your call and I will be standing by for the question and answer session. Thank you.

Harvey Chang, CEO & President: Hi, everyone. Welcome to our quarterly conference call. Let me begin our presentation on 2Q this year. And before I begin my presentation, I'll have to direct your attention to 2nd page, which says:

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With that page out of the way, I will ask you to direct to page 4, which talks about a summary of our 2Q results.

Results Summary

Our 2Q revenue actually came out to be better-than-expected. We recorded a stable revenue which exceeded our revenue guidance by 3% in 2Q.

On the profitability front, our 2Q G&A expense continued declining from a year ago. In addition, lower-than-expected network cost and SAC expenses further boosted 2Q EBITDA to surpass the guidance by 11%.

Having said that, smart phone subsidies and earlier-than-expected asset write-off, which was expected to take place in 2H, weighed on the 2Q bottom line.

On the next page, we'll take a look at the 2Q performance breakdown by the three

business groups.

2Q Divisional Performance

CBG

Consumer business' EBITDA in 2Q was still affected by the increased smart phone subsidies, which was meant to grow our wireless data business.

HBG

Benefiting from the rapid subscriber growth in broadband service - with an EBITDA margin of 53%, overall HBG's EBITDA margin was up 2.3 percentage points from a year ago.

EBG

EBG's EBITDA improved YoY by 10%, driven by continued gains in roaming and solid cost controls.

On the next page, you will see a comparison with our peers.

Wireless Peer Comparison

In terms of sequential changes in mobile business, we stood out with the highest ARPU increase and stable mobile margins, as you can see from the charts.

On the next page, we talk about VAS and 3G.

VAS and 3G

Our VAS revenue continued its strong growth in 2Q and now accounted for 15% of the total service revenue. Mobile internet revenue expanded to be over half of our VAS revenue, and is expected to grow further along with the launch of more affordable smart devices.

Our 3G post-paid subscriber number in 2Q10 exceeded 3.6m, up 31%YoY, which made up of 64% of total post-paid subscriber base. And our 3G data revenue now is up 64% from a year ago.

I'll turn the mic over to Rosie.

Cash Flow Analysis

Rosie Yu, Finance VP & Spokesperson: Now, let's look at the cash flow analysis on page 8.

Our 2Q operating cash flow was affected by the payment of 2009 corporate income tax, compared to a quarter ago.

The 2Q cash outlay on investing activity was mainly for the NT\$1.36bn in capex.

In terms of financing activities, short term debts were reduced by NT\$0.3bn.

With stable core business cash earnings and prudent capex, our 1H free cash flow was NT\$9.76bn, translating into an annualized FCF yield of 8%.

Now, let's look at the balance sheet.

Balance Sheet Analysis

On the asset side, cash balance continued rising along with steady inflows of operating cash flows.

The net PP&E balance consists of \$38.5bn of mobile and \$3.7bn of fixed and \$2bn of cable assets.

Other current liabilities increased QoQ in 2Q, which was a reflection of the NT\$15bn cash dividend payment made on July 23.

With a NT\$0.3bn reduction in borrowing in the quarter, our net debt to EBITDA was only 0.11x as of the end of 2Q.

Special reserve was down by NT\$2.53bn to top up our cash dividend.

Let me turn this back over to Harvey for 3Q forecast.

3Q10 Forecast

Harvey: For the coming quarter, despite the healthy wireless data revenue growth, we expect mobile service revenue to edge down 2% on YoY basis.

Separately, the cable internet growth will continue to propel HBG's revenue in 3Q this year. Our expectations of higher enterprise related mobile revenue will also contribute to the revenue growth.

To cope with the pressure on mobile voice revenue, we will continue lowering our network cost and administrative related expense in 3Q vs. a year ago. In terms of marketing campaigns, resource increases will largely be use for retention efforts to level up smart phone penetration rate.

As we had recognized some of the asset write-off losses earlier than expected in the 1H, our 3Q write-off losses will taper off to NT\$287m only. This, coupled with lower tax rate, will translate into positive net profit increase both on QoQ and YoY basis.

The next page is event update and that is only for your reference.

Event update

The last page is something that you basically already know.

Key Message

Our attempt to acquire Carlyle's cable assets could not be consummated due to indirect state ownership. This regulatory hurdle we can not overcome. The acquisition agreement expired on June 30. We will re-evaluate other opportunities when the law is revised.

That completes my short presentation. And we will 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.

Q & A

Kathy Chen, Goldman Sachs: *Hi, thanks for taking my questions. I have three questions. The first one is on the cable business. Given the recent news flow that the Tsai family will use its own vehicle to acquire Kbro, could you share how TWM*

will be able to cooperate with Kbro in the future from an operational standpoint? Also, can you confirm whether TWM will be providing any funding to the Tsai family entity?

The 2nd question is on just wanted to clarify whether the government ownership restriction on media assets will impact TWM current holding on TFN?

The last question is on the 3Q guidance, can you provide some more color on why you expect EBITDA margin to decline 2 percentage points QoQ?

Harvey: Kathy, there won't be any impact on your 2nd question on our current holdings of TFN media assets. And we have already issue a press release yesterday that there's no funding support has been planned for the Tsai family acquisition of the cable assets.

To your 1st question, I can only answer from the point of view of what we have. As you know, we are the 4th largest cable TV operator in Taiwan. We have roughly a little over half million subscribers, a little over 100,000 broadband users. I think that our vision is to continue to provide the so-called three-screen service to our users. Of course, at this point of time, because of limited coverage on the cable TV areas, only a fraction of our customers will be able to enjoy this service, which is in our pipeline right now.

Rosie, can you talk about the 3rd question?

Rosie: EBITDA margin on a QoQ basis will be down 2%. That's mainly due to increased handset subsidy expected for the 3Q.

Kathy: *Ok, thanks. If I can just follow up on the 1st question, there is anything that you can share regarding cooperation with Kbro in the future then?*

Harvey: Right now, they have just signed an agreement. The deal is not even closed. I think it's too early to talk about that.

Terry Chan, Credit Suisse: *Hi, thank you for the call. I have one question. Given TWM is no longer pursuing the Kbro deal, should we continue to assume the treasury share will continue to give up dividend?*

Harvey: Yes, as long as the treasury share is there, then I think we will give up the dividends.

Marvin Lo, Daiwa HK: *Hi, I just have a quick question. Is there a possibility that the Tsai family would actually sell any of the stakes in TWB to fund the acquisition of Kbro?*

Harvey: Well, I really can not speak for them. I really don't see that intention from their behavior.

Joseph Quinn, Macquarie Taiwan: *Just a quick question. Can you give us some further color on why you believe your EBITDA margin is performing better than FET? Are they more aggressive on their smartphone strategy? Or do you have any other comments on why that is?*

Harvey: Let me put it this way, we don't believe in buying revenue. So, we believe that our EBITDA margin will continue to perform better vs. other people. We just don't believe in that.

Le Ping Huang, Nomura: *Thank you for the call today. Can you explain more about, what is the current situation of your smartphone? How many penetration rate of the contracts? Among your subscriber base, how many smartphone are already in your network? And, what is the impact for your CAPEX for 2nd half this year? Because we see, in the US, that CAPEX is really rising.*

Rosie: Smartphone users now account for close to 5% of our total user base. Our strategy is to grow smart device to about 10%. It does not create burden on our network so far. Their ARPU is essentially higher than average ARPU. So, that's why we are pushing for this smartphone penetration on our end.

Le Ping: *2nd question is about the cable business. Can you comment, are there any changes to the cable TV industry in Taiwan after their Kbro acquisition happens? Or to your own business?*

Harvey: I don't really anticipate any dramatic change right after the acquisition. It will be a little bit different from what we intended to do a year ago.

Le Ping: *The last question, because your original plan to acquire Kbro did not go*

through, do you think your cash position will improve from now on? Do you think you will consider more capital reduction or these capital management policies more positively?

Harvey: No, I don't think so.

Joseph Quinn: *Hi guys, can you give us some comment in relation to your digital TV at this stage, what is your digital TV penetration? And, do you see a high cooperation between digital TV in terms of your broadband rollout as well?*

Harvey: Certainly, we already have a lot of bundle sales in terms of digital TV and the broadband services. Our current digital TV subscribers is roughly 3% of our subscriber base; close to 20,000 people now on the digital.

Joseph: *Can I ask one other question? Hypothetically, if the Tsai family do go ahead and purchase Kbro and, a little bit down the road, you see a change in the revision in the broadcasting law to allow some indirect government holdings, do you envision a short period after that that you would go ahead and try to purchase the actual Kbro from the Tsai family?*

Harvey: It's possible. There are a lot of barriers on that direction.

Joseph: *What would be the key issues to stop that happening?*

Harvey: Regulatory side.

Joseph: *No, I'm sorry, I mean, if the regulatory issues are fixed and the Tsai family are already holding Kbro, at that stage, do you see it's a pretty straightforward progress that you go ahead and purchase it?*

Harvey: I think the Tsai family is a large shareholder of the company. We certainly see that possibility. But I think, if we going to do that, this is a related party transaction. I don't think it's going to be that straightforward. There are processes that we will have to follow through, so I can't tell it's going to be a straightforward process.

Ravi Sarathy, Citigroup HK: *Good afternoon, I have one question, if I may, around the cable TV Kbro asset. Would TWM be open to discussions, for example,*

pre-“that being any change in the regulatory structure around indirect ownership of media assets”, would TWM entertain discussions around potentially leasing the assets or some kind of interconnect or re-sell structure around the Kbro asset or could you see any number of issues that might prevent that?

Harvey: I think we would entertain any kind of idea, but it depends on what the deal is.

Ravi: *Have there been any muted discussions in that direction as yet?*

Harvey: I can not comment on that.

Le Ping: *Since the Kbro case is already done by other stakeholder, what’s the main issue for the management from now on to be focused on for your whole business portfolio because basically the Kbro issue the whole management has been solving this problem since last September? What is the next topic the management will focus on from now on?*

Harvey: I think convergence is still the topic. Unfortunately, I think the most obvious path, which is to expand our cable TV operation, hit a stone wall. Still, we need to examine other possibilities, opportunities. That will still be our focus other than try to maintain our strong revenue sources as well as incoming cash flows.

Le Ping: *You are still focus on network convergence?*

Harvey: Yes.

Rosie: If you don’t have any further questions, thank you very much for attending this 2Q conference call. Good bye.

Harvey: Good bye.

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