



中華電信
Chunghwa Telecom

CHT 4Q2014 Results February 16, 2015 at 4:00 P.M. (Taipei Time)

Thank you. This is Fufu Shen, the Director of Investor Relations for Chunghwa Telecom. Welcome to our fourth quarter 2014 earnings results conference call. Joining me on the call today are Mr. Shih, President and Mr. Chen, CFO.

During today's call, management will first discuss business, operational and financial highlights, then we will move on to the Q&A session.

Before I turn it over to today's speakers, I would like to remind you that a number of forward-looking statements will be made during this conference call. Forward-looking statements are any statements that are not historical facts. These forward-looking statements are based on the current expectations of Chunghwa and there can be no assurance that such expectations will prove to be correct. Because forward-looking statements involve risks and uncertainties, Chunghwa's actual results could differ materially from these statements.

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Before we continue, please note our safe harbor statement on **slide 2**. Now I would like to turn the call over to President Shih.

Chunghwa Telecom Overview

Thank you, Fufu. Hello everyone, this is Mu-Piao Shih. Thank you for joining our fourth quarter 2014 conference call.

We are pleased to report that according to both our internal figures and statistics from the NCC, we have accumulated over 1.3 million 4G subscribers as of the end of December 2014, representing 38.6% of the 4G subscriber market share in Taiwan. We will maintain our target to achieve 40% market share in 2015. In addition, not only did we remain the market leader in providing 4G services, but we also improved our market share in terms of mobile subscribers and revenues. As of December 2014, our mobile subscriber and revenue market share reached 37.1% and 35.7%, respectively. Furthermore, despite the fierce competition from cable operators, we still managed to maintain a stable level for our broadband market share.

For 2015, one of the key focuses for us is growing our total revenue. We plan on promoting both fixed and mobile value added services, increasing our mobile Internet customer base, and also expanding the enterprise market to help bolster revenue growth. By leveraging our 4G high speed

network, we will offer high quality mobile TV, music, gaming and 3D GPS value added services as well as new products such as telematics, healthcare management, and other value-add products. Increasing MOD revenue will also be an emphasis for us. For the enterprise market, we plan to offer ICT solutions such as cloud, IDC, mobile enterprise and information security services to targeted customers and boost our ICT-related revenue.

Number One Mobile Services Provider

Slide 5 provides an update on our mobile business.

During the fourth quarter, mobile VAS revenue grew by 21.1% year over year, mainly driven by the 26.4% increase in mobile Internet revenue.

For mobile operations, we are focusing on 4G service promotions and mobile internet subscriber expansion, followed by developing enterprise mobile solutions for targeted customers. We continue leveraging our high-speed 4G network to promote value-added services and new applications as well as migrating our 2G customers to the 3G and 4G network and promoting the usage of more data services.

Moreover, our customers' loyalty maintained high especially during the fourth quarter of last year, when competition for 4G subscribers was particularly fierce. The fact that we continued to have the lowest churn rate demonstrated that our customers recognize and are pleased with our quality network and services.

4G Mobile Service

Moving on to slide 6.

In terms of 4G service, based on our 1.33 million additional subscribers at the end of 2014, we expect to reach our target of 40% market share in 2015. To enhance our service quality, we re-farmed our 900MHz spectrum band and introduced carrier aggregation technology in 900MHz and 1800MHz bands to provide higher data rates in December 2014. Additionally, by the end of 2015, we expect our 4G network to have 99% population coverage in Taiwan.

In 2014, we added more than 1.2 million mobile internet subscribers, bringing our year-end total to 5.2 million, representing 54.1% of our postpaid subscribers. As we mentioned earlier, this year we will continue to increase the subscriber base and further develop our data service offerings.

Fixed Broadband and Internet Services

Slide 7 shows the results for our broadband business.

During the fourth quarter, we continued to see a steady migration of subscribers to higher-speed fiber services. We witnessed almost 132% year-over-year growth in subscribers opting for connection speeds of 100Mbps or higher, reaching 867,000 by the end of 2014.

We will continue leveraging our network capabilities, offering high-speed upload services and optimizing broadband network quality to increase customer satisfaction. As an integrated telecom services provider, we will leverage our mobile, broadband and Wi-Fi capabilities to offer seamless Internet services. Last, but not least, we will expedite OTT service offering and content delivery network (CDN) construction to enhance digital convergence product competitiveness.

MOD/IPTV Service

Moving on to slide 8.

Our IPTV revenue in the fourth quarter 2014 increased by 12.4% year over year. Package subscribers as a percentage of total MOD subscribers continued to increase. Moreover, the household TV usage rate increased to 65.7% in the fourth quarter of 2014, showing our success in boosting customer stickiness on our platform.

In addition to the fiber convergence plan which boosted IPTV subscriptions, we will continue enriching local content and VOD programs. We will also focus on optimizing the MOD cost structure to enhance capital efficiency.

ICT and Cloud Computing Initiatives

Please see slide 9 for an update on our ICT and cloud initiatives.

We will continue leveraging our advantage on network infrastructure, IDC, CDN etc. to offer customized ICT total solutions to enterprise customers. In the meantime, we will develop in-house big data capability for future commercialization. Although relevant revenue from this area was less than 5% of our total revenue in 2014, it is expected be over 5% in 2015.

Now, I would like to hand it over to Mr. Chen to go through our financial results.

Financial Overview

Thank you President Shih. Now I will review our financial results in detail, beginning on slide 11.

Income Statement Highlights

Slide 11 contains our income statement highlights.

For the fourth quarter of 2014, total revenues increased by 1.4% and operating costs and expenses increased by 6.7% year over year. Our income from operations and net income decreased by 16.1% and 12.6%, respectively. In addition, our EBITDA margin decreased from 32.95% to 30.23% in the fourth quarter as compared to the same period in 2013.

Business Segment Revenues

Please refer to slide 12 for an update on our business segment revenue.

For the fourth quarter of 2014, the year-over-year increase in the total revenue was driven by the growth in handset sales, mobile value added service revenue and ICT project revenue, which offset the decrease in fixed and mobile voice revenue.

Costs and Expenses

Moving on to Slide 13, our fourth quarter operating costs and expenses increased by 6.7% year over year, mainly due to the higher cost of handsets, increasing depreciation and amortization expenses, and project costs for ICT. To be more specific, the increase in depreciation expense was

mainly attributable to 4G construction, 3G maintenance and cloud and IDC equipment investment while amortization expense was mainly due to the amortization of the 4G license fee.

Cash Flow & EBITDA Margin

On slide 14, in the fourth quarter of 2014, cash inflow from operating activities decreased by NT\$1.34 billion compared to the same period of 2013.

As of December 31, 2014, we had NT\$23.56 billion of cash and cash equivalents.

The decrease in EBITDA margin was primarily due to 4G promotion including handset subsidies in the fourth quarter of 2014.

2014 Operating Results vs. 2014 Forecast

Slide 15 shows our 2014 operating results as compared to our guidance.

Although total revenue was less than our expectation mainly due to lower handset sales, operating income outperformed due to lower operating costs and expenses, and more specifically the decrease in cost of handsets sold. In addition, investment income under the equity method and foreign currency exchange gain was higher than expected. As a result, net income and EPS exceeded our guidance with higher achieving rates.

2015 Forecast

Slide 16 shows our 2015 consolidated guidance.

Looking ahead at 2015, we will focus on developing fixed and mobile value added service and expanding the enterprise market to drive revenue and earnings growth.

Taking into consideration the mandatory tariff reduction and the economic growth outlook, total revenue for 2015 is expected to increase by 2% to NT\$231.1 billion. The increase in revenue is expected to come from promotions for mobile Internet and value added services, the migration of broadband customers to higher speed fiber service and the expansion of the ICT and MOD businesses. However, we are still projecting a decline in the voice business, which we expect will be offset by the growth of the other segments previously mentioned.

Operating cost and expenses for 2015 are expected to increase by 1.9% to NT\$185.9 billion. Marketing expenses for mobile Internet and other growing businesses is expected to be higher and the amortization expense of the 4G license will also grow year over year.

Net income is expected to decrease by 2.9%, even though income from operations is expected to increase 0.5% year over year. The projected decrease is mainly due to lower other income and foreign currency exchange gains.

Effective and Efficient Capital Expenditure

Lastly, on slide 17.

Total actual capex of NT\$32.6 bn in 2014 was 18.8% lower than the budgeted amount.

Though we will continue to construct our 4G network aggressively, we still are budgeting a lower capex of NT\$30.7 billion for 2015 when compared with our actual capex in 2014. We will continue monetizing our existing installed equipment and building infrastructure for new services such as 300Mbps broadband based on the potential demand and effectiveness of the service. Furthermore,

the mobile network will be constructed according the existing equipment utilization status and business growth potential to enhance capital efficiency.

Thank you for your attention and we would now like to open up for questions.

- Q&A Session -