

Chunghwa Telecom 1Q 2009 Results Call Presentation Script

Thank You. This is Fufu Shen, Investor Relations Director of Chunghwa.

Welcome to our first quarter 2009 results conference call for Chunghwa.

Today we have Dr. Lu, our Chairman and CEO, Mr. Chang, our President, and Dr. Hsieh, our CFO to speak to you and answer your questions.

On today's call, Dr. Shieh will review 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.

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Thank you, Fufu. Hello, everyone, this is Shyue-Ching Lu, Chairman of Chunghwa Telecom. Thank you all for joining our first quarter 2009 earnings result conference call.

First, please note our safe harbor statement on slide 1.

For the first quarter of 2009, we continued to executive on our strategic focus of maintaining market leadership for our core services as well as expanding our digital-converged services such as broadband and mobile value-added services, MOD/IPTV, and key enterprise solutions. As a result, we are able to stabilize our top-line performance under the current adverse economic situation. In addition, I am pleased that our Board of Directors approved a third round of capital reduction program for us to return cash to shareholders in 2009. For this round, we estimate to return a total of NT\$9.7 billion, which is a strong testament of our continued commitment to maximizing shareholder value.

Given the current global economic environment, decreased visibility, and increased market volatility, we are changing our customary guidance format. We want to be as transparent as possible, but also need to be prudent with regard to comments about future outlook. As a result, CHT has decided not to provide full-year guidance for 2009; instead, we will give guidance on a quarterly basis.

Before reviewing our results for 1Q 2009, I would like to report to you that yesterday the board 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 of returned to the 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 of NT\$3.83 per share which has already been approved by the board for 2008. We will submit these proposals, including the cash dividend payment, the capital increase and capital reduction program, in the shareholders meeting in June for the final vote.

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

Thank you, Chairman Lu and thank you all for joining us.

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

Our total revenue for the first quarter of 2009 was NT\$49.1bn, a 3.6% decrease year-over-year. The primary reason for the revenue decline was the deteriorating economic environment, which resulted in the reduced traffic for fixed line and mobile businesses.

In addition, EBITDA decreased by 10.7%, operating profit decreased by 14.0% and net income increased by 0.7% year-over-year. The EBITDA decline was primarily due to the decrease in revenue and the increase in operating expenses. The net income growth is because of the increased net non-operating income and decreased income tax.

As shown on slide 5, total operating costs and expenses for the first quarter of 2009 were NT\$35.0bn, an increase of 1.3% compared to the first quarter of 2008. As I mentioned on the previous slide, this increase was mainly due to the increase in personnel expense. This personnel expense increase was mainly because the Company increased the ceiling of performance-based bonus in order to encourage its employees.

On slide 6, we show the revenue performance for each individual business segment in

1Q 2009.

On our mobile business, we made progress by increasing our subscriber numbers by 2.9% and by enhancing our VAS service revenues by 18.5% compared to 1Q2008. However, these successes were offset by the economic downturn and the market competition.

Our Internet and data revenue slightly decreased by 0.5% year-over-year, which was mainly because of the tariff reduction for ISP and ADSL services.

In the fixed-line business, local and domestic long distance revenues decreased by 6.2% and 10.1% in 1Q 2009, respectively. The decrease was mainly due to the economic downturn, as well as mobile and VOIP substitution. International long distance revenue decreased by 14.4%, which was mainly resulted from the economic down turn, VOIP substitution and market competition. Other revenue increased by 1.1% mainly due to the reclassification of non-core value added service from Internet and data service.

Slide 7 shows our cash flow performance.

Our cash flow from operating activities decreased by 13.6% to NT\$16.1 bn. The decrease was primarily because there was a decline in EBIT year over year.

Free cash flow for the first quarter of 2009 decreased by 13.6% compared to first quarter 2008.

Our cash and cash equivalents amounted to NT\$69.2bn as of the end of the period.

Next on slide 8, the capex for the first quarter 2009 amounted to NT\$4.7 bn, a 13.8% decrease compared to that for the same period in 2008. Within the NT\$4.7 bn capex figure, 73.6% was for wireline, 17.0% was for wireless and the remaining for other capital expenditure.

Starting from 2007, we have been upgrading our core network from traditional PSTN to IP-based Next Generation Network as well as migrating access network to fiber. We believe this is an investment that will better position us to capture the future opportunities. So moving forward, we expect the capex will remain between NT\$30bn to NT\$32bn over the next 2 to 3 years.

These future investments will focus on our core businesses and on migrating mobile and broadband customers to higher revenue platforms.

Slide 9 shows our forecast for the second quarter of 2009. We will issue guidance on a quarterly basis instead of giving a full-year guidance for 2009. Please be advised that this forecast is only for Chunghwa, the parent company.

In considering the global financial crisis, the intensified competitive landscape and NCC

tariff reduction, for 2Q 2009, we estimate our revenue to be relatively stable at NT\$45.6 billion.

Also, taking into consideration of the compensation for the early retirement program planned in May, we estimate EBITDA to be NT\$23.0 billion, Operating Profit will be NT\$13.8 billion, and Net Profit to be NT\$10.8 billion. As a result, our EBITDA margin and Net margin for 2Q09 are expected to be 50.41% and 23.67% respectively. This completes my presentation on the financials, I will now hand over to Mr. Chang for the 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 first quarter 2009 was NT\$49.1bn, and we were able to maintain our leading market positions in each of our business segments throughout 1Q2009. We have been successfully defending our fixed line market share and are confident that our strong market position will sustain.

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

At the end of February, total market broadband subscribers reached 5.06 million, representing 66% household penetration. Chunghwa is the largest broadband service provider with 83.2% market share at the end of the quarter. 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, which have a higher revenue contribution.

In terms of the overall market competition, because cable operators tend to provide their access services at lower prices, we observed that some subscribers with lower speed needs have switched to cable providers. In order to retain these lower speed subscribers, we had to offer them quality services with competitive prices.

In addition, we will continue to promote Internet value added services, the fundamental growth driver of our Internet and data business. Among all of the value added services that we offer, the fast growing are the Internet pornography gatekeeper and HiNet Games, which have year-over-year growth rates of 150.4% and 77.7% respectively. From the enterprise side, enterprise security services are another focuses. By adopting this service, enterprise can reduce their information security risk.

On slide 13, as of the end of 1Q 2009, we had about 1.2 million FTTx subscribers and the average bandwidth per broadband users has reached 4.49 Mbps.

As I mentioned in the previous slide, our strategy is to upgrade subscribers to use FTTx

service. Since ARPU for FTTx subscribers is higher than that for ADSL's, upgrading subscribers to high speed fiber network not only ensures our revenue growth but also prevents customers from switching to cable's services.

Please refer to slide 14.

We had 8.98 million mobile subscribers at the end of March 2009. Although we accumulated more subscribers throughout the year, total mobile revenue declined slightly in 1Q 2009 primarily due to the economic downturn and market competition. In order to mitigate the decline, we plan to aggressively promote our mobile value added services.

Of all of our mobile value added service, 3G service, data cards and smart phones with mPro packages are the three key services which we will focus. In addition, since revenue contribution from data card and mPro subscribers is higher than our blended mobile ARPU, we will focus on the promoting these two services to enhance our data revenue percentages.

We will continue migrating subscribers from 2G to 3G and re-allocate our handset subsidies according to the contribution of the subscribers in order to control our total subsidies this year.

Moving to slide 15.

Enterprise professional users will continue to be one of our target groups. To cater to their needs, we will enhance their user experiences and build loyalty through the mPro package with smart phones.

As I already emphasized repeatedly, value-added services, which have higher growth potential, is our focus for mobile business. Among all mobile VAS, mobile internet experienced the highest growth. Mobile internet subscribers, who utilize our mobile network capacity to browse the internet, reached 209 thousands as of the end of the first quarter of 2009 and exhibited a 108.7% year on year growth. For 2009, we expect to achieve 329 thousand mobile internet subscribers, representing a net addition of 160 thousand subscribers.

Now on slide 16.

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.

As you know, we began to provide iPhones on Dec. 13, 2008. Our internal statistics show that 75% of the total number of iPhone subscribers are current Chunghwa subscribers who renewed their contract in order to obtain an iPhone.

The remaining 25% are new Chunghwa subscribers. For those 25% new iPhone subscribers, 2/5 were previously subscribers of our competitors and now have switched to us via mobile portability. The other 3/5 were brand new users.

The launch of iPhone helped to increase the smart phone sales volume. Since the iPhone's debut in Taiwan, smart phone subscriptions increased to 10.8% of our total handset sales volume as compared to 2.2% before iPhone debut. In addition, 72% of iPhone subscribers subscribed mPro, which is much higher than that of other phone models, and their contribution is also 20% higher in terms of the average billing per user.

As shown on slide 17, by the end of March 2009, we accumulated 686 thousand IPTV subscribers, a 57.5% increase year-over-year.

We've been strengthening our IPTV strategy in terms of content, marketing and interactivity.

For content, we will launch a new VOD subscription model package on May 1st. This package has 400 hrs VOD online and 200 hrs VOD will be renewed every month. At the same time, we will enhance the user interface by introducing premium content and a new VOD package.

For marketing, we segmented the market by content category, innovative viral marketing via the Internet and community marketing with promotional packages and prices. To improve interactivity, we introduced interactive advertisements to broaden our reach and attract more customers. We also enhanced user applications through widget-like interfaces.

This completes my business review.

Now, I would like to provide an update on the regulatory landscape.

As shown in slide 19, I would like to address the regulatory front from three aspects, including tariff reduction plan from the NCC, the amendment of Copyrights Law and IP Peering.

We entered into the third year tariff reduction of a three-year plan imposed by the NCC on April 1, 2009. The reduction for ADSL and 2G mobile tariffs are 5.35% and 4.89%, respectively.

On the amendment of Copyrights Law, the ISPs could avoid the risk of legal problems over questionable content by "notice and take down" procedure. The amendment defines the definition and safe harbor of the ISPs.

On the IP peering issue, as TFN requested to cut IP peering price, we will be negotiating with players under the supervision of NCC. We believe the impact should be minimal.

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

Thank you, Mr. Chang. Now, I would like to make a few comments on our business outlook.

On slide 21, the company will continue delivering our key strategic initiatives mentioned previously, including digital convergence, NGN construction, streamlining operational efficiency etc.

In addition, we would also focus on green strategies along with the global energy saving and the environmental protection trend.

We finished carbon footprint calculation in October 2008. According to the calculation, carbon emission of Chunghwa represented 0.3% of the total emission amount of the country in 2007. Owing to our efforts in this regard, we were awarded relevant ISO certification by SGS in December 2008. We also expect the emission of greenhouse gases in 2013 to fall back to the 2008 level attributed to the company's efforts on saving energy of office buildings, switches and vehicles.

In addition, we aim to promote our energy saving solutions such as iEN and ITS for corporate customers. Potential customers include government entities, schools, hospitals and SMEs etc. It is indicated that by adopting the so-called intelligent energy saving solution, customers can save more than 23% of energy and increase their operational efficiency.

That's concludes the presentation. Now, we will be happy to take your questions.