



## **CHT 3Q2009 Results Conference Call Script Oct. 30, 2009 at 6:00 P.M. (Taipei)**

**Fufu Shen, IR Director:** Thank You. This is Fufu Shen, Investor Relations Director of Chunghwa. Welcome to our third quarter 2009 results conference call for Chunghwa. Today we have Dr. Lu, our Chairman and CEO, and Dr. Shieh, our CFO to speak to you and answer your questions.

On today's call, Dr. Shieh will review financial results, then Dr. Lu will review our business operations and our business outlook. Following our presentation, we will be happy to take your questions. Now, I would like to turn the call over to Dr. Lu, our Chairman and CEO.

**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 third quarter 2009 earnings results conference call.

As usual, please note our safe harbor statement on **slide 1**.

Before I hand over to Dr. Shieh for financials overview, I would like to report to you the recent market development. As you may know, one of our competitors announced the acquisition of a major MSO in Taiwan. Although this transaction still needs to be scrutinized by the Fair Trade Commission and the National Communications Commission, we are monitoring this event closely and are resolved to defend our market position by more aggressively rolling out fiber solutions to our customers.

We have projected to increase our capex next year to accelerate our fiber deployment and to further enrich MOD content. For fiber deployment, we plan to offer services with the top speed of 50Mbps, and we are currently estimating net-add fiber subscribers in 2010 will be more than that for the entire year of 2009, which is estimated to be 600,000. As for MOD, we will continue to capture quality content to attract customers and to enlarge customer base. As we are still in the process of finalizing our capex plan for 2010 and beyond, we will update the market as soon as we confirm the capex plan.

Next, I would like to update you on the progress of our capital reduction program. Our board of directors yesterday approved the capital reduction program schedule, and the cash payment date will be in mid-February 2010. The total amount of cash distributing to shareholders from this program is estimated to be NT\$9.7bn.

Now, I will hand over to Dr. Shieh for our financial results.

**Dr. Hsieh, CFO:** Thank you, Chairman Lu.

### **Income Statement Highlights**

**Slide 4** shows our income statement highlights on a consolidated basis.

Our total revenue for the third quarter of 2009 was NT\$50.1bn, a 1.7% decrease compared to the third quarter of 2008. The primary reasons for the revenue decline were the economic environment and the market competition, which resulted in the reduced traffic for fixed line business.

EBITDA decreased by 3.6% and operating profit decreased by 2.9% respectively. These declines are due to the decreased revenue, which I will cover in more detail on the following slide. However, we were able to maintain our EBITDA and operating profit margins relatively stable.

Net income decreased by 17.9% compared to the third quarter of 2008, primarily due to the revenue decline and the reversal of the mark-to-market valuation loss from the foreign exchange derivatives contract in 2008.

### **Business Segment Revenues**

**Slide 5** shows the revenue performance for each business segment for the third quarter of 2009.

Total mobile revenue decreased 2.5%, mainly due to a decrease in handset and data cards sales from Senao. However, we made progress by increasing our mobile subscriber numbers by 3.5% and by enhancing our VAS revenues by 18.8% year over year for the first nine months of 2009.

Internet revenue slightly decreased mainly due to a decrease in HiNet services revenue, as a result of the tariff reduction since November 2008.

In the domestic fixed-line business for the third quarter 2009, local and domestic long distance revenues decreased by 5.0% and 7.4% year-over-year, respectively. These decreases were mainly due to the economic downturn, as well as mobile and VOIP substitution. Broadband revenue, including ADSL and FTTx, increased by 0.1%, because of our successful upgrades of DSL subscribers to fiber solutions.

International fixed revenue increased by 4.0%, which was mainly the result of an increase in international leased line revenue.

### **Costs and Expenses**

As shown on **slide 6**, for the third quarter of 2009, total operating costs and expenses were NT\$35.9bn, a decrease of 1.3% compared to the third quarter of 2008. This decrease was mainly due to Senao's decreased operating costs, correlating to its decreased sales, as well as the decrease in parent company's depreciation expenses.

### **Cash Flow**

In terms of our cash flow performance shown on **slide 7**:

For the third quarter of 2009, our net cash flow from operating activities increased by 20.9% year over year to NT\$15.2bn. This was primarily because of the decrease of other current monetary assets and the reduced income tax payment in the third quarter of 2009.

Free cash flow for the third quarter of 2009 increased by 61.2% compared to third quarter of 2008 mainly due to the increase in net cash from operating activities and the decrease in capex. As a result, our cash and cash equivalents amounted to NT\$55.8bn as of the end of the third quarter 2009. This represents about a 45.9% decrease compared to the same period last year, and the decrease was mainly because of the cash dividend distribution in September of 2009.

### **4Q 2009 Forecast**

**Slide 8** shows our forecast for the fourth quarter of 2009. Please be advised that this forecast is

only for Chunghwa, the parent company.

As the user traffic continues to increase due to the overall economic recovery, Chunghwa currently estimates that the total revenue for the fourth quarter of 2009 will be relatively stable at NT\$46.1 billion, compared to NT\$46.7 billion revenue from the fourth quarter of 2008.

Taking into consideration of our cost controls, we estimate that for the fourth quarter of 2009, EBITDA to be NT\$20.8bn, operating profit NT\$11.9bn and net income NT\$9.3bn. While our EBITDA forecast is slightly down by 0.3%, operating profit and net income for the fourth quarter 2009 are expected to grow by 4.1% and 9.6% respectively, year-over-year.

### **Capital Expenditure**

Next on **slide 9**, the total capex for the first nine months of 2009 amounted to NT\$16.6bn, a 9.7% decrease compared to that for the same period in 2008. Of the NT\$16.6bn capex figure, 79.8% was used for fixed and internet businesses, 17.8% was for mobile business and the remaining was for other capital expenditure.

As Dr. Lu already mentioned, our 2010 capex will be increased to accelerate the fiber deployment. Moving beyond 2010, the amount of capex might vary depending on the market dynamics. This completes my presentation on the financials, I will now hand over to Dr. Lu for the business overview.

**Dr. Lu, Chairman and CEO:** Thank you, Dr. Shieh. Now, let me take you through the business operation for CHT.

### **Business Overview**

As you can see from **slide 11**, our consolidated revenue for the nine months of 2009 was NT\$147.2bn, and we were able to maintain our leading market positions in each of our business segments throughout the third quarter 2009.

We have been successfully defending our fixed line market share and are confident that our strong market position will sustain.

### **Broadband Business Overview**

Next **slide 12** shows our broadband subscriber data at the end of the third quarter 2009. Total Taiwan market broadband subscribers reached 5 million, representing 64.8% household penetration. Chunghwa is the largest broadband service provider with 82.7% market share at the end of the third quarter 2009.

As already mentioned, we plan to speed up our fiber deployment and capture more broadband subscribers. The top speed of fiber services that we expect to offer in 2010 will be 50Mbps, which can potential contribute higher revenue.

In addition, as part of our strategy in competing with cable operators, we are retaining low speed subscribers through competitive pricing, which we are able to execute by offering sub-brand ISP services via one of our strategic partners as well as by offering customized service packages to various residential communities. 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 driver of our Internet and data business.

### **Mobile Business Overview**

Please refer to **slide 13**:

We had 9.2 million mobile subscribers at the end of third quarter of 2009. Although we were able to continue accumulate subscribers and our mobile churn rate has consistently been the lowest among all Telecom providers in Taiwan, our total mobile revenue declined slightly in the third quarter 2009 primarily due to the economic downturn and the market competition.

In order to mitigate this decline, we plan to continue our segmentation strategy catering to different types of customers through various services, promotions and device offerings. In addition, we will focus on 3G value-added services to meet customer demand for applications, thus increasing the usage. Last but not least, we are committed to advance network deployment in enhancing our overall service quality for all customers as well as further streamlining our network efficiency.

Now, please move on to **slide 14**:

In order to drive mobile VAS usage and increase mobile revenue, we are collaborating with world class manufacturers to provide handsets with advanced features and enhanced interfaces. We are constantly expanding our handset models in order to meet the evolving needs of our customers. In addition, our VAS packages are also designed for various customer segments. Our VAS service platform, Hami, can deliver popular services such as music, location-based service and so on for selective handset models. By the end of 2009, mPro subscribers are expected to grow more than six times year over year. Furthermore, we are offering our eBook service which was launched on October 28, two days ago. Our eBook can be read from smart phones screens.

Let's now take a closer look at the average VAS revenue. For smart phone customers, not only the ARPU is twice that of the average CHT customers, but also the percentage of VAS revenue contribution from the smart phone customers is much higher.

We will continue providing these value-added services and the desired handsets in order to meet the growing preferences of our many subscribers so that we can further enhance their user experiences and loyalties.

### **MOD/IPTV Business Overview**

As shown on **slide 15**, by the end of September 2009, we accumulated 668 thousand IPTV subscribers, representing a 13.1% increase year-over-year. In addition, the number of Households Using Television for the third quarter 2009 is 0.66 percentage higher than the second quarter of 2009.

We've been strengthening our IPTV strategy in terms of content, marketing and interactivity. For example, we signed a VOD contract with TVB of Hong Kong, of which TVB will provide 1,200 hours of drama content per year. We will continue aggregate popular HD channels to better match our customer preferences.

On interaction, our special zone for interactive Ads launched on Oct 1st. In addition, we provided interactive games for the Deaflympics 2009 Taipei from Sep 1st to Sep 15th.

Additionally, Nippon Pacific Baseball League Games were all live broadcasted across all of our

MOD / HiNet / emome platforms. The World Games 2009 Kaohsiung and the Deaflympics 2009 Taipei were broadcasted live on these 3 platforms as well. Furthermore, we have acquired the broadcasting right over our three platforms for the upcoming Winter Olympics which we plan to broadcast during the Chinese New Year holiday. We expect such popular programs will further stimulate our traffic.

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

Finally, I would like to make a few comments on our business outlook.

**Corporate Strategy**

As shown on **slide 17**, our mid-term corporate strategy is primarily centered on enhancing our competitive positioning, exploring new business operations and implementing CSR.

Specifically, we plan to sustain our dominant market leadership by enhancing core product features and functionalities, providing differentiated and customized services as well as innovative devices to match the ever evolving user preferences.

Also, we will continue focus on ICT related services, such as iEN, ITS and Cloud Computing etc. to better serve our corporate clients.

At the same time, we will continue advanced network deployment to stay ahead of industry growth and transformations.

In addition, we will continue consolidating our networks to streamline operations, improving efficiency and cost management to better support our core business competitiveness and advanced technology development.

Next, we will focus on exploring mainland China and overseas emerging markets for new revenue opportunities, as well as leveraging our existing property asset to enhance 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 -**