



CHT 2009 Results Conference Call Script March 30, 2010 at 6:00 P.M. (Taipei)

Fufu Shen, IR Director: Thank You. This is Fufu Shen, Investor Relations Director of Chunghwa. Welcome to our fourth quarter and fiscal year 2009 results conference call. Today we have Dr. Lu, our Chairman and CEO, Mr. Chang, our President, and Dr. Yeh, our CFO to speak to you and answer your questions. On today's call, Mr. Chang will review our business operations, then Dr. Yeh will review financial results and finally Dr. Lu will review our business outlook. At the end of our presentation, we will be happy to take your questions.

Please note our safe harbor statement on **slide 1**. Now I would like to hand it over to Dr. Lu.

Dr. Lu, Chairman and CEO: Thank you, Fufu. Hello, everyone, this is Shyue-Ching Lu, Chairman of Chunghwa Telecom. Thank you all for joining our fourth quarter and fiscal year 2009 earnings result conference call.

First of all, I would like to welcome and introduce Dr. Yeh, our new CFO to all of you. Before assuming office as Chunghwa's CFO, Dr. Yeh has been with Chunghwa for two and a half years as our independent director. Dr. Yeh also served as a professor of accounting at National Taiwan University and has very comprehensive knowledge in Finance. I am confident that his expertise will continue to help Chunghwa Telecom in executing our growth plans.

Next on **slide 2**, as you all know, 2009 was a challenging year for Chunghwa due to the macro-economic environment plus the continued NCC tariff reduction. However, we still achieved a gratifying result in sustaining our consolidated 2009 total revenue at NT\$198.4 billion. Building sustainable shareholders value is our primary focus. In order to achieve this goal, we tend to differentiate ourselves on wide customer base, high quality products and services, brand name, advanced network and strong financial position. Going forward, we will continue to enhance our competitiveness by strengthening these factors.

In addition, on strategic execution, we are focusing on three areas. First, we aim to satisfy mobile customer demand for high-quality access and services for increasingly sophisticated usage needs. Second, we are investing in innovation to drive the next wave of broadband development and transformation from pure telecom operator to an Information and Communication Technology (ICT) operator. Finally, we are stepping up our commitment in preserving environment and social responsibilities.

Moving onto **slide 3**, again as part of our commitment to our shareholders, you can see our cash return for the last five years. We have been maintaining high dividend payout ratio. In addition, we conducted three rounds of capital reduction in the past three years, and returned cash to

shareholders in aggregate of NT\$38.5 billion.

We intend to continue our high payout ratio policy. Our Board of directors have approved a 20% capital reduction from Chunghwa's existing outstanding common stock, equivalent to approximately NT\$19.4bn for year 2010. We will submit the capital reduction program in the shareholders meeting in June for the final vote.

Now, I will hand over to President Chang for business overview.

Mr. Chang, President: Thank you, Chairman Lu. Now, let me take you through the business overview.

Chunghwa Telecom Overview

Starting **slide 5**, our consolidated revenue for fiscal year 2009 was NT\$198.4 billion, and we were able to maintain our leading market positions in each of our business segments throughout 2009.

Undisputed Leader in Fixed line Services

Now moving to **slide 6**, for past several years, we have maintained a stable market share for local, DLD and ILD businesses. As an incumbent, we were successful at defending our fixed-line market share and are confident that our strong market position will sustain in the future.

Taiwan's Leading Broadband & Internet Service Provider

Next **slide 7** shows our broadband subscriber data for 2009. At the end of 2009, Chunghwa had 4.3 million broadband subscribers, accounting for 83% of the market share. The total fiber customers accounted for 38.1% of our total broadband subscribers.

As already mentioned, we plan to speed up our fiber deployment. We are providing even higher speed FTTH services including HDTV, remote surveillance, etc to meet the high-end customer segment's demand. In addition, we will also co-promote our broadband and wireless internet services at a favorable rate.

Moreover, we will continue to promote Internet value added services, which are the fundamental growth drivers of our Internet business. The accumulated internet VAS revenue as percentage of total internet revenue increased year over year by 18% in 2009 compared to 2008.

Expanding MOD/IPTV for On-Demand Services

Please refer to **slide 8**.

By the end of 2009, we accumulated 667 thousand IPTV subscribers. We also focused on enhancing the ARPU, which increased 13% year over year. Total MOD revenue increased by 42% year over year. In addition, the number of Households Using Television for 2009 is six percentage points higher than 2008.

We've been strengthening our IPTV strategy in terms of content, marketing and interactivity. We will continue aggregating popular HD channels to better cater to our customer preferences. Currently, we have 92 SD channels and five HD channels and there are 9 new channels under negotiation.

We are committed to our IPTV strategy and will continue to execute in order to complement our existing services.

Number One Mobile Service Provider

Now on **slide 9**, we are the market leader in the mobile business, with the largest subscriber base of 9.3 million. Moreover, we had the lowest churn rate in the market, which is a strong testament of subscribers' recognition of our high-quality services.

Mobile VAS revenue as percentage of total mobile revenue increased year over year to 13.0% at the end of 2009. We will continue our mobile business strategies to increase mobile VAS revenue by

offering customized and integrated Hami services with mPro tariff plans on quality network. Additional sales channels from 3C stores and hypermarkets are also added recently to strengthen our sales capability.

Smartphone Value Driver for Mobile

On the left hand side of **slide 10**, you could see our performance on mobile data operation, including our data revenue percentage, smart phone customer base, mPro package growth and VAS usage. All these metrics were improved year over year for 2009.

We foresaw the popularity of smart phones and have been very dedicated in leveraging these devices as part of our handset strategy. We promote smart phones with various applications to increase premium customer subscriptions. The smart phones promoted by Chunghwa are embedded with diversifying platforms supporting Mac OS, Andriod and Windows Mobile. The most popular models include those from Apple, HTC and Garmin-Asus.

Moreover, to satisfy diversified customer demand and increased usage, we will continue to offer attractive 3G VAS, especially over smart phones as more customers switched from voice-only products to data-centric devices.

Meeting Customer Demand for Convergence

As shown on **slide 11**, to cater to customers growing demand for convergence, we are integrating internal resources to conduct cross-platform service operation, including marketing and advertising. Through this initiative, we expect to better facilitate the acquisition of attractive contents, increase usage and enhance ARPU.

Meanwhile, customers could view multimedia content via our three screens over IPTV, Internet and mobile platform. For example, the 2009 World Games and 2010 Winter Olympics were broadcasted live on these three platforms. We have also acquired the broadcasting right for the upcoming Taipei Int'l Flora Exposition which will begin in November 2010.

In the future, we will improve the convergence services further by offering four screen services including touch panel phone sets for smart homes. Additional applications for smart homes also include video, micropayment, advertisement and personal information, etc.

Satisfy Corporate Business Demand for Reliability and Efficiency

As shown on **slide 12**, our corporate ICT and corporate overseas business revenue amounted to NT\$3.6 billion and NT\$4.3 billion for fiscal year 2009, representing year-over-year increases of 43.7% and 18.2% respectively. Moving forward, we expect these service revenues to continue to grow in 2010.

In addition to the traditional telecom services, we plan to expand our corporate business scope and focus on ICT businesses to include government project. For example, we won the bid to provide the integrated taxation information system, and the total revenue associated with this project is expected to be about NT\$3.1 billion from 2010 to 2012.

Furthermore, we will also explore opportunities to expand our corporate overseas business such as international data and wholesale services.

Effective and Efficient Capital Expenditures

Next on **slide 13**, the total capex for fiscal year 2009 amounted to NT\$25.5bn, a 15.4% decrease compared to that for the same period in 2008. Of the NT\$25.5bn capex, 75.6% was used for fixed and internet businesses, 19.7% was for mobile business and the rest was for other capital expenditure.

Property Development Updates

Next, I would like to provide an update on our property management on **slide 14**.

Our property development strategy is primarily focused on rental revenue. Most of our real estates are for operational use. Along with our Next Generation Network construction, there will be part of the floor space and land released for rental. Additionally, we have been proposing to rezone some of our properties for rental purpose as well.

We've been actively managing our land property. Currently, we are focusing on commercial usage as well as office and business accommodation. Total estimated investment for these additional seven property development is NT\$4.5 billion to NT\$5.5 billion from 2010 to 2014. Post the completion of the development, rental revenue from these seven properties is estimated to be NT\$0.6 billion per year.

Regulatory Update

Finally, there are three major regulatory updates to share with you as per **slides 15 and 16**.

First, the NCC announced its second round three-year tariff reduction plan, resulting in a number of price reduction in the tariff structure relating to wireline and wireless services. The regulated period will be from April 1, 2010 to March 31, 2013. You could refer to slide 16 for the tariff reduction plan details.

Second, the NCC proposed an amendment to the Satellite Broadcasting Act that allows the government, political parties and the military to indirectly hold up to a ten percent stake in satellite broadcasting companies. The proposal is now under review for approval by the Executive Yuan and Legislative Yuan.

Last, the government plans to issue two mobile TV licenses by the end of 2010 or early 2011. The NCC may adopt a "first review, then auction off" approach for the bidding process, but the details are yet to be determined.

That's all for our business operation. Now, I will hand it over to Dr. Yeh for our financial overview.

Financials Overview

Dr. Yeh, CFO: Thank you, President Chang and thank you all for joining us for my first earning conference. I hope to meet some of you in person as time goes by.

Income Statement Highlights

Slide 18 shows our income statement highlights on a consolidated basis.

Our total revenue for 2009 was NT\$198.4bn, a 1.6% decrease compared to 2008. The decrease was primary due to the economic environment, mandated tariff reduction and market competition. EBITDA decreased by 4.2% to NT\$92.7 billion, operating profit decreased by 3.7% to NT\$56.4 billion and net income decreased by 2.8% to NT\$43.8 billion year over year, respectively. Although operating costs and expenses decreased by 0.8% year over year, these were not sufficient to offset the revenue decline, thus resulting in the declines of EBITDA, operating income and net income.

Business Segment Revenues

Slide 19 shows the revenue performance for each business segment for 2009.

The mobile revenue decreased by 2.6%, mainly due to the ARPU decline resulting from the market competition and the overall economic environment. Furthermore, the decline in handset sales from the slow economic environment also contributed to the revenue decrease.

Internet revenue increased by 2.7%, mainly attributable to the successful promotion for corporate solution and internet VAS revenue growth from internet security services and on-line music service etc.

In the domestic fixed line business for 2009, local and DLD revenues decreased by 3.9% and 12.7% year over year respectively. The decrease of local revenue was mainly from the economic downturn, as well as mobile and VOIP substitution. The decrease of DLD revenue was a result of interconnection tariff decrease mandated by the NCC and also the economic downturn.

Broadband revenue, including ADSL and FTTx, decreased by 0.3% year over year. Although FTTx revenue increased as more ADSL subscribers migrated to fiber solutions, the increase could not fully offset the ADSL revenue decrease from the competition and the mandatory NCC tariff reduction. International fixed line revenue decreased by 4.3%, which was mainly due to the economic downturn, which resulted in the substitution of cost saving services, such as VOIP, for traditional IDD services.

Costs and Expenses

As shown on **slide 20**, for 2009, total operating costs and expenses were NT\$142.0 bn, a decrease of 0.8% compared to 2008. This decrease was mainly due to decrease in depreciation, material & maintenance expenses, as well as decrease in cost of sales from Senao due to its decreased sales.

Cash Flow Highlights

In terms of our cash flow performance shown on **slide 21**:

For the whole year of 2009, our cash flow from operating activities decreased by 15.9% to NT\$77.3bn. This was primarily because of the NT\$4 billion increased pension fund contributions resulting from the income tax rate adjustment, the NT\$3.2bn income tax refund received in 2008, the 2009 revenue decline as well as the change of other operating assets and liabilities.

For the fourth quarter of 2009, our net cash flow from operating activities decreased by 22.6% year over year to NT\$27.8bn. This was primarily because of the increased pension contributions as mentioned.

As a result, free cash flow for 2009 decreased by 16.1% compared to 2008 mainly due to the decrease in net cash from operating activities just mentioned.

Accordingly, our cash and cash equivalents amounted to NT\$73.3bn as of the end of 2009. This represents 9.9% decrease compared to the same period last year. This decrease was mainly because of the capital reduction distribution in March of 2009.

Q1 2010 Forecast

Slide 22 shows our forecast for the first quarter of 2010. Please be advised that the forecast is only for Chunghwa, the parent company.

Chunghwa currently estimates that the total revenue for the first quarter of 2010 will be relatively stable at NT\$45.5 billion, compared to NT\$45.2 billion revenue from the first quarter of 2009.

Taking into consideration of our development for FTTx, MOD and wireless internet, we expect to increase the overall expenditure by NT\$350mn compared to the first quarter of 2009. Therefore, we estimate that EBITDA and operating profit for the first quarter of 2010 to be NT\$22.5bn and NT\$13.7bn, which are slightly down by 2.1% and 0.7% respectively. The net income is expected to increase by 4.6% to NT\$11.3 bn because of the income tax reduction.

That's all for our financial overview. I will now hand it over to Dr. Lu for our mid-term corporate strategy.

Outlook

Dr. Lu, Chairman and CEO: Thank you. Dr. Yeh.

Mid-term Corporate Strategy

As shown on **slide 24**, our mid-term corporate strategy is primarily centered on strengthening advanced broadband network capabilities, enhancing our competitive positioning, exploring new business operations and implementing CSR.

Specifically, we will continue advanced network deployment to stay ahead of industry growth and transformations. We plan to strengthen the deployment of fiber network and offer higher speed FTTH services to face the broadband market competition.

Also, we will continue focus on enhancing competitiveness by encouraging creative ideas and offering innovative services.

At the same time, we will also focus on selected ICT services, such as iEN, ITS and Cloud Computing etc. to better serve our corporate clients.

In addition, we will focus on exploring mainland China and overseas emerging markets for new revenue opportunities, as well as leveraging our existing financial resources and property asset to boost income.

Finally, we stand firm on corporate social responsibility implementation and commitment.

That concludes our presentation. Now, we will be happy to take your questions.

- Q&A Session -