

Taiwan Mobile
3Q12 Results Conference Call
October 25, 2012

Cliff Lai, Co-President: Good afternoon. Welcome to our 2012 3rd 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 overview. Please turn to page 4.

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 6% YoY for the first three quarters.

At the end of 3Q, we have doubled our smartphone penetration to 35%. As a result, our mobile broadband revenue increased 57% YoY in the quarter.

Please turn to the next page.

Our Smartphone Strategy

Apart from the 10 exclusive smartphone models we currently have (listed on the slide), we also have around 38 smartphone and tablet products on the market.

In 3Q, smartphone sales volume was up 75% from a year ago and accounted for 74% of total handsets sold, with mid-to-low end products making up over 50%.

Year-to-date, smartphone's payback period had slightly shortened, with its ARPU at roughly 180% that of post-paid.

Please turn to the next page.

CATV Growth Catalysts

As indicated in the table, our internet subscriber number increase of 10% and DTV customer number growth of 73% are all higher than the 1% subscriber rise in analogue TV services in 3Q.

Our cable internet ARPU continues trending up, with high-speed (i.e. 20M& above) subscriber mix rising to 25% in September vs. 7% a year ago.

Please turn to the next page.

New Product & Service

This page of new products and services we launched during the 3rd quarter is for your reference.

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

Result Summary

Vivien Hsu, Co-President:

On a YoY comparison, stripping out the one-off reversal of over-accrued expenses made in 3Q11, our 3Q12 consolidated EBITDA grew by 2.4% from a year ago, contributed by a service revenue growth of 3%. Excluding the above mentioned one-off adjustment and impairment loss on Taiwan High Speed Rail booked in 3Q11, the recurring net income was up by 4.7% YoY.

In 3Q12, service revenue was lower than our guidance, due to prepaid competitions. Nonetheless, both CBG and EBG outperformed its respective profit target, credited to better opex controls. This helped alleviate pressure from momo's lackluster contribution.

The non-operating expense also came in less than guidance due mainly to lower-than-expected asset write-off losses. As such, our 3Q12 net profit was better than forecasted.

For the first three quarters of this year, our EPS came in at NT\$4.16, up 20% YoY and reaching 78% of our full-year target of NT\$5.34.

Please turn to the next page for our operating performance.

Divisional Performance

Adjusted for the one-time over-accrued expense reversals made in 3Q11, CBG's 3Q12 EBITDA was flattish from a year ago.

Enterprise customers' mobile service revenue rose YoY in 3Q12, credited to a rise in the number of subscribers and higher smartphone adoptions.

HBG posted a stable 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 49% YoY increase in EBITDA for the online shopping business, momo had margin erosions due to declining profit contributions from its TV home shopping business.

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

Balance Sheet Analysis

Rosie, CFO & Spokesperson:

Let's turn to balance sheet analysis.

On Assets:

Inventory's YoY increase was a reflection of growing smartphone sales.

Long-term investments increased in the quarter, including a 20% stake in Taiwan Pelican Express made by momo and capital calls from our 49.9%-held Taipei New Horizon.

On the Liabilities & Shareholders' Equity:

An NT\$11.54bn increase in short-term debt in the quarter raised our net debt balance to NT\$15.65bn or 55% annual EBITDA. Other current liabilities dropped after cash dividends & employee bonuses were paid in 3Q12.

On the Ratio Analysis:

Current ratio at the end of 3Q12 was higher than a quarter ago because of lower other current liabilities following our payment of dividends and employee bonuses. Gearing as of the end of 3Q12 remained healthy, similar to the level a year ago.

Let's turn to the next page for cash flow analysis.

Cash Flow Analysis

Operating cash inflows for the quarter decreased sequentially due mainly to the payments of full-year frequency usage fee, cable TV content cost as well as employee bonuses in 3Q12.

Net investing cash outflow in 3Q12 was mainly for the NT\$2.35bn in cash capex and long-term investments made in the quarter as mentioned in the previous slide. The high investing cash outflow in 3Q11 was for the purchase of a 51% stake in momo.

In terms of financing activities, we increased short-term borrowing in 3Q12 to fund the cash dividend payments.

On the capex and free cash flow, capex in the first three quarters totaled NT\$5.77bn or 8% total revenue, which is running behind our annual capex forecast of NT\$11.8bn, as the majority of IDC (internet data center) construction and 3G expansion payments will not be made until 4Q12. Accumulative free cash flow reached NT\$10.66bn, translating into an annualized yield of 4.9%.

Let me turn the mic back to Vivian for event update and key message.

Event Update

Vivian:

TWM's board meeting today (October 25) approved to issue in tranches unsecured straight corporate bonds with a maximum amount of NT\$16bn and a maximum duration of 7 years.

The lower part of this slide lists the awards we have recently received for your reference.

Please turn to the key message page.

Key Message

To wrap our presentation, this slide summarizes the message we would like to deliver:

Certain high-profile smartphone product launches are expected in 4Q, which is likely to increase quarterly earnings uncertainties. Nevertheless, healthy service revenue growth and solid results from the first three quarters will provide us the confidence to achieve our full-year guidance.

Now, we open the floor for questions.

Q & A

Chate Benchavitvilai, Credit Suisse HK: *Today, I have four questions. The first question is related to momo. It seems like the margin is not picking up. Where do you see the turning point for momo business? What would need to happen for them to actually achieve a turnaround in those margins?*

The second question is related to mobile data growth. Seems like it's decelerating partly because it's a higher base as well. My question is what kind of incremental ARPU are you generating from the new smartphone subscribers?

The third question is related to CAPEX. It seems like you're running behind as you suggest. For the FY, are you still expecting to spend \$11.8bn or is there some delay into next year? And, for next year CAPEX, should it be closer to \$9bn now that IDC CAPEX has been spent?

The fourth point is to clarify your statement about reaching the guidance. Are you talking about achieving bottom-line guidance alone? Because you look a little bit light on EBITDA right now and given the subsidies coming from certain high-profile smartphones would make achieving EBITDA guidance quite challenging in the 4Q, is that right?

Cliff: Regarding momo, I think currently the economic situation in Taiwan is not very good. This is part of the reason why TV shopping is not performing to the expectations we would like to have. momo is undergoing certain turnaround strategy. I think these transformation and turnaround strategies require at least a quarter to show certain results. We would like to see that they can improve gradually in the 4Q and may have more significant improvement in the next year.

As for data ARPU, I mentioned even now we're selling more and more middle-end and lower-end smartphones, so the data ARPU dropped a little bit, but it's currently still 180% higher than feature phone ARPU we have.

Regarding the CAPEX, even though we are running behind our capex spending, but, as we explained in the presentation, we still expect that by the end of this year, we are going to spend all the capex which is budgeted because the IDC and 3G data network upgrades will mostly happen in the 4Q.

And as for the EBITDA, even though we are expecting iPhone 5 to launch in the 4Q, but we are very confident that we are still able to achieve the whole year profit guidance eventually.

Chate: *Just a follow-up question regarding the question of ARPU from mid- to lower-end smartphones. The number you disclosed, NT\$1,400, for ARPU is on the blended basis, right? What would be the ARPU if you just looked at medium-end and lower-end smartphones that you are selling?*

Shirley Chu, Director of Investor Relations: If we look at the data ARPU, data ARPU is still showing a YoY increase by roughly 8%.

Chate: *One last question regarding capex, So, after we adjust out the IDC, the next year capex should go down to around \$9 bn or is that any further one-time that you see at the current moment that could come in next year as well?*

Cliff: We are still doing our budget exercise. Regarding the IDC, because that is part of our fixed-line business, so we won't see a big item like IDC in next year's fixed-line budget. But, regarding the mobile side, we are still calculating. So, in the fixed-line side, I think the budget will be lower than this year. In the mobile side, we are still doing more investigation regarding the budget for the next year.

Steven Liu, Standard Chartered HK: *I have two questions. Regarding your smartphone ARPU, your blended year-to-date is NT\$1,400. That implies only NT\$1,200 in the 3Q. I think maybe the main reason is due to the low-end smartphone users. So, would you see the smartphone ARPU to continue to go down in the coming few quarters due to the higher low-end subscribers?*

Cliff: To be frank, we didn't look very much into this because in the coming quarter,

at the moment, the blended ARPU, we still see we're still selling a lot of high-end products because we have the iPhone 5, Samsung Galaxy 3, Samsung Note 2. They are all selling very well. So, we have to really look at another quarter or two to determine this low-end smartphone really affect our ARPU and to what degree. So, I don't know the answer at the moment.

Steven: *So, what's the range of smartphone ARPU? Your average is NT\$1,400, what is the range, is it from NT\$900 to NT\$2,000 or something?*

Cliff: The smartphone ARPU can be ranging from NT\$700 to more than NT\$2,000.

Steven: *Second question regarding your cable broadband. I noted, in your slide, that only 25% broadband users, their connection speed is higher than 20Mbps. We know that CHT has been upgrading fiber to achieve 100Mbps. Technologically, can you upgrade to 100Mbps in a broadband connection speed going forward?*

Cliff: Yes, actually we are providing 100Mbps service just like CHT. We are aggressively pursuing high-end users, too. So, in the coming quarters, you will see that the mix of high-speed broadband users will increase quarter by quarter.

Steven: *What is your target penetration of 20Mbps subscribers by the end of the year and by the end of next year? Now, it's 25%, what is your target penetration?*

Cliff: I don't think we, at the moment, have a target for this kind of number. We just try to sell as many as we can.

Chate Benchavitvilai, Credit Suisse HK: *Just one follow-up question for me. What's the latest in terms of the 4G progress right now? Do we see any details such as how it's going to be, what's the pricing going to be?*

Cliff: No, as a matter of fact, we haven't heard anything from NCC other than they say they're going to have these licenses awarded by the end of next year, no pricing, no details at the moment.

Chate: *On your side, any expectations into what kind of the pricing you're expecting and if the price is high, would that affect your dividend payout? Are you ready to gear up? Is there any guidance on that front?*

Cliff: We have some idea regarding the pricing. At this moment, I don't think we should disclose what we think. And whether this is going to affect our dividend, I think it's so far away, so I won't comment on that.

Chate: *Ok, noted. One other thing on the regulatory side, any progress in terms of tiered pricing discussion with the NCC?*

Cliff: We are continuing to have dialogue with the NCC, but, as you know, the new chairman and commissioner just joined the NCC and, at the moment, they are busy working on 4G. They also have opened up cable network area. And they are also working on the extension of the 2G license. So, I think this tiered pricing will not happen this year. Our expectation is if something happens, it's going to be next year.

Joseph Quinn, Macquarie Taiwan: *I have two major questions I hope you can help with. The first is surrounding some news that's been over the last two days in relations to comments from the Taipei mayor on cutting cable rates. Just curious what do you believe, is there any other risks to cable rates in other areas of Taiwan that you are exposed to?*

The second one is just around the corporate bonds that you are raising. Can you give us some indication what that money is most likely to be for? Is it more toward 4G licenses if that's a practical explanation?

Also, you did mention in the last comment about 3G license extensions, can you give us some more color on what you're expecting in terms of how long the 3G licenses may be extended to and, also, has there been a final decision on the 2G license extension, too?

Cliff: Regarding the mayor's comment, most likely this is going to affect the Taipei City. We don't have any presence in Taipei city, but we do have three SOs in the New Taipei City. And the decision made by the Taipei city will affect New Taipei City because I think in the past Taipei and New Taipei City worked together, so if there's a cut in Taipei, it's going to affect the rate in New Taipei City.

And, currently, we don't have any 3G extension. What I mentioned is that we have a 2G extension because, by the end of this year, our 2G license will expired. So, we are going through a process to renew our 2G license for another five years. We are scheduled to interview with NCC this coming Friday, tomorrow. I will go to NCC for

an interview to extend our license. If we go through this interview, the NCC will extend our 2G license for another five years.

As for the bond issue, let me turn to Rosie.

Rosie: From the balance sheet, you can easily tell that we have NT\$8bn in corporate bonds and half of that will become due in November this year and the rest will become due next year. No more than NT\$16bn new straight bond issuance is, first, to refinance the repayment of the existing corporate bonds; secondly, is to strengthen our financial condition to have a better allocation of short-term and long-term borrowing to prepare for our future funding needs.

Joseph: *Just to follow-up on the 2G extensions. You said you're still looking to extend for five years. Do you think there's a possibility that they may negotiate that down for a shorter period and it's more in reflection of the fact that obviously if you get extended for five years, it limits the opportunity for someone else to bid on it for LTE.*

Cliff: It's possible. We don't know yet. Tomorrow, the three majors, CHT, FET and TWM, will all go to NCC for this interview. The original framework is for five year extension. But, after the interview, they will tell us how many years we will get. At this point, we don't know what would be their position.

Joseph: *I assume you would prefer it to be a five year extension so you can maintain the use of that spectrum.*

Cliff: You put me in a very awkward position because I have to say we expect five-year extension. We don't want NCC people to listen on our analyst meeting.

Joseph: *I'm sure they're quite busy. They'll wait for my notes later. Thank you.*

Steven Liu, Standard Chartered HK: *Two more follow-up questions. Still on momo, do you have a target EBITDA margin going forward or any guidance on revenue growth? You've had very stagnant growth past few quarters on momo. So, what is your target on revenue guidance and EBITDA margin going forward?*

Rosie: I think at this moment we don't have a target for this. Of course, this year, their results have been very disappointing and they are taking some actions to remedy this situation. As Cliff mentioned, we have to give them some time to show the

results. And, I don't know whether you have noticed that their internet business has been doing very well. And its EBITDA margin has actually gone up by 1 ppt or slightly more. But their TV shopping business has been on the decline due to the weaker than expected economic conditions. The reason for that is quite clear because the items sold on TV are mostly discretionary items. And, also, they generated quite a lot of profit from some dietary supplements that are more profitable than the current product mix. But after the crackdown from the government on these types of products, their profitability has been going down. So, what they're trying to do is to help those vendors of dietary supplements or other more profitable items to get legal approval for sale on TV. I tend to say that these are not behavior changes. This could be affected seriously by the weaker than expected economic condition. So, we don't have a target on their margins.

Steven: *Second question is regarding your 3G utilization. Can you give roughly the utilization? 50 or 70% or something like.*

Rosie: It's below 80%.

Chate Benchavitvilai, Credit Suisse HK: *Just a follow-up to my peers on questions on momo. You mention about EBITDA margin on the internet side improved. Can you give us some color on what kind of margins generated on TV shopping side and on internet shopping side?*

Rosie: TV shopping EBITDA margin is about 6%. Internet shopping is also close to that number.

Chate: *I guess the internet used to be much lower. And this is basically an improvement whereas TV used to be higher and is coming down?*

Rosie: For TV shopping, it's coming down quite a lot. For internet shopping, it's up by more than 1 ppt.

Chate: *Could you have some color on where it used to be, the TV home shopping?*

Rosie: It was about 8 to 10% one or two years ago.

Chate: *Another thing regarding your handset sales guidance. Seems like for the first nine months, the achievement rate is 56%, much lower than what you're expecting. Can you give us some color as*

to why that is and where we should expect it to be for full-year?

Rosie: You mean for handsets?

Chate: *Handset sales revenue.*

Cliff: Well, the handset sales revenue is lower than expected. This really doesn't affect our profits too much. Last year, we started selling unbundled handsets in our shops. So, for this year, we had projected a higher sales number for unbundled handset sales. For those sales, the margin is quite low. But we try to increase the traffic. Unfortunately, we didn't sell as many as unbundled handsets as we would like to have. This is the reason why the sales revenue of our handset sales is below our expectations. However, it really doesn't have any significant impact on our bottom line.

Sidney Zheng, Merrill Lynch HK: *I have just one question. Would you describe how you expect the competition will go in the next 3-6 months, is it going to be more intensified or more status quo?*

Cliff: For the next 3-6 months, I think it is more status quo. Very similar to what we have experienced in the last few quarters.

Joseph Quinn, Macquarie Taiwan: *You mentioned earlier in the year some updates in relations to increasing the number of your cellphone stores, could you possibly give any update on how that's progressing at this stage?*

Cliff: The target we have is, by the end of this year, we are going to have 400 stores.

Joseph: *At this stage, where are we at the moment?*

Cliff: We are roughly at 385.

Joseph: *So, you are confident enough it will make that 400 number.*

Cliff: Yes, yes, we are going to hit the 400 by the end of this year.

Neal Anderson, HSBC Hong Kong: *I just have a question of your more recent smartphone subscribers. So, you said you've been selling more mid-range*

smartphones in the quarter. Are you able to say what are those customers are spending compared to their previous feature phone-based spending? I presume it's a narrower or smaller increase. I would be very interested in your comments on that.

Cliff: In general, the ARPU is 60% more than they used to have.

Neal: Right, so it's still a very large increase. How long do you expect that trend to continue in terms of that level of increase? I think you've said before that smartphone adoption rate should be fairly steady at around a percentage point a month. In terms of that 60% increase, how do you see that trending?

Cliff: I think this will continue into next year. Our current smartphone penetration is still only 35%. Recently, we have launched Amazing 2 smartphone, which is dual core 4-inch smartphone and costs only US\$160 for unbundled. The low-end smartphone performance is very good. It's almost like the high-end phone a year or a year and half ago. So, we expect that the penetration rate of the smartphone will increase at the current level until the end of the next year.

Neal: One final question on the traffic, data usage of these newer, more recent smartphone customers. Is that more similar to what you're seeing with high-end Android and iPhone type handsets?

Cliff: No, not really because the ARPU is different. The low-end smartphone users on average, a smaller percentage will choose all-you-can-eat tariff. But certain users will choose NT\$250 monthly service, some will choose NT\$100. So, there is a different mix. But, for higher-end users, over 70% will choose data package, which will give you all-you-can-eat plan. So, that's the difference.

Steven Liu, Standard Chartered HK: *One follow-up question, how many retail shops do you have in Taiwan? And how's that number compare to CHT and FET?*

Cliff: Currently, we have around 800 retail stores carrying Taiwan Mobile's brand name.

FET has roughly 700, but FET also control franchise stores, roughly 150 stores, called Arcoa. In total, FET has roughly 850 under their control.

CHT has roughly 410 stores directly owned, but they also have 220 stores using different brand name under their control, called Senao.

So, we have 800, FET has 700 carrying their brand name and 150 using a different brand name. CHT has 410 carrying Chunghwa Telecom brand name and 220 carrying a different brand name.

Steven: *So, the 800 all carry your Taiwan Mobile brand name and owned by yourself?*

Cliff: Of these 800, only roughly 400 owned by Taiwan Mobile directly.

Rosie: The rest are franchise stores.

Steven: *Ok, thank you.*

Gary Yu, Morgan Stanley HK: *Can you give us an update on your sale mix from mid-end to high-end smartphones in the quarter?*

And, also, for the mid-end and high-end users, what is the percentage of customers opting for the unlimited data plan?

Shirley: For the smartphone sales volume in the 3Q, we have 51% belonging to the mid- to low-end and the rest is mid- to high-end.

Gary: *Thank you, and the percentage of customers using mid-end smartphones, but also on unlimited data plans, what's the rough number?*

Shirley: Roughly 70% smartphone users using unlimited data plan.

Cliff: A very high percentage of high-end smartphone users use unlimited data rate plan, but, for low-end and mid-end smartphone users, a smaller percentage, maybe 20%, use unlimited data plans.