Taiwan Mobile 1Q13 Results Conference Call
April 30, 2013

Moderator: Good afternoon, ladies and gentlemen. Welcome to Taiwan Mobile Conference call. Our chairperson today is Mr. Cliff Lai and Ms. Vivien Hsu. Mr. Lai, please begin your call. I'll stand by for the question and answer session. Thank you.

Cliff Lai, Co-President: Ok, let's start this conference call. Good afternoon. Welcome to our 2013 1st quarter results 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 turn to business overview.

<u>Steady Wireless Data Growth</u>
In the next three slides, I would like to highlight our growth areas.

First on mobile business:
If the customers' actual contribution was considered without the revenue adjustments under the current accounting policy, the mobile service revenue actually would have increased by 4% YoY in 1Q13, boosted by the continuous strong growth in wireless data revenue. In addition, for 1Q13, our wireless data revenue also would have been up by 30% compared to a year ago, credited to a 47% YoY rise in mobile broadband revenue.

The small QoQ dip in mobile service revenue was due to voice revenue decline, resulting from increased mandatory cuts in mobile termination rate.

Please turn to the next page.

Our Smartphone Strategy

Regarding our smartphone strategy:

Apart from the 14 exclusive smartphone models we currently have, we also have around 37 smartphone and tablet products on the market.

In 1Q13, smartphone sales volume was up 29% from a year ago and accounted for 83% of total handsets sold. In addition, mid-to-low end product mix was 43% for the quarter.

Credited to the increasing smartphone bundle sales, our mobile data adoption rate reached 44% of the postpaid installed base, rising from 32% a year ago.

Please turn to the next page.

CATV Growth Catalysts

As indicated in the table, our internet subscriber number increase of 9% and DTV customer number growth of 60% were both higher than the 1% subscriber rise in analogue TV service in 1Q13, representing the trend of an expanding penetration rate in both DTV and cable internet businesses.

As a result, HBG continued benefiting from its operating leverage in 1Q13, despite revenue pressure from the lowered CATV subscription fees.

Please turn to the next page.

New Product & Service

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.

Results Summary

Vivien Hsu, Co-President: Please turn to page 9 of your financial results summary.

In 1Q, there were three revenue catalysts, including wireless data revenue (up 30%), mobile handset sales (rose 22%) and online shopping (grew 64%).

We note that IFRS and fair value method regarding bundle sales have been applied starting year 2013. In 1Q13, bundle sales revenue adjustments were NT$143m less than a year ago. If the aforementioned adjustments had been excluded, 1Q13 telecom service revenue and telecom EBITDA both would have actually grown by 2% YoY.

Compared to our 1Q13 guidance, our telecom service revenue met the target. Although we failed to meet our aggressive handset sales target, we still managed to generate better than expected profits from the handset sales business in the quarter. Therefore, our EBITDA was ahead of our 1Q13 forecast.

Asset write-off losses came in larger than expected in 1Q13 as we pulled in some of the write-off schedule. Having said that, consolidated net income reached 108% of our guidance.

Please turn to the page of divisional performance.

Divisional Performance

Our healthy revenue YoY growth more than compensated for more smartphone bundle sales and their related marketing activities in 1Q13. The 3% YoY dip in CBG's EBITDA arose from adding more 3G base stations.

EBG's 1Q13 EBITDA YoY growth largely resulted from expense discipline.

Revenue pressure from the lowered CATV subscription fees has been softened by increased revenue due to a higher DTV adoption rate. In addition, HBG continued benefiting from its operating leverage in 1Q13.

momo's EBITDA contraction was a reflection of its aggressiveness in gaining market share in the virtual channels.

The sequential EBITDA declines in CBG and EBG were associated with a lower base of network related cost, as well as a lower telecom service revenue in 1Q13 due to seasonality.

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

Balance Sheet Analysis

Rosie, CFO & Spokesperson:

On the balance sheet analysis, as you see from the table, cash balance was stable compared to a quarter ago.

The YoY increase in accounts receivable was a reflection of the accumulative net revenue additions for bundle sales under the fair value method.

The inventory level also rose both YoY and QoQ, which is primarily due to more handset procurements.

Un-appropriated earnings increased to NT$7.9bn from NT$1.3bn, the balance at the end of 2012 under R.O.C GAAP due to the adjustments from adopting IFRS - fair value method starting 2013.

So, let's turn to cash flow analysis.

<u>Cash Flow Analysis</u>

In 1Q13, operating cash inflow was down, due to an increase in accounts receivable and inventory and a decrease in accounts payable.

1Q13 cash capex was up to NT$3.75bn, mainly due to the NT$2.12bn payments of IDC (internet data center) construction cost made in 1Q13, which was delayed from 2012.

In terms of financing activities in 1Q13, the net cash inflow of NT$0.25bn was due to an increase in short-term borrowings. In addition, a 5-year NT$5.8bn straight corporate bond was issued with a coupon rate of 1.29% in late April.

With the spike in cash capex related to the new IDC, free cash flow came in at NT$0.19bn, which is lower than a year ago.

I'll turn the mic back to Vivien for event updates and key message.

<u>Event Updates</u>

Vivien: As you can see from the upper portion of the event update, TWM's board has approved a proposal to distribute 2012 dividends and cash returns per share of NT$5.5, pending AGM's approval.

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

Please turn to the next page for the key message.

Key Message

To wrap our presentation, this last slide summarizes the key message that we would like to deliver.

Our efforts in committing resources over a wider range of areas continues to pay off as reflected in the 2% YoY EBITDA growth of the telecom business, when compared to our peers on a like-for-like basis. We will continue our endeavors to strengthen our market position and are confident in achieving our goals for the year.

Q & A

Chate Benchavitvilai, Credit Suisse HK: ***I have three questions in total. The first one is regarding the cable television. I understand there is talk about the new regulation that would regulate the cap on the basic TV price for the next few years. Can you elaborate on that and if there would be any potential impact on that?***

The 2nd question is regarding the earnings related to guidance. I understand that in the 1Q, you're running ahead of your guidance both in terms of the EBITDA and the bottom line notwithstanding that you're actually running behind on the headset sales target. Would you please explain that is there any particular reason why you missed the handset sales target in the 1Q? Are you delaying some launch or promotion or something? And, also, because EBITDA and the bottom line are ahead of guidance, is that because your original guidance was too conservative?

Cliff: Ok, regarding the potential tariff cap for cable TV, at this moment, it has not been finalized. The NCC is looking for comments from the industry. The cap is mainly tied to the penetration rate of digital TV. Taiwan Mobile has allocated enough capex to push for greater digital TV penetration. Currently, our digital TV penetration is right on our target. So, if we hit the digital TV penetration rate, we wouldn't be impacted by these tariff caps.

The 2nd question is regarding why our handset sales are below our expectations. There are two reasons. The iPhone 5 sales turn out to be not as strong as we would like to see. Secondly, the delay of HTC handset also has some impacts to a certain extent in the 1Q. Duo to the two main reasons, the delay of HTC prime handsets and also the slowdown of iPhone 5, we couldn't hit our handset sales target.

And, as for our EBITDA or our EPS guidance, we think that we are not conservative, I think there is still a lot of uncertainty in the future because the economy in Taiwan currently is not very transparent. So, we will have to wait additional one or two quarters to see whether there is some room for us to change our guidance.

Chate: *Just one follow-up question if I may. Can you update us on the progress of turning around momo?*

Cliff: Actually, momo has done extensive review of its operations. We have identified several areas where we can improve their operating margins. I think momo will start implementing these in order to meet the guidance we set up for momo to achieve this year. So, we are quite optimistic regarding whether momo can hit this year's budget. Even though in the 1Q, the performance was not up our expectations, but the management team has taken the necessary measures to address the problems.

Lucy Liu, JP Morgan HK: ***I have a few questions. The first is still on the cable TV business. You mentioned that your current digitalization progress is on track of your target. So, can we have a detailed idea in terms of what's the target digitalization rate you're aiming for? And if the government is really pushing for digitalization, do you feel that you need to give out more free set-up boxes to boost the set-up box penetration? So, is there any implication in terms of your capex on the cable TV side? Currently, you're guiding for a flattish YoY capex for cable TV versus last year's, is there any risk for the capex?***

Cliff: Regarding the target rate, I think, by the end of this year, we are going to surpass 20% penetration rate in the digital TV. That is in our budget. And, in this year, we have allocated enough capex for our cable TV business. So, the capex has included a low-end set-up box, which is mainly used to drive up the penetration of the digital TV. So, that expense is included in the cable TV budget this year. There won't be an increase in the capex for HBG this year and even without this increase of capex, we can still hit the original target.

Lucy: *Ok, got it. Can I follow up with one more question on the cable TV side? There's also a new policy discussing the re-zoning, what's your thought behind that?*

Cliff: Even though there's re-zoning and opening up for competition, the NCC actually has received several applications for entering certain regions for competition. The NCC also realized they don't have a complete process and procedure to ensure they can review the application properly. So, up to now, even though they have received the applications, they haven't made any decision yet. So, they haven't published any rules regarding how they will review and, in the future, in certain regions how the different players should compete. So, it's still up in the air. I don't see that NCC could come up with a concrete guidance in the near future.

Lucy: *Sure. So, let's say if there's any more clear guidance of policy given out in the next one or two years, do you guys have incentive to get into other part of Taiwan to launch the business as well?*

Cliff: Well, certainly. As you know, we are constrained by law that we are not able to enter into other regions for competition because the NCC considers us controlling 1/3 of the market currently. Under the current law, we are not allowed to enter more regions to compete. Unless the government has revised the "1/3 law", even though we are interested in entering new regions for competition, under the current law, we are not allowed to do that.

Lucy: *My last question is on 4G. I understand that bidding process will start in the latter part of this year. So, what's your strategy on 4G and also do you think 4G will change your capex for fall as well as the dividend policy in the future?*

Cliff: It's really too early to say and, in the meantime, I don't think I will disclose my 4G strategy.

Lucy: *Ok, that's fair. Then, how about your dividend policy? Can we expect a special dividend payout in the coming few years as well?*

Rosie: The dividend policy is always decided by the Board every April every year. So, it's hard for us to judge whether we will continue or further improve our dividend policy. As I mentioned many, many times, Taiwan Mobile is very committed to enhancing shareholders' returns. So, that's all we can probably share with you.

Chate Benchavitvilai, Credit Suisse HK: ***I just wanted to ask one more question regarding the smartphone usage on your network right now. Can you share with us what's the average usage right now?***

Cliff: Less than 2GB per month.

Chate: *And how does that compare with last year?*

Cliff: Doubled what we had last year.

Chate: *So, it's still double what you had last year. Thank you very much.*

Lucy Liu, JP Morgan HK: ***Can I ask a few more questions regarding operations? I noticed that your mobile ARPU this year if you compared on a YoY basis, seems like the growth has started to decelerated. So, can we understand the reason behind that given that we still have iPhone 5 and all these high-end smartphones launched in 1Q. Do you feel that because smartphone penetration reached 40%, the high base starts to decelerate to your growth profile on the mobile side?***

Cliff: I think, based on the information that I have, our ARPU maintained quite okay. But the ARPU hasn't increased so much, there are several reasons. One is that, as you know, we had this termination rate reduction mandated by the NCC. That's one issue, the voice ARPU went down.

Second reason is that we have, in the 1Q, 43% of our handset sales are mid-and low-end smartphones, so the increase in data revenue is not up to the degree like the high-end version. So, these two reasons are why our ARPU is flattish compared to last year. Even though the ARPU is kind of flat, but the mixture is different. Because this year our data revenue consist roughly 35% of our ARPU, but last year at the same time, it's really less than 30% or 25-30%, so the mixture is different.

Lucy: *Got it. And, also, can you remind us how much net impact you have from this MTR change on your EBITDA?*

Rosie: For the EBITDA, it's less than NT$0.4bn a year as forecasted for mobile termination rate.

Lucy: *Last question from my side. I have a question on your fixed-line business. So, if you look at the data, February and March, seems like your YoY decline accelerated to about 10%-ish on a monthly basis. So, what's the reason behind that and also what's the trend going forward for your fixed-line part?*

Cliff: In the fixed-line, the strategy we have is to try to boost up the EBITDA margin and EBITDA in our fixed-line business. So, we have done extensive review regarding the EBITDA of each product and EBITDA of each of our accounts. Because fixed-line business is really not a very promising business, so we try to focus on the improvement of EBITDA instead of revenue growth. So, in the fixed-line business, I don't see significant improvement in revenue by the end of this year. In addition, we will have a cloud IDC, which will allow us to have more revenue momentum in the cloud service area. Other than the cloud service revenue, our fixed-line business revenue may continue to go down slowly. But EBITDA will increase.

Alen Lin, BNP Paribas HK: ***I have a couple of related questions on your slide 5 regarding your mobile data adoption rate. These numbers seems to be a little bit higher than what was disclosed last year. Have there been any adjustments made? And, if so, what were the adjustments to cause these penetration rates to be slightly higher than previously disclosed?***

Shirley Chu, Director of Investor Relations: I think this is in step with what we have disclosed. But you have to read it carefully. Before 4Q last year, we disclosed the so-called "smartphone penetration" and starting from 4Q last year, we started disclosing the mobile data service adoption.

Alen: *Ok, so these are based on subscribers who actually pay for mobile data service and not just a count of the smartphones in the market.*

Shirley: Right, because some of smartphone users they don't actually spend money on the mobile internet service.

Alen: *Right, so this is a more accurate count of people actually paying a premium for data service within your subscriber base then?*

Shirley: Correct.

Alen: *Now, a second question related to that, specifically on smartphone ARPU, do you have any indication on the trend in the past few quarters and what it was for Q1?*

Rosie: It's on the decline naturally as you can tell. We are now tapping into the mid-to low-end markets, so, of course, the ARPU of the smartphone users will do down.

Alen: *So, can I assume it's at a level lower than Q4 last year?*

Rosie: Yes.

Neale Anderson, HSBC HK: ***I just have a couple of questions on the momo business, and a question on the TV home shopping area. It's quite difficult to predict the trends in this segment; do you have any color on how you're seeing the underlining business developing? Do you expect it to decline over time? What's the sort of margin contribution?***

Secondly, there was talk awhile back of a tie-up with a Beijing cable TV company, what's the progress on that?

Shirley: For momo's home shopping business in Beijing, for the 1Q, we have seen a loss reduction. So, for the whole year, they will pretty much continue the trend that we saw in the 1Q.

As for the business in Taiwan, the key is whether they do better product differentiation in order to shape up the business. Before they can do better product differentiation, to be on the conservative side, we shouldn't have a too optimistic view on the TV home shopping business.

Rosie: Overall speaking, momo, as Cliff mentioned earlier, we are trying to help them review all their operations to reduce the losses from their physical channels and also to improve their business on the virtual channels. So, basically, we think the outlook for the company will be up a bit this year.

Neale: *And, in term of medium term EBITDA margin prospects, would you say mid- to high-single digits is what you're looking at?*

Rosie: Hopefully, if we can reduce the losses from the physical stores, the chances are high.

Lucy Liu, JP Morgan: ***I have one more question on your cable broadband business. Recently, there is a news flow saying that, due to the CHT price cuts on the broadband side, it seems like you and Kbro also lowered down cable broadband offering price. So, can we have a better idea in term of impact on your revenue or whether you expect more subscriber growth going forward?***

Cliff: Even though CHT claim they have a price reduction, in reality, we don't see that as a threat because our original price is significantly lower than CHT's price. Therefore, we don't see any big impact on our revenue. But, however, because of these price reductions, I think, in the coming years, we will see more and more customers will choose high bandwidth, high-speed cable modem. So, to answer your question, no, I don't see that will impact our revenue target and adoption rate target.

Lucy: *Sorry, just to clarify. According the news flow, and maybe it's wrong, you have already lowered down some of the price offerings for your broadband service. Is that true?*

Cliff: But, that's very high-speed. The users of those very high-speed services are not a very significant number. Even though that price is lower, it really doesn't hurt so much because the absolute EBITDA contributed by those segments will actually be higher. The margins will be lower, but the absolute EBITDA will be higher.

Lucy: *Sure, I understand. So, you guys are offering discount of the broadband service over CHT and also the speed is quite comparable, but why you guys cannot be even more aggressive in gaining the broadband market share?*

Cliff: Frankly speaking, I think we have been very aggressive already.

Lucy: *Ok, I thought you guys would do even better than this.*

Cliff: In this fixed network market, it is a duopoly. From our perspective, if we lower our price too aggressively, CHT will have no choice but to lower their price, which really doesn't help the market at all.

Lucy: *Sure, I understand, but reading some of the industry data, it seems like CHT's FTTx is still gaining the absolute market share at the expense of cable, so I wonder why people still stick CHT's business rather than your cable broadband?*

Cliff: You have to look at the market this way: there are two different markets. The fiber to the home market is really in the metropolitan areas like in Taipei City. In rural area, outside the metropolitan area, the fiber is very expensive even CHT cannot afford to build all the fiber to these rural areas. CHT tends to have an upper hand in the metropolitan areas like Taipei because they provide the broadband service a long time ago. It's an uphill battle for us even though our price is lower because of the inertia; a lot of people still chose CHT. But, in the rural areas, further away from Taipei, the cable modem sometimes can offer speeds much higher than CHT. In the past, the penetration rate was lower there. Then the cable modem has the upper hand. So, you have two markets. And we try to increase our market in those suburban areas while, in the meantime, trying to compete with CHT more effectively in the city. So, that's why we don't necessarily think that price reduction is necessarily a good way. Our current approach is trying to bundle our cable with our digital TV service because right now we have mandate from the NCC not only to increase the broadband penetration, but also to increase the digital TV adoption. So, we try to price the digital TV more aggressively so that when people subscribe to our service, they not only get cable modem service, they also get digital TV service.