

**Operator:**

Welcome everyone to Far Eastone 4Q10 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 information, our webcast replay will be available within an hour after the conference finish. Please visit [www.fareastone.com.tw](http://www.fareastone.com.tw), under the investor relation section.

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

**Gary Lai:**

Good afternoon, everyone. Thank you very much again for attending our 4Q10 results conference call. Both our President Yvonne, and CFO, T.Y., are here for the call. And as a reminder, if you have not got our presentation material, please, it can be downloaded from our company's website.

I will pass to Yvonne for her presentation. Thank you very much.

**Yvonne Li:**

Good afternoon and good morning to all of you investors. First of all, I would like to take the chance, as it is just right after the Chinese New Year, so I would like to wish everyone a very successful 2011.

**Slide 4**

Right now I am moving into the market update. First, for 2010, in the entire Taiwan market, the total Taiwan telecom market revenue in the 4Q actually increased slightly above 2.4% on a year-on-year basis, and all of this 2.4% coming from the mobile sector, is about 4.4%, while the fixed line segment continues to drop, 1.8% on a year-on-year basis.

On the total subscriber numbers, almost the same trend of the telecom revenue, the mobile subs continues to grow on 5.2% on a year-on-year basis, whereas the fixed lines continued to drop, 5.9% on a year-on-year basis. The total traffic on the entire mobile sector continues to grow quite nicely, about 7.8%, while we also see the fixed line traffic decreasing 4% by an annual basis.

**Slide 5**

In terms of the overall mobile sector revenue, I would say the market share remains very stable. With Chunghwa telecom still the number one, and both the smaller two, APBW and VIBO, we do see their market share as being a little bit shrink in the last quarter or so. I think the big three operators are getting more data revenue from promoting the data services with all these smart devices, which I think the smaller two are behind competitors in this category.

On the regulatory side, I believe all of you have already known that from some of our dear competitors. Our regulatory authorities continue to have this pricing challenge to all the operators. So, starting from January this year, we have this pricing right change

from fixed to mobile, back to the fixed line operators, and we also strongly believe that the this X value main continue this year from April onwards.

Another update is that so far the preliminary indication from our government authority is regarding the next generation, the network licenses, most likely will not be re-issued until 2015. So during this period I believe all the operators will be still pretty much relying on the current 3G and HSPA network to continue our network deployment plan.

### **Slide 7**

Then coming into our 4Q performances, I am quite happy to report to you that Far Eastone has been continuing to report a growth on the overall subscribers on the 3G part. On the total subscriber numbers, on a year-on-year basis, we grew like 1.9%, and 3G is 12.5%. So I think that has been quite a consistent momentum this year that we continued to build our customer base.

Another indicator we are also looking at is on the ARPU side. It is also quite encouraging. Our ARPU is continuing to see a growth trend, because of the data take-up. So we have been able to actually continue to grow overall service revenue.

In terms of the overall traffic from the postpaid segment, we also see quite a good phenomenon. And the trend is that the overall usage from our subscribers continues to grow.

### **Slide 8**

So overall on the consolidated revenues, that you see on your left-hand side on the slide, that on quarter over quarter we have been able to report a growth on the total revenue and on the service revenue. So on a year-on-year basis, our total revenue is growing like 18.3%, and on the service revenue year on year was growing 15.3%. So, that has been quite a stable trend for Far Eastone.

On your right-hand side, this is a different segment, it is on the mobile service revenue, year on year it is about 2.3% growth, versus the fixed line, about 8% growth on a year-on-year basis.

### **Slide 9**

Also another very good news is on the data revenues, that year on year, from 4Q versus last year, our total data revenues is growing like 28.4%. And in terms of the total data revenues, representing the percentage of the total service revenues, we have reached 18%, and this ratio we continue to see an upward trend, even coming into 2011.

The total data users in the portfolio is also growing quite nicely, that on year on year we have been growing above 45% on the total data subscribers. That is certainly due to the smartphone being very popular in the local market here.

### **Slide 10**

A little bit deep into the different allocations of our mobile data revenues. We just reported to you that our year-on-year mobile data revenue is growing 28.4%, and all of that, of course, right now out of the total data revenue, 41% is coming from the wireless

broadband, which is coming together with the smart devices. So on a year-on-year basis, our wireless broadband plus the transmission is growing 63%.

Another very encouraging factor is on the entertainment part, actually we are seeing it growing like 94% on a year-on-year basis, and on the commerce side, it is also growing 52%. So, all these we will see continuing to grow driven by all the smart device popularity in the local market.

#### **Slide 11**

On the financial results side, I believe all of you have seen our factsheet, which our total revenue has been able to report 2% growth over our annual guidance. And on the service revenue, we have achieved our target, slightly above 4%. On the EBITDA side, however, it is slightly behind our forecast, mainly due to that we actually sold much more smart devices in the 4Q, and I think all of you know that in Taiwan the smart devices, we sell it with a heavy subsidy, particularly on the iPhone and high-end Android phones. So, that certainly impacted short-term on the EBITDA side, and will go into our bottom line.

#### **Slide 12**

On the balance sheet, I think that even after we acquired NCIC, overall the balance sheet is very strong. Free cash flow for the last year, we have been able to achieve close to US\$14.5 billion, and the total CAPEX, we ended the year with a total spending of about US\$8.2 billion. So net-net, I think Far Eastone is still in a very good net-cash position, about US\$6.5 billion.

#### **Slide 13**

Smartphones, I think the take-up actually drives up very strong data revenue growth, and our smartphone is actually already accounted for 44% of the total new handset we sold in the 4Q of last year. Coming into January this year, we see an even higher percentage on this rate. Smartphone penetration has reached 11.4% of the total postpaid subs, and we expect that this number will be at least doubled by the end of this year.

Smartphone users ARPU, I think a lot of you are always asking about this number, is more than the double of the normal users ARPU, and their data percentage increased to 32% versus the average, which is around 18%. Current the average smartphone user's data usage is around 700 to 800 MB a month, while we have observed some very preliminary tablet numbers, because tablet is just being introduced in the 4Q, in the end of the last year. It is about double of the average smartphone usage on the tablet segment.

#### **Slide 14**

So, this is a very brief update on our smartphone stats so far. We will continue to have a full range of the smartphone and tablet devices, specially that I just came back from Barcelona and we did see that a lot of very good tablets or even smartphones will come into this market from the 2Q onwards, and also more interestingly we will hope to see more mid-range or even mid-low range kind of smartphones to come into the mass market in the 2<sup>nd</sup> half of this year.

### **Slide 15**

Another very exciting thing to report is on our 'e-BookTown' that we have always targeted ourselves to provide the largest and newest e-Books in our eBookTown. So far we have been seeing that we have quite a good growth on the overall memberships, so we will certainly see that by the end of this year we will continue to see quite a growth in this segment to us.

### **Slide 16**

'S Mart', which is our Android-based application store, right now we can probably say that this is the most popular Chinese Android-application store with the local relevance, and we have all these variety of apps. The download times have been quite good, especially in the 4Q with all the more variety of Android phones into the market and into our customer base, which we do see the download times growing significantly. And our target will continue to be the number one Chinese Android-application store of Asia in 2011.

In terms of all these download apps, the most popular one is still on the utility segment and coming next is other entertainment related applications. So, right now we have approximately about 1,500 applications available and we expect this number will continue to grow and double by the end of this year.

### **Slide 17**

Another quick asset base that Far Eastone developed is, you know that last year we updated you that we set up a joint venture with the several leading music labels in Taiwan to form up this Omusic company to offer the music services on the Internet or even on the mobile platform. We have just launched this service two days ago and we are actually pioneering to a new era for legitimate Chinese-language digital music locally in Taiwan.

We certainly expect that this entertainment, which is the music segment, will bring us a lot more data revenue growth. Initially, when we launched two days ago, we are actually hosting around 200,000+ tracks onto this music platform, and we are the first one in Taiwan to actually offer this DRM free ringtone downloads in this music platform. So we start with a very attractive price per song and we actually attract a lot of interests in the society for this service.

### **Slide 18**

Then a little update on our collaborations with China Mobile, our consumer products. Actually this collaboration has two focuses; one is on the consumer sectors, which we will leverage the asset base that Far Eastone developed in Taiwan and export it moves onto the China markets. So, we will be focusing on our application store, the music platforms, and the games, and also the e-Book services.

On the enterprise side, right now we are working with the Chengdu Mobile and together with Chengdu city and we have a big Wireless City project, right now working with them. The project will be pretty much focused on the information security, machine-to-machine, and some of tourist-related call services. So, hopefully in mid of this year, we will be reporting quite good progress in these big projects.

**Slide 19**

Also some operational update on our application store being published at the China Mobile's market. We actually listed our application store in November into the mobile market of China Mobile. So far we have slightly above 80 applications being listed now, and we expect to grow 10x by the end of this year. The accumulated downloads so far is about 165,000 just in less than 4 months only, so we are currently ranked like number three in the entire mobile market in China Mobile. So, it is a pilot one and we certainly expect to see a lot more growths in this mobile market.

And right now our paid versus free apps ratio has been improved from 10% to 90% to right now 70% to 30%, and paid percentage actually increased from almost 0 to 12% so far. So it is quite a good growth there and we will continue to work very closely with China Mobile on this one.

And also China Mobile, because they piloted this from their Guangdong Province office and this year they have a very aggressive plan and also an internal target to actually spread it into the entire China markets. So this we certainly see as a tremendous growth opportunity in the S Mart.

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On the guidance for 2011, we still see that the total revenues, because of all these smart devices coming into the market, our total revenue is expected to grow 17% on an annual basis. Our service revenue, even after this NT\$2 billion impact from the pricing right change and also the X value, we are still expecting to see a year-on-year growth of about 12% on the service revenue.

On the EBITDA side however, because of all these heavy subsidies on the smart devices, we are only forecasting about 1% growth on the year-on-year basis. This is after the pricing rights change impact of about US\$1.4 billion. So, in short the X value and the pricing right change to us the impact on the top line is about NT\$2 billion and the impact on the EBITDA is about US\$1.4 billion.

So, the overall EBITDA margin, because of this continued quite good take-up on the smart devices, we are targeting about 30% this year. And net income, we are looking at about -4% at this stage, also because we had quite a heavy investment on the network from the previous two years. So, on the depreciation side actually, it will give us some slight increase on this depreciation line. Net-net, we are looking at about year-on-year forecast of -4% on the net income line.

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On the CAPEX, we will continue to invest into both the coverage and the capacity on our current 3G or HSPA network. So, on the mobile side this year the target of CAPEX investment is about US\$5.9 billion. On the other hand, on the fixed line this year we have actually budgeted about US\$2.35 billion investment on the fixed line. I think the major two components are: one is on this cross-strait undersea cable that other operators are also working together with the Chinese operators.

Another one is we continue to increase our self-owned backhaul ratio, so that is going to be some investment into that. But that will translate into cost savings on our

operating expenses. So, net-net this year, we are still targeting about 12.9% of our total service revenue being invested into CAPEX.

So that very quickly concludes my presentation to all of you for the last quarter and looking into this year, the financial targets.

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