



## CHT First Half 2010 Results Conference Call Script August 26, 2010 at 6:00 A.M. (EST)

**Fufu:** Thank You. This is Fufu Shen, Investor Relations Director of Chunghwa Telecom. Welcome to our first half 2010 results conference call. Joining me on the call today are Dr. Lu, Chairman and CEO, Mr. Chang, President, and Dr. Yeh, CFO.

For the day's agenda, Management will discuss business, operational and financial highlights of the first half of 2010. This will be followed by Q&A.

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 1**. Now I would like to turn the call over to Chairman Lu.

**Dr. Lu, Chairman and CEO:** Thank you, Fufu. Hello, everyone, this is Shyue-Ching Lu, Chairman of Chunghwa Telecom. Thank you all for joining our first half 2010 earnings results conference call. I am pleased to report that we have concluded the first half of 2010 with another quarter of solid results.

Despite another mandated tariff reduction from the NCC, which was effective as of April 1st of this year, we have delivered a solid performance for the second quarter. The results were due to continuing economic recovery and our successful marketing efforts. The increase in consolidated revenue for the second quarter of 2010 was mainly driven by an increase in handset sales, mobile VAS revenue and Internet services revenue.

Our prudent cost management initiatives have delivered a stable operating income, with net income growth due to a reduction in our income tax rate from 25% to 17%, which started in 2010.

Moving on to **slide 3**. Our commitment to our shareholders continues, as you can see on this slide, which shows our cash return over the last four years. We maintain a high dividend payout ratio and intend to continue this policy. Cash dividends for 2009 were approximately NT\$39.4 billion, which will be paid out in September.

In addition, the fourth round capital reduction has been approved by the Board and our shareholders at AGM. We are now scheduling for it, which will reduce Chunghwa's existing paid-in capital by 20%. A capital reduction payment of around NT\$19.4 billion is expected to take place in the first quarter of 2011.

Now, I will hand over to President Chang for the business overview.

**Mr. Chang, President:**

CHT Overall Business Overview

Thank you, Chairman Lu. Now, let me take you through our business performance.

Broadband Services/Growth Drivers in Fixed-line Services

**Slide 5** shows our broadband services data results. At the end of second quarter 2010, Chunghwa had 4.3 million broadband subscribers, accounting for an 82.2% share of the market.

Although our total broadband subscriber number has remained relatively flat, our initiatives to encourage FTTx migration have yielded solid results, with FTTx subscribers as percentage of total broadband subscribers increasing from 31.2% to 42.8% year over year. In the second quarter of 2010, the FTTx revenue has already accounted for 57.5% of total broadband access revenue.

Internet revenue for the first half increased year over year, primarily because of the additional broadband subscribers and the migration of customers from ADSL to FTTx solutions.

Growing Momentum in MOD/IPTV

Please refer to **slide 6**.

Recently, we have seen a boost in MOD subscriber growth. For the second quarter 2010, new subscriptions represented 4% of sequential growth, and the total number of subscribers now reached more than 720 thousand.

In the first half of 2010, a number of initiatives successfully drove the growth of our MOD business. First was the launch of our Family Package with enriched content; second, the enhancement of our user interface, and third, the event-based brand-building effect of the World Cup.

We are strengthening our MOD strategy in terms of content, marketing and interactivity and will continue to encourage additional popular HD channels to better cater to our customers' preferences and enrich their experiences. By the end of this year, we expect to have 16 HD channels and 114 SD channels. As the increasing fiber coverage facilitates our capability to offer HD services to more customers, we will continue offering additional HD channels and programs to meet customers' need. Our target is to have 900 thousand MOD subscribers by year-end, and expect the related revenue to increase by 25% year over year for 2010.

Number One Mobile Service Provider

Please turn to **slide 7**.

We continue to be the leading mobile operator with the lowest churn rate and solid year over year subscriber growth of 4.5%, bringing the total number of subscribers to 9.4 million at the end of June 2010. 3G subscribers as percentage of the total has continued to increase.

For the first half of 2010, mobile VAS revenue increased by 27.6% year over year and is now 14.4% of total mobile revenue. Mobile internet demonstrated the highest year over year growth of 78%. SMS showed a solid year over year growth rate of 6.9%, and remained the largest contributor to VAS revenue.

We expect the growth of mobile VAS to continue in the future as we focus on executing our VAS strategies to enhance our users' experiences, create value added services and customize and integrate services over a quality network.

#### Smartphone Value Driver for Mobile

**Slide 8** shows the success of our mobile strategies. Our smart phones, which leverage a variety of applications, are increasingly penetrating the premium customer segment.

Smartphones accounted for 17% of the total handsets offered in the first half and we expect that to reach 20% by the end of 2010. As of June 30, 2010, mobile internet subscribers, including mPro and data card users, also grew to 568 thousand, a 133% increase compared to one year ago. On the ARPU side, you can see that smartphone ARPU is 132% higher than blended ARPU.

In addition to the devices, we have been focusing on enriching content via customized value added services. These various services include information services, life application services etc. In May, we launched Hami Apps, which supports the Android platform. As of now, there are about 370 applications over Hami Apps.

We believe our efforts to enhance content will further expand our customer base and solidify our leading market position.

#### New Business Initiatives for Future Growth

On **slide 9**, I would like to share with you our new business initiatives to drive future growth.

First, we initiated convergence services to meet growing customer demand. We are integrating internal resources to conduct cross-platform services over our MOD, mobile and HiNet platforms. Recently, we launched our "hifree" music/video service and sport programs over the MOD and HiNet platforms. Single sign-on over the three platforms will be available in the fourth quarter of 2010. To support this development, we continue to expand our fiber customer base to facilitate the promotion of digital convergence services.

Second, we focus our Corporate ICT business including services such as iEN, ITS information security, PBX, call center and IDC, as well as the Internet of Things.

Third, we developed a cloud computing service. We are building the largest cloud computing data center in Taiwan in anticipation of the growing needs. We are offering services via Public Cloud to customers such as SMEs and individuals and via Private Cloud to customers that include enterprises and the government. With our experience, leading market position and continued investment in

technology, Chunghwa is well-positioned to further solidify its leading position as an information and communications service provider.

#### Overseas Development

As shown on **slide 10**, overseas development is another future growth initiative for CHT. Southeast Asia and China are two major areas we are focusing on.

Our joint venture with Viettel to establish the largest IDC company in Vietnam marked our first overseas endeavor. Replicating our experience in call center services, we also initiated a joint venture, Sertech, in Xiamen to capture the growing local business ICT needs. Moreover, we will establish wholly-owned subsidiaries in China and Vietnam. We expect these two subsidiaries to function as ICT related solution providers, leveraging our ICT competence.

In order to expand our International fixed services to overseas markets, we established subsidiaries in America, Hong Kong, Singapore and Japan. Through these four subsidiaries, we are capable of providing quality, competitive services, including international private leasing circuits, IP-VPN, IP transit, voice and data wholesale services, as well as type I and type II services to multinational corporate customers.

With that, I would like to turn the call over to Dr. Yeh for a review of our financial results.

**Dr. Yeh, CFO:** Thank you, President Chang and good day everyone. Thanks for joining us today. I will review our financial results in detail, beginning with slide 12.

#### Income Statement Highlights

**Slide 12** shows our income statement on a consolidated basis and provides a comparison on a year over year basis.

Total revenue for the second quarter of 2010 increased 3.3% to 49.7 billion NT dollars. Although the NCC tariff reduction became effective on April 1, 2010, the company made its best efforts to maintain its growth pattern. I will review the revenues by business segments later.

Operating costs and expenses grew 4.9% to 34.8 billion NT dollars.

Income from operations for the second quarter of 2010 was flat at 14.9 billion NT dollars.

Net income for the second quarter of 2010 grew by 12.7% to 12.9 billion NT dollars, reflecting the income tax rate reduction from 25% to 17%.

EBITDA for the second quarter of 2010 decreased 2.3% to 23.5 billion NT dollars, mainly as a result of the mandated NCC tariff reduction and changing cost structure.

#### Segment Revenue

**Slide 13** shows our revenue for each business segment for the second quarter of 2010.

In the domestic fixed line business, local revenues decreased by 2.2% year over year, mainly due to mobile and VOIP substitution. The 12.6% decline in DLD revenues also was due to mobile and VOIP substitution, and the interconnection fee adjustment at the end of 2009.

Broadband access revenue, including ADSL and FTTx, increased by 1.9% year over year. Although ADSL access revenue decreased as more ADSL subscribers migrated to fiber solutions, the decrease was fully offset by growth in FTTx access revenue.

Mobile revenue increased by 6.5% year over year, mainly due to growth in handset sales and mobile VAS revenue related to our smartphone promotion.

Internet revenue increased by 7% mainly attributable to Internet services growth, which was driven by the increase in broadband subscribers and the migration of ADSL subscribers to fiber solutions.

International fixed line revenue decreased by 2.3%, mainly due to VOIP substitution and market competition that was partially offset by growth in leased line revenue.

#### Cost and Expenses

**Slide 14** shows the breakdown of operating costs and expenses. The increase of operating costs and expenses was due to the increased cost of handset sales and the performance-based bonus accrual that is related to the net income growth. The remainder of the costs and expenses decreased as a whole, mainly due to the decrease in depreciation expense.

#### Cash Flow

As shown on **slide 15**, for the second quarter of 2010, cash flow from operating activities was 17.3 billion NT dollars.

Cash and cash equivalents at the end of second quarter of 2010 amounted to 92.8 billion NT dollars, showing a strong cash position.

#### 3Q 2010 Forecast

**Slide 16** shows our parent-company guidance for the third quarter of 2010.

Compared to the same period last year, third quarter 2010 revenue is expected to increase 0.3% to 46.4 billion NT dollars.

Operating costs and expenses is expected to remain flat. We expect cost of ICT services and handset sales will increase, but depreciation expense will decrease.

Income from operations is expected to increase by 1.4% to 14.0 billion NT dollars.

Net income is expected to increase by 8.5% to 11.9 billion NT dollars year over year, partly reflecting the income tax rate reduction from 25% to 17%.

EBITDA is anticipated to decrease 1.1% to 22.4 billion NT dollars mainly as a result of the mandated NCC tariff reduction and changing cost structure.

That's it for our financial overview. I will now hand over to Dr. Lu for our management highlights.

**Dr. Lu, Chairman and CEO:** Thank you, Dr Yeh.

In summary, Chunghwa Telecom remains Taiwan's leading domestic player.

Our ability to provide integrated telecoms services continues to strengthen as we quickly grow mobile VAS and IPTV services.

At the same time, we are maintaining our focus on cost control, in order to ensure operational efficiency.

We are committed to a sustainable dividend payout, a strong balance sheet, and prudent capital management.

Our innovative service offering, including ICT services and leading edge technology, position us to capitalize on growth opportunities at home and abroad.

I'd now like to open up to questions.

**- Q&A Session -**