

**Operator:**

Welcome everyone to Far Eastone 2012's 1Q earnings conference call.

All lines have been placed on mute to prevent background noise. After the presentation, there will be a question and answer session. Please follow the instructions given at that time if you would like to ask a question. For your information, a webcast replay will be available within an hour after the conference is finished.

Please visit [www.fareastone.com.tw](http://www.fareastone.com.tw), under the Investor Relations section.

I would like to introduce Mr. Gary Lai, our IR Officer. Gary, you may begin.

**Gary Lai:**

Thank you everybody for attending our 2012 1Q investor conference call. Our President Yvonne and CFO, T.Y., are here with us here today. And before we get into Yvonne's presentation, just a reminder, the latest presentation material is available on our IR website right now. So, you can feel free to go on and download it, including our EBITDA information.

Then we pass to Yvonne to begin our presentation today.

**Yvonne Li:**

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Good afternoon and good morning, all the dear investors. Today I will start with this quarter's update, by starting with a very brief marketing overview. For the Taiwan mobile market, in the 1Q FET continued to be the leader. We actually grew the most with our mobile service revenue; which is growing 9.7% on a year-on-year basis. With our data revenue, it is up by 48.1% on a year-on-year basis. And overall, the mobile market competitive landscape, although is competitive on a daily basis, still remains quite stable in the overall market dynamic.

**Slide 6**

Then I will come into the 1Q performance. I will start with the subscriber growth, which I think is the base for all the growths. Our total subscribers continued growing for a consecutive 23 months. In the 1Q, we have grown the subscriber number by 4% on a year-on-year basis, and right now our total customer is close to 6.7 million customers. Within that, 22% is prepaid customers and 78% is postpaid customers.

**Slide 7**

Aside from the customer growth and the traffic, ARPU is also continuing to grow. If you look at the left-hand chart, our overall postpaid minutes of use has been growing very nicely and continued expanding, as we have reported, 8.4% on a year-on-year basis on the total postpaid minutes growth. On your right-hand slide, in conjunction with this traffic growth, our ARPU is also growing very nicely, about 7.7% on a year-on-year basis, despite all the negative regulatory impact on our top line.

### **Slide 8**

In terms of the financial performance, for revenues, our consolidated revenues on the total revenue base, in the 1Q, we are growing 20.5% on a year-on-year basis, and reached NT\$21.3 billion in the 1Q. And out of that, the service revenue is NT\$16.8 billion, which is very nice, with 10.4% year-on-year growth on the service revenue part. On the mobile, service revenue has been also continuing to grow very nicely and the growth rate continued expanding; in the 1Q, on a year-on-year basis, we are reporting 9.7% on a year-on-year growth basis for the mobile service revenue.

### **Slide 9**

In terms of the profitability, our consolidated EBITDA continues to grow, and on a year-on-year basis we are also very pleased to report that the EBITDA absolute number is growing 9.7% on a year-on-year basis. And our net income is growing 23.5% on a year-on-year basis in the 1<sup>st</sup> Quarter.

### **Slide 10**

Behind all this growth of the traffic, the subscriber, and the profitability, I think the main growth driver is still coming from the mobile data. The mobile data growth continues growing very nicely, and the growth rate continues to expand. In the 1Q, we are reporting a 48% year-on-year growth on the total mobile data growth. And right now, at the end of the 1Q, mobile data represents 27.4% our total mobile service revenue. And in terms of the data service subscriber, it is a 63% year-on-year growth, and so far we are still seeing this growth trend, it continues without any slow-down signal.

### **Slide 11**

On the consolidated financial, I will go over very quickly. Our total revenue, comparing to the same period of last year, is growing by 21%. And we over-achieved our financial forecast by 9% in the 1Q. In terms of service revenue year-on-year growth, it is more than 110%, and we also exceed our guidance by 2% on the service revenue.

EBITDA line we are growing year on year by 110%, and in terms of guidance we are above the guidance by 1%. Come into the bottom-line, the net income year-on-year growth is close to 24% and ahead of the guidance by 2%.

### **Slide 12**

On the balance sheet, Far Eastone continues to have the net cash position line. Our net cash at the end of the 1Q is close to NT\$13 billion, and our free cash flow for the 1Q is NT\$3 billion. So, roughly I think every month NT\$1bn free cash flow is being generated for the Company.

### **Slide 13**

Then, aside from all this financial outcome in the 4Q, some more business related update to all of you. And the first is, we would like to update on the smart device statistic; I think this is main growth driver for the top line. And our smartphone penetration rate at the end of

the 1Q has reached 28% of the total postpaid customer base. And in terms of the new devices we sold in the 1Q, 79% is smart devices, which is smartphone plus the tablets, essentially all the smart devices. And we continue to see that the smartphone penetration rate is growing at least +1% per month. And we do not see any slowing trend and we believe that this trend will continue at least for the next 1.5 years.

For the ARPU, the average smartphone ARPU has still maintained very good at 1,500 a month; that is essentially double of the feature phone users' ARPU. Usage has been quite stable for the past quarter, for the smartphone user the average per month data usage is about 1 Gbps, with the tablet usage is around 2 Gbps per month.

### **Slide 15**

In terms of some of the other business, I would like to take the chance to give you a more detailed elaboration. The first, I will start from all the value-added services. Everybody is trying to create a different revenue source, which is coming from all the apps, and I believe that Far EasTone is leading on the mobile value-added service, both on the breadth and the depth. Here, we are just sharing with you that we have a lot of so-called exclusive and very innovative apps that are currently listed in our application store.

So, this is the one thing that we can build our differentiators with our peers and also create stickiness, as a churn management tool. In fact, Far EasTone has reached a record low churn rate at the end of the 1Q. So, I think all this value-added service certainly plays an important role in terms of the customer stickiness as well.

### **Slide 16**

The next, also another very important future growth driver for Far EasTone is the enterprise. And our focus is, we are targeting on the SMEs and also some of the big enterprises there, particularly on the their private cloud business requirements. I will go in a little bit deeper, there are a few dimensions we are focusing on for enterprise business. The first one, of course, is the customer satisfaction, and our goal is to continue to be the number one in the enterprise customer satisfaction.

Then, I will go clockwise, the next very important thing is to continue to enhance our account management capability, actually transforming from the traditional sales forces moving on into the big account management concept. So, that actually increases the breadth or depth of the relationship with big corporations.

In terms of Last Mile, although we do not have the Last Mile to hold, but we continue to build our Last Mile to some buildings to actually create new business for enterprises. So, actually on the fixed line business, we continue to grow very nicely, particularly in the 1Q, I think all this effort starts to paid off.

In terms of new solutions, and we actually want to capture the growth opportunity from the emerging ICT solution and the cloud services. So, we pretty much focus on, we have identified certain areas that we will be focusing on for the ICT. And for the cloud solutions, I think at this stage we are mostly focusing on the private cloud for the big enterprises to generate more revenues.

In terms of the carrier business, right now we have very good alliances, aside from the traditional CONEXUS, we are adding on China Mobile and Vodafone into the roaming alliances partner, so that we actually give all our enterprise customers a better roaming rate. So, that actually we start to see that increasing international traffic in the enterprise side.

Last but not least, the market share; this is one of the very important KPI for our enterprise team, that at the end of last year our market share for the enterprise is 12.5%, and our angle for this year is 13.6%. So far in the 1Q, we are being very successful. We have reached 13%, so it is very likely we probably can outperform under the internal target we have set to ourselves. So, up to next year, we hope that we can at least achieve 15% market share on the entire enterprise business.

### **Slide 17**

Network, which we always say this is the so-called genes of a telecom company, and this year the focus continues to be coverage, capacity, and speed. And this in terms of coverage, our 3G mobile, the coverage will reach 99% also for the data side.

On the capacity, we will continue to add on the second and third carriers, the high data usage sites, and we will continue to increase our self-owned backhaul to +90% by the end of this year.

In terms of speed, right now we are pretty much aggressively deploying the HSPA+, and we will expand 42 MB sites in six major metro cities, to actually have a better speed.

### **Slide 18**

In terms of the synergy with the Far Eastern Group, I think this is an area where we have some advantage comparing to our competitors. This year, the outlook has opened some very distinguished new department stores in Taiwan, and Far Eastone has actually started to put in our retail store into the Far Eastone department stores. By doing this, we are actually expanding our customer base into different areas. So far, we have gone into five new department stores, and the end result was quite satisfactory.

### **Slide 19**

In terms of service, I think we have laid out to ourselves that our vision is to be the number one customer satisfaction telecom service provider in Taiwan. So, we will continue to enhance our customer service promise and our service innovation.

We have launched the so-called 360 Degree services to our customers, and aside from the shorter queuing, the faster kiosk billing, and the better customized services for VIP, or some reservation services for our VIP, and also the better personal security, and we will continue to get the SGS certification; all this trying to deliver our promise to our customers regarding our superior services.

And also, by seeing all these smartphones getting higher and higher, we certainly feel that we need to start to have some tutoring classes for the end consumer, so that they can

utilize more innovative apps, or our service on their smartphones. So, starting from this quarter, in the selective retail store, where they have larger spaces, we have actually started to open up all these tutor classes. And feedback from the consumer, so far it is in the preliminary stage, and they are all very happy.

### **Slide 20**

And our number one customer satisfaction goal, actually we are moving towards our targets, and in Taiwan every half year we have all this very big scale customer survey that is across all the operators, covering the six major dimensions, which is network quality, pricing, billing, in store service, customer complaint, and call center services. And our overall satisfaction score, if you see from about two years ago, in the 1H10, our score is actually continuing to increase. Essentially, comparing to two years ago, our overall index has been increasing more than 4%.

### **Slide 21**

The last chart for the business update is on the cross-strait cooperation. I think this year we continue to expand our cooperation with China Mobile, and particularly we will be focusing on the music and game, where we see there is a bigger market growth potential. In the music side, in March we have won the so-called monthly ring back tone pack bid, and actually in the 2Q we also won RMB1 million, the album bid. So, this is very good progress on the music side.

On the game side, we also obtained the Level A qualification, which we can launch our G+ pack to actually increase our revenue. So far, we are ranked number one in the G+ pack base, the number one in acquiring the new customer in January this year.

On the device preload, this year our revenue is up by 500% on year on basis in February, and we have a very aggressively co-op with the branded handset, and a game vender to actually push the revenue upwards continuously.

In terms of the so-called mobile market stores, in China mobile space we have accumulated more than 2.3 million downloads so far, and we are ranked in the top three branded stores for sixth consecutive months in that mobile market. For eBook and the eComic we are also progressing very nicely and we continue to expand the content; in those two areas we are foreseeing that gradually there will be more revenue opportunity coming in for us in the later quarters.

### **Slide 22**

There is one more chart, which is for the service and innovation. In the 1Q Far Eastone has obtained the ISO 50001 Energy Management System certification, and we are actually the number one among all the telecom operators to receive this Energy Management System. And I think going green is the focus of Far Eastone, and we will continue to do this.

In terms of the customer privacy protection, this is a major undertake for Far Eastone. In the 1Q we have managed to obtain the ISO 27001 and 27011 regarding Information Security Certification in the 1Q. This time we have actually deployed quite expanded scope and over

+3,000 employees in the Company are being covered by this certification. And we believe by obtaining this certification certainly we will actually further increase our credibility with our end consumers.

In terms of cross-strait link, we are also happy to report that at the end of March the NCC has approved the submarine cable between Fuzhou to Danshui. I think down the road there will be more business opportunities for the enterprise regarding cross-strait that can be linked with the submarine cable. And I think if everything goes on schedule, the submarine cable will complete the installation by end of this year.

On the innovation side, which I think is one of the core values of Far Eastone, I just reported that we have launched a private cloud for enterprises in the 1Q, and our subsidiary Arcoa has embraced a new concept, which was launched, we opened a new channel called “laphone” mainly focusing on the devices and accessories. We just opened it two days ago, in a very famous night market area in Taipei, and we received very nice feedback. I think this is a trend with all the smartphones have been sold out in the society; they are increasing demand on the devices and accessories. So, this is the store that customer can just pick and go, a very nice, very bright store, with more than a thousand varieties of accessories.

#### **Slide 24**

After completing the business update, I believe many of you will be keen to know our dividend for this year, and I am here also happy to share with you that the Board has just approved a dividend of NT\$3 per share, and we are expecting to pay out this dividend in the 3Q12. And if you see on your left-hand side, Far Eastone has been always saying that our dividend policy will be at least 90% cash payout in full. This time we are happy to report that we are going to pay out like 110%, which is NT\$3.0 per share for the year.

I think Far Eastone is always well known to the investor that we have a consistent dividend policy with a good track record, and down the road I think, without any major M&A activities, we will be able to promise at least 100% payout going forward.

So with this chart, that concludes our 1Q update to all of you. Right now I would like to open for any questions you may have. Thank you.

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