



CHT 2Q2017 Results

July 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 second 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.

Before I turn the call to President Shieh, I'd like to introduce Mr. Harrison Kuo, who has been in charge of different fields at Chunghwa Telecom including corporate planning, accounting and investment since 2005. Mr. Kuo also has extensive experience supporting the company's President and CFO by supervising its financial activities.

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.

This presentation is being made on July 27, 2017. The content of this presentation contains time-sensitive information that is accurate only as of the time hereof. If any portion of this presentation is rebroadcasted, retransmitted, or redistributed at a later date, Chunghwa will not be reviewing or updating the material that is contained therein. Please note our safe harbor statement on slide 2

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

Chunghwa Telecom Overview

Thank you, Fufu and hello everyone. Welcome to our second quarter 2017 earnings conference call. For the second quarter of 2017, we continued to retain our market leading position in terms of the number of mobile subscribers and mobile revenue. We also managed to have the lowest churn rate despite certain challenges. We're pleased to say that we've successfully mitigated the mobile subscriber loss, and re-allocated resources to guide mobile subscriptions toward high-end plans. Going forward, we will continue to strengthen our subsidy efficiency by allocating more resources to high-end bundled plans, aiming to reinforce our user stickiness and acquire an increasing number of new, high-end customers.

On the broadband side, we're noticing that competition from cable operators has decelerated a bit. Although the number of our broadband subscribers slightly declined year over year, we are encouraged to experience a small quarter-over-quarter increase in the second quarter of 2017. Going forward, we will continue to leverage our marketing analytics for precision marketing to further strengthen our high speed service adoption. Meanwhile, by offering 4K services, we enable our customers to enjoy quality content via our MOD IPTV platform. To further develop our MOD service, we will continue our revenue sharing arrangement with channel providers, and we aim to enrich our MOD content by carrying OTT services in the near future.

Looking ahead, we will continue to leverage our expertise in cutting edge communications technology as well as our marketing resources to strengthen our user acquisition, enhance user stickiness, diversify our product offerings and solidify our market leading position in the market.

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.

The number of our 4G subscribers and mobile internet adopters continued to grow in the second quarter of 2017, which consequently drove our mobile internet revenue to increase by 5.4% year over year.

As many of you know, we've been adjusting our strategy to allocate more resources to high-end bundled plans this year. In the second quarter, we have seen some encouraging results. First, as a percentage of total new subscribers, our high-end plan subscribers increased year over year in the past quarter. Second, our subsidy efficiency has improved when considering the cost of handset subsidies versus the revenues brought in during a customer's whole contract period. This is a strong testament of our effective strategy and the solid execution capability of our team. We will continue this effort as we move forward, with the goal of increasing the number of our new, high-end customers and ARPU.

Fixed Broadband and Internet Services

Slide 6 shows the performance of our broadband business.

Slide 6 shows the performance of our broadband business.

Although the number of our broadband subscribers slightly declined year over year, we are encouraged to see a small quarter-over-quarter increase in the second quarter of 2017. The mitigation of our subscriber loss demonstrated the effectiveness of our overall marketing initiatives as we leverage our big data analytics capabilities for precision marketing and offer flexible pricing for certain communities or areas. In addition, during the second quarter, we continued to see a migration of our broadband subscribers to higher-speed fiber services. The number of our users signing up for connection speeds of 100Mbps or higher grew by 10% year over year to 1.23 million in the second quarter. We are pleased with the results we are seeing so far, and we believe we are taking the right steps to continue to promote and upsell our broadband services and encourage customers to migrate to higher speed services. Meanwhile, we will further improve the user experience and user stickiness on our network.

MOD/IPTV Service

Moving onto slide 7.

Our IPTV revenue maintained its growth trajectory since the third quarter last year, with an 8.0% year-over-year increase in the second quarter of 2017, primarily driven by the healthy growth of IPTV and SVOD subscribers. We are pleased to see that our IPTV customers continued to sign up for additional SVOD programs during the quarter.

To further boost the development of our IPTV business, in July, we renewed our contract with channel providers for our IPTV services. We believe the revenue sharing arrangement in the new contract will help improve the bottom line of our IPTV services. Moreover, on the content side, we aim to enrich our IPTV content by inviting OTT service providers to offer their services over our platform in the near future.

Going forward, the quality and diversification of our IPTV content offerings will continue to be our priority to further strengthen user acquisition and user stickiness. We will also offer upsell packages and channels to increase customers' contribution to our 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 in the second quarter of 2017.

By leveraging our cloud, big data, and information security capabilities, we rolled out the 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. Recently, we have leveraged this platform to help turn major cities in Taiwan into smart cities. We are pleased by the initial results we have seen so far, and we believe the platform has showcased great potential to attract enterprise customers and facilitate the further adoption of our IoT applications.

Going forward, we remain committed to leveraging our competitive advantages in network infrastructure, IDC and CDN to offer reliable, customized and comprehensive ICT solutions to our enterprise customers, develop new opportunities in our innovative business lines, and establish a comprehensive ecosystem in this sector.

Now, I would like to hand over the call to Mr. Kuo 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 second quarter of 2017, total revenues decreased by 0.9% and operating costs and expenses remained flat year over year. Our income from operations decreased by 4.3% and our net income decreased by 5.6% year over year. In addition, our EBITDA margin decreased to 36.54% in the second quarter from 37.35% 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 second quarter of 2017 was driven by the decrease in voice revenue and ICT project revenue, which was partially offset by the increase in mobile VAS revenue and smart device sales.

Costs and Expenses

Moving on to slide 12, our operating costs and expenses remained flat year over year in the second quarter. The higher cost of goods sold and marketing expenses offset the lower interconnection and ICT project costs.

Cash Flow & EBITDA Margin

On slide 13, cash flow from operating activities for the second quarter of 2017 increased by NT\$2.53 billion, or 18.9%, compared to the same period of 2016, mainly due to the lower income tax paid.

As of June 30, 2017, we had NT\$48.34 billion of cash and cash equivalents.

Operating Results vs. Forecast

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

In the second quarter of 2017, our revenues were slightly lower than our expectation. However, our operating income, net income and EPS all outperformed our second quarter guidance.

Effective and Efficient Capital Expenditure

Lastly, slide 15.

We are budgeting capex of NT\$30.3 billion for 2017. We will focus on investment in our core businesses, including FTTx, 4G IDC and service platforms among others under our precision construction principle.

Thank you for your time. We would now like to open the line for questions.

- Q&A Session -