



CHT 2010 full year Results Conference Call Script February 24, 2011 at 6:00 A.M. (EST)

Fufu: Thank you. This is Fufu Shen, Investor Relations Director of Chunghwa Telecom. Welcome to our full year 2010 results conference call. Joining me on the call today are Dr. Lu, Chairman and CEO, Mr. Chang, President, and Dr. Yeh, CFO.

During today's call, management will discuss business, operational and financial highlights for year 2010 and our forecast for year 2011. This will be followed by Q&A.

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 1**. Now I would like to turn the call over to Chairman Lu.

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 full year 2010 earnings results conference call.

On **slide 2**, we are pleased to report another year of solid performance.

Total unaudited consolidated revenue for 2010 amounted to NT\$202.5 billion. The increase in consolidated revenue was mainly driven by an increase in mobile VAS, handset sales and internet services.

We have several major achievements in year 2010. The popularity of the smartphone and the economic recovery resulted in higher traffic volume, which in turn boosted the momentum of telecom industry growth. In addition to our traditional telecom service offering, we successfully launched selected ICT services and were awarded major contracts. We also introduced new initiatives relating to ICT and converged services, and were able to configure cloud computing services for customers and consolidate and repackage solutions for customers.

Turning to **slide 3**, in addition to our strong operating results, we were also encouraged by the recognition we received in the form of several domestic and international awards relating to service quality, corporate governance and corporate social responsibility. I attribute these accomplishments to the efforts of our employees, and I'm proud of this public recognition of their dedication to excellence.

Moving on to **slide 4**. We remain committed to our shareholders, as you can see from this slide, which shows our cash return over the last four years. Cash dividends for 2010 were approximately NT\$49.1 billion, including a regular dividend of NT\$39.4 billion and a capital reduction cash return of NT\$9.7 billion.

We completed the fourth round of our capital reduction program in January this year, and paid out NT\$19.4 billion in cash.

Now, I will hand over to Dr. Yeh for our financial results.

Dr. Yeh, CFO: Thank you, Chairman Lu and good day everyone. Thanks for joining us today. I will review our financial results in detail, beginning with slide 6.

Income Statement Highlightss

Slide 6 shows our income statement on an unaudited consolidated basis, and provides a comparison on a year-over-year basis.

Our total revenue for 2010 was 202.5 billion NT dollars, a 2.1% increase compared to 2009.

Despite the NCC tariff reduction that became effective on April 1, 2010, the company did its best to maintain its growth. I will review revenues by business segment later.

Operating costs and expenses grew 2.2% to 145.1 billion NT dollars. And income from operations increased 1.7% to 57.4 billion NT dollars.

Net income for 2010 increased 9.0% to 47.7 billion NT dollars, reflecting the tax rate reduction from 25% to 17%.

EBITDA for 2010 decreased 1.4% to 91.4 billion NT dollars, mainly as a result of the mandated NCC tariff reduction and the higher cost of handsets sold.

Business Segment Revenues

Slide 7 shows our revenue for each business segment for 2010.

In the domestic fixed line business, local revenues decreased by 2.9% year over year, mainly due to mobile and VOIP substitution. The 10.2% decline in DLD revenues was also due to mobile and VOIP substitution, as well as reflecting the mandated tariff reduction.

Broadband access revenue, including ADSL and FTTx, increased by 2.1% year over year. Although ADSL access revenue decreased as more ADSL subscribers migrated to fiber solutions, the decrease was fully offset by growth in FTTx access revenue.

Mobile revenue increased by 2.9% year over year, mainly due to growth in mobile VAS revenue related to our smartphone promotion and handset sales.

Internet revenue rose by 3.5%, mainly due to Internet services growth, which was driven by the increase in broadband subscribers and the migration of ADSL subscribers to fiber solutions.

International fixed line revenue increased by 2.6%, mainly due to the growth in leased line revenue.

Costs and Expenses

Slide 8 shows the breakdown of operating costs and expenses.

The increase in operating costs and expenses was mainly due to the higher cost of handsets sold and the performance-based bonus accrual that relates to net income growth. The remainder of costs and expenses in total declined mainly due to the decrease in depreciation expense.

Cashflow

As shown on **slide 9**, cash flow from operating activities was 84.6 billion NT dollars during 2010. We were in a strong cash position on December 31, 2010, with cash and cash equivalents amounting to 90.9 billion NT dollars.

2011 Forecast

Slide 10 shows our 2011 unconsolidated forecast. Total revenue for 2011 is expected to increase by 1.9% to NT\$190.0 billion, primarily due to increased fixed line revenue resulting from the shift in the pricing right of a fixed-to-mobile call from mobile operators to fixed network operators. Additionally, mobile internet, broadband services, corporate ICT and cloud computing services will continue to be areas of growth.

Operating costs and expenses for 2011 are expected to increase, mainly due to the rise in interconnection costs and transition fees resulting from the shift in pricing right of fixed-to-mobile calls. We also anticipate a rise in handset subsidies for smartphones as they become increasingly popular. However, in the meantime, the expanding smartphone subscriber base should drive growth of mobile internet and VAS usage and translate into a reasonable level of quality revenue. To facilitate traffic transmission and improve user experience, we will continue to invest in improving network quality and increasing capacity. As a result of the aforementioned reasons, income from operations and EBITDA is expected to decrease as compared to 2010.

We expect non-operating income to grow this year due to an increase in reinvestment proceeds and disposal of property.

That's all for our financial overview. I will now hand it over to President Chang for our management highlights.

Business Overview

Thank you, Dr. Yeh. Now, let me take you through our business performance.

Mr. Chang, President: Thank you, Dr. Yeh. Now, let me take you through our business performance.

Broadband Services

Slide 12 shows the results for our broadband services. By the end of 2010, Chunghwa had about 4.4 million broadband subscribers. Our strategy is to continue the migration to FTTx for incremental ARPU and offer differentiated services, such as hifree, high-definition MOD programs and Cloud Box storage service to add value for customers. Since August 2010, we have provided free speed upgrades for ADSL customers who were using lower speed services, in order to strengthen customer loyalty in view of competition from cable operators. This initiative has so far proved to be effective. Although our total broadband subscriber number has remained relatively flat, our initiatives to encourage FTTx migration have yielded solid results, with FTTx subscribers as a percentage of total broadband subscribers increasing from 38.1% at the end of 2009 to 46.8% at the end of 2010. In the fourth quarter of 2010, FTTx revenue reached 61.7% of total broadband access revenue. Broadband ARPU increased to 789, from 773 in the fourth quarter last year, as a result of our successful customer upgrade programs.

We also achieved growth in internet service revenue, which amounted to 3.5% year-over-year.

MOD/IPTV

Moving on to **slide 13**, which shows the recent boost we have seen from MOD subscriber growth. For the fourth quarter 2010, new subscriptions represented 9.2% of sequential growth, and the total number of subscribers had reached 810 thousand by the end of 2010.

We are strengthening our MOD offering in terms of content, marketing and interactivity, and will continue to offer additional popular HD channels to better cater to customer preferences and enrich viewing experience. By the end of this year, we expect to have 33 HD channels and 115 SD channels. As increasing fiber coverage facilitates our capability to offer HD services to more customers, we will continue offering additional HD channels and programs to meet customer needs. These efforts have resulted in steady growth in MOD revenue.

Our target is to reach one million MOD subscribers by the end of 2011. As the NCC gave us approval in early January to help aggregators package quality channels for our MOD services, we expect new package with versatile content will continue to be introduced, and therefore anticipate that MOD subscriptions will increase significantly and that relevant ARPU will rise this year.

Number One Mobile Services Provider

Turning to **slide 14**. We continue to be Taiwan's leading mobile operator, with the lowest churn rate and solid year-over-year subscriber growth of 4.4%, bringing the total number of subscribers to around 9.7 million at the end of 2010. 3G subscribers as a percentage of the total has continued to increase, and we expect to have 10 million mobile subscribers by end-2011.

For 2010, mobile VAS revenue increased by 30.8% year-over-year, and now accounts for 15.1% of our mobile service revenue. Mobile Internet showed the highest year-over-year growth, of 82%, making it the largest contributor to VAS revenue.

We expect continued growth in mobile VAS as we focus on executing our VAS strategy to enhance user experience and create value-added services. We are integrating 3G and Wi-Fi networks to improve network efficiency and facilitate VAS usage. We increased the number of Wi-Fi access points to reach 10,000 at the end of 2010, and we expect to add an additional 10,000 by the end of 2011.

Smartphone

Slide 15 shows the success of our mobile strategy. Our smartphones, which leverage a variety of applications, are increasingly penetrating the premium customer segment.

Smartphones accounted for 25% of total handsets offered in 2010, and we expect that the percentage to reach 35% to 45% depending on the market dynamic for 2011. As of December 31, 2010, mobile Internet subscribers, including mPro and data card users, had grown to 809 thousand, a 92% increase year-on-year. We anticipate that we'll have 1.2 million mobile internet subscribers by the end of this year. On the ARPU side, you can see that smartphone ARPU is about 100% higher than blended ARPU.

We offer a comprehensive smartphone portfolio supporting all mobile operating systems and spanning most world-class brands including iPhone and HTC. We recently signed an MOU with HTC to form a strategic partnership to work together on customized handsets and share marketing resources.

In addition to devices, we have been focusing on enriching content via customized value-added services including information services and daily life application services. In May, we launched Hami Apps, which supports the Android platform. There are currently over 1,000 Hami Apps applications, such as GPS navigation, dictionary, games, music, and stock information.

We believe our efforts to enhance content will further expand our customer base and solidify our leading market position.

New Business Initiatives

On **slide 16**, I would like to share with you our new business initiatives to drive future growth. First, we have initiated convergence services to meet growing customer demand. We are integrating internal resources to conduct cross-platform services over our MOD, mobile and HiNet platforms. Single sign-on over the three platforms has become available from December 2010. Cloud-based multi-screen services including micro-payment, video, weather information, news and music will be available by end 2011.

Second, we are focusing on our ICT business including services such as iEN, ITS, information security, PBX, call centers and IDC, as well as the Internet of Things. We also earned several government projects by leveraging our ICT expertise. Corporate ICT-related revenue grew 15.4% yoy for 2010 and is expected to grow 23% yoy for 2011.

Third, we launched hicloud services in April last year to service SME and public users. And we are building the largest cloud computing data center in Taiwan in anticipation of growing demand for this service. With our experience, leading market position and continued investment in technology, Chunghwa is well-positioned to further solidify its leading position as an information and communications service provider.

Capital Expenditure

Turning to **slide 17**, I'd like to show you our continuous prudent capex plan. The total capex for 2010 amounted to NT\$24.5bn, a 3.8% decrease compared to that for the same period in 2009. Of the NT\$24.5bn capex, 72.7% was used for the fixed and Internet businesses, 21.5% was spent on the mobile business, and the rest went on other capital expenditure. We believe that it indicates a healthy capex level for long term sustainable growth.

2011 Operational Focus

Dr. Lu, Chairman and CEO: Thank you, Dr Yeh.

Slide 18 highlights our operational focus for 2011. 2011 is Chunghwa's year of "Broadband, Value-added, Innovation and Integration". While continuing our previous efforts we made in these areas, we are focusing particularly on "integration" this year in order to strengthen our capability to offer converged services.

In terms of "Integration", in line with the trend of broadband network development and digital convergence, we are leveraging our advantage as an integrated telecom service provider by integrating our fixed line, mobile and internet networks, platforms resources, and marketing efforts to facilitate the offering of cross-platform multimedia services and enhance customer satisfaction.

Regulatory Update

Next is the regulatory update.

We have four major regulatory updates to share with you, as shown on **slide 20**.

First, this is the second year of the three-year tariff reduction plan starting from April 2010. Δ CPI was -0.87 for year 2009 and +0.96 for year 2010, hence the tariff reduction rate is expected be lower than that of the previous year.

Second, there was the shift in pricing right of a fixed-to-mobile phone call from mobile to fixed line operators at the beginning of year 2011 under the direction of the NCC. Please refer to slides 27 and 28 for more details.

Third, the first phase for the digital convergence legislation is to amend the Telecom Act and three broadcasting related regulations separately by June 2012; the second phase is to complete the Digital Convergence Framework by 2014. And the Digital Convergence Law is expected to be finalized in 2015.

Lastly, 2G licenses will expire in 2012 and 2013. However, the MOTC has announced that it will extend the 2G licenses until the year 2017. The licenses to be auctioned in 2015 will be technology neutral.

That's all for our business operations. Now, I will hand it over to Dr. Lu to take you through our strategy.

Dr. Lu, Chairman and CEO: Thank you, President Chang.

Business Strategy and Policy

Our business strategy and policy is focused on five areas.

First of all, we will maintain our operational focus on broadband, VAS, innovation and integration. We will also enhance cooperation with subsidiaries to expand our overseas businesses and enlarge the scale of our operations. Recently, we signed an agreement and a Letter of Intent with China Telecom to work together on iEN service in Fujian Province and on "Intelligent City", "IDC and Cloud Service", "Energy Saving", "E-commerce" etc. in the Special Economic Zone of Taiwan Strait west bank. This is a remarkable stride for us to expand service areas in the mainland.

At the same time as pursuing growth, we will accelerate network upgrades and integration as well as taking advantage of industry alliances to develop market-leading products and services and capture new service opportunities.

The quality of our human capital remains key to our success. As such, we promote professional development and encourage early retirement. We also foster talent to meet our need for innovation and overseas expansion.

Given the importance of efficient management systems, we will continue to implement stringent cost control initiatives to support the development of our business.

We continue to promote the importance of corporate social responsibility in everything we do, with the aim of achieving enhanced commitment to corporate citizenship. As a telecom and ICT service provider, we joined GreenTouch Alliance originated by ALU and make effort to reduce the energy consumed and carbon emitted by communication networks.

And, finally, we will maintain our stable dividend payout policy.

That's all for the presentation. I would now like to open up to questions.

- Q&A Session -