Taiwan Mobile 4Q12 Results Conference Call
January 31, 2013

Moderator: Good morning, 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 2012 4th 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.

Robust Wireless Data Growth

In the next three slides, I would like to highlight our growth areas.

First on mobile business:
Continued strong growth in wireless data revenue boosted mobile service revenue to increase by 5.5% YoY in 2012, much higher than the 1.8% growth rate a year ago.

At the end of 2012, our mobile data adoption rate reached 41%, rising from 28% a year ago. As a result, our mobile broadband revenue increased 67% YoY in 2012.

Please turn to the next page.

Our Smartphone Strategy

For our smartphone strategy:

Apart from the 9 exclusive smartphone models we currently have, we also have around 33 smartphone and tablet products on the market.

In 4Q12, boosted by iPhone 5 product launch, smartphone sales volume was up 37% from a year ago and accounted for 78% of total handsets sold. As a result, mid-to-low end product mix reduced to 37% for the quarter.

For year 2012, smartphone's payback period had slightly shortened, with its ARPU at 1.7x that of post-paid.

Please turn to next page.

CATV Growth Catalysts

As indicated in the table, our internet subscriber number increase of 10% and DTV customer number growth of 68% were both higher than the 1% subscriber rise in analogue TV service in 4Q last year.

Our cable internet ARPU continued trending up, with high-speed (i.e. 20M& above) subscriber mix rising to 28% at the year end of 2012 vs. 12% a year ago.

Please turn to the next page.

New Product & Service

This page of new products and services we launched during the 4th quarter is for your reference.

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

Result Summary

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

4Q12 YoY Analysis

In 4Q last year, despite a higher iPhone sales volume due to sufficient supply this round compared to a year ago, TWM's consolidated EBITDA was up by 4% YoY on the back of healthy service revenue growth, stringent network cost control and better containment of handset subsidies.

2012 Full-Year Results

For 2012, consolidated EBITDA saw a YoY growth rate of 3%, credited to EBITDA increases from telecom and CATV businesses as well as the full-year inclusion of momo's profit contribution vs. 5.5 months a year ago.

In addition, less non-operating expenses in 2012, due to the THSR impairment loss made in 2011, also contributed to a 9% YoY rise in net income.

Benefiting from a capital reduction conducted in 3Q11, EPS for 2012 came in at NT$5.46, up 16% from a year ago.

Please turn to the next page for our divisional performance.

Divisional Performance

Although the launch of iPhone 5 weighed on CBG's EBITDA from a quarter ago, EBITDA showed a YoY rise due to stronger revenue increase and our measures taken to contain subscriber acquisition cost.

EBG's 4Q12 EBITDA QoQ growth was largely resulted from expense discipline. In addition, its rising mobile service revenue from enterprise customers also contributed to the YoY EBITDA increase.

HBG posted a stable YoY profit increase from 1) better economies of scale in broadband business and 2) a higher blended ARPU as a result of selling more services per household.

Despite a YoY EBITDA drop resulted from weaker macro-economics, momo showed a sequential EBITDA increase, credited to its expanding revenue from virtual channels and operation loss reductions in China.

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

Balance Sheet Analysis

Rosie, CFO & Spokesperson: On the Assets side, Inventory's QoQ and YoY increases were a reflection of higher smartphone sales. Full-year long-term investments increase included a 20% stake in Taiwan Pelican Express made by momo and capital calls from our 49.9%-held Taipei New Horizon.

On Liabilities & Shareholders' Equity part, along with the new issuance of straight bond for NT$9bn in Dec. 2012, more short-term debt repayments were made to reduce our net debt balance to NT$8.93bn, equal to 32% of our annual EBITDA.
To support operational needs, our higher level of accounts payable resulted in the increase in other current liabilities in the quarter.

On the Ratios, with short-term debt repayment in 4Q12, current ratio went up. ROE in 4Q12 stayed at a reasonably high level.

<u>Cash Flow Analysis</u>
4Q12 net cash inflow from operating activities grew QoQ on the back of higher inflows of changes in working capital. 2012 full-year operating cash flow remained stable as compared to 2011.

In terms of financing activities in 2012, net cash outflow of NT$15.81bn was mainly due to NT$13.88bn dividend payments and debt repayments. In 4Q12, more short-term debt repayments led to a higher financing cash outflow.

On Capex and Free Cash Flow Analysis, our 2012 cash capex was NT$3.68bn lower than the guidance of NT$11.8bn due to delayed payments of the majority of the IDC (internet data center) construction cost to 1Q13 as well as incomplete payments for most of the 3G expansion completed in 2H12.

With more cash capex in 2012 than a year ago, full-year free cash flow came in at NT$17.74bn, translating into a 6% yield.

<u>2013 Forecast</u>
The International Financial Reporting Standards (IFRS) has been applied starting 2013. We expect 2013 revenue and EBITDA to grow 14% and 5%, respectively, shown on the three columns on the right.

We also will have an accounting policy change, which was approved this morning. We will change our accounting policy for bundle sales from Residual Method to Relative Fair Value Method. The P&L adopting relative fair value method are shown on the left three columns. Handset sales in 2013, which reflect market price adjustment, will be up to NT$21.4bn, rather than NT$12.8bn we will receive from customers. Mobile service revenue, factoring in the aforementioned, plus the impacts carried forward from bundle sales prior to 2013, will be down to NT$61.2bn. As a result of the accounting policy change, we expect revenues to increase by 12% with 2012 numbers also shown on the same basis and EBITDA to remain flat YoY. I will explain the difference in EBITDA growth rate on fair value and residual value bases later.

On the non-operating expense, non-operating expense increase will be mainly from larger asset write-off losses planned for this year and more interest expense resulted from higher gearing prepared for 4G. In a nutshell, we forecast our 2013 EPS to reach NT$5.71.

Fair Value vs. Residual Value

On the comparison between Fair Value method vs. Residual Value method, you can see from page. 15 that I will elaborate.

The additions to total revenue from residual value method to relative fair value method are forecasted to be NT$0.66bn in 2013, shown in the upper circle. This, compared to NT$2.15bn revenue difference in 2012 on a pro forma basis, explains the main difference in EBITDA growth from 5% on a residual value method basis to 0% on a relative fair value method basis as shown on the previous page. This also explains the subdued revenue and profit growth forecast for 2013 on YoY basis.

We also note that the accounting policy change has generated NT$7.2bn increase in retained earnings as of the beginning of this year, reflecting accumulated adjustments arising from adopting relative fair value method due to unexpired contracts prior to 2013.

Now, I can turn the mic over to Vivien for board resolutions today.

Event Update

Vivien: For the event update and key message, our board meeting had three important resolutions this morning. The first one is the consignment of direct store related operations and business. To enhance the company's distribution efficiency, TWM's board meeting today (January 31) approved to consign its direct stores related operations and business by setting up a 100% owned subsidiary with the ceiling of NT$1bn. The resolution is pending AGM's approval.

The second one would be the accounting policy change. Just as the explanation

Rosie made, to comply with the forthcoming implementation of IFRS, TWM's board approved the change in accounting policy regarding bundle sales from Residual Method to Relative Fair Value Method.

The third one would be the capex guidance for this year. The board has approved a capex of NT$12.8bn, including NT$8.8bn for mobile, NT$2.4bn for fixed-line, NT$0.9bn for CATV and NT$0.7bn for momo.

Please turn to the key message.

Key Message

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

In the face of a challenging environment, enhancing operating efficiency to grow our profitability and ensuring better customer satisfaction have become the top priorities for TWM. To this end, the consignment of the direct stores related operations and business and setting up the mobile device repair & logistics center in-house are paving the way for the stability of our long-term developments.

Q & A

Chate Bencha, Credit Suisse HK: ***I have a few questions related to the restructuring of your distribution channels by setting up a new company. Can you please elaborate how that's actually going to change the way your distribution channel works? How it's going to improve the customer's experience?***

Cliff: As you know when the market becomes very competitive, the distribution channel becomes more and more important. Due to that, we in the past several years, Taiwan Mobile has expanded strongly in the retail side. We have set up shops every year. So, the number of employees in our retail operations has become very significant. The current personnel structure, the human resource policy for operators is not suitable for retail business because the retail business is very operational and you need very high human resources. In the meantime, the customers come to the shop not only for services, they also have device issues or they have maintenance issues and, in order to build up a facility to satisfy these customers, we think it's necessary to spin-off the operations so that we can build an organization to cater not only to the needs of the customers in the mobile service side, but also their needs for services in the hardware and other related products. This our key reason for spinning off the operations.

Chate: *For this spin-off operation, is there any cost related to it that you might need to book one time this year or is it not really a change in the operation works and no cost or no revenue related to it?*

Cliff: There won't be any cost issue. It's just a change to a different way to operate so that the retail operation can have more flexibility and can pursue certain new opportunities.

Chate: *I have three other questions in other areas. Number one, on the regulatory impact from the change in interconnection, how much you actually built the impact in and is it neutral on you or negative on you?*

The second question is regarding the assumption for momo within your FY13 guidance. Are you expecting any significant turnaround for momo in that or if momo actually executed better, would that result in any upside risk or is there any upside around that figure?

The third question is related to the dividends. For the dividend you would be considering based on FY12 earnings that would still be based on the earning declared on the old accounting policy, so it's possibly 90% regular dividends on that earnings or is it earning under new accounting?

Rose: We have already built in the impact from the regulatory intervention. And on the interconnection side, actually if you look at the EBITDA or net income, the impact would be roughly NT$0.4 bn.

Momo is still pushing very aggressively for its growth on the internet business. But, as you know, it's a retail low-margin business. It does factor in some growth in profits for this year, which has been included in our forecast.

On the dividend issue, we will only discuss the dividend policy in the board meeting scheduled for April. So, we don't have any answer for you currently.

Tien Doe, GIC Singapore: ***On the capex side, you're increasing it for 2013. I'm just wondering going forward after 2013 whether this step up in capex to just under NT$13 bn whether that would be sustained going forward as well in your opinion.***

The 2nd question is on the accounting policy change. What is the idea behind the accounting policy change? I know it is to conform to IFRS. The accounting principle behind the relative fair value method as opposed to the residual method, what is that?

Cliff: Regarding the first question about capex, as for 2014, because the NCC is not going to auction the 4G license until 4Q of this year, it is not clear to us how much spectrum we can get. So, it's very hard to predict the capex level we will have in 2014, but, in 2013, the increase of the capex reflect the still very strong demand for data for this year. I believe the HSPA+ capex will be higher this year. In 2014, I think the capex allocated for 3G will be lower compared with this year because we will expect to spend some capex in 4G, but as I said, we don't know how much spectrum we will get and we don't know which frequency band we will get. So, it's very hard to predict.

Rosie: On your 2nd question on accounting policy change, if you go to the website of IASB now, currently, fair value method has been clearly mentioned on its website, it could implement formally as a guideline for all of the operators to follow. Once it's announced as a formal rule instead of an exposure draft at this stage, it could be implemented soon. Though it will allow some grace period for the operators to ready themselves for the change. Since we have been preparing for this change for some time, and now our system is ready for the change, so that's why we propose to change the accounting policy for bundle sales to reflect more fairly the operating results of our operations.

Lucy Liu, JP Morgan HK: ***I have two questions. One is on your smartphone strategy this year. Just wondering what's the general focus and new promotion strategy? Are you going to also migrate more from low-end to 3G? I just mentioned that your mid-to-low end smartphone mix actually is reduced. Is that going to be more focusing on high-end smartphone devices in the future?***

Second one, on your cable business, just wondering what is the outlook in 2013, 2014 in terms of the growth? We know that CHT's IPTV has another tariff cut pressure and whether cable wants to keep certain discount to IPTV so that you will have pricing pressure in the future, too. And how about a strategy in terms of a re-zoning, like entering into other areas to provide cable services?

Cliff: As for the first question, the smartphone strategy, we are going to sell more smartphone this year than last year and there are more increases in these low-end and middle-end smartphones. We see that we will further penetrate the low-end and middle-end sectors. But we still see some fairly strong demand in the high-end sector because obviously the high-end Android smartphones have been very successful in gaining market share from iPhone.

As for the cable business, even though CHT is aggressively pushing MOD, but according to their forecast, they will grow 200,000 this year. We don't see that present a particularly strong threat in the near term. Our cable business in the analog side, the growth has slowed down. The slow-down is partly due to all the cable TV operators are pushing the digital cable TV. Right now, high definition has become a very attractive option and only digital TV can have high definition TV. So, this year, the capex level in the cable side is higher due to the government requirement to have certain digital TV penetration level, so we need to reach that level. In order to reach that level, we will aggressively push digital TV and our digital TV growth rate is much higher than MOD.

Regarding the re-zoning and the competition, I don't see there is a strong competition kicking in for at least next six months. Even though there are new applications for cable TV license currently reviewed by NCC, but there are a lot of conditions and terms the NCC needs to devise in order to ensure the new applicants can meet what the NCC would like to see. So, up until now, I don't see the new entrants will present a great threat at least for this year. So, the cable TV business for this year, digital TV will grow very fast and the high-speed broadband will still grow very fast. From my point of view, we still have a pretty good cable TV business for this year.

Lucy: *Can I add one more question on your EBITDA margin because I saw the monthly data trend in last year, except for January and December when you had quite strong impact from iPhone, in other months almost EBITDA margin stabilizes at 29% to 30%. It seems like you are forecasting 2013 EBITDA margin guidance is about 27% only. We understand that iPhone 5 impact this time should be quite short-lived because the supply in December was quite insufficient, so was just wondering what's the rationale behind this lower EBITDA margin?*

Rosie: On the EBITDA margin contraction is combination accounting policy change and more handset sales and also increase in momo's revenue.

Steven Lau, Standard Chartered HK: *One question regarding momo, you didn't*

give guidance on momo's revenue for 2013, I'm just wondering what is your strategy for momo as far as growth and the possibility for this year? Do you have any target EBITDA margin for momo for this year?

Cliff: The economy seems to be getting better; at least, most of the people think the economy in Taiwan in 2013 will be better than 2012. Last year and this year, we still see very strong growth in the internet shopping. So, basically that is a good business. And the TV shopping may recover based on momo's current budget. So, I think if we recover TV shopping and we have strong internet shopping, the EBITDA will improve to a certain extent.

As for margin, I will turn to Rosie to answer that.

Rosie: The EBITDA margin for this year is forecasted to be flattish because you know that for internet shopping, despite strong growth, it also will introduce a big increase in cost, so we expect that to be flattish.

Steven: *By the end of the year, the government will auction the new spectrum. I think, given your cash position, maybe you need to raise some money. Do you have any plans to borrow more money this year?*

Rosie: I think we certainly will have plans to borrow more money for the auction. But it's actually very difficult for us to plan too much ahead because we don't know how much the auction will cost us. So, we are just preparing for a certain amount. As you may have noticed that we have already issued a new straight bond late last year for NT$9bn and we will also do so. That's actually in line with the board approval that we got for last year in the 4Q.

Jinjin Wang, UBS China: ***I have two questions. One is regarding your 2013 forecast; you are forecasting a higher revenue growth as well as EBITDA growth based on the residual value method. I'm just wondering what are the key drivers for both forecasts? What's the upside and downside risks in your opinion?***

The second question regarding the spin-off of your cellphone distribution channel. Have you done any exercise regarding what's the implication on your operational cost? Will that lead to any cost savings and, of course, I assume it probably will bring in some additional revenue streams.

Cliff: The key driver for revenue growth is still mobile data. So, we expect mobile data to grow very strongly for 2013. I think that's the major thing.

Regarding the spin-off the retail operation, of course, based on our internal calculations, there will be cost savings, but we also are expecting that because of the spin-off, these operations will pursue certain new opportunities, which will increase the revenue and profits in the long run.

Jinjin: *A follow-up question, regarding your revenue growth forecast, you see any potential upside or downside?*

Cliff: The revenue growth, I think the regulatory environment is a big issue. We have certain assumptions regarding the regulatory intervention in term of how much revenue will be lost due to the regulatory intervention. But this assumption is based on our internal calculation. But things may happen differently. As for mobile data side, I don't see there is a downside or particularly strong upside because the growth rate is roughly okay.

Joseph Quinn, MacQuarie Taiwan: ***In terms of IFRS, is this something that you expect your peers to be adopting? I don't expect to comment on their actual adoption, but do they need to adopt it? If not, can I get a bit of thought into your reasoning behind choosing this fair value over residual value?***

On the momo side, this is more in relations to your spin-off of the retail business actually, how does that tie-in with momo given they do have their own retail locations and obviously their own retail business as well? Is that something that you'll would be looking to tie-in together as well given that there will obviously be some strong synergies between the two?

On the capex side, you did mention there will be some deferral payments. Can we get some color on that and how it influences the actual uptick in capex that we're seeing in 2013 guidance?

And, lastly, is on the NFC side. There is obviously a recent announcement in terms of a JV between yourself and the peers, and EasyCard. I just want to get a bit of input on that side of the business and what's your thinking there in terms of timetables? And in addition to how you see how that working with the m-commerce given that was obviously was a key topic that you had discussed with

the acquisition of momo?

Rosie: On the IFRS question you just raised, as far as I understand, CHT just had their conference call with you guys, they haven't decided to adopt relative fair value method, at least not for this year. Once it becomes a rule, a formal rule instead of a draft, everybody would have to follow IASB's ruling. I don't think they could be excused from using relative fair value method.

Joseph: *So, basically you're pre-empting that this will something they will have to do anyway.*

Rosie: Yes, because it's been published on the IASB website already, that will change the exposure draft into a formal rule this year.

Joseph: *That makes it a lot clearer. Thanks.*

Rosie: They actually mentioned it will be in the first half of this year in their exposure draft on the website.

Cliff: As for the momo question you raised, momo has roughly 50 or 60 shops. Currently, we haven't talked about how to work with them. So, I don't think this is something we have in mind in the near future.

Joseph: *There was also a question on the deferred capex and also on the NFC.*

Rosie: You're talking the difference between cash capex and our capex budget, right?

Joseph: *Correct.*

Rosie: They are just payments that haven't been made and it happens every year, actually. We sometimes need more time to confirm that the work is properly done or the equipment is properly delivered and set up. So, there's always situations like this every year.

Joseph: *Ok, so I should take the $11.8 bn of 2012 as the more firm actual capex input.*

And, Cliff, could you give me a bit of insight into any of your thoughts of the NFC, particularly on how that would work for momo as well?

Cliff: As you know, the Fair Trade Commission has approved the setup of this NFC consortium and I think the company will be incorporated in the 2nd quarter of this year and it takes a certain time to build the system. I think the company can only provide the NFC services roughly at the end of this year, so the revenue and the business opportunities will not be a factor until next year.

Joseph: *How would you see momo utilizing this or do you think it's something more directed toward the Taiwan Mobile subscribers and themselves?*

Cliff: We are also working on how to leverage these NFC opportunities. I think Taiwan Mobile will have better usage of this NFC technology than momo.

Chate Bencha, Credit Suisse HK: ***The first one is regarding smartphone penetration. Just want to confirm what you ended the year with in terms of smartphone penetration.***

The second question is regarding your guidance again. I understand that, on EBITDA and net profit, you built in the impact of interconnection reduction of around NT$0.4 bn. Any guidance in terms of the tariff reduction and the impact on that? I understand it has not been finalized. Just want to hear your thoughts.

The third one is related to capex again. Would I be right if I just take FY13 capex budget and just minus that by NT$3.something bn from FY12 and derive net capex budget of NT$9.1bn for FY13 instead of NT$12.8bn?

Rosie: I think we have mentioned somewhere in our presentation the mobile data adoption rate already. So, we don't think smartphone penetration is a better indication of our mobile internet business than this one. So, we will not disclose smartphone penetration anymore. The target for mobile internet adoption rate is on page 14, right? Oh, sorry, it's 59% for this year from 41% last year.

Chate: *Ok, perfect.*

Rosie: On your capex question, our capex for this year is NT$12.8bn, so you don't need to do any further revision or re-calculation.

Chate: *This NT$12.8bn includes or not includes the delay in payments. So, it does not include the delay in payment.*

Rosie: It doesn't include any delayed payment.

Cliff: The delayed payment belongs to last year's capex.

Chate: *So, last year's capex is still NT$11.8bn and this is NT$12.8bn, so it's a NT$1bn increase.*

Matthew Wolf. Capital World HK: ***Three questions for me. The first is on operating leverage. As you point out in the first slide, you're seeing significant revenue growth for the first time in a few years. But that's not coming through in margins, particularly in the consumer business group and I was wondering if you can talk through about why that's the case and when you expect to see more operating leverage.***

The second question is on mobile data competition. Can you talk a bit about the state of competition, particularly on mobile data pricing?

And the third is on the fair value vs. the residual value. Can you remind us how you account for handset cost and does this change imply any change in accounting for handset cost?

Cliff: As for the first part, even though we see strong growth for this year, due to the regulatory intervention, we would lose a certain revenue and profit every year. That's one issue, so that our profit would be under pressure. The second issue is that even though we see strong growth in revenue, but the subsidy level, the subsidy amount for each year is higher and higher. So, how to manage the subsidy level and the amount is a key consideration or key strategy for 2013 and 2014. I think this is an issue for all the major operators in Taiwan to be addressed. We will try to lower our subsidy and try to see whether we can have some success starting from this year.

Rosie: Let me elaborate a little bit on the operating leverage question you just raised. Basically, if we adopt accounting policy change, on a ROC GAAP basis, our telecom revenue will grow 7% and the consolidated operating profit will grow by 5%. Because of some increases in asset write-off, the net profit would only grow by 1%. So, there is operating leverage if without accounting policy change.

And, on your third question on handset cost, they are the same on both bases.

Cliff: Regarding the mobile data competition, Taiwan still has all-you-can-eat pricing and most likely this will not change until the launch of 4G. So, I don't see there is a tremendous difference in pricing for the coming year. So, I think the competition will still stay the same, the pricing will stay the same.

Matthew: *If I can ask just a couple of follow-ups on that. I guess, on the first point, on the revenue growth and the handset subsidy, eventually in the handset adoption curve, you reach a point where the incremental subsidy starts to decline and you're probably approaching the 30-40% smartphone penetration. So, when do you see that point at which the incremental subsidy is not growing?*

The second one is just a follow-up on the accounting policy, can you confirm, on the cost side, do you expense it upfront fully or do you amortize it?

Rosie: Fully. Fully on both bases.

Matthew: *Okay. On that first question, on the operating leverage question?*

Cliff: We still see incremental revenue for 2013. When it will happen, we don't know because the handset vendors are competing aggressively, so this year and next year, we will see more and more products. There is very strong pressure to drive down the handset price and you have new players. Therefore, if the price of the handset can be lower and if we can cut down the subsidy level, then this incremental revenue will grow in 2014 or even beyond. It's a mixture of factors and it's very hard for me to say at the moment. But, as far as I can see for this year, clearly we do see incremental revenue for this year.

Matthew: *And, Cliff, just on the data point when you were answering that, towards the end of last year, there started to be some promotions in the market where customers could get large amounts of data, maybe a GB or enough to use on an iPhone for significantly cheaper than the NT$699 that it used to be. Are those promotions continuing in the market or have they started to relax?*

Cliff: They are still in the market, but even though you have these lower priced with a big data package, but most of the people still chose to have all-you-can-eat.

Matthew: *And the all-you-can-eat is not at a discount.*

Cliff: No, it is not at any discount.

Rosie: And I just want to elaborate a little on the accounting policy change. I don't know whether you have read our last page of the presentation material. It shows clearly how revenue during the contract period will be allocated. If you have a look at it, you'll find that actually the revenue during the contract period remains the same if you compare that to the residual value method. And also the profits during the contract period in total will also be the same. It's just allocation of revenue and profits during different periods, but during contract period, total revenue and profits are the same.

Sydney Chang, Bank of America HK: ***I have two questions. One question is on the cable business. You said the cable digital TV and the high definition TV will grow very quickly this year. I'm just wondering when a subscriber moves from cable TV to digital TV, what's the ARPU impact? How much incremental ARPU can you get? What's the impact to the cable EBITDA margin?***

The second one is on the IFRS adjustment. Will you provide more retrospective numbers and data for us for the last couple of years for reinstated financials? And, also, in the future, will you report the ARPU before and after the adjustments?

Rosie: We will take that into account. We will only disclose some year-on-year numbers for your comparison this year because we are only required to provide 2012 numbers on a pro-forma for regulatory fulfillment. So, that's why we only compare 2013 with 2012. And it's very time-consuming and labor-intensive to come up with the retroactive numbers, so it's kind of difficult for us to do so. I hope you understand our position.

On the cable TV with the DTV, the ARPU will grow by roughly NT$130. It's on page six.

Gary Yu, Morgan Stanley HK: ***I have one question regarding your 2013 guidance. It seems, on a like for like basis, based on the old accounting, you're expecting the service revenue to grow 7% in 2013, which seems to be an acceleration compared to last year, which was roughly 4% if I'm not wrong. What is the key driver of these acceleration of growth, is it more coming from mobile business and can you also clarify whether it is already incorporating the reduction in interconnect revenue, which means from an ARPU perspective, the growth rate can be even higher than 7%?***

Rosie: Interconnection impact has already been factored in our 2013 guidance, as mentioned earlier. And the increase in revenue is a combination of a growth in subscribers and also ARPU.

Sydney: *Right, so you expect a growth in the subscriber number and ARPU will be even higher than last year?*

Rosie: Yes, mostly driven by data revenue growth.

Joseph Quinn, MacQuarie Taiwan: ***When you looking at your cable targets for this year, can you gives us some insight into what you're looking for your internet growth, the cable growth and also the digital TV side?***

Rosie: Cable broadband growth is expected to grow by 10% this year.

Cliff: In the 4Q, the DTV growth rate was 68%. In the coming year, because of government regulation, our cable TV business will deploy more cable setup boxes even though those setup boxes are very simple function setup boxes to increase the penetration rate. So, the penetration rate will grow very fast. I believe it will be beyond 30% or 40% because there is a mandate from the NCC and the local government to demand to reach a certain percentage. However, for certain cable TV penetration, the ARPU is not going to be higher. So, don't use the growth rate of the subscribers equal to the growth rate of revenue.

Joseph: *Ok, so basically you're providing a cable TV box to a customer, but not necessarily getting any additional revenue from it.*

Cliff: Yes.

Joseph: *Did you get particular targets that you need to reach for 2013, 2014?*

Cliff: 40% this year.

Steven Lau, Standard Chartered HK: ***A follow-up question on the mobile business. I think your overall EBITDA margin will be declining for this year. How about the mobile business EBITDA margin for this year? Should be improving or flat or declining?***

Rosie: Before the accounting charge, it's declining.

Steven: *Why is EBITDA margin for mobile business declining because it says revenue will be up 3%? Is it due to handset sales?*

Rosie: It's because of rising handset sales.