Taiwan Mobile 1Q12 Results Conference Call
April 26, 2012

Moderator: Good morning, good afternoon, ladies and gentlemen. Welcome to the conference call. Please begin your conference. Thank you.

Cliff Lai, Co-President: Good afternoon. Welcome to our 2012 1st quarter conference call. Before I start our presentation, I would like to direct your attention to our disclaimer page, which states:

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Let's start with business review.

Robust Wireless Data Growth
In the next three slides, I would like to highlight our growth areas.

First on mobile business:

With a 45% YoY growth in wireless data revenue, our mobile service revenue increased by 7% YoY in 1Q12.
We also note that our mobile voice revenue decline narrowed to 3% YoY, vs. the 7% YoY drop a year ago.

In terms of data revenue as a % of mobile service revenue, Taiwan Mobile continued to lead the pack.

Our Smartphone Strategy
For our smartphone strategy:

Apart from the 10 exclusive smart device models we currently have (listed on the slide), we also have around 35 smartphone and tablet products on the market.

In 1Q, smartphone users' ARPU remained at nearly 2 times that of postpaid's. And the payback periods of the two were actually very similar.

In 1Q12, smartphone sales volume was up 45% from a year ago and accounted for 71% of total handsets sold. As of the end of 1Q12, smartphone penetration reached 27%.

Please turn to the next page.

<u>CATV Growth Catalysts</u>

As indicated in the table, our internet subscriber number increase of 12% and DTV customer number growth of 77% are all higher than the 1% subscriber rise in analogue TV services in 1Q12. And our cable internet ARPU continued trending up, with 60% of new customers adopting 20M and above service.

Given that only 28% of our customers are using our internet services and 9% of our customers have subscribed to DTV services, we expect further expansions in internet and DTV service take-up to provide future revenue growth.

Please turn to the next page.

<u>New Product & Service</u>

This page of new products and services we launched during the 1st quarter is for your reference.

I will turn the mic to Vivien on our financial results.

<u>Result Summary</u>

Vivien Hsu, Co-President: Please turn to financial overview page.

<u>YoY Analysis</u>

In 1Q12, consolidated revenue grew by 32%, credited to a 7% YoY increase in mobile service revenue. momo, the enterprise segment and CATV division also contributed to the consolidated revenue increase.

Despite rises in handset subsidies and direct store expenses from CBG, our 1Q12 consolidated EBITDA still managed to grow 5% YoY, mainly credited to momo's contribution.

Actual vs. Guidance

In 1Q12, both the combined service revenue of the three business groups and momo's revenue were ahead of their respective guidance. Only handset sales revenue came in lower than expectations. Consolidated EBITDA surpassed our 1Q12 expectation by 4%, attributed to the group's better-than-expected cost and expense control and higher-than-expected EBITDA from momo.

Aided by both core business and non-operating front, our net profit exceeded 1Q12 guidance by 7%.

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

Divisional Performance

This quarter, CBG accelerated its mobile service revenue growth momentum to 6%. Despite a 6% increase in service revenue and a 2% reduction in cash network cost, CBG did not see operating leverage in the quarter as we are still investing in pushing up smartphone adoption.

HBG's growths in both revenue and EBITDA were mainly driven by the increase in broadband revenue from market share gains in the high-speed segment.

EBG posted double-digit YoY growth in profits, credited to the rising enterprise mobile and IP transit businesses, coupled with contained expenses. On a QoQ basis, EBG's EBITDA decline was due to higher sales of iPhone 4S package.

momo's 1Q12 revenue increase mainly came from a rise in online shopping revenue.

Let me turn the presentation over to Rosie for balance sheet and cash flow analysis.

Balance Sheet Analysis

Rosie, CFO & Spokesperson:

Now let's turn to the balance sheet page.

Assets:

The increase in inventories from a quarter ago came from both our mobile and momo operations. Compared to a year ago, our inventory rose to reflect the inclusion of momo's primarily.

The YoY increase in intangible assets arose from our investment in momo since July 2011.

Liabilities & Shareholders' Equity:
If you look at our Liabilities & Shareholders' Equity section, you'll find our gross debt balance fell to NT$13.61bn due to a NT$4.29bn short-term borrowing repayment in the quarter. That caused our net debt to further decline to NT$8bn.

Ratio Analysis
On the ratio front, our current ratio's sequential rise came as a result of a reduction in short-term debts which also improved our net debt to EBITDA and net debt to equity ratios. Our ROE remains as high as 26%.

Now, let's turn to cash flow analysis.

Cash Flow Analysis
Our operating cash inflows for the quarter decreased sequentially due to payments made for 4Q11 handset procurements and employee bonuses in 1Q12. Having said that, the cash level in 1Q12 remained similar to that of a year ago.

On the net investing cash flow, in 1Q12, the net investing cash outflow was largely for the NT$1.54bn in cash capex.

The NT$4.29bn short-term borrowing repayment was the main cash outflow for financing activities during the quarter.

On the capex and free cash flow, the decline in operating cash inflow in 1Q12 led to a lower free cash flow and an annualized yield of 6%.

Now, let me turn the mic over to Vivian for event update and key message.

Event Update
Vivian: For the 2011 earnings distribution, our board meeting today (April 26) approved a proposal to distribute NT$13.9bn of cash dividends, comprised of 90% of 2011 earnings, NT$822mn of special reserve and NT$937mn of un-appropriated earnings, translating into 103% payout to shareholders. Dividend per share is NT$5.16 based on 2,690m shares, excluding treasury shares held by 100%-owned

subsidiaries.

Separately, the bottom portion of the slide lists the awards that we have recently received for your reference.

(***The slide shows***:
<u>Award & Recognition</u>
Won the 2012 Asian Excellence Recognition Awards for "Best Corporate Investor Relations" and "Best Corporate Social Responsibility" in Taiwan from Corporate Governance Asia magazine.)

Please turn to the key message page.

<u>Key Message</u>
In the near term, we will continue to commit most of the resources into pursuing future revenue growth. Continuous enhancement of operating leverage is underway to ensure the attainment of our financial target for the year.

Now, we will like to open the floor for questions.

<u>Q & A</u>
Joseph Quinn, Mcquarie Taiwan: ***I got three quick questions. The first one is on your smartphone. You've launched a new own-brand smartphone. What's your target levels for that product? How you expecting the ARPU levels for that product and the data packages you're going to do for that product also?***

On your cable business, do you have any targets for this year for your broadband and digital TV subscribers? You had good growth in those last year. I'm just wondering what do you expect for 2012?

Staying with the cable, how is the progress in terms of the amendments to the law regarding indirect government holdings? Do you any update on that side as well?

Cliff: The first question regarding the low-end smartphones we just launched, we will start to sell that smartphone in May 1. That smartphone is targeted to those subscribers who can not afford a high-end smartphone, but they have a desire to use mobile internet. That is the first target customers. The second group of customers we targeted is those who use feature phones, but they think they may want to try a smartphone. They may not have a great need for mobile internet, but somehow they still want to have a smartphone. So, they probably wouldn't like to pay too much for a smartphone. We have two packages to offer these two kinds of customers. One package is for those who want smartphone, but at a lower price, and we give them mobile internet access. And the second category of customers, we give them short message service, for instance, 100 free short message service. We hope this can drive the low-end segment of the smartphone to increase our smartphone sales to 75% of total handset sales. Currently, on a monthly basis, 70% of our sales are from smartphones. We will to try to increase to 75%, maybe even have a chance to reach 80% by the end of this year. So, this is the target for our smartphones, the low-end smartphones.

As for this year, we have a target for broadband; basically, it is to increase our subscriber base by 12%. The major thing is not only increase the broadband penetration, also to increase the ARPU because this year we are going to push 50 Mbps service. Now, we have a significant number of broadband, so if we can increase the ARPU, it can be even more profitable. So, the key is not only the net increase of broadband users, but also the increase and decrease of the ARPU.

As for digital TV, we have a very aggressive target.

Rosie: It's 75,000 subscribers vs. 46,000 by the end of last year. So, it's a 63% growth.

Cliff: As for the amendment of the law, we are still pushing for it at this moment. However, currently, the government has a lot of issues to handle. President Ma has taxation, the rise of the utility bill, those kinds of things. So, I'm not sure whether this is their top priority in the 2nd quarter. But, we are still trying very hard.

Joseph: *Can I follow-up on two items? One on the digital side, with that aggressive push on digital TV, is it fair to assume that you're staying with the same packages you've done before or is it as you increase your 50 Mbps services, you're going to more aggressively cross-sell digital TV?*

And then on a second topic, on the dividend policy, have you changed your dividend policy going forward given the higher payout ratio or are you maintaining the 90% payout?

Cliff: On the first issue, on the cable side, we basically have the same strategy because, in the past, that strategy was very effective. And we didn't see any reason to change the strategy, the package, everything. So, it's going to be status quo.

As for the second question regarding the dividend payout, let me have Rosie answer this.

Rosie: On the dividend policy, as you know, we still have a lot of room for topping up our dividends for the future. As of the end of last year, we have a total of $23.6 bn, of which $12.4 bn is from capital surplus, $8.2 bn from legal reserve, and the rest from retained earnings. So, quite a lot of room for us to top up.

I think I understand your question about the amendment of the law. In the beginning of the year, you are all very concerned about whether we will pay out more. I think we will definitely keep the shareholders' interest in mind and will continue asking our wholly-owned subsidiaries to forgo dividends on their part. These wholly-owned subsidiaries are those who hold our treasury shares. So, on all these, I think it will be maintained. As to whether we will top up for the long term or in one go, I think in one go, that's totally impossible for us. And we will continue our stable dividend policy for the future.

Joseph: *So, in terms of stable dividend policy, we're not talking about a flat rate in terms of maintaining that, more that you're re-committed to the 90% and then go forward, you may add on additional, is that correct?*

Rosie: I can definitely tell you that we will distribute 90% and we will definitely ask our wholly-owned subsidiaries who owned treasury shares to forgo dividends. As to the rest, which has more to do with the topping up, it's up to the board to decide. So, we can not speak for them.

Chate Benchavitvilai, Credit Suisse HK: ***I have four questions. The first question is regarding smartphone penetration. May I confirm again that, on your postpaid subscriber base right now, 27% are smartphone users? Do you have any specific target for this number by the end of the year?***

The 2nd question is regarding your full-year guidance. 1Q seems to be running ahead of guidance for quite a bit, but in your 2Q guidance, you said you just expect to attain your target. So, is it just a timing issue that allows you to surpass your target in the 1Q a lot and, hence, there will be an increase in cost and everything in the latter half of the year?

The third question is regarding your cable business, the cable mix. I'm referring to slide 6, 60% of the new subscribers in the 1Q is higher speed subscribers. Are we talking about 60% of the 4,000 new subscribers you added on the cable internet side or are we talking about the overall subscriber base?

The fourth question is regarding the cable broadband competition. You think the growth that you're getting right now is getting from your competitors or is it actually just new broadband users?

Cliff: For question 1, the target for us is by the end of this year, we can achieve more than 35% penetration with the smartphone. As far as to what level, 36% or 37% or 38%, it's all possible. It really depends on the market situation.

I think we will stick with the full-year guidance because the government has raised the price of the oil, the electricity and a lot of things, and also has imposed a new tax on stock market. So, the market now is quite uneasy, so we don't know whether this will hurt consumption or not. So, in this case, even though we are ahead in the 1Q, we can try to be more conservative.

As for question 3, when we say 60%, it's for new subscribers, not the installed base. For the new subscribers, 60% adopted the higher speed. Most of the new subscribers are from CHT.

Chate: *A follow question regarding your cable broadband subscriber base, if we look at the total subscribers, what is the mix between lower speed and higher speed subscribers?*

Rosie: Higher speed accounts for about 17% of the total. Higher speeds mean over 20 Mbps.

Solomon Chuen, CitiGroup HK: ***Of the 27% smartphone penetration, what's the split between iPhone iOS and Android?***

Cliff: Currently, iPhone takes up roughly 25% of our installed base and 65% of our installed base is Android. But Android is getting more market share.

Solomon: *The rest I can assume is the Windows and Blackberry?*

Cliff: The rest is Windows and Blackberry.

Lucy Liu, JP Morgan HK: ***I have three questions. The first one is on your 1Q results vs. full year guidance? If your look at the equipment sales revenue, 1Q only achieved 20% of full year guidance, NT$10 bn, despite iPhone 4S sales. Do you see any downside risk on that front?***

On momo, I think most of the revenue comes from online shopping because it picks up in the 1Q. Do you have any comment regarding this year's business outlook as well as the margin? It looks like the margin now trends down below 7%, what's the trend going forward?

Lastly, on your EBITDA margin, we're glad to see the EBITDA margin recovery month-by-month in 1Q, but then vs. your previous guidance of 28% for the full year, it seems like market trend already shows about 30%. I think operating leverage will further help your margin, so just wondering what's the outlook on the margin side?

Cliff: The equipment sale in the 1Q is below our forecast. This is partly due to a little lower sales volume of iPhone 4S. These equipment sales really doesn't affect the profitability of other things because most of our equipment sales is really bundled. And the major driver of this equipment sales revenue is really iPhone.

Rosie: On the momo margin, it's the internet revenue growth that's pushing down the margin. Cliff will answer EBITDA margin trend, our outlook for this year for our mobile numbers.

Cliff: In the last conference, I mentioned a major factor is really iPhone. The iPhone has always been a factor in the margins. As you can see, in December and January when we sold a lot of iPhones, it really affected our margins. But the iPhone sales slowed down in February and March. So, our margins rebounded. And there were a lot of rumors regarding when Apple will launch the iPhone 5, maybe in August or in October. This will affect how many iPhones we will sell for this year. Of course, when we do the full year forecast, we have included all these variables into our forecast. We are committed to achieving our full-year guidance. But at this moment, it's very hard for me to tell whether the margin will go up sequentially. It really depends on the iPhone.

Lucy: *Do you feel the business environment or economy environment or the operations of momo currently or year-to-date is meeting your expectations of the business? Also, what's the synergy you're actually achieving b/w your business and momo, if there's any?*

Cliff: I think in the 1Q, momo is ahead of its budget. So, momo's performance meets our expectations.

And, regarding the synergy, we are working on something I think hopefully some of the synergy or some of the effort we've collaborated with momo will show up in the 2nd half of this year.

Chate Benchavitvilai, Credit Suisse HK: ***One follow-up question on your house brand mobile phone, what's the name of the brand? What's the selling price point?***

Cliff: The model name is Amazing A1. The selling price is NT$3,990, almost US$130.

Lucy Liu, JP Morgan HK: ***Hi, I have two follow-up questions. On your backhaul, how much backhaul infrastructure that you're already using was built by yourself and how much from CHT or the other guys?***

Secondly, on your smartphone, what's the product mix with the smartphone in terms of mid-end, high-end vs. low-end?

Cliff: We built 90% of our backbone, so we only rent roughly 10% from CHT.

As for the mix of high, middle, and low, it really fluctuates every month. And, as for April, I think the high-end is roughly 30%, the middle-end is roughly another 25-30%, the low-end is roughly 30-35%

Lucy: *In terms of product launches in the rest of the year, besides iPhone, what are mainly the other branded phones, in which tier are they mostly in?*

Cliff: Other than iPhone, the high-end consist of Samsung Galaxy S2, the Samsung Galaxy Note, and also Samsung Galaxy Nexus. And, in April, we have also included the HTC One X.

Joseph Quinn, Mcquarie Taiwan: ***Just two quick follow-up questions. One on***

your enterprise customers, I've noticed that you've been gaining quite a bit of momentum in terms of enterprise growth in the last two quarters, I'm wondering what are the expectations there in terms of market share?

The 2nd question is on 4G licenses in Taiwan, what are your thoughts on the process there in terms of timing and also strategy in terms of what you wish to do with your 2G if it needs to be re-farmed?

Cliff: I know our competitor has mentioned how much market share they have gained. In the enterprise market, it's really hard to say "market share" because you have so many different products. I think the reason we are getting traction in the enterprise is because we are trying to provide mobile voice and data services combined to help business mobility. This is something we are working on in the past two quarters. I think this is a part of the reason we have some growth.

As for the 4G, our view is most likely 4G licenses will be auctioned in 1Q or 2Q of 2014. We have people to investigate this. As for the intention or our strategy, right now it's not appropriate for me to elaborate on this.