**Taiwan Mobile 1Q08 Results Conference Call**

Date: 29 April, 2008 (Tuesday)

Time: 1600 Taipei/Hong Kong/Singapore Time

**Harvey Chang, CEO & President:** Hi, everyone. Welcome to our 1Q conference call. Before we begin the presentation, we like to direct your attention to page 2 on the disclaimer:

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**Results Summary**

With that out of the way, I'd like to first quickly give you a summary of our 1Q operating results. We recorded NT$17.2 bn of total consolidated revenue in 1Q, which is in line with our guidance.

EBITDA came in 7% higher than guidance because of less-than-expected new subscriber acquisitions, better controlled back-office expenses and good receivables collections.

Higher than expected disposal gains from Fubon Financial Holding and lower-than-expected asset write-off losses also contributed to a better results in our 1Q.

**1Q Divisional Performance**

And, to the next page, which gives you a breakdown of the performance of each different business group.

In terms of the revenue performance in 1Q, our mobile business outperformed our peers by registering 1% YoY growth. Fixed-line revenue was up 21% YoY due to 36% increase in mobile to IDD revenue and 38% rise in data business. As to cable TV, cable TV reported a stable 6% YoY increase in revenue.

On the profitability front, we have started to expense our employee bonuses this year and so, the employee bonus expenses and increased contract renewal incentives weighed on mobile EBITDA margin in 1Q08.

And, also, decreased marketing expenses along with personnel expense cuts helped improve the fixed-line's EBITDA margin to 19.2% from 1Q07.

Our cable TV EBITDA margin and EBITDA growth momentum were held up by healthy revenue growth in broadband, advertising and channel leasing coupled with administrative expense savings.

**Wireless Peer Comparison**

Now, let's do a quick comparison of our wireless competitors. The most important comparison is on the growth side, which we have a 1% YoY growth vs. our competitors which have none or negative growth. This is primarily due to a 27% YoY rise in pre-paid revenue, which leading to further expansion in market share from 30.7% to 30.9%.

**VAS and 3G**

And then, on the VAS and 3G. In 1Q08, our non-voice mobile revenue rose 22% YoY; this is aided by 80% revenue growth in mobile internet.

As to migrating customers onto 3G network, it remains to be one of the key factors for us to foster data revenue growth.

I will turn over the financials to Rosie.

**Balance Sheet Analysis**

**Rosie Yu, Finance VP & Spokesperson:** On the balance sheet, available for sale financial asset decreased in the quarter as we disposed of all our holdings in FFH.

And, PP&E balance was down by NT$0.69bn from the end of 2007 as 2G assets write-offs and depreciation charge were higher than the purchase of new equipment.

And, our gross debt balance fell to NT$31.2 bn at the end of 1Q08 with NT$2.2 bn net reduction in short term borrowings. Other current liabilities decreased a lot by NT$14.5 bn QoQ after the cash was paid for capital reduction and purchase of minority shareholders’ stake in TFN.

And, the sale of 6% TWM treasury shares by TFN resulted primarily in the decline in treasury shares account and a NT$3.5 bn increase in capital surplus account due to the disposal gain. As such, our net debt to equity dropped to 46% at the end of 1Q.

Our current ratio increased to 42% in 1Q end as the current liability dropped. Net debt to EBITDA remained at a healthy level of 0.75x.

1Q’s ROE improved substantially to 41% from 11% at the end of last year, which was an assumption of 24% capital reduction as well as 21.4% treasury shares. 2G assets write-off and more efficient balance sheet leveled up ROA.

**Cash Flow Analysis**

On the next page, on the cash flow, operating cash flow generation remained stable in 1Q08.

For cash flow from investment activity, there were NT$2bn of cash inflows from divestment of Fubon Financial Holding.

Group capex in 1Q was on track and accounted for only 7% of our total revenue. We expect three division’s capex to be more back-end loaded for this year.

For cash flow from financing activities, NT$13.5bn sales proceeds from the disposal of 6% TWM shares held by TFN more than offset the NT$9.43bn capital reduction payment. Separately, NT$8.36bn was spent to acquire minorities of TFN, Phoenix cable TV, and TFN Media.

With good core business cash earnings and stable cash capex, our 1Q08 free cash flow remained at a healthy level.

**2Q08 Forecast**

On the 2Q guidance, our 2Q revenue will include mobile, fixed-line, and cable TV vs. full-quarter mobile plus 2.5 months contribution from fixed-line and CATV in 2Q07. On this basis, we expect consolidated revenue to rise 8% YoY, while EBIT to remain flattish. This is because the increase in selling expense for mobile and cable broadband business offset EBIT increase from fixed-line operations.

At the non-operating level, in contrast to NT$263m Fubon Financial share disposal gains and a mere NT$204m asset write-off loss in 1Q08, we expect to have NT$396m asset write-off loss for the 2Q. EPS is expected to be NT$1.25, up 19% YoY.

**Event / Regulatory Update**

So, on the events and regulatory update, we have introduced new convergent triple-play product, "TWM Family", combining mobile, cable broadband and pay-TV services in our CATV covered area in April.

And, on the regulatory side, Executive Yuan have overruled the draft of convergence bill and suggested NCC to adopt a more progressive regulation changes to alleviate the impact on the market.

So, let me turn it back to Harvey for the key message.

**Key Message**

**Harvey:** To wrap up our presentation, this slide summarizes the key messages that we would like to deliver:

- 1Q08 results came in better than expected with efforts made across all business groups.
- After buying back our own shares and the 24% capital reduction, our balance sheet has become more efficient, so has our ROE.
- The growth driven initiatives remain on the top of our agenda for the year.
- And, we are geared up to provide a complete array of multimedia products on our platform in the face of diverse competition ahead.

We will be happy to take questions.

**Q & A**

**Anand Ramachandran, Citigroup HK:** ***I have three questions. Firstly, you're again guiding for QoQ margin compression and this comes even as you were probably conservative on 1Q guidance and beat 1Q guidance quite effectively, can you let us know if is this TWM being conservative in 2Q guidance or are there specific factors in each of its three segments that you expect to drive down margins QoQ?***

***Question two, can I just confirm whether the treasury shares will indeed be***

***forgoing the dividend or when can expect an announcement on that confirmation coming through?***
***Thirdly, I guess it's a numbers question; fixed-line depreciation for the 1Q was very low. I'm guessing that's due to the negative goodwill amortization and I was wondering if you can confirm that particular number for me?***

**Rosie:** Anand, to answer your first question, I think, as you have seen, beaten our 1Q guidance. Our 2Q remains as conservative, as you have seen.

Your 2nd question, on the forgoing dividends on the part of TFN, it's already confirmed. It's up to how much we still hold, I mean, TFN still holds on the ex-date. So, if on the ex-date, our stake remains as it is now, then they will just forgo all of them.

And, on your 3rd question of your fixed-line depreciation, the answer is yes. There won't be much more goodwill adjustment.

**Anand:** *How much was the goodwill adjustment in the 1Q? NT$40 mn?*

**Rosie:** zero.

**Anand:** *There is no negative goodwill in the 1Q?*

**Rosie:** no.

**Skular Wang, Morgan Stanley HK:** ***I have two questions here. The 1st is follow-up on the EBITDA margin. EBITDA margin is quite volatile on a QoQ basis, so what is your expectation on the full year EBITDA margin?***
***The 2nd question is on the capital reduction. Because the capital surplus has increased NT$3.5 bn due to the treasury shares you sell in 1Q, is there any possibility to use it to do a capital reduction in '08?***

**Rosie:** In '08? Ok.

**Harvey:** I won't say that our EBITDA margin is volatile. I've been in the semi-conductor business and I call that volatile margin. I think a few percent up and down are normal. It depends on the environment. We try to give you as an accurate picture as we can. But, there are a lot of uncertainties. So, that's our answer. I can also tell you if you think a high 40% margin is good, let me tell you, the government will not like to see that. And very soon they will be on our back. I think we just try to give you; we are not in a different business vs. a year ago. We are a full-fledged telecom trader. But we have other businesses. So, on the fixed-line, for example, you will somehow dilute a bit EBITDA margin.

And, on capital reduction, we don't have this plan for 2008.

**Henry Cobbe, Nevsky London:** ***Question on the share counts, can you update following the transactions in 1Q what the full number of treasury shares?***

**Rosie:** Full number of treasury shares? We still have 21.4%; that translates into 811.9 mn shares.

**Jimmy Cheong, JP Morgan HK:** ***I have two questions. The first is some commentary in the local press suggesting you're thinking about a nationwide, island-wide NGN fiber network, can you please update us on the plans there and what should we factor in capex potentially in the next few years?***
***The second question is related to the status of some small "bolt-on" cable acquisitions in nearby areas to your existing footprint, how is that progressing?***

**Harvey:** I'm afraid can't give you much color on both of your questions. First of all, I'm not sure what is this thing you asked, island-wide NGN? I'm not sure what is this article you're referring to –

**Jimmy:** *There was some commentary; I think it was possibly one of your division managers, George or someone, making some comments in Taipei Times and also Economic Times on possibly looking at rolling out fiber and competing with CHT more head-on. I mean, you can completely deny it and say that's not what you're exploring if you can, Harvey. Thanks.*

**Harvey:** Well, fiber network is not NGN. That's a very big difference between a fiber network and a sort of FTTX or FTTH. That is very different from what we're talk about in next generation network. As to FTTX, I think we are looking at how we can provide higher broadband access to our CATV coverage areas. I think we're exploring that. Right now, we haven't got a firm number on the CAPEX yet. There are some cases that we are looking at. But I don't you will have a dramatic impact on our CAPEX number in 2008.

Your 2nd question is on –

**Rosie:** cable acquisition.

**Harvey:** The cable acquisition, I'm afraid can only be talked about when the deal is consummated.

**Jimmy:** *Ok, fair enough, but that's something you're still looking at.*

**Harvey:** Yes, we always looking at it.

**Mitchell Kim, Morgan Stanley HK:** ***Two questions. It says in your earnings statement that your EBITDA is higher than guidance b/c of 1) less-than-expected new subscriber acquisitions and 2) better controlled back-office expenses. When you say less-than-expected new sub acquisition, is that b/c you intentionally cut back on marketing or promotion or did you just find that subscribers have less demand for services? If you can add more color on that.***
***And, secondly, on controlled back office expenses, where is that coming from and is still something sustainable going forward?***

**Rosie:** On your 1st question, I would say that you probably can not look at our revenue growth only from subscribers point of view. There are other factors contributing to the growth. If you look at our quarterly numbers or monthly numbers, you'll find that actually our recent growth has been driven by our prepaid business growth as well as VAS growth. So, it's only one factor contributing to the growth. But we won't say that there is less demand in the marketplace for our services. We just do it in a more dynamic way.

**Harvey:** Let me add that what we say when we say less than expected acquisitions is that we view our marketing scheme and product we offer to the market month-to-month, quarter-to-quarter. We always come up with new product offering portfolio to the market and, meanwhile, some times we will also adjust, for example, how we work with the channels and how we pay them commission and what are the events on them. That is also been adjusted month-to-month, quarter-to-quarter. And for the 1Q, no exceptions, we have some new schemes working with the channels. Basically, we are raising some of our demands on the quality of the customers from the channels. Actually, though we have aggressive acquisition target, I think the channel do not achieve as much as we would like to see. It is not a real problem for us. We just try to make them to do as much as they can. Meanwhile, we are raising the bar on the quality. I wouldn't worry too much about the less-than-expected acquisitions because, as Rosie said, it's not the only way we grow our business. This market is saturated anyway. We just want to attract our fair share of people who want to leave their carriers and try to look for different services. I won't be too much concerned about the statement.

As to the back office expenses, it has to do with a number of factors including reviewing our headcount composition, including faster collection of our receivable from the consumers. It's a combination of many different factors. Whether it is sustainable or not, we don't really know.

**Kathy Chen, Goldman Sachs HK:** ***I have three questions. Firstly, can you give us an update on the talks to sell the treasury shares? Earlier, you had highlighted that potentially there couldn't be a capital management this year. But if you added further treasury shares from this year, is there a thought process that you would be willing to do capital reduction after that with the capital surplus that you can book from those shares?***
***Secondly, can you give us an update on the integration of TFN in terms of cost and the revenue stats? Would you say most of the cost-cutting or cost-synergies have been realized at this point in time?***
***And, lastly, regarding this new convergent triple-play product "TWM Family", can you give any color so far on how this product has been doing in terms of subscriber take-up and what kind of discount is offered on this product?***

**Rosie:** Kathy, on your 1st question, we probably can not comment more on the treasury shares, as Harvey put it earlier. And, also on the capital reduction, he has mentioned that we don't have any plans to do further capital reduction in '08 at this point in time.

And, on your 2nd question, integration with TFN, it has been completed already. The cost synergy has been reflected in the numbers already.

On your 3rd question, it's on the triple play product, I think the CAPEX incurred have been reasonable. It's part of our CAPEX plan this year. As you know, we may not have substantial increase in CAPEX. Though the final number is yet to be reviewed, but I don't think there will be a huge increase in CAPEX for the long shot products.

**Kathy:** *For this last question, I was asking about how the take-up has been because it's already been launched earlier this month?*

**Rosie:** The take-up rate currently is still below 10%. The number is still quite small. But, we expect to see it close to 10% by the end of this year.

**Kathy:** *And, then how does that impact the ARPU that you see compared to the current levels? Is it a big discount that you're getting if you sign up for all three products versus what you're getting from a stand-alone basis right now?*

**Rosie:** As a general rule, as you can see from our ARPU trend, you don't see a decline, a huge decline or a dramatic decline in ARPU, so that says clearly that the product does not offer a huge discount to our subscriber for triple play.

**John Kim, Merrill Lynch Korea:** ***I have two questions. First pertains to your cable business, can you comment on your mid- to long-term CAPEX expectations for your cable business since you'll eventually have to upgrade the network to digital cable? And, related to this, does the management currently have any expectations and goals for broadband market share you would like to achieve in your current service area for 2008 and beyond?***
***And, second, can you provide some color on the upcoming regulatory environment and whether or not you're expecting any changes considering the new government is scheduled to come in shortly?***

**Harvey:** On the regulatory environment, right now we are just waiting. Actually, right now, we don't have much of a clue. I guess the new prime minister is busy with his ministries. He hasn't gotten around to address the NCC issue yet. We do expect new NCC committee member, but I don't know what time that will be done. I suspect some time 3Q this year.

As to the cable business, we are in the process of upgrading our network. This is also a requirement from the regulators to provide a digitized network and there will be some capital expenditures. The number we have so far is not a huge number. It's still something manageable. Right now, we haven't come up with a really aggressive CAPEX plans in terms of upgrading our broadband capacity.

On the broadband market share, right now, out of our current cable TV coverage areas, we have something like 12-13% subscribing our broadband services.

**Rosie:** We expect it to grow by 40% still.

**Harvey:** Yeah, 40% means another 3-4%

**Rosie:** Yeah, another 3-4% for our cable coverage area.

**Henry Copper, Nevsky London:** ***Regards to capital reduction, I know you can't make a comment too much, but could you just confirm that, given you've just completed a rather large capital reduction, it would probably be unreasonable to expect there would be any further capital reduction this year, but could you just confirm that you're not ruling this out for future years so, in the near term, as shareholders, we can possibly expect a dividend this year possibly augmented by the forgoing of the dividend by the treasury shareholders and there's nothing to stop you from doing a capital reduction next year, can you just clarify that please?***
***And, also, can you update us on when the record date for dividends this year?***

**Harvey:** We haven't set a record date yet; usually, some time in August, September. What you're saying about capital reduction, you are correct. We don't rule out the possibility as far as 2008 is concerned. It's not practical to think about that.

**Shirley Tse, UBS Taiwan:** ***Two quick questions. First, on your guidance, is it possible to get a breakdown in terms of your revenue and, also, in terms of EBITDA margin by division, if not, just on the mobile side?***
***And, secondly, I was wondering if you have gives us some commentary on what you look at in terms of the mobile competition right now, if you do see it intensifying, because we noticed one of your competitors has launched off-net/ on-net rates tariff, that's a standardized tariff, that you and the other competitors have yet to react. Do you still see it as rational as late last year or competitive pressures are stepping up?***

**Harvey:** We don't see a dynamic change on the competitive environment. Whether you call it rational or not, I don't know. We think the competition has intense for quite some time, but we are not going to do anything too dramatic right now. I think what we have on the mobile business side is just fine. And, to the guidance, what Rosie can tell you.

**Rosie:** Maybe we can email you. Can you contact us later for the breakdown?

**Shirley:** *Ok. Thanks, Rosie.*

**Jimmy Cheong, JP Morgan HK:** ***Very quick follow-up. You mentioned that you intend to write-off NT$396 million in 2G asset for 2Q08, what is the full year expectation for the asset-off?***

**Rosie:** It's close to NT$2 bn.

**Terry Chan, Credit Suisse HK:** ***Can you give us some guidance on the full year tax rate?***

**Rosie:** 25%.

**Tien Doe, GIC Singapore:** ***Just follow-up on Anand's question right in the beginning. The reason for fixed-line depreciation being so low, what is that reason again?***

**Rosie:** The fixed-line depreciation decrease?

**Tien:** *Yes*.

**Rosie:** That's because we roll down a lot of fixed-line equipment last year. So, that resulted in the decline.

**Tien:** *So, you expect fixed-line depreciation to continue at that level going forward as well in the remaining quarters?*

**Shirley Chu, Director – Investor Relations:** This will not have any impact on our P&L for this year compared to last year. Because last year, although fixed-line balance was relatively high, therefore they had high depreciation amortization expense, but when we do the consolidated P&L for last year, we had an item called negative goodwill amortization by reducing the total D&A. And this year, we don't have any negative goodwill amortization anymore because we have written down fixed-line fixed asset balance. So, if you look at this year and last year, this will not have any impact at all.

**Tien:** *The 1Q depreciation for fixed-line, that's indicative for the rest of the year.*

**Shirley Chu:** Yeah, it will stay at this quarter's level.

**Moderator:** Excuse me, Mr. Chang -

**Harvey:** Ok. Jus thank everyone to join us here. We'll see you next time. And hopefully give more positive news. Ok, see you next time. Bye.

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