



CHT 1Q2014 Results

April 30, 2014 at 4:00 P.M. (Taipei Time)

Fufu: Thank you. This is Fufu Shen, the Director of Investor Relations for Chunghwa Telecom. Welcome to our first quarter 2014 earnings results conference call. Joining me on the call today are Dr. Tsai, Chairman and Mr. Shih, President.

During today's call, management will first discuss business, operational and financial highlights then we will move on to the Q&A session.

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 2**. Now I would like to turn the call over to Chairman Tsai.

On slide 2, please note our safe harbor statement. Now I would like to turn the call over to Chairman Lee.

Dr. Tsai, Chairman and CEO:

Thank you, Fufu. Hello everyone, this is Rick Tsai. Thank you for joining our first quarter 2014 presentation. Since I joined the Chunghwa team early this year, we have been working diligently to revamp our corporate strategy in order to create an efficient, fast-moving and full service telecommunications company. I want to start by first discussing our business goals and some actions we are taking for 2014.

The overall goal we are putting in place is to transform our company into a full-service, digital convergence service provider. We will continue to build out our high-speed infrastructure in order to provide seamless mobile and fixed broadband services. We also plan to offer 300Mbps to 1Gbps and LTE mobile high speed broadband access services, which will help facilitate our innovative digital convergence value added service offerings that targets the individual customer, household, and enterprise markets. In this context, we will continue strengthening our MOD services to ensure a gateway into our customers' homes.

Our key goal for this year is focused on business development, with an emphasis on the 4G, enterprise revenue, and fiber segments. First, as many of you know, we plan to roll out 4G services in July this year. Our aim is to acquire at least 40% of the 4G market share by the end of 2014. Second, we want to further increase our enterprise revenue share by offering a total solution package to SMEs which includes ICT and cloud services. And finally, we will be offering a fiber convergence plan that combines broadband and MOD packages so that we can stimulate both fiber migration and MOD subscriptions growth.

Moving on, our next goal is to reallocate resources so that we can enhance our operating and financial efficiency. In order to achieve this goal, we plan on investing capitals more efficiently in our build outs and controlling operating expenses while allowing for a moderate expansion in the marketing budget.

Our final strategic goal is to leverage our existing resources to grow our business. To this end, we will focus on further monetizing our fiber network by increasing its capacity usage, which in turn will help to control Capex. We will also leverage our R&D capability to develop new and innovative products and services so that we can continue to drive growth and deliver improved returns for our shareholders.

Chunghwa Telecom Overview

Moving onto slide 3, regarding our first quarter operating results, we continued to outperform our competitors in attracting mobile internet subscribers. At the end of March 2014, our mobile internet subscriber base had reached 4.3 million, representing 35.6% market share. We will continue to support this growth momentum and market leadership.

Because our broadband household penetration rate is already high, we continued to focus on customer retention and migrating users to higher speed services. We actively promoted our convergence plans, which combine fiber and MOD services, and believe this will help strengthen our competitiveness and solidify our customer base.

Committed to Improving Shareholder Value

The Board of Directors announced a cash distribution from distributable earnings and capital surplus paid to shareholders of NT\$35.1 billion, or NT\$4.5251 per share, with NT\$2.3881 from the earnings for year 2013 and NT\$2.137 from capital surplus. A timetable will be announced following the shareholders' approval of this proposal at the Annual General Meeting scheduled on June 24, 2014.

Due to the adoption of T-IFRSs, the initial amount of retained earnings in 2013 was decreased. To compensate for the decrease, the Board of Directors allocated the cash distribution from capital surplus.

Now, President Shih would like to lead you through our business overview.

Number One Mobile Services Provider

Thank you, Chairman Tsai.

Slide 6 provides an update on our mobile business.

During the first quarter, mobile data revenue grew by 23.4% year over year, mainly driven by the 32.6% increase of mobile internet revenue.

We will continue our strategies to solidify high-tier smartphone users, introduce mid-to-low tier smartphones to expand mobile internet subscriber base, accelerate migration of 2G customers to 3G networks and speed up the 4G network deployment to enjoy the first mover advantage.

For LTE service launch, there are more than 30 high-to-low tier handset models available on 1800MHz band currently which should strengthen our competitiveness in the 4G business.

Smartphone-Value Driver for Mobile

Moving on to slide 7.

Our promotional initiatives targeting mid-to-low tier smartphone users continued to boost our smartphone penetration rate to 56% at the end of the first quarter of 2014.

ARPU for the first quarter decreased QoQ mainly due to the continual promotional plan. During the quarter, the plan was successful with regards to attracting new subscribers, but at the same time caused some temporary downward pressure on ARPU. We expect the ARPU to recover in the third quarter this year.

Fixed Broadband Internet Services

Slide 8 shows the results for our broadband business.

During the first quarter, we continued to see a steady migration of subscribers to higher speed fiber services. We witnessed over 23.2% year-over-year growth in subscribers opting for connection speeds of 60Mbps and higher, reaching about 1.19 million by the end of March 2014.

We will continue to encourage our subscribers to migrate to higher speed fiber offerings. As mentioned previously, the fiber convergence plan combining broadband with MOD family packages stimulated both fiber migration and MOD subscription. We are also targeting SMEs and machine-to-machine applications to stimulate further broadband usage.

MOD/IPTV Service

Moving on to slide 9.

Our IPTV revenue in the first quarter 2014 increased by 19.9% year over year. Moreover, the household TV usage rate continued to increase over the past quarters, demonstrating our success in boosting customer stickiness on our platform.

In addition to the fiber convergence plan which boosted IPTV subscriptions, we are targeting different customer groups to offer demassified SVoD packages and providing TV everywhere service over multi-screens to better customer's viewing experience.

ICT and Cloud Computing Initiatives

Please see slide10 for an update on our ICT and cloud initiatives.

In the first quarter of 2014, our cloud business revenues doubled year over year. We continued winning ICT projects, including the host computer leasing project for Ministry of Labor, the taxation information system maintenance project and E-Invoice system project for Ministry of Finance. We will continue to leverage our core telecom infrastructure and services to expand our ICT and cloud business.

Regulatory Update

Slide 12 provides an update on the regulatory front.

Similar to the mobile broadband spectrum auction last year, the government is expected to open the 2600MHz spectrum band for 4G mobile services for

bidding in 2015. We plan to actively participate in the bidding process in order to remain competitive.

Financial Overview

Moving on to the financials, I will review our financial results in detail, beginning on slide 14.

Income Statement Highlights

On slide 14 are our income statement highlights.

For the first quarter of 2014, total revenues decreased by 2.8% and operating costs and expenses decreased by 4.9% year over year. Our income from operations and net income increased by 5.9% and 10.9%, respectively. In addition, the EBITDA margin increased from 34.02% to 36.81% in the first quarter as compared to the same period in 2013.

Business Segment Revenues

Please refer to slide 15 for an update on our business segment revenue.

For the first quarter of 2014, the year over year decline in the total revenue was driven by the decrease in fixed and mobile voice revenue, the handset sales and the ICT project revenue, which offset the increase in mobile VAS revenue.

Local and DLD revenue decreased by 5.5% and 4.0% respectively, mainly due to mobile and VoIP substitution. Broadband revenue was flat year over year.

Mobile voice revenue decreased by 10.3% due to promotional packages, tariff reduction and VOIP substitution.

Costs and Expenses

Moving on to Slide 16, you can see that our operating costs and expenses decreased by 4.9% year over year, mainly due to the decreasing cost of handsets sold resulting from lower handset sales.

Cash Flow & EBITDA Margin

As shown on slide 17, in the first quarter of 2014 cash flow from operating activities increased 1.17 billion NT dollars compared to the same period of 2013.

Cash and cash equivalents at end of the period decreased mainly due to the one-time 39.1 billion NT dollar payment of acquiring the Mobile Broadband License in the fourth quarter of 2013. As of March 31, 2014, we had 18.99 billion NT dollars of cash and cash equivalents.

The increase in EBITDA margin was primarily due to lower handset sales, which have a lower EBITDA margin than traditional telecom services.

Forecast & Operating Results

Slide 18 shows our 2014 first quarter results as compared to our guidance for the quarter.

Our revenue and costs and expenses are lower than expected mainly due to lower cost of goods sold which resulting from lower handset sales. However, our operating income, net income and EBITDA all exceeded our first quarter guidance. Currently, we expect our full year operating result to remain in line with our earlier guidance.

Effective and Efficient Capital Expenditure

Lastly, on slide 19.

Our capital expenditure in the first quarter was focused on 4G network deployment, fixed and mobile broadband construction, and cloud deployment which includes data center construction. We will review our capex budget and execution plan on a regular basis, and focus on making the most cost-effective spending decisions possible.

Thank you for your attention and now we would like to open up for questions.

– Q&A Session –