



## CHT 2Q2016 Results

### October 27, 2016 at 3:00 P.M. (Taipei Time)

Thank you. This is Fufu Shen, the Director of Investor Relations for Chunghwa Telecom. Welcome to our third quarter 2016 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 third quarter 2016 earnings conference call.

During the third quarter of 2016, we continued to grow our 4G subscriber base. As of September 30th, we had over 6.2 million 4G subscribers. And for total mobile subscribers in Taiwan, we maintained our market leadership with 37.3% market share.

As you are aware, we have experienced some mobile subscriber turnover in the past several quarters due to increased market competition and SIM card consolidation. To address the situation, we strengthened our channel marketing forces by enhancing our incentive programs. This was proven to be effective as postpaid subscriber net additions turned positive in September and total customer loss during the third quarter declined significantly as compared to the previous two quarters. We will

continue to defend our market share going forward. In the meantime, the introduction of our Big 4G plan is proving to be a solid strategic move which is leading the broader market towards the adoption of tiered pricing plans and fair usage policies.

For our broadband business, although we had experienced customer decline since the beginning of 2015, the number of customers and ARPU both increased quarter over quarter in the third quarter. We are encouraged to see this turnaround and will continue to leverage our marketing analytics for precision marketing, and offer convergence services by bundling MOD, Wi-Fi and OTT services to enhance our product offerings and competitiveness.

#### Number One Mobile Services Provider

Next slide, I would like to update you on our mobile business.

Due to the competition of lower priced, unlimited plans, postpaid churn rates of the big three operators all increased in the third quarter. However, we still managed to have the lowest number. More importantly, our churn rate for postpaid subscribers decreased month over month in September, a nice turnaround attributable to our marketing efforts, including subscriber acquisition and retention initiatives.

#### Fixed Broadband and Internet Services

Slide 6 shows our broadband business performance.

During the third quarter, we continued to see a migration of subscribers to higher-speed fiber services. The number of subscribers signing up for connection speeds of 100Mbps or higher grew by 12.1% year over year to 1.14 million. We will continue to promote and upsell our broadband services and encourage customer migration to higher speed services, which should further improve the user experience and their stickiness to our network.

#### MOD/IPTV Service

Moving on to slide 7.

Despite the adjustment of the cooperation scheme with channel providers from the third quarter last year, our IPTV revenue continued to increase year over year, primarily driven by healthy growth of IPTV and SVOD subscribers. Meanwhile, in August, the Olympic Games programs enriched our IPTV and SVOD content and helped bring in additional advertisement revenue as well as experiencing household TV usage rate continuing to climb steadily.

We however observed that our MOD profits benefited from the cooperation scheme adjustment with channel providers over the past year, and we will maintain these efforts through next year.

#### ICT and Cloud Computing Initiatives

Please turn to slide 8 for an update on our ICT initiatives.

We are glad to see the continued solid growth in our ICT businesses. We aim to continue leveraging our competitive advantages in network infrastructure, IDC, and CDN, to offer reliable, customized and comprehensive ICT solutions to enterprise customers.

Additionally, with our highest-rated cloud IDC launched this past July, which connects to global submarine cables and high-speed broadband networks, we will also further expand our IDC business opportunities in finance, ICP, OTT and manufacturing industries.

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

### Financial Overview

Thank you President Shih. Now I will go through our financial results in details, beginning on slide 10.

### Income Statement Highlights

Income statement highlights.

For the third quarter of 2016, total revenues increased by 4.2% and operating costs and expenses increased by 11.7% year over year. The hot sales of iPhone 7 were the biggest driver for the revenue growth. However, it also brought impact to our operating costs. Consequently, our income from operations decreased by 18.1% and our net income decreased by 18.7%. In addition, our EBITDA margin decreased to 33.5% in the third quarter, from 39.7% in the same period of 2015.

### Business Segment Revenues

Please refer to slide 11 for revenue break down by business segment.

The growth in total revenue was driven by the increase in smart devices sales, mobile value-added services and ICT project revenue, which was partly offset by the decrease in fixed and mobile voice revenue.

### Costs and Expenses

Moving on to slide 12, our operating costs and expenses increased by 11.7% year over year in the third quarter, mainly due to the higher cost of goods sold and expenses associated with ICT project revenue.

### Cash Flow & EBITDA Margin

On slide 13, cash flow from operating activities for the third quarter of 2016 decreased by NT\$4.0 billion, or 23%, compared to the same period of 2015, mainly due to the decreased profit and higher tax payout.

As of September 30, 2016, we had NT\$10.8 billion of cash and cash equivalent.

On EBITDA margin, the increased sales of iPhone brought down the overall EBITDA margin on a year over year basis in the third quarter.

### Operating Results vs. Forecast

Slide 14 shows our operating results as compared to our guidance.

In the third quarter of 2016, our operating income and net income were lower than our expectation, mainly because of the earlier-than-expected iPhone7 sales starting from September, which increased cost of goods sold.

However, looking at our performance thus far in 2016, we believe our business operations and developments are on track, and we are confident that we will reach our full year guidance.

### Effective and Efficient Capital Expenditure

Lastly, on slide 15.

We expect the actual capex for year 2016 would be about 10% lower compared with the budgeted amount of NT\$30.6 billion. The reduction mainly came from the price negotiation with vendors during the procurement, the internal optimization review process, as well as the change of the project plans which have been cancelled or will be deferred to the next year. However, capex for mobile business remained unchanged. We have spent NT\$12.3 billion in the first nine months and will catch up for the rest in the fourth quarter.

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

**- Q&A Session -**