



## CHT 1Q 2011 Results Conference Call Script April 28, 2011 at 6:00 A.M. (EST)

**Fufu:** Thank you. This is Fufu Shen, Investor Relations Director of Chunghwa Telecom. Welcome to our first quarter 2011 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 first quarter 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 first quarter 2011 earnings results conference call.

On **slide 2**, total consolidated revenue for the first quarter of 2011 amounted to NT\$52.5 billion. In addition to the 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, mobile VAS and handset sales were remaining as our key revenue drivers. During the first quarter 2011, we enjoyed persistent growth in our traditional telecom service business and continued to win additional major ICT contracts. During the quarter, we also continued to offer customers configured cloud computing services and to consolidate and repackage solutions.

Moving on to **slide 3**. We remain committed to our shareholders, as you can see from this slide, which shows our cash return over last several years. The NT\$5.5243 cash dividend per share for 2010

operation were approved by the board meeting in March and are subject to the final approval in the annual general shareholders meeting (AGM) scheduled for June 24, 2011. Total dividend payment is expected to be NT\$42.9 billion. I would like to restate our commitment to maintaining our stable dividend payout policy.

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 5.

#### Income Statement Highlightss

**Slide 5** shows our income statement on a consolidated basis, and provides a comparison on a year-over-year basis.

Our total revenue for the first quarter 2011 was 52.5 billion NT dollars, a 5.8% increase compared to 2010, primarily due to an increase of 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 VAS and handset sales were areas of growth.

Operating costs and expenses grew 10.9% to 38.5 billion NT dollars, resulting in a 6.3% decrease of income from operations to 13.9 billion NT dollars.

Net income for the first quarter 2011 decreased 1.9% to 11.8 billion NT dollars.

EBITDA for the first quarter 2011 decreased 6.6% to 22.0 billion NT dollars, mainly as a result of the negative impact on income from operations resulting from the shift in the pricing right of fixed to mobile calls, the increase in cost of handsets sold and the early retirement expense.

#### Business Segment Revenues

**Slide 6** shows our revenue for each business segment for the first quarter of 2011.

In the domestic fixed line business, local revenues increased by 24.3% year over year, mainly due to the shift of pricing right for fixed to mobile calls. The 13.2% decline in DLD revenues was due to mobile and VOIP substitution, as well as reflecting the mandated tariff reduction.

Broadband access revenue, including ADSL and FTTx, increased by 3% 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 2.8% year over year, mainly due to growth in mobile VAS revenue related to our smartphone promotion and handset sales.

Internet revenue rose by 3.6%, 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 decreased by 4.5%, mainly due to the decrease in leased line revenue and satellite service revenue resulting from the expiration of ST-1 contract at the end of January 2011.

### Costs and Expenses

**Slide 7** shows the breakdown of operating costs and expenses.

The increase in operating costs and expenses in the first quarter 2011 was mainly due to the increase in interconnection costs and transition fees resulting from the shift in pricing right of fixed-to-mobile calls, the higher cost of handsets sold and the early retirement expense.

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### Cashflow

As shown on **slide 8**, cash flow from operating activities was 9.7 billion NT dollars during the first quarter 2011, the decrease compared to the same period last year was mainly because starting from 2011, the company brought its billing period for monthly fees in line with that for communication charges.

### 2011 Forecast

**Slide 9** shows the result of our first quarter 2011 operation as compared with our full-year and first quarter guidance on an unconsolidated basis.

The performance of the first quarter 2011 is basically in line with the full-year guidance.

Comparing with the first quarter guidance, the higher net revenue mainly came from mobile VAS revenue and handset sales. The higher operating costs and expense was because of the higher cost of handset sold relevant to the popularity of smartphone.

### 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 11** shows the results for our broadband services. By the end of March 2011, Chunghwa had about 4.4 million broadband subscribers. Our strategy is to continue the migration to FTTx and offer differentiated services. We've seen continued success from the customer loyalty initiative we began in August 2010 to provide free speed upgrades for ADSL customers who were using lower speed services.

Our initiatives to encourage FTTx migration have yielded solid results, with FTTx subscribers as a percentage of total broadband subscribers increasing from 40.4% at the end of March 2010 to 48.1% at the end of March 2011. In the first quarter of 2011, FTTx revenue reached 63.2% of total broadband access revenue.

We also achieved a growth of 3.6% in internet service revenue year over year.

### MOD/IPTV

Moving on to **slide 12**, which shows the recent boost we have seen from MOD subscriber growth. Till April 15, we have accumulated 840 thousand subscribers.

We've enjoyed steady growth in MOD revenue as a result of strengthening our MOD offering in terms of content, marketing and interactivity. As increasing fiber coverage facilitates our capability to offer HD services to more customers, we will continue to offer additional popular HD channels to better cater to customer preferences and enrich viewing experience.

Our target is to reach one million MOD subscribers by the end of 2011. With the approval the NCC gave us in January to help aggregators package quality channels for our MOD services, we expect the continued introduction of new packages with versatile content, and therefore anticipate a significant increase in MOD subscriptions and an accompanying rise in relevant ARPU this year.

#### Number One Mobile Services Provider

Turning to **slide 13**. By the end of March 2011, we continue to be Taiwan's leading mobile operator, with the lowest churn rate and a solid year-over-year subscriber growth of 3.9%, bringing the total number of subscribers to around 9.8 million at the end of March 2011. 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 the first quarter 2011, mobile VAS revenue increased by 38.6% year-over-year, and now accounts for 19.9% of our mobile service revenue. Mobile Internet showed the highest year-over-year growth, of 88%, 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 are on the track of Wi-Fi access points construction and are expecting to accumulate 20,000 Wi-Fi access points by the end of 2011.

#### Smartphone

**Slide 14** 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 39% of total handsets offered in the first quarter 2011, and we expect the percentage to reach 35% to 45% depending on market dynamics during 2011. As of March 31, 2011, mobile Internet subscribers, including mPro, data card and tablet users, had grown to 989 thousand, a 97% 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 108% higher than blended ARPU.

Our comprehensive smartphone portfolio supports all mobile operating systems and spans most world-class brands including iPhone and HTC, and we have an MOU with HTC to form a strategic partnership to work together on customized handsets and share marketing resources. We have also been focusing on enriching content via customized value-added services, with the launch last year of Hami Apps, which has over 2,000 applications and supports the Android platform.

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

#### New Business Initiatives

**Slide 15** shows our new business initiatives to drive future growth.

We have been launching converged services to meet growing customer demand. And multi-screen services are expected to be available by the end of this year.

Our development of ICT business are on the track, we continued to gain contracts from corporate customers and expect revenue growth of 23% YoY for 2011.

Starting 2011, we are cooperating with domestic ICT-related associations and independent software vendors to seize the business opportunity from the growing cloud computing demand and are expecting to construct more than 12,000 virtual machines by the end of 2011.

With our experience, market leadership 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 16**, overseas development is another future growth initiative for CHT. Southeast Asia and China are two major areas we are focusing on.

On ICT business. Our joint venture with Viettel established the largest IDC in Vietnam and we initiated a joint venture, Sertech in Xiamen to capture growing local business ICT needs. We have established a wholly owned subsidiary in China and will establish another one in Vietnam to function as ICT related solution providers and leverage our ICT competence. Moreover, we signed an agreement and a Letter of Intent with China Telecom to exploit energy saving market opportunities and to capture cross-strait information development opportunities.

On telecom business. Through our subsidiaries in America, Hong Kong, Singapore and Japan, we 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. Recently, we began to cooperate with China Unicom to help expand its distribution channels and enlarge mobile VAS business scale.

### Capital Expenditure

Turning to **slide 17**, I'd like to show you our capex plan, which remains prudent. Total capex for the first quarter 2011 amounted to NT\$4.4 bn, a 5% increase compared to the same period in 2010. Of the NT\$4.4 bn capex, 77% was used for the fixed and Internet businesses, 21% was spent on the mobile business, and the rest went on other capital expenditure. We believe that this indicates a healthy level of capex for long-term, sustainable growth.

### Regulatory Update

Next is the regulatory update.

We have five major regulatory updates to share with you, as shown on **slide 19**.

We have reported to you before the regulatory changes on the mandated tariff reduction, the shift of fixed to mobile calls pricing right, the progress of the digital convergence related regulation and the extension of the 2G license. Please find more details on the slide.

In addition to the former four regulatory updates, the NCC mandated us to submit a proposal by the third quarter of 2011 for combining island-wide telephone service tariffs into one local tariff. We are still in negotiation with the NCC about this proposal.

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 remains focused on pursuing growth by maintaining our operational focus on broadband, VAS, innovation and integration and enhancing cooperation with subsidiaries to expand our overseas business and enlarge the scale of our operations.

We will also 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.

To ensure we maintain the high quality human capital necessary to execute on our business strategy and policy, we endeavor to create an environment in which employees can achieve their maximum potential.

At the same time, we continue to implement stringent cost control initiatives to support the development of our business.

Underscoring everything we do is our unwavering commitment to corporate social responsibility, which manifests itself in our continued efforts to enhance corporate citizenship.

Moreover, we would like to report to you that the ST-2 satellite we invested together with SingTel is going to launch to replace ST-1, which is about to retire. We will continue to provide quality satellite services to our customers.

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

**- Q&A Session -**