



## CHT Third Quarter 2010 Results Conference Call Script October 27, 2010 at 6:00 A.M. (EST)

**Fufu:** Thank you. This is Fufu Shen, Investor Relations Director of Chunghwa Telecom. Welcome to our third quarter 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 the third quarter of 2010. 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.

This presentation is being made on October 27, 2010. 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.

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 third quarter 2010 earnings results conference call.

Despite another mandated tariff reduction from the NCC, which was effective as of April 1st this year, we have delivered a solid performance for the third quarter due to the continuing economic recovery and our successful marketing efforts. The increase in consolidated revenue for the third quarter of 2010 was mainly driven by an increase in mobile VAS, Internet services and broadband access revenues.

Our prudent cost management initiatives have resulted in stable operating income, with net income growth due to a reduction in tax rate from 25% to 17% starting this year.

Moving on to **slide 3**. 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 2009 were approximately NT\$39.4 billion, which was paid out in September.

In addition, the schedule for the fourth round of capital reduction was approved at yesterday's board meeting. The payment of around NT\$19.4 billion will take place on January 25, 2011. Now, I will hand over to President Chang for the business overview.

**Mr. Chang, President:**

CHT Overall Business Overview

Thank you, Chairman Lu. Now, let me take you through our business performance.

Broadband Services/Growth Drivers in Fixed-line Services

**Slide 5** shows the results for our broadband services data. On September 30, 2010, Chunghwa had 4.3 million broadband subscribers. In August 2010, we 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. The 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 31.2% at the end of September 2009 to 45.2% at the end of August 2010. In the third quarter of 2010, FTTx revenue reached 60.1% of total broadband access revenue.

The overall upward trend in ARPU that we've seen over the last few quarters continued in the third quarter. The broadband ARPU significantly increased to 789, from 776 in the second quarter this year and from 761 in the third quarter last year, as a result of our successful customer upgrade programs.

We also achieved internet service revenue growth, which amounted to 6.1% year-over-year for the first three quarters.

Growing Momentum in MOD/IPTV

Moving on to **slide 6**, which shows the recent boost we have seen from MOD subscriber growth. For the third quarter 2010, new subscriptions represented 7.3% of sequential growth, and the total number of subscribers reached 760 thousand.

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 our customers' preferences and enrich their viewing experience. By the end of this year, we expect to have 17 HD channels and 110 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 customers' needs. These efforts have resulted in steady growth in MOD ARPU.

Our target is to have 900 thousand MOD subscribers and 200 thousands to subscribe Family Packages by year-end. We also expect the total MOD revenue to increase by 25% year-over-year during 2010.

### Number One Mobile Service Provider

Turning to **slide 7**. We continue to be Taiwan's leading mobile operator, with the lowest churn rate and solid year-over-year subscriber growth of 4.3%, bringing the total number of subscribers to around 9.6 million at the end of September 2010. 3G subscribers as a percentage of the total has continued to increase.

For the first nine months of 2010, mobile VAS revenue increased by 29.2% year-over-year and now accounts for 14.6% of our mobile service revenue. Mobile Internet demonstrated the highest year-over-year growth of 80%. SMS showed a solid year-over-year growth rate of 7.4%, and remained 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, create value-added services, and customize and integrate services over a quality network.

### Smartphone/ Value Driver for Mobile

**Slide 8** 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 23% of total handsets offered in the first nine months, and we expect that to reach 25% by the end of 2010. As of September 30, 2010, mobile Internet subscribers, including mPro and data card users, also grew to 653 thousand, a 101% increase compared to a year ago. On the ARPU side, you can see that smartphone ARPU is 125% 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.

In addition to devices, we have been focusing on enriching content via customized value-added services including information services, life application services. In May, we launched Hami Apps, which supports the Android platform. There are currently over 500 Hami Apps applications.

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

### New Business Initiatives for Future Growth

On **slide 9**, 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 will be available in December this year. To support this development, we continue to expand our fiber customer base to facilitate the promotion of digital convergence services.

Second, we are focusing on our Corporate ICT business including services such as iEN, ITS information security, PBX, call centers and IDC, as well as the Internet of Things.

Third, we have developed a cloud computing service. We are building the largest cloud computing data center in Taiwan in anticipation of growing need 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.

#### Overseas Development

As shown on **slide 10**, overseas development is another future growth initiative for CHT. Southeast Asia and China are two major areas we are focusing on.

Our joint venture with Viettel to establish the largest IDC company in Vietnam marked our first overseas endeavor. Replicating our experience in call center services, we also initiated a joint venture, Sertech, in Xiamen to capture growing local business ICT needs. Moreover, we will establish wholly owned subsidiaries in China and Vietnam. We expect these two subsidiaries to function as ICT related solution providers, leveraging our ICT competence.

In order to expand our international fixed services to overseas markets, we have established subsidiaries in America, Hong Kong, Singapore and Japan. Through these four subsidiaries, we can provide quality, competitive services, including international private leasing circuits, IP-VPN, IP transit, voice and data wholesale services, as well as type I and type II services to multinational corporate customers.

#### Effective and Efficient Capital Expenditures

Turning to **slide 11**, I'd like to show you our continuous prudent capex plan. The total capex for the third quarter 2010 amounted to NT\$6.2bn, a 1.4% decrease year-over-year. The decrease was due to the slight delay in capex budget execution. Of the NT\$6.2bn capex, 62.8% was used for the fixed and Internet businesses, 27.4% was spent on the mobile business, and the rest went on other capital expenditure. Our annual capex guidance remains at 15% of revenue, which we believe is a healthy capex level for long term sustainable growth.

With that, I would like to turn the call over to Dr. Yeh for a review of our financial results.

**Dr. Yeh, CFO:** Thank you, President Chang and good day everyone. Thanks for joining us today. I will review our financial results in detail, beginning with slide 13.

#### Income Statement Highlights

**Slide 13** shows our income statement on a consolidated basis, and provides a comparison on a year-over-year basis.

Total revenue for the third quarter of 2010 increased 1.6% to 50.9 billion NT dollars. Despite the NCC tariff reduction that became effective on April 1, 2010, the company did its best to maintain its growth pattern. I will review the revenues by business segment later.

Operating costs and expenses grew 1.5% to 36.4 billion NT dollars. Income from operations for the third quarter of 2010 increased 1.8% to 14.4 billion NT dollars, mainly due to revenue growth.

Net income for the third quarter of 2010 grew 9.5% to 12.0 billion NT dollars, reflecting the income tax rate reduction from 25% to 17%. EBITDA for the third quarter of 2010 decreased 1.2% to 22.9 billion NT dollars, mainly as a result of the mandated NCC tariff reduction and our changing cost structure.

Income from operations for the second quarter of 2010 was flat at 14.9 billion NT dollars.

#### Segment Revenue

**Slide 14** shows our revenue for each business segment for the third quarter of 2010.

In the domestic fixed line business, local revenues decreased by 2.1% year over year, mainly due to mobile and VOIP substitution. The 17.1% decline in DLD revenues also was due to mobile and VOIP substitution, and the mandated tariff reduction.

Broadband access revenue, including ADSL and FTTx, increased by 3.0% 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 1.0% year over year, mainly due to growth in mobile VAS revenue related to our smartphone promotion and handset sales.

Internet revenue increased by 10.2%, mainly attributable 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 decreased by 1.9%, mainly due to VOIP substitution and market competition that was partially offset by growth in leased line revenue.

Moreover, revenues of ICT and corporate solutions across our business segments increased by 121% year over year to 0.8 billion NT dollars, attributable to our innovative service offering.

#### Cost and Expenses

**Slide 15** shows the breakdown of operating costs and expenses. The increase in operating costs and expenses was due to the increased cost of corporate ICT services and corporate solutions, and the performance-based bonus accrual relating to net income growth. Overall, we saw a decrease in our other costs and expenses, mainly due to lower depreciation.

#### Cash Flow

As shown on **slide 16**, cash flow from operating activities was 19.5 billion NT dollars during the third quarter of 2010. We were in a strong cash position on September 30, 2010, with cash and cash equivalents amounting to 67.4 billion NT dollars.

#### 4Q 2010 Forecast

**Slide 17** shows our fourth quarter forecast. Fourth quarter 2010 revenue is expected to decrease year-over-year by 0.64 billion NT dollars, or 1.35%, to 46.80 billion NT dollars. This decrease is due mainly to lower corporate ICT and corporate solutions revenue, and the adverse effect of the mandated tariff reduction effective April 1, 2010, which is expected to be partially offset by growth in mobile value added service revenue and broadband access revenue.

Operating costs and expenses are expected to decrease year-over-year by 0.48 billion NT dollars, or 1.4% to 33.97 billion NT dollars, due primarily to lower corporate ICT and corporate solutions costs and lower depreciation, which offset the increase in cost of sales due to anticipated higher demand for smartphones.

Operating income is anticipated to decrease slightly by 0.16 billion NT dollars year-over-year, mainly due to lower revenue.

Pre-tax income is expected to be 0.62 billion NT dollars, or 4.7%, lower than that for the fourth quarter last year. The decrease in pre-tax income is because non-operating income and expenses are expected to be 0.46 billion NT dollars lower, due to anticipated losses on asset disposal and on evaluation and disposal of financial instruments.

Net income is expected to increase by 75 million NT dollars to 10.65 billion NT dollars due to the tax rate reduction, while EBITDA is forecast to decrease by 0.7 billion NT dollars, or 3.2%, also due to lower revenue.

That's it for our financial overview. I will now hand over to Dr. Lu for our management highlights.

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

In summary, Chunghwa Telecom is a strong market leader in Taiwan's stable telecom market.

Our solid performance is driven by steady growth in mobile VAS and broadband services.

At the same time, we are maintaining our focus on cost control, in order to ensure operational efficiency.

We are committed to a sustainable dividend payout, a strong balance sheet, and prudent capital management.

Our innovative service offering, including ICT services and leading edge technology, position us to capitalize on growth opportunities at home and abroad.

I'd now like to open up to questions.

**- Q&A Session -**