



中華電信  
Chunghwa Telecom

## **CHT 3Q2024 Results November 6, 2024, at 4:00 P.M. (Taipei Time)**

Thank you. I am Angela Tsai, Assistant Vice President of the Finance Department for Chunghwa Telecom. Welcome to our third quarter 2024 results conference call. Joining me on the call today are Rong-Shy Lin, our recently appointed President, and Audrey Hsu, our new Chief Financial Officer.

As usual, I'd like to remind everyone to read our disclaimers and note the related forward-looking statements on page 2.

Before I turn the call over to President Lin, I would like to briefly introduce our newly appointed President and CFO. President Rong-Shy Lin holds a Ph.D. degree in Computer Science from National Yang Ming Chiao Tung University, and has previously served as our Chief Business Officer, Chief Technology Officer and Chief Information Security Officer, possessing comprehensive experience in business development and technology advancement in the telecom industry.

Our new CFO, Audrey Hsu, holds her Ph. D. degree in Accounting and Finance from Lancaster University, and was serving as Professor of Accounting at the National Taiwan University. She was also the Associate Dean of International Affairs and Director of GMBA of National Taiwan University.

We warmly welcome our new executives, President Lin and Dr. Hsu, to the earnings conference, and now, I will turn the call over to President Lin for the business update, who will be followed by Dr. Hsu for the financial highlights. Afterwards, we will move on to the Q&A session.

President Lin, please go ahead.

### Recent Strategic Achievements

Thank you, Angela, and hello, everyone. Welcome to our third quarter 2024 results conference call.

To begin, I would like to extend a warm welcome, from all of Chunghwa, to our new CFO, Audrey

Hsu. We are happy to have her join our executive team and participate in today's call. And now, please flip to page 3 for our recent strategic achievements.

In the third quarter, we are pleased to announce our continued success in expanding our lead in Taiwan's mobile market. According to the regulator of communications in Taiwan, Chunghwa's blended 5G penetration in the third quarter remained the highest among peers, which has positively contributed to our continued growth in our postpaid subscriber numbers from this year. We are glad that Chunghwa continued to outpace the industry in terms of subscriber growth.

In addition, we achieved a new single-quarter revenue record for the third-quarter, the highest in the last seven years. Meanwhile, we are especially pleased to see our total ICT revenue reach its third-quarter high since 2022 when we transformed our organization to a customer-centric structure. Our proven success and effective strategy has driven our continued ICT industry leadership, furthermore pulling us farther ahead of our competitors. Going forward, we are confident in expanding our industry lead.

Another area we continuously develop is advanced networks and technologies. In the third quarter, we were proud to announce our successful collaboration with NTT Corporation in launching the world's first IOWN all-photonic communication link between Taiwan and Japan. This delivers high speed connectivity with ultra-low latency and power consumption, perfectly suited for the AI-driven future. In addition, as the exclusive OneWeb low-earth-orbit satellite service provider, we're happy to report that the coverage in Taiwan has reached 90% in the third quarter and is expected to achieve 100% in the fourth quarter. This expansion enhances our network resilience and contributes to related revenue. Furthermore, we are making progress in transitioning our air-cooled solutions to liquid-cooled solutions to support Nvidia AI servers, which will better enhance IDCs' power usage effectiveness (PUE) and also contribute to the offering of GPU-as-a-service.

Lastly, in our pursuit of ESG best practices, I am pleased to report that we have officially received SBTi's verification for its Net Zero greenhouse gas emissions target. This achievement makes us the first operator in Taiwan to commit to realizing Net-Zero by 2045, ahead of the globally accepted 2050 roadmap. In addition, we obtained carbon footprint verification for all of our service centers nationwide, setting us apart as the only telecom company in Taiwan to achieve this milestone.

Now, let's move on to the business overview of the third quarter of 2024.

#### *Business Overview – Mobile Service*

We are pleased to report another quarter of market-share gains in the third quarter of 2024.

Our overall subscriber share of Taiwan's mobile market reached to 37.8%, achieving a stable year-over-year increase. We are even more excited to see our industry No. 1 5G subscriber market share reached 38.8%, better than that of the overall mobile subscriber share. In addition, our revenue share remained above 40%, hitting 40.3% as of the end of September, continuously exceeding our subscriber share to reflect our healthy growth.

As our postpaid subscriber net-adds continued to outperform peers, along with growing 5G migration and steady international roaming contributions, our mobile service revenue recorded a 2% year-over-year increase, maintaining growth for 14 consecutive quarters.

In the third quarter, we are glad to see the average monthly fee uplift from 5G migration exhibit a 43% uptick, maintaining healthy momentum.

#### Business Overview – Fixed Broadband Service

Let's move on to slide 6 for an update of our outperforming fixed broadband business.

In the third quarter, we expanded our cross-tier upgrade promotion package to include 1Gbps service offerings. As a result, our subscriber net-adds of 1Gbps service doubled during the quarter. Moreover, the number of subscribers with speeds of 300Mbps and above increased by 20% year-over-year, maintaining double-digit growth, and the total number of fixed broadband subscribers also rose.

Thanks to our successful speed upgrade strategy, our fixed broadband revenue and ARPU continued to increase by 3.4% and 1.5% on year, respectively, effectively contributing to our overall performance.

Now, let's get a closer look at the performance of our business groups.

#### Consumer Business Group (CBG) – 3Q24 Financial Summary

Page 8 presents our performance of our consumer business group.

In the third quarter, total CBG revenue increased by 2.1% year-over-year, driven by several factors, including the increase of mobile service revenue due to 5G migration and increasing postpaid subscribers, the steady growth of fixed broadband revenue, and the increase of OTT revenue generated from our exclusive broadcast of the Paris Olympic Games. In addition, the launch of iPhone 16 series during this quarter further drove up the sales revenue by 1.3%, and

we anticipate that this momentum will continue into the fourth quarter.

Although CBG delivered positive revenue growth in the third quarter, its income before tax slightly decreased year-over-year, mainly due to the one-time broadcasting rights fee of the Paris Olympic Games.

#### Consumer Business Group (CBG) – 3Q24 Highlights

Slide 9 further illustrates our CBG highlights.

In the third quarter, our multiple-play packages, which combine mobile, fixed-broadband and Wi-Fi services altogether, continued to deliver outstanding year-over-year growth of 65%, thanks to our high-quality networks.

In terms of applications, our video business demonstrated significant growth due to our exclusive broadcast of the Paris Olympic Games during the quarter. Subscription to our video platform, comprising of MOD (IPTV service), and Hami Video (OTT service) successfully exceeded 3 million, maintaining the largest video platform in Taiwan. Compared to the Tokyo Olympic Games, new sign-ups for Hami Video increased 60%, while advertising revenue more than doubled. Overall, video business related revenue in the third quarter delivered double-digit year-over-year growth, highlighting the success of our content investments.

Other than video applications, our consumer cybersecurity subscription increased by 16% year over year in the third quarter.

#### Enterprise Business Group (EBG) – 3Q24 Financial Summary

Please turn to slide 10 for an overview of our enterprise business group performance.

In the third quarter, EBG's total revenue increased by 5.9% year-over-year, mainly driven by our robust growth in ICT business, which saw a 22% year-over-year increase in revenue, mainly fueled by the strong performance of our emerging services.

In terms of EBG's core service, although we see the ongoing 5G migration and fixed broadband speed upgrades provided some positive momentum to drive up mobile data revenue and broadband data communication and access revenues, it was not enough to fully offset the revenue decline of mobile voice and fixed-line voice in the third quarter.

Consequently, the decline of voice services also resulted in the year-over-year decrease of EBG's income before tax.

### Enterprise Business Group (EBG) – 3Q24 Highlights

Slide 11 provides a detailed picture of our enterprise business highlights.

We are excited to report that our ICT emerging business outperformed in the third quarter, with revenue increasing by 30% year-over-year. All our major applications demonstrated strong double-digit and even triple-digit year-over-year growth.

Notably, 5G private network revenue surged due to the 5G O-RAN project while big data analysis revenue doubled thanks to smart government initiatives.

For our AIoT, cloud, and IDC businesses, we are delighted to see year-over-year revenue increases of 44%, 24%, and 21%, respectively. The gains were mainly due to the completion of AIoT projects in smart energy, smart surveillance, and smart transportation, as well as the continued growth in recurring revenues from cloud and IDC businesses.

Cybersecurity revenue also achieved a 24% growth on year, marking 11 consecutive quarters of year-over-year increases.

It is worth noting that in the third quarter, we successfully developed the first "5G private network backpack," a smaller and lighter 5G private network capable of receiving satellite signals, quite useful in the remote area, and fully complementing our overall network resilience.

Additionally, we secured a flagship project to help a leading franchised retailer in Taiwan integrate network and equipment, and offer services such as surveillance, cybersecurity, and cloud solutions, etc. We value not only the secured revenues but also the recurring contributions from maintenance and consulting services afterward.

Lastly, in this quarter, we won another AMI smart energy construction project and further strengthened our position as the leading AMI project operator. With the largest market share of AMI services, we are well-positioned to develop and deliver related maintenance and application services going forward.

### International Business Group (IBG) – 3Q24 Financial Summary

Slide 12 illustrates our international business performance.

In the third quarter, IBG's total revenue and income before tax increased year-over-year by 1.4% and 11%, respectively, mainly due to the vibrant demand for cloud and ICT solutions in the international market, as well as contributions from our Japan subsidiary.

Excitingly, our European subsidiary in Frankfurt, Germany, began operations on July 30. This milestone underscores our efforts in the European market. Our strategy is to collaborate with European telecom operators and ICT service providers to promptly offer ICT solutions to both Taiwanese and European enterprises. We have already secured ICT projects from the high-tech industry in the European market.

In August, we also joined the "IoT World Alliance," opening up potential opportunities in the internet of vehicles and other transnational IoT projects.

Now, I would like to turn the call to Audrey for our financial highlights.

### Financial Overview

Thank you, President. Good afternoon, everyone. I am pleased to share a summary of our financial results for the third quarter of 2024.

### Income Statement Highlights

Starting with our income statement highlights on page 14.

For the third quarter of 2024, our revenue exceeds 55 billion, marking a seven-year high for this period. This is a 3.6% increase from the same quarter last year. This was primarily driven by the significant growth in our ICT business. Our income from operations and net income saw slight declines of 0.8% and 1.0%, respectively. It's important to note that these shifts were largely due to two main factors. First, higher manpower costs have impacted our income. These expenses reflect our strategic investment this year in maintaining a skilled and motivated workforce, which is essential for sustaining our operational momentum and driving future growth. Second, we experienced increased broadcast rights fees for the Olympic Games. Securing valuable content is a critical step in enhancing our service offerings and supporting our long-term growth objectives. Despite these higher costs, our earnings per share for the quarter stood at \$1.16, showcasing the underlying strength of our core operations.

Now if we move to column 5-7 of the Table, looking at the first nine months of 2024, revenue grew by 2.1% year-over-year, driven by continued strong performance in ICT, mobile, and broadband services. Income from operations and net income decreased by 1.9% and 1.5% year-over-year, mainly due to the high base from last year's one-time government compensation related to ST-2 satellite. Additionally, higher manpower, which were also noted earlier,

underscore our investment in maintaining a talented and motivated workforce. Utility costs have also risen notably, impacted by the Taiwan government's decision in April to raise electricity prices. This increase has contributed to our higher operational expenses. When we exclude the one-time government compensation related to ST-2 satellite last year, you will find that net income growth remains positive year-over-year, underscoring the healthy momentum of our core and ICT operations. This continuous growth in revenue reaffirms the importance of strategic investments in future growth, such as investing in our employees and expanding content offerings. For the first nine months, our earnings per share reached \$3.64, and the EBITDA margin remained stable, demonstrating our resilience and commitment to long-term value creation.

### Balance Sheet Highlights

Now moving on to page 15 for a review of our balance sheet highlights.

First, As of September 30, 2024, total assets decreased by 2.7%, compared to the year-end of 2023. This decrease was largely attributed to the decline in property, plant and equipment.

Next, total liabilities decreased by 4.7% relative to the year-end of 2023, primarily due to the decrease in accounts payable, accrued salary and current tax liability.

Additionally, our debt ratios continue to reflect a strong financial position. The debt ratio decreased slightly and net debt over EBITDA remained at zero. This conservative debt position aligns with our policy of minimizing financial risk and ensuring financial flexibility. A low debt level not only underscores our commitment to fiscal responsibility but also enhances our resilience against economic uncertainties, positioning us favorably for long-term value creation.

Collectively, these metrics highlight the robustness and stability of our balance sheet.

### Consolidated Cash Flow Summary

Turning to Page 16, which provides the summary of our cash flows.

First, cash flows from operating activities saw a slight decrease by 0.3% year-over-year. This was primarily due to the timing of tax payments, with a significant portion of income taxes being deferred to the fourth quarter of last year.

Capital expenditures (capex) declined by 15.1% year-over-year, reflecting our strategic focus on disciplined spending and prioritization of high-impact investments. This reduction is part of our approach to optimizing capital allocation, ensuring that resources are directed towards

projects that yield the highest returns.

Notably, free cash flow increased by 8.7% compared to the previous year, highlighting the strength of our operational efficiency and effective financial management. This robust free cash flow enhances our financial flexibility, enabling us to pursue strategic growth opportunities, support shareholder returns, and reinforce our long-term sustainability.

### Operating Results vs. Forecast

On page 17, let's turn to the table summarizing our operating performance relative to our guidance.

In the third quarter of 2024, revenue closely met our target for the period. Key performance indicators, including income from operations, net income, and EBITDA, were all in line with our forecasts, showcasing our ability to achieve consistent results.

Looking at the first nine months of 2024, revenue remained aligned with our expectations. Importantly, income from operations, net income, EBITDA, and the EBITDA margin all outperformed our guidance. These stronger-than-expected results were driven by steady growth in our core business and improved profitability in our ICT operations, reinforcing the effectiveness of our strategic initiatives.

This concludes our financial review for the third quarter and our prepared remarks. Thank you for your attention. We are now pleased to open the conference call for questions.

### **- Q&A Session -**

**Q: Sara Wang, UBS**

**I have two questions. First is that I understand that the high base last year from government subsidy and also higher electricity actually put pressure on our net profit growth. But just want to be more specific that why profit before tax declined for Consumer and Enterprise segments. Any other like sector-specific reasons? This is my first question.**

**And then second is on the Enterprise segment, the emerging enterprise application revenue is growing quite fast. May I ask what's the contribution to the total enterprise revenue? Thank you.**

A: Wen-Hsin Hsu

So for your first question, I think if my understanding is correct, you asked whether why the profit



reduced and revenue increased. As I mentioned, there are a couple of reasons. The compensation of the satellite is one of the main reasons. And other than that, our policy this year is to improve the talent pool. So the employee cost increased dramatically. It's across all segments. This is the second main factor. And the third factor is that electricity cost, which is a major portion in our company and particularly in data centers in the Enterprise segment. And utility costs also represent a significant portion. The fourth one is the Olympics video contents for Consumer segment. The investment in video contents is also our company's strategic purpose. Most of the long-term investments will end up in expense in income statement. So that is the reason that when you read the income statement, you may see the profit reduced a bit. But to us, we do not take it as an expense; we take it as a strategic investment for the future. Thank you.

**Q: Sara Wang, UBS**

**Just a quick question. What's the percentage of the emerging enterprise application revenue contribution to total enterprise revenue? Thank you.**

A: Cho-Fen Tsai

We don't separately announce the percentage of our enterprise emerging application revenues versus the ICT total revenue.

**- Chat Box Question -**

**Q: What's the company's strategy to increase the revenue going forward. And another question is about the net profit decrease for the three sectors.**

**About the reasons for the net profit decrease for the CBG and EBG, I think our CFO just answered the question. So now, we'll discuss our revenue increase strategy.**

A: Wen-Hsin Hsu

Again, that one of the purposes of the corporation is to maximize shareholder return. And I believe that profit is always the fundamental main purpose. Our executive team has already worked hard to focus on couple of the areas to improve our profits in the future. So the first is that we try to focus more on high-margin products or service. In the future, we will try to discontinue or scaling back low-margin offerings, which will reduce the revenue but improve profits. So this is one area that we will try to focus and we will exit from low-profit markets or customer segments.

And secondly, as you know that the size of the company is quite huge. So streamline operation is also important strategy for our new CEO and President. Our company will undertake an effort

to improve operational efficiency such as automating process, incorporate AI and/or renegotiate its supplier contract, etcetera. Try to streamline operation is quite important to help us to improve our profitability.

And third, for the revenue parts, as you can see our mobile segments continued to grow year-on-year. One main reason is because we launched a couple of the programs, something like a points-and-rewards retention. And as you see, loyalty points is quite important to allow customers to earn rewards over time, and this can often be redeemed for discounts on their bills. And this can help improve the customers and the users. And secondly, we will have a lot of the bundling package. Many loyalty program will bundle additional service such as streaming, subscription, music, cloud storage or even IoT device into a single plan to create more value for the customer. And third, as you know that we launched the iPhone 16, so there are discounts and subsidies on 5G devices. We believe that these are still a big potential for CHT to increase the 5G penetration rate. If we continue to implement all the strategies in this loyalty program or the bundle service, we believe that we can keep increasing the revenue and also profit.

**Q: what kind of low profits of the service that will be launched?**

A: Wen-Hsin Hsu

As you know that most of the iPhone sales revenue is negative profit. Because it is under the bundle program, so it is not really low profit. I mean that under the IFRS 15, we look at on the contract basis, we do not look at on the separate basis. So, we don't really launch any low profits. What I want to emphasize is that for most of our Enterprise segment and Consumer segments, we will try to streamline operation and to see if there is any product that we can improve the operations and to reduce the cost, and we believe there is a lot of potential.