



中華電信  
Chunghwa Telecom

## CHT 1Q2015 Results April 30, 2015 at 3:00 P.M. (Taipei Time)

Thank you. This is Fufu Shen, the Director of Investor Relations for Chunghwa Telecom. Welcome to our first 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 first quarter 2015 conference call.

We reported robust operational results for the first quarter, with total revenues, operating income, pretax income, net income and EPS all increasing year over year and outperforming our guidance. The continued growth of mobile VAS revenue, the increase in ICT project revenue, and the deceleration of the mobile voice revenue decline all demonstrate that our focus and effort within key businesses have begun to produce positive results. With this, we are confident that we will be able to meet our guidance for 2015.

In addition, we continued to gain market share in terms of mobile subscribers and revenues, reaching 37.5% and 37.1%, respectively, by the end of February. As 4G is a central business focus this year, we are pleased to report that we maintained our leadership position in the 4G market and have accumulated over 2 million subscribers, according to our internal figures. We will continue expanding our 4G customer base, allowing us to achieve favorable economies of scale and be EBITDA

breakeven. As such, we announced a short-term promotional plan with favorable pricing incentives that we expect to effectively attract new 4G subscribers.

#### Number One Mobile Services Provider

Slide 5 provides an update on our mobile business.

During the first quarter, mobile VAS revenue grew by 19.0% year over year, mainly driven by the 26.4% increase in mobile Internet revenue.

For mobile operations, we are focusing on 4G service promotions and mobile internet subscriber expansion, as well as developing enterprise mobile solutions for targeted customers. We continue leveraging our high-speed 4G network to promote value-added services and new applications as well as migrating our 2G customers to the 3G and 4G networks and promoting the usage of more data services.

Moreover, we are extremely proud of our customers' loyalty, especially since competition for 4G subscribers has been particularly fierce. The fact that we continued to have the lowest churn rate demonstrated that our customers recognize our value and are pleased with the quality of our network and services.

#### Fixed Broadband and Internet Services

Slide 6 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 90% year-over-year growth in subscribers opting for connection speeds of 100Mbps or higher, reaching 936,000 by the first quarter of 2015.

We will continue leveraging our network capabilities, offering high-speed upload services and optimizing broadband network quality to increase customer satisfaction. As an integrated telecom services provider, we will leverage our mobile, broadband and Wi-Fi capabilities to offer seamless Internet services. Last, but not least, we will expedite OTT service offerings and content delivery network (CDN) construction to enhance our competitiveness within digital convergence products.

#### MOD/IPTV Service

Moving on to slide 7

Our IPTV revenue and APRU in the first quarter 2015 increased by 10.0% and 6.8% year over year, respectively. Content distribution, VOD and advertisement revenues all increased significantly. In addition, average package subscription per MOD subscriber continued to increase. Moreover, the household TV usage rate increased to 66.2% in the first quarter of 2015 and churn rate also decreased year over year, showing our success in boosting customer stickiness on our platform.

In addition to the fiber convergence plan, which encouraged more IPTV subscriptions, we will continue enriching local content and VOD programs, as well as including OTT services. We will also focus on optimizing the MOD cost structure to enhance capital efficiency.

#### 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, CDN etc. to offer customized and comprehensive ICT solutions to enterprise customers. Concurrently, we are also developing in-house big data capabilities for future commercialization. Although relevant revenue from this area was less than 5% of our total revenue in 2014, it is expected to be over 5% in 2015.

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 first quarter of 2015, total revenues increased by 2.6% and operating costs and expenses increased by 3.5% year over year. Our income from operations decreased by 0.9%. However, due to the increase in foreign currency exchange gains and investment income, our net income increased by 2.0%. In addition, our EBITDA margin decreased from 36.81% to 36.01% in the first quarter as compared to the same period in 2014.

### Business Segment Revenues

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

In general, all our segments performed better year over year in the first quarter of 2015. The increase in total revenues was driven by the growth in mobile value added service revenue and ICT project revenue, which offset the decrease in fixed and mobile voice revenue. We are pleased that our mobile VAS revenue continued to grow rapidly and the declining rate of mobile voice revenue was lower year over year.

### Costs and Expenses

Moving on to Slide 12, our first quarter of 2015 operating costs and expenses increased by 3.5% year over year, mainly due to the higher costs of handsets sold, increasing costs for ICT projects and higher 4G license amortization expenses.

### Cash Flow & EBITDA Margin

On slide 13, in the first quarter of 2015, cash inflow from operating activities increased by NT\$2.17 billion, or 22.6% compared to the same period of 2014.

As of March 31, 2015, we had NT\$30.80 billion of cash and cash equivalents.

The decrease in EBITDA margin was primarily due to handset subsidies for 4G promotion in the first quarter of 2015.

### Operating Results vs. Forecast

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

We reported robust operating results in the first quarter of 2015, with total revenues, operating income, pretax income, net income and EPS all increasing year over year and outperforming our guidance. The better than expected revenues and operating income were mainly due to increased ICT project revenue. Additionally, investment income under the equity method and foreign currency

exchange gains were also higher than expected. As a result, net income and EPS also exceeded our guidance.

Looking at our performance thus far in 2015, we believe our business operations and developments are on track, and we are confident that we will reach our full year guidance

*Effective and Efficient Capital Expenditure*

Lastly, on slide 15.

Though we will continue to construct our 4G network aggressively, we are still budgeting a lower capex of NT\$30.7 billion for 2015 when compared with that of 2014. We will continue monetizing our existing installed equipment and building infrastructure for new services such as 300Mbps broadband based on the potential demand and effectiveness of the service. Furthermore, the mobile network will be constructed according to the existing equipment utilization status and business growth potential to enhance capital efficiency.

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

**- Q&A Session -**