



CHT 2Q2016 Results

July 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 second quarter 2016 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 second quarter 2016 earnings conference call.

As you can see from slide 4, our 4G subscriber number continues its strong growth trajectory. By the end of the second quarter of 2016, we had accumulated 5.7 million 4G subscribers. As earlier promised, we took our first step on April 1 to move towards a tiered-pricing environment by launching our Big 4G plans, raising the bar for unlimited data usage and catering to the strong demands from customers across the board.

As you are aware, we have experienced some subscriber loss over the past several quarters. The key reasons for these losses are due to the SIM consolidation as well as the fierce market competition in the low-tiered sector.

Following the launch of the Big 4G plans, we are focusing more on channel marketing by enhancing channel incentive program as well as upselling renewed contracts to retain customers and increase their contribution. We started to see upselling recently, which is positive for the future mobile service revenue growth.

Turning to our broadband business, we have continued to vigorously defend this business as heavy market competition and 4G substitution hindered subscriber and ARPU growth. We will continue to leverage our marketing analytics for precision marketing, and offer convergence services by bundling MOD, Wi-Fi and OTT services to enhance our competitiveness, product strength and defend our market share.

Additionally, the Chunghwa's Taipei IDC, one of the four highest-rated data centers in the world, has recently been rolled out and into operation. Our vision is to make it the key information hub of the Asia Pacific region. We believe it will significantly enhance CHT and other enterprises ability to further strengthen their cloud-based business capabilities

Number One Mobile Services Provider

Slide 5 provides an update on our mobile business.

Supported by the continued increase in 4G growth and mobile internet subscribers, mobile internet revenue grew by 6.6% year over year in the second quarter of 2016, and served as the major driver of mobile value-added service revenue growth. In addition to our promotional campaigns mentioned earlier to strengthen subscriber acquiring and retention initiatives, we are also promoting Hami VAS to increase customers' contribution.

Fixed Broadband and Internet Services

Slide 6 shows the results for our broadband business.

During the second quarter, we continued to see a migration of subscribers to higher-speed fiber services. The number of subscribers signing up for connection speeds of 100Mbps or higher grew by 13.8% year over year to 1.12 million. We will continue to promote and upsell our broadband services and encourage customer migration to higher speeds, which should further improve the user experience and their stickiness on our network.

MOD/IPTV Service

Moving on to slide 7.

Our IPTV customers continued to sign up SVOD programs, as household TV usage rates also continued to steadily climb. Concurrently, our customer base further expanded, and we believe these positive developments demonstrate the potential of these content services.

To strengthen the competitiveness of our MOD services, we will continue to enrich our content offering, by diversifying and expanding our selection of movies, dramas, and TV series for SVOD.

We will leverage the Brazil Olympic Games to be held in August, and are currently preselling the programs which have already begun to attract MOD subscribers and increase SVOD subscriptions. Additionally, we will broadcast related games and programs across all of our three platforms for fans to closely follow.

At the same time, we are continuing to enhance the MOD user interface, and leverage our large broadband and 4G subscriber base to promote MOD and OTT services, further propelling the overall business' growth.

ICT and Cloud Computing Initiatives

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

As you can see from the solid growth we've experienced with our ICT businesses, we aim to continue leveraging our competitive advantages with regards to network infrastructure, IDC, and CDN, to offer reliable, customized and comprehensive ICT solutions to enterprise customers.

Additionally, we recently launched the highest-rated cloud IDC combining advantages of possessing direct access to submarine cables and high-speed broadband networks, to further explore business opportunities in finance and ICT/OTT industries.

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 second quarter of 2016, total revenues decreased by 1.3% and operating costs and expenses decreased by 0.9% year over year. Our income from operations decreased by 2.4% and our net income decreased by 0.7%. In addition, our EBITDA margin slightly decreased to 37.35% in the second quarter, from 37.94% the same period of 2015.

Business Segment Revenues

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

The decrease in total revenue was driven by the expected decrease in fixed and mobile voice revenue and sales of smart devices, which was partially offset by the growth in mobile value-added service revenue and ICT project revenue.

Costs and Expenses

Moving on to slide 12, our second quarter 2016 operating costs and expenses decreased by 0.9% year over year, mainly due to the lower cost of goods sold and depreciation expenses.

Cash Flow & EBITDA Margin

On slide 13, cash flow from operating activities for the second quarter of 2016 decreased by NT\$4.7 billion, or 26%, compared to the same period of 2015, mainly due to higher tax payout and increased ICT project revenues.

As of June 30, 2016, we had NT\$44.6 billion of cash and cash equivalents.

Larger ICT project revenues also slightly brought down the overall EBITDA margin in the second quarter of 2016 on a YoY basis.

Operating Results vs. Forecast

Slide 14 shows our second quarter of 2016 operating results as compared to our guidance.

In the second quarter of 2016, operating income, net income and EPS all outperformed our guidance. The lower operating costs and expenses were mainly due to the lower-than-expected depreciation expenses and cost of goods sold.

Looking at our performance thus far in 2016, 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.

We are budgeting capex of NT\$30.6 billion for 2016, which includes the deferred projects from 2015 such as cloud data center and marine cable construction. Going forward, we will focus on investment for our core businesses, including 4G, FTTx and IDC among others under the precision construction principle.

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

- Q&A Session -