

Operator:

Welcome everyone to Far EasTone 2Q11 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, under the Investor Relations section.

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

Gary Lai:

Thank you, everybody, again for attending our 2Q11 conference call. We will start with a brief presentation from our President, Yvonne Li; and both our CFO, T.Y. Yin and Yvonne Li are here for all questions you might have. So, let us begin with Yvonne's brief presentation. Thank you very much.

Yvonne Li:

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Thank you. Good afternoon and good morning to all dear investors. As always I will start to update Taiwan telecom market for the 2Q. So, in the 2Q, the overall Taiwan telecom market has actually increased 3.7% on a year-on-year basis. And out of this 3.7%, the mobile revenue is growing 0.2% on a year-on-year basis versus the fixed-line, which is growing 11.4%. But this is not really due to the real business; it is mainly due to the fixed-to-mobile pricing right change, so that you see this result in the 2Q.

In terms of the overall traffic, the mobile side with all the subscribers that continue to grow, later on you will see the update. The total mobile outgoing minutes are also continuing to grow. It is 6% year-on-year basis versus the fixed line, which is continuing to trend down.

Overall subscriber, the total mobile subs is growing 4.9%, very close to 5% on a year-on-year basis. The majority, I believe, is driven by the data subscribers and the fixed-line subs have a slight growth of 0.7% on a year-on-year basis.

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Under mobile service revenue share, here I think Far EasTone also has some good news for you that we did make some progress in the 2Q in terms of total mobile service revenue share, which you are quite familiar with, that we actually gained 0.6% on the revenue market share and we gained additional 0.2% share on the subscriber market. The main revenue growth driver is actually the more and more smart devices coming in and actually helping to drive up the data revenues.

Unfortunately, on the regulatory side all the operations in Taiwan right now are still quite restricted by NCC to import core and transmission equipment from China. So, that certainly has some impact on all the operators' buildup plans.

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Next one, I will start to update about the 2Q performances of Far Eastone that in terms of our total subscriber is growing 4% on a year-on-year basis. On your right-hand side, you can see the chart that, in terms of the 1H, the total subscriber growth, actually Far Eastone is leading the other two main competitors in the market.

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On the MOU and ARPU for the postpaid customers, we also have good news for you that the total usage of the postpaid subscriber is actually growing on a 5.8% year-on-year basis in the 2Q. You can see that quarter-by-quarter it is an accelerated growth rate.

Also, I think good news to us is the ARPU, actually we also started to see an accelerated growth month over month in terms of the ARPU trend versus the same period of last year. So, with the data revenue and the data subscriber continue to grow, we certainly expect that this trend will continue.

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On the top line, on your left-hand side, which is the consolidated revenue. On the total revenue base, we have posted a 24% year-on-year growth versus the service revenue, which is 18% growth on a year-on-year basis. The main difference is coming from the equipment revenues.

The mobile service revenue, you can also see on a quarter-by-quarter basis, we are growing and also on a year-on-year basis you can also see accelerated growth rate on the top line on the mobile service revenue.

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In addition to our mobile side, the fixed-line also posted quite a good performance in the 2Q. You can see that on a year-on-year basis from April to June that we can actually maintain a growth rate from 9% to 17%, so it is quite a nice growth. And most importantly is the profitability on the fixed-line business. The EBITDA percentage is a continuing growing trend and right now it has reached almost 20% on the EBITDA margin for our fixed-line business.

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So, I think with the improving mobile and the fixed line segments and our consolidated EBITDA, you can see that starting from May-June we start to see a year-on-year accelerated growth on the EBITDA trend. Certainly, we expect that this trend will continue and for the 1H, the net income, we also start to see quite a positive trend on a year-on-year basis.

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After reported all these financial numbers, then we will look into a little bit on the mobile data side. So, on the left-hand side you can see our mobile data growth on a year-on-year basis. It is also quite a good momentum. It is also accelerated mobile data growth on a quarter-by-quarter basis. Right-hand side is the data service subscriber. You can see that the data subscriber numbers is also still in a quite accelerated growth trend. So, right now I think the 2H, with the mid and low tiers smartphone coming into the market we certainly expect that this trend will further accelerate.

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In terms of the data revenue, a little bit of the split is the year-on-year we just reported to you, 39% year-on-year growth. The main growth driver is coming from, and I think you can imagine, the wireless broadband plus the transmission. So, year on year it is a 95% growth, and the entertainment sectors is 92% year-on-year growth, and the e-commerce is about 31%.

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So, our overall financial performances, this page shows you this quarter by quarter. I think from the top line to EBITDA and also to the bottom line, we have seen quite a good growth on quarter-by-quarter basis. Even versus our 2Q forecast, we actually met our top line and the bottom line, with a slight shy on the EBITDA as for the amount.

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On the 1H total, I think our top line and the bottom line also met our guidance. And actually, we just got the July numbers. I can probably share with you, our July number is continuing a very good trend. It actually outperformed our internal board numbers both on the top line and the bottom line as well, even on the EBITDA side. So, we certainly are very optimistic about our operational performance at this point of time.

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A little bit on the balance sheet, continually, I think Far EasTone is quite a cash-strong company. We are still in a net cash position. Right now, at the end of the 2Q, the accumulated net cash is about NT\$11 billion and so our free cash flow is about NT\$6.3 billion.

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On the business side, I think a lot of you are very interested on the smart devices' growth trend. So, continuously, I think the 1Q and 2Q smart devices represent 58% of our total device sold in the 1Q and 2Q. And our monthly tablet sales has actually exceeded netbooks starting from the end of June. So we start to see quite a good growth on the tablet in the market.

And we certainly expect that in the 2H of this year more and more, no matter if it is low tier or even a very high tier, relative high-tier tablet coming into the market, we certainly will see as expected that the tablet will certainly be exceeding the netbook's market.

Smartphone penetration in our total base has reached 17% to 18% in the 2Q and ARPU of the average smartphone users is about NT\$1,500, while iPhone is the highest, about NT\$2,200.

In terms of usage, the average smartphone user data usage is about 700 Mb to 800 Mb per month, while the iPhone and the HTC high-end Android usage is around 1.2 Gb to 1.4 Gb per month. And the tablets, based on the initial number, it is between 1.5 Gb to 1.7 Gb per month. So, that roughly is the traffic behavior for all the smart devices users.

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So, continuously, I think in Taiwan this market device is driving in all the new subscribers. So I think our strategy is to continue to have the full range of smartphone and tablet devices in the 2H of this year. What we see in the 2H of this year is that there is a lot of good mid-low tier smartphones coming into the market. We certainly expect that more and more users will actually switch from the feature phones to smartphones.

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On the 2Q, also we have a lot of new initiatives. I mean focused on growing the content of our revenue side, the first one is the Bella Apps. We actually worked with a fashion magazine called Bella and created an app and it has become the number one download on the lifestyle category in the Apple store. So that is quite a good start. We just launched the Bella 2 yesterday. Again, it is an interactive app on this fashion magazine.

And also we work with CatchPlay, the launch our Video Store. So far the pick-up rate is quite nice. It is a monthly fee charged to the consumers and we do revenue sharing with CatchPlay. So, with the launch of the Video Store and the four asset base of Far Eastone has been in place, so from the 2H onwards we will be very much focusing on continue monetizing on these four asset base which is our Music Store (Omusic), our Video Store, our e-Book Town, and our application store (S-Mart) with all the good tablets and smartphones.

Aside from the consumer, on the enterprise side we are more focused on the cloud solution services. We have eight categories being identified to tackle different industry needs. So this is also the 2H focus for the enterprise side.

In the 2Q, we also made quite a significant progress in acquiring big enterprise accounts with some innovative company zone solutions; we actually obtained a very big account from the hand of Chunghwa Telecom. So, this is also quite a good progress on the enterprise side.

In terms of the alliances, you all know that Far Eastone is one of the members in the Conexus Alliance and the Conexus Alliance in the 2Q has signed up an MOU with HTC that we were going to launch some joint procurement hopefully to actually reduce the cost of all operators in the Conexus Alliance.

At the end of the 2Q, we also announced our cooperation with Quanta on the cloud business. Basically, we will start with infrastructure side and work up to the service layer.

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On the China side, lots of you are quite interested in our China progress. We also have some good progress to report to you. We actually, in the 2Q, launched unlimited data roaming rate with China Mobile in April. And right now is actually the traveling season, so that certainly will get us more in terms of roaming revenue, and we also launched some games in the CMCC game base. With only two months now, I think the download time is quite good.

We are also at the same time working with CMCC Chengdu and Ningbo on the wireless city projects. In these two projects basically there are two types of revenue stream: one is on a consulting basis, which will we have one-time revenue; another one is on the revenue sharing. So it is two kinds of revenue sources, so there is a good business model being identified with Chengdu Mobile and Ningbo Mobile.

Our next co-operations with CMCC will be on the music, on the reading, and on the comics. On the enterprise we also provide some cross-strait circuit services on the IPLC & CS-VPN services.

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Aside from the operational performance, in the 2Q we also got some awards and recognitions. The first one is in April, that we actually got the Advance Corporate Governance certificate from the Taiwan Corporate Governance Association. So far in Taiwan there are no more than 10 companies being awarded with this advanced certificate. Actually, in the 2Q only Far Eastone and TSMC have been awarded with this advanced certificate.

Also we would like to thank you for all your support that our two people team, the IR team has been awarded as the best Investor Relations from FinanceAsia. I think this is the 3rd time for the team had been awarded for this honor.

In June, it is the 5th time that Far Eastone have been awarded grade A+ in the Information, Transparency and Disclosure ranking, which is among all the listed companies in Taiwan we are ranked among the top 10.

That concludes my report to all of you for our 2Q results. Now I would like to answer, if you have any questions, please.

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