



CHT 4Q2015 Results January 28, 2016 at 4:00 P.M. (Taipei Time)

Thank you. This is Fufu Shen, the Director of Investor Relations for Chunghwa Telecom. Welcome to our fourth quarter 2015 earnings results conference call. Joining me on the call today are Mr. Shih, President and Mr. Chen, CFO.

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 President Shih.

Chunghwa Telecom Overview

Thank you, Fufu. Hello everyone, this is Mu-Piao Shih. Thank you for joining our fourth quarter 2015 conference call.

We are pleased to report robust operational results for the full year of 2015, owing to the successful execution of our strategies to grow our 4G, ICT and enterprise businesses as well as strictly control operational costs and expenses. Consolidated revenues reached a record high and EPS also saw its best performance since 2012.

On the mobile business, we accumulated 4.4 million 4G subscribers by the end of 2015, propelling our market share to reach 38.2%. We expect to continue offering the best quality of experience to 4G customers through our carrier aggregation or CA technology supported by our acquisition of the 30 MHz 2.6GHz paired spectrum, which enhances our competitiveness and further strengthens our market leading position. We expect to roll out the 2.6GHz frequency band in the second quarter this year at the earliest. We defended our broadband business very well. Although subscriber growth was hindered by cable competition and 4G substitution, we managed to grow ARPU by upgrading subscribers to higher speed services, and ultimately increase revenues.

Entering into 2016, we will continue to focus on 4G, value-added and ICT services. We expect to add 2 million more 4G subscribers and expand our ICT business by leveraging our advantages as an integrated telecom services provider. With our comprehensive network infrastructure, marketing resources and R&D capacity, we are confident that we will continue to maintain our leading market position in all our major businesses and boost growth momentum in 2016.

Number One Mobile Services Provider

Slide 5 provides an update on our mobile business.

As you know, after acquiring the 2.6G spectrum bands, CHT became the operator with the largest 130MHz mobile broadband spectrum in the 900, 1800, and 2600MHz frequency bands. Through utilizing the carrier aggregation technology, a 3CA scenario combining these three frequency bands will enable us to offer a faster theoretical peak speed. In addition, effective load balancing between high and low bands will help us to deliver the best quality of experience or QoE to customers. Our abundant spectrum resources also provide a solid foundation for the development of IoT, video and value-added services, which are our operation focuses.

Supported by the continued increase in 4G and internet mobile subscribers, mobile internet revenue grew 13.5% in the fourth quarter of 2015, over the prior year period. This is the major driver of mobile service revenue growth, which continues to grow despite the decline of mobile voice revenue. For mobile operations, we are focusing on 4G service promotions and mobile internet subscriber expansion by further targeting mid-to-low end customers.

We continue leveraging our high-speed 4G network to increase the adoption of our value-added services and new applications by bundling Hami services. We will also continue upgrading mid-to-low end customers, including 2G subscribers, to 4G services

Fixed Broadband and Internet Services

Slide 6 shows the results for our broadband business.

During the fourth quarter, we continued to see a steady migration of subscribers to higher-speed fiber services. We witnessed 21.5% year-over-year growth in subscribers opting for connection speeds of 100Mbps or higher, reaching 1.05 million by the end of 2015. The subscriber migration strategy successfully increased broadband ARPU and revenue.

Facing competition from cable players, we continue to leverage our big data analysis capabilities for precision marketing and precision construction. We are closely monitoring broadband network construction and service availability in selected communities to adapt to competitive circumstances. We are also offering convergence services to families by bundling broadband, MOD, Wi-Fi, OTT and IoT services, leveraging our product advantages over cable operators.

MOD/IPTV Service

Moving on to slide 7.

Our IPTV customers continued to sign up for additional packages and SVOD programs while household TV usage rates continue to steadily climb. We are pleased to see this healthy business development.

To strengthen the competitiveness of MOD services, we will continue to enrich our content offering, including movies, dramas, and TV series for SVOD. We will also enhance the user interface, and leverage our broadband and 4G mobile subscriber base to promote MOD/OTT services to propel the overall business' growth. By leveraging our existing media content position in VOD, we will acquire OTT contents with all rights across our three platforms. We aim to become the leading multi-screen service provider via our robust network infrastructures.

ICT and Cloud Computing Initiatives

Please see slide 8 for an update on our ICT and cloud initiatives.

We will continue leveraging our competitive advantages with regards to network infrastructure, IDC, and CDN etc. among other services to offer customized and comprehensive ICT solutions to enterprise customers.

Now, I would like to hand it over to Mr. Chen to go through our financial results.

Financial Overview

Thank you President Shih. Now I will review our financial results in detail, beginning on slide 10.

Income Statement Highlights

Slide 10 contains our income statement highlights.

For the fourth quarter of 2015, total revenues increased by 4.3% and operating costs and expenses decreased by 0.1% year over year. Our income from operations increased by 20.8% and our net income increased by 17.3%. In addition, our EBITDA margin increased to 31.5% in the fourth quarter, from 30.2% the same period in 2014.

Business Segment Revenues

Please refer to slide 11 for an update on our business segment revenue.

The increase in total revenues was driven by the growth in mobile value-added service revenue and ICT project revenue, but was partially offset by a decrease in fixed and mobile voice revenue.

Costs and Expenses

Moving on to slide 12, our fourth quarter 2015 operating costs and expenses remained flat year over year.

Cash Flow & EBITDA Margin

On slide 13, in the fourth quarter of 2015, cash inflow from operating activities decreased by NT\$470 million, or 1.6% compared to the same period of 2014.

As of December 31, 2015, we had NT\$30.29 billion of cash and cash equivalents.

The increase in EBITDA margin was primarily due to the growth of telecom service in the fourth quarter of 2015 year over year.

Operating Results vs. Forecast

Slide 14 shows our 2015 operating results as compared to our guidance.

We reported robust operating results in 2015, with revenues, operating income and net income all exceeding our guidance. The lower operating costs and expenses were mainly due to the lower-than-expected interconnection expenses and depreciation expenses.

2016 Guidance

Slide 15 shows our 2016 consolidated guidance.

Looking ahead at 2016, we will focus on developing fixed and mobile value added services, as well as expanding the enterprise market to drive revenue and earnings growth.

Taking into consideration the mandatory tariff reduction and the economic growth outlook, total revenue for 2016 is expected to increase by 0.7% to NT\$233.5 billion. The increase in revenue is expected to come from promotions for mobile Internet and value-added services, the encouragement from 2.6G service launch, as well as the expansion of our ICT business. However, we are still projecting a decline in the voice business, which we expect will be offset by the growth of previously mentioned segments.

Operating costs and expenses for 2016 are expected to increase by 2.3% to NT\$185.5 billion. Marketing expenses for mobile Internet, ICT projects and value-added services are expected to be higher. Additionally, amortization expenses for the 4G license will grow year over year. Given these projections, we see a 5.2% year over year decrease in operating income, and a 6.6% decline in net income. The greater projected decline in net income is mainly due to the expected lower investment income under the equity method.

Effective and Efficient Capital Expenditure

Lastly, on slide 16.

Total capex spending was NT\$25 billion in 2015, much lower than the budgeted amount of NT\$30.7 billion. The difference mainly came from the strict project review for precision construction, some deferral in the construction of cloud data center and marine cable into 2016, as well as residual payments for certain 4G construction projects.

We are budgeting capex of NT\$30.6 billion for 2016, which includes the deferred projects as previously mentioned. We will focus on investment for core businesses, including 4G, FTTx and IDC among others under precision construction principle.

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

- Q&A Session -