



CHT 1H2009 Results Conference Call Script Aug 27, 2009 at 6:00 A.M. (EST)

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

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.

This presentation is being made on August 27, 2009. The content of this presentation contains time-sensitive information that is accurate only as of the time hereof. If any portion of this presentation is rebroadcast, retransmitted, or redistributed at a later date, Chunghwa will not be reviewing or updating the material that is contained therein.

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 first half 2009 earnings result conference call. First, please note our safe harbor statement on slide 1.

Now, before we start the formal presentation, I would like to provide some updates in 3 aspects. First, on behalf of Chunghwa, I would like to thank you for all of your concerns regarding the recent Typhoon Morakot in Southern Taiwan. We are all very saddened by this incident and our thoughts and prayers go out to all of the victims and their families affected by this tragedy. Fortunately, none of our employees were injured. Although some of our operations temporarily affected, as of today, we managed to restore almost all of our services. As a result, we expect no material financial impact, so we currently uphold our recent 3Q09 guidance as previously announced.

Secondly, as shown on slide 2, I am pleased that in the recent AGM, our shareholders have approved the third round capital reduction program. We will increase our capital stock by 10% from our capital surplus and cancel the increased amount afterwards. Total cash amount to

shareholders from this program is estimated to be NT\$9.7bn. Because of the capital reduction program, we will distribute a 10% stock dividend along with the regular cash dividend.

Finally, on August 25, Chunghwa announced that starting on September 1, 2009, the Company will redefine its financial reporting segments into five operating segments. Prior to September 1, 2009, we had seven operating segments. The redefinition of the Company's operating segments is expected to facilitate the management's ability to assess the performance of each operating segment by conforming the Company's operating segments to the international trends of other telecommunications companies in general, thus better align our internal metrics in reporting and in communicating to our shareholders and investors. As part of the redefinition, certain items have been redefined from one operating segment to another. The charts on slide 3 set forth a description of which items are included under each of the operating segments for the old and the new segment reporting. Please also refer to the appendix of this presentation for our "1H 2009 Pro Forma Operating Segment Information".

Now, I will hand over to Dr. Shieh. Dr. Shieh, please go ahead.

Dr. Hsieh, CFO: Thank you, Chairman Lu and thank you all for joining us.

Income Statement Overview

Slide 5 shows our income statement highlights on a consolidated basis.

Our total revenue for the second quarter of 2009 was NT\$48.1bn, a 3.8% decrease compared to the second quarter of 2008. The primary reason for the revenue decline was the deteriorating economic environment and market competition, which resulted in the reduced traffic for fixed line and mobile businesses.

In addition, EBITDA decreased by 5.2% and operating profit decreased by 5.9%. The reasons for these declines are due to revenue decreases which I will cover next. However, both EBITDA and Operating profit margins are relatively stable.

Net income decreased by 8.3% compared to the second quarter of 2008, more than the operating profit decline rate, mainly due to the reduced interest income generated from the lower interest rate.

Cost and Expenses Overview

As shown on slide 6, for the second quarter of 2009, total operating costs and expenses were NT\$33.1bn, a decrease of 2.9% compared to the second quarter of 2008. This decrease was mainly due to the decrease of Senao's operating costs which resulted from the decrease in Senao's sales, as well as the decrease in the parent company's marketing expenses and depreciation expenses.

Segment Revenue

On slide 7, we show the revenue performance for each business segment.

On our mobile business, we made progress by increasing our subscriber numbers by 2.95% and by enhancing our VAS revenues by 11.32% compared to second quarter 2008. However, these successes were offset by the economic downturn and the market competition.

Our Internet and data revenue in the first half 2009 slightly decreased by 0.2% year-over-year, which was mainly because of tariff reduction for HiNet and ADSL.

In the fixed-line business, for the second quarter 2009, local and domestic long distance revenues decreased by 5.4% and 10.9% year-over-year, respectively. The decrease was mainly due to the economic downturn, as well as mobile and VOIP substitution. International long distance revenue

decreased by 6.3%, which mainly resulted from the economic down turn, VOIP substitution and market competition.

Other revenue decreased by 9.7% in the second quarter 2009 compared to same period last year, mainly due to the decrease of handset sales.

Cash Flow Overview

In terms of our cash flow performance shown on Slide 8:

For the second quarter of 2009, our cash flow from operating activities decreased by 26.4% to NT\$18.2bn. This was primarily because of the decline in revenue which led EBITDA to decrease by NT\$1.3bn, as well as the NT\$3.2bn income tax refund the parent company received in the second quarter 2008.

Free cash flow for the second quarter of 2009 decreased by 33.3% compared to second quarter of 2008 mainly because of the decrease in cash flow from operating activities.

Our capex continued to decrease year over year as we become more vigilant on our spendings. As a result, our cash and cash equivalents amounted to NT\$83.4bn as of the end of the second quarter 2009. This represents about 12.5% decrease compared to the same period last year, and the decrease was mainly because of the cash payment from previously completed capital reduction program.

Capital Expenditure

Next on slide 9, the total capex for the 1H2009 amounted to NT\$10.3 bn, a 9.0% decrease compared to that for the same period in 2008. Within the NT\$10.3 bn capex figure, 73% was for wireline, 21% was for wireless and the remaining for other capital expenditure.

Moving forward, in supporting our NGN network and other investments focusing on CHT's long term core business opportunities, we expect our capex spending to remain no more than the 15% level of our annual revenue over the next 5 years.

This completes my financial reporting, I will now hand over to President Chang for the business review.

CHT Overall Business Overview

Thank you, Dr. Shieh. Now, let me take you through the business overview.

As you can see from slide 11, our consolidated revenue for the first half 2009 was NT\$97.2bn, and we were able to maintain our leading market positions in each of our business segments throughout the second quarter.

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

CHT Broadband Business Overview

Next on slide 12 is our broadband subscriber data at the end of the second quarter 2009.

Total market broadband subscribers reached 5.06 million, representing 66% household penetration. Chunghwa is the largest broadband service provider with 83.7% market share at the end of the second quarter 2009. Since the broadband household penetration is already high, our primary aim is not to grow the subscriber base; instead, we are focusing on upgrading subscribers to higher speed fiber services for potentially higher revenue contribution.

Additionally, in facing the competition from cable operators, we are retaining low speed subscribers through competitive price by offering sub-brand ISP services via one of our strategic partners as well as offering customized service packages to various residential communities.

Moreover, we will continue to promote Internet value added services, which are the fundamental growth driver of our Internet and data business.

CHT Mobile Business Overview

Please refer to slide 13.

We had 9 million mobile subscribers at the end of June 2009. Although we were able to accumulate more subscribers throughout 2009 so far and our mobile churn rate has consistently been the lowest amongst all Telecom providers, total mobile revenue declined slightly in the second quarter 2009 primarily due to the economic downturn and market competition.

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

New Mobile Device

Now on 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 catering to the evolving needs of our customers.

In addition, our VAS packages are also designed for various segments of customers. Our VAS service platform, Hami, can deliver popular services such as music, location-based service and so on for selective handset models.

In terms of the average VAS revenue contribution based on average bill per user, we are pleased to see that, in addition to the data card users, our segment targeted packages such as mPro and mCool users exhibited even higher VAS contribution compared those of 3G users.

We will continue providing these value-added services and the desired handsets in meeting the evolving preferences of our many subscribers in order to enhance their user experiences and loyalties.

Convergence

As shown on slide 15, by the end of June 2009, we accumulated 660 thousand IPTV subscribers, representing a 29.7% increase year-over-year. The slight quarter over quarter decline was mainly due a temporary glitch on content provision from one of our terrestrial TV program partners, and we do not expect significant subscriber impact moving forward. In addition, based on our analysis, those users who discontinued the service in the second quarter 2009 were mostly low-ARPU users. In addition, the Household Using Television for second quarter 2009 is three percentage higher than the first quarter 2009

We've been strengthening our IPTV strategy in terms of content, marketing and interactivity. To give some examples, we are continuously increasing our SD, HD and SVOD contents including movie, drama, animation and documentary.

For interaction, games, KOD and home banking are becoming more popular. In addition, we started cooperating with the famous TV series "Mom's house" to provide interactive real time voting since July, 2009.

Besides NBA, SBL (Super Basketball League) and PBL(Nippon Pacific Baseball League) are all live broadcasted across all of our MOD / HiNet / emome platforms. The World Games 2009 Kaohsiung was live broadcasted on these 3 platforms as well.

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

This completes my core business review.

Property Management Updates

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

As shown on slide 17, as you may know, CHT has over 2700 pieces of land spread out in Taiwan for a total of 4.09 million square meters and over 1800 buildings totaling about 3.5 million square meters. The total current book value is about NT\$150 billion.

In terms of our current development, we have a total of 6 pieces of land amount to over 15,000 square meters being developed as residential buildings. Four of these are in Taipei city, one in Taipei county and one in Central Taiwan.

We currently expect these land development to be completed and to start contribute revenue from about year 2011 and 2012. Since these land development are under our subsidiary LEDC, we estimate to recognize a one time revenue of about 2% to our total revenue. In addition, the company is expected to investment about NT\$1.5bn to NT\$2.0bn in total from 2007 to 2013 inclusive to complete the land development.

In addition to the land, we also have two commercial buildings in Taipei city under development, totaling over 47 thousand square meters. These are office complexes. We currently expect these buildings to be completed in years 2010 and 2013 respectively and to start contribute rental revenue. Under steady state assumptions, we estimate the annualized revenue contribution from these building to be about 0.15% to our total revenue. In addition, we currently expect to investment about NT\$1.5bn to NT\$2.0bn in total from 2007 to 2013 inclusive to complete these building development.

Our overall property strategy and mid-term targets are shown on slide 18. As mentioned before, our primary focus will be rental revenue. In terms of our development focus, the near term developments are mostly concentrated on well-developed area in prime locations, so that our incremental development efforts are less, especially with good developer partners.

For the mid-term, we will focus on developing areas and the under-developed areas for the longer term.

The nature of our developments will primarily be commercial, residential, as well as office complex. In addition, our action plan is to lease out any of CHT's unused buildings and floor spaces. As a result, the primary revenue source from our property development efforts will be stable stream of rental or leasing revenue with certain visibility.

Over the next 5 years, in terms of our targets, excluding what I just mentioned in the previous slide that is currently already under development, we plan to develop another seven pieces of land totaling over 33 thousand square meters. All of these lands are in major cities including Taipei, Taichung and Kaohsiung. The land development will be used primarily for office complex and business accommodation.

We expect to spend about an additional NT\$4.5bn to NT\$5.0bn on these development from 2010 to 2014 inclusive. Once completed, the development is estimated to generate about 0.25% annualized revenue to our total revenue.

Now, I will pass the call to Chairman Lu for our business outlook.

Dr. Lu, Chairman and CEO: Thank you, Mr. Chang. Now, I would like to make a few comments on our business outlook.

Mid-term Corporate Strategy

As shown on slide 20, our mid-term corporate strategy is primarily centered on enhancing competitive positioning, exploring non-core business operation and implementing CSR. Specifically, we plan to sustain our dominant market leadership by enhancing core product features/functionality, providing differentiated and even customized services as well as innovative devices to match the ever evolving preferences of the users. Also, we will continue focus on ICT related services to better serve our corporate clients. At the same time, we will continue advanced network deployment to stay ahead of the industry transformations. In addition, we will continue streamline operational efficiency to better support our core business competitiveness and advanced technology development with improved cost management.

Next, for our non-core business, 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 non-operating income.

Last but not least, 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 -