



## **CHT 4Q2017 Results**

### **January 31, 2018 at 3:00 P.M. (Taipei Time)**

Thank you. This is Fufu Shen, the Director of Investor Relations for Chunghwa Telecom. Welcome to our fourth quarter 2017 results conference call. Joining me on the call today are Mr. Sheih, our President, and Mr. Kuo, our Chief Financial Officer.

During today's call, management will begin by providing an overview of our business during the quarter followed by a discussion of operational and financial highlights, and then we will move on to the Q&A session.

Now, I would like to hand the call over to President Sheih, and please note our safe harbor statement on slide 2. President Sheih, please go ahead.

#### Chunghwa Telecom Overview

conference call.

For the fourth quarter of 2017, we continued to retain our market leading position in mobile subscribers and mobile revenue despite the competitive landscape, and we're pleased to report we have the lowest churn rate and lowest decline of mobile service revenue among peers.

In the fourth quarter, we continued to re-allocate resources to guide mobile subscriptions toward high-end plans, and we saw a significant year over year increase in user subscription for plans that cost NT\$1399 or more during the end of 2017. Looking ahead, we will retain this policy to enhance margins in our mobile business and take steps to strengthen new subscriber acquisition.

In addition, we have further solidified our broadband customer base and successfully mitigated the subscriber loss. Meanwhile, the number of MOD subscribers and revenue grew significantly in the fourth quarter as we endeavor to facilitate the overall TV operational environment while continuing to enrich content and enhance our user experience. We are also pleased to report strong performance in our ICT related business. Our IoT platform had demonstrated smart city, smart agriculture, smart manufacturing and other IoT related applications in the fourth quarter 2017, which is well-received, and our highest rated IDC in Banqiao had continued its 2nd phase rack installation to meet increasing demand.

Going forward, we'll continue to utilize our IDC and CDN advantages to offer upgraded broadband service to attract more high-end users, drive higher speed service adoption and strengthen our broadband revenue.

#### Number One Mobile Services Provider

Now I will walk you through each of our business lines. On slide 5, I would like to update you on our mobile business.

As of December 2017, our total number of 4G subscribers has exceeded 7.9 million. Mobile internet adopters continued to grow, reaching 82.9% of total post-paid subscription, which consequently drove up our mobile internet revenue by 5.1% year over year.

Moreover, since we strengthened subsidies and incentives to attract high end plan adoption, our users signed up for plans that cost NT\$900, NT\$1399 or more increased significantly. It proved that our subsidy efficiency has improved when considering the cost of handset subsidies versus the revenues brought in during a customer's entire contract period. We will continue this effective strategy to enhance margins in our mobile segment and rolled out incentives for existing customers to consolidate the subscriber base.

#### Fixed Broadband and Internet Services

Slide 6 shows the performance of our broadband business.

In fourth quarter, we saw a decrease in broadband subscriber number, which we believe is resulted from a one-time event. Although the number of our broadband subscribers slightly declined year over year, we still see our subscriber loss has been mitigated, and we continue to mitigate the loss. In addition, we continued to see a migration of our broadband subscribers to higher-speed fiber services. We are pleased with the number of users signing up for connection speeds of 100Mbps or higher, which grew by 9.5% year over year to 1.28 million in the fourth quarter. We expect to improve this number by upselling with offerings that bundled with our MOD, Wi-Fi, information security and smart home value added services.

Going forward, we will continue to encourage customers to migrate to higher speed services, and stay ahead of our competitors by enhancing user stickiness on our network through smart home services that leverage our Wi-Fi advantage as well as MOD and OTT offerings.

#### MOD/IPTV Service

Moving onto slide 7.

We are glad to report that our IPTV subscribers exceeded 1.6 million in fourth quarter 2017 representing a 20.3% increase year-over-year. Our IPTV revenue continued its growth trajectory in fourth quarter 2017 with a 15.7% increase year-over-year, primarily driven by the healthy growth of IPTV and SVOD subscribers. We are pleased to see that our IPTV customers continued to sign up for additional SVOD programs, and the number of SVOD subscribers is expected to exceed 1 million in the first quarter of 2018. Besides on-demand service, we differentiated our IPTV service product by introducing popular international sport events, such as 2018 Winter Olympic Games and 2018 FIFA World Cup as well as eSport, to further expand channel subscription base.

Going forward, the quality and diversification of our IPTV content offerings will continue to be our priority to further strengthen user acquisition and user stickiness. We will also plan to carry more OTT offerings to increase customers' total contribution to our revenue.

#### ICT and Cloud Computing Initiatives

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

We are delighted to see solid growth in ICT businesses in the fourth quarter of 2017. Our ICT business continued to remain on the growth trajectory. In December last year, our IoT platform continued to demonstrate the latest solutions concerning smart agriculture, smart manufacturing and smart transportation. In 2017, the accumulated IoT revenue increased 23.3% year-over-year.

We are also glad to report that our IDC accumulated revenue grew 18.0% year-over-year in 2017. Our highest-rated Banqiao IDC has started the second phase rack installation to meet increasing demands from the financial industry and international content providers and is expected to be completed in the first quarter of 2018.

Going forward, we remain committed to leveraging our competitive advantages in network infrastructure, IDC and CDN to offer reliable, customized and comprehensive ICT solutions to our enterprise customers, develop new opportunities in our innovative business lines, and establish a comprehensive ecosystem in this sector.

Now, I would like to hand the call over to Mr. Kuo, our CFO.

### Financial Overview

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

### Income Statement Highlights

Slide 10 provides you with highlights from our income statement.

For the fourth quarter of 2017, total revenues increased by 4.4% and operating costs and expenses increased by 5.2% year over year. Our income from operations increased by 5.1% and our net income increased by 11.7% year over year. In addition, our EBITDA margin decreased to 30.29% in the fourth quarter from 31.01% in the same period of 2016.

### Business Segment Revenues

Please refer to slide 11 for revenue breakdown by business segments.

The increase in total revenue for the fourth quarter of 2017 was driven by the increase handset sales and ICT project revenue, which partially offset the decrease in voice revenue.

### Costs and Expenses

Moving on to slide 12, our operating costs and expenses increased by NT\$2.49 billion, or 5.2%, year over year in the fourth quarter due to higher ICT project costs and cost of goods sold.

### Cash Flow & EBITDA Margin

On slide 13, cash flow from operating activities for the fourth quarter of 2017 decreased by NT\$6.58 billion, or 20.8%, compared to the same period of 2016, mainly due to larger amount of change in receivables.

In November, we acquired 4G mobile broadband license in 1.8 and 2.1 GHz frequency bands, which resulted cash outflow of NT\$10.94 billion.

As of December 31, 2017, we had NT\$28.89 billion of cash and cash equivalents.

#### Operating Results vs. Forecast

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

We are pleased that our performance in 2017, including income from operations, net income, EPS and EBIDTA, met our full year guidance.

#### 2018 Forecast

Moving on to slide 15, which shows our 2018 consolidated guidance.

Looking ahead, total revenue for 2018 is expected to increase from 1.7% to 2.4%. The increase in revenue is expected to come from enterprise ICT business, Internet application VAS and government service, and MOD service. Operating costs and expenses for 2018 are expected to increase from 0.7% to 1.9%, primarily driven by the growth in our ICT business, smart device sales, and the enhancement of digital content. Additionally, personnel costs and amortization costs for the 4G spectrum will increase year over year. Given these projections, we expect 0.9% to 8.8% year-over-year increase in operating income and 4.1% year-over-year decrease to 3.7% year-over-year increase in net income.

Moreover, the net income guidance has already factored in the increase of income tax rate from 17% to 20%, the Act was passed in the parliament earlier this month

#### Effective and Efficient Capital Expenditure

Lastly, slide 16.

We are budgeting capex of NT\$33.1 billion for 2018. We will focus on investment in our core businesses, including FTTx, 4G, IDC and service platform among others under our precision construction principle.

Thank you for your time. We would now like to open the line for questions.

**- Q&A Session -**