



CHT 1Q2017 Results

April 27, 2017 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 2017 results conference call. Joining me on the call today are Mr. Sheih, our President and Mr. Chen, our CFO.

During today's call, management will first discuss the overview of our business during the quarter, followed by operational and financial highlights, we will then move on to the Q&A session.

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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Now, I would like to hand the call over to President Sheih.

Chunghwa Telecom Overview

Thank you, Fufu and hello everyone. Welcome to our first quarter 2017 earnings conference call. For the first quarter of 2017, the market remained competitive in both mobile and broadband sectors. However, we continued to retain our market leading position in mobile subscriber and mobile revenue, and managed to have the lowest churn rate despite these constant challenges. We're pleased to say that we've successfully mitigated the mobile subscriber loss and even saw a small net-add in March. Further on, we will focus on strengthening subsidy efficiency by allocating more resource on high-end bundled plans, aiming to reinforce user stickiness and acquisition of new, high-end customers.

On the broadband side, competition from cable operators remained intense and we experienced some subscriber loss in the first quarter, but the rate of contraction continues to decline, which is encouraging. We will continue to leverage our marketing analytics for precision marketing to further strengthen our high speed service adoption, and enable customers to enjoy quality content via diversified internet based platforms. In addition, in March, we announced the roll-out of our 4K

service trials, aiming to incentivize the adoption of MOD and 300Mbps broadband bundled services.

Going forward, we will continue to leverage our expertise in cutting edge communications technology as well as our marketing resources to strengthen our product offerings, diversification and defend our market share.

Number One Mobile Services Provider

Now I will walk you through each of our business lines. On slide 5, I would like to update you on our mobile business.

Our 4G subscribers and mobile internet adopters continue to grow, and consequently drove the mobile internet revenue to increase 3.4% year over year.

To cater to customers' demands and compete more effectively with other players in the market, we extended the 699 and 777 plans, which have effectively brought in new customers. Given the mitigation of subscriber loss, in the meantime, we have decreased the subsidies and removed the credits for the mid-to-low end plans gradually. Moreover, we will take the opportunity of the availability of high end smartphone models this year to further strengthen ARPU by leveraging handset subsidy for high end models. Going forward, we will continue to weigh the risks and rewards of adjusting our pricing strategy, but we will also remain consistent in strengthening our subscriber acquisition and retention initiatives to further solidify our market share.

Fixed Broadband and Internet Services

Slide 6 shows the performance of our broadband business.

During the first quarter of 2017, we continued to see a migration of subscribers to higher-speed fiber services. Furthermore, the number of users signing up for connection speeds of 100Mbps or higher grew by 10.1% year over year to 1.19 million. We are pleased with the results we are seeing and will continue to promote and upsell our broadband services and encourage customer migration to higher speed services. We believe we are taking the right steps to further improve user experience and user stickiness on our network.

MOD/IPTV Service

Moving on to slide 7.

Our IPTV customers continued to sign up for additional packages and SVOD programs, as household TV usage rates also continued to steadily climb. To enhance our quality content offerings and drove the industry to develop, we embarked on the preliminary task force for 4K service trial in the first quarter, and expect to roll out the service in Q4. In addition, we also increased the shopping channel to our channel portfolio.

Continuing the growth trend of IPTV revenue from the third quarter of 2016, IPTV revenue for the first quarter of 2017 increased by 4.8% year over year, primarily driven by healthy growth of IPTV and SVOD subscribers. Additionally, household TV usage rate also increased to 75.3%. Going

forward, we will continue to enrich the IPTV content and offer upsell packages to increase customers' contribution and total revenues.

ICT and Cloud Computing Initiatives

Please turn to slide 8 for an update on our ICT initiatives.

We are delighted to see continued solid growth in our ICT businesses. Going forward, we remain committed to leveraging our competitive advantage in network infrastructure, IDC, and CDN, to offer reliable, customized and comprehensive ICT solutions to our enterprise customers.

Additionally, by leveraging our cloud, big data, and information security capabilities, we have rolled out IoT platform during the fourth quarter of 2016, which develops green energy, smart building, video surveillance, and intelligent transportation solutions for enterprises to facilitate their business development. Enterprises from different industries can also develop their own solutions over the platform using our network and cloud resources. We're pleased by the initial results we seeing and the platform showcased great potential to attract enterprise customers and facilitate the further adoption of IoT applications. Going forward, we will continue to develop new opportunities in ICT business and cooperate with our partners to build on our core capabilities and establish a comprehensive ecosystem in this sector.

Now, I would like to hand over the call to Mr. Chen for our financial results.

Financial Overview

Thank you President Sheih. Now I will go through our financial results in details, beginning on slide 10.

Income Statement Highlights

Slide 10 provides you with highlights from our income statement.

For the first quarter of 2017, total revenues decreased by 4.2% and operating costs and expenses decreased by 0.4% year over year. Our income from operations decreased by 16.3% and our net income decreased by 17.7%. In addition, our EBITDA margin decreased to 36.0% in the first quarter, from 38.5% in the same period of 2016.

Business Segment Revenues

Please refer to slide 11 for revenue breakdown by business segments.

The decline in total revenue for the first quarter of 2017 was driven by the decrease in voice revenue, smart device sales and ICT project revenue, which was partly offset by the increase in mobile VAS revenue and application VAS revenue under internet segment.

Costs and Expenses

Moving on to slide 12, our operating costs and expenses decreased by 0.4% year over year in the first quarter, mainly due to the lower interconnection expense, ICT project costs, and depreciation offset by the higher marketing and commission expenses and amortization expense.

Cash Flow & EBITDA Margin

On slide 13, cash flow from operating activities for the first quarter of 2017 increased by NT\$4.16 billion, or 64.1%, compared to the same period of 2016, mainly due to the lower cash contribution to pension fund and the decrease of receivables, which was partially offset by the increase in inventories, the decreases in payables and pre-tax income.

As of March 31, 2017, we had NT\$38.02 billion of cash and cash equivalents.

Operating Results vs. Forecast

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

In the first quarter of 2017, our revenue was lower than our expectation. However, our results of operating income, net income and EPS had outperformed our first quarter guidance.

Effective and Efficient Capital Expenditure

Lastly, on slide 15.

We are budgeting capex of NT\$30.3 billion for 2017. We will focus on investment for core businesses, including FTTx, 4G 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 -