



## CHT 1Q 2012 Results April 30, 2012 at 5:00 A.M. (EST)

**Fufu:** Thank you. This is Fufu Shen, Investor Relations Director of Chunghwa Telecom. Welcome to our first quarter 2012 results conference call. Joining me on the call today are Dr. Lu, Chairman and CEO, Mr. Chang, President, and Dr. Yeh, CFO.

During today's call, management will first discuss business, operational and financial highlights then 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 2**. 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 quarter 2012 earnings results conference call.

Before President Chang reports our business development in more detail, I have some comments regarding CHT's progress.

### Chunghwa Telecom Overview

As an integrated service provider, we maintained our market leadership in all of our major business segments. For the first quarter, mobile value added service continued to be our growth driver. We are optimistic about the mobile internet market growth and will offer various marketing packages to meet customers' demand. In addition to the packages bundled with handset subsidies, we also offer discounted mobile internet service to existing smartphone users in order to maintain and to further penetrate the market. We are also very keen on target markets in maximizing the potential growth opportunities: for example, beginning in March this year, we began to offer mobile voice service bundled with data plan for students and youths. We currently anticipate this campaign to be very positive in contributing future revenue growth.

Along with the growth of mobile data usage, we are making effort on the improvement of the network quality. Our efforts to enhance of mobile network and to promote WiFi in order to offload the data traffic proved to be effective, with offloading rate via home WiFi around 40%. While the rate for public WiFi has not achieved the same rate as the home WiFi, we are continuing the interface improvement in order to be more user-friendly.

We are pleased to report that our IPTV service is gaining traction. Due to the higher subscription number, the MOD ARPU increased 15.7% year on year for the first quarter. Moreover, the broadcasting service of 2012 Olympic Games will be launched on July 28th. Two thousand hours of games are planned to be broadcasted over fourteen high-definition channels and there will be 500 hours of on-demand programs as well. We are pretty optimistic that this event will drive the growth of MOD subscription significantly.

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

#### Business Overview

**Mr. Chang, President:** Thank you, Dr. Lu.

#### Largest Mobile Customer Base

Moving to **slide 5**.

For mobile business, we maintained the largest subscriber base and the lowest churn rate in the market, demonstrating our market position and customers' recognition. As mobile value added service remains to be our growth driver and smart devices are becoming widely used day by day, we are continuing the improvement of network quality in order to enhance user experience.

As an integrated service leader, we hold great value of the network quality, which commands the highest priority in our daily operation. Based on our internal study, mobile data traffic is expected to increase 65% year-over-year in 2012. To cater to such rapid expansion of data usage, we plan to increase the base station broadband access capacity by 70% and the mobile network backhaul bandwidth by 73% this year. In addition, 95% of our base stations will turn on their second carriers. Moreover, more than 50% will turned on their third carriers and we expect 80% of traffic will be carried by these base stations at the year end. These measures will further ensure and enhance our overall network quality.

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#### Growing Mobile Value added Services

Moving to **slide 6**.

Mobile value-added services continued its momentum with 29.2% growth rate year over year for 1Q 2012. This is supplemented by the growth momentum of smartphone usage, which boosted mobile internet subscribers to 1.8 million by the end of first quarter 2012, from 1.5 million in 4Q 2011. Attributable to the strong growth momentum, we increased the target number for mobile internet subscriber to 2.35 million by the end of 2012, representing a growth rate of 56% compared to 2011.

Starting March this year, we began to offer Student Plans to attract students and youths who are active users of mobile data service. We have selected several mid to low tier smartphone models with brand names and extensive functionality for these users to choose. By packaging lower rates and cheaper models, we are confident that the Student Plans will be very successful.

#### Smartphone-Value driver for Mobile

On **slide 7**.

Although high end smartphone subscription increased due to hot sales of iPhone 4S in the first quarter, our smartphone strategy this year is still to increase mid to low end smartphones users. The availability of more quality mid to low end smartphones in the near future will help on our execution and promotion. For the first quarter, smartphone customers accounted for 69% of the total handsets we offered and we expect the percentage to be 70% for the whole year.

#### Fixed Broadband Service Performance

**Slide 8** shows the results for our broadband business.

Migrating broadband customers to higher speed service continues to be our key strategy, as well as attracting more broadband customers. Under this strategy, we reduced our fiber and ADSL tariff in mid last year and beginning this year.

We mentioned previously that the broadband revenue is expected to recover to the level prior to the fiber tariff cut by the second quarter 2012. Although this revenue recovery is slightly behind schedule, we will continue migrate customers to higher speed services, as well as offering high definition programs, such as upcoming broadcasting of the Olympic Games, to accelerate the revenue recovery.

#### Growing Momentum in MOD/IPTV

**Slide 9** shows that MOD subscribers and revenue continued to increase. In addition, our television market share increased to 17.3% by the end of 2011 compared to 13.8% by the end of 2010. Our enriched and high definition content continued to attract subscription, with 76.5% of our subscribers signed up additional package services and the percentage of premium package subscription continues to rise. As a result, ARPU for MOD increased 15.7% year on year for the first quarter and ARPU for March has increased to NT\$157. We expect the new platform to be launched toward the end of first half 2012. Leveraging the advantage of the new platform and the coming 2012 Olympic Games broadcasting service, we are optimistic that MOD customers will likely reach 1.5 million by end of 2012.

#### Business Opportunity-ICT and Cloud Computing

Owing to the declining trend for the traditional market and regulation dynamics, we are focusing on paving new avenues for revenue stream.

On **slide 10**, in addition to our traditional telecom services, we have expanded our corporate business scope and focus on ICT businesses to include government projects.

Now, I would like to hand it over to Dr. Yeh for financials overview.

#### Financials Overview

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**.

The following discussion is focused on the first quarter of 2012.

#### Income Statement Highlights

**Slide 12** shows our income statement on a consolidated basis. While total revenue for the first quarter increased by 5.6% compared to same period 2011, operating costs and expenses reported a 14.4% increase year over year. As a result, net income and EBITDA decreased 19.8% and 11.8% respectively.

The EBITDA margin decreased year over year due primarily to the higher handset sales such as iPhone 4S, and the higher handset sales from our subsidiary, Senao through open channel, as well as

the growth of corporate solution and ICT business. EBITDA margin of these particular businesses are relatively lower than the traditional telecom services.

#### Business Segment Revenues

You can refer to **slide 13** for our business segment revenue.

The revenue growth for the first quarter was primarily due to the 29.2% increase in mobile VAS revenue and 53.7% increase in handset sales. However, the increase was offset by the decline in mobile voice revenue attributable to the fixed to mobile calls pricing right shift, the marketing campaign and the NCC tariff reduction. Additionally, the decline in DLD and broadband revenue due to tariff cuts also partially offset the overall growth.

#### Costs and Expenses

**Slide 14** shows the breakdown of operating costs and expenses.

The operating costs and expenses increase in the first quarter consists of three components: firstly, the cost of handset sold represent 69.8% of the increase; secondly, the increase of corporate solution and ICT project costs account for 14.6%; and finally, the increase of maintenance and material expenses for broadband service promotion was about 6.1%.

#### Cash Flow

As shown on **slide 15**, cash flow from operating activities increased by 34.9% year over year to NT\$13.1 billion during the first quarter 2012, the increase was mainly because starting 2011, the company adjusted its billing period for monthly fees one month later to be in line with that for communication charges, hence account receivable for the first quarter 2011 increased accordingly. We maintained a strong cash position as of March 31, 2012, with cash and cash equivalents amounting to NT\$69.9 billion.

#### Forecast & Operating Results

**Slide 16** shows our 2012 unconsolidated forecast and the results of our first quarter 2012 operations.

Comparing to our original first quarter guidance, we achieved relatively higher revenue as we already explained. However, operating income, net income and EBITDA were behind our guidance due to certain businesses with lower margin as we already mentioned, such as the handset sale of iPhone 4S, ICT, etc.

As the EBITDA margin for the first quarter was lower than our forecast, we are still maintaining our full-year guidance.

#### Financial Impact after Adoption of IFRS

On to **slide 17**.

As a company listed on the Taiwan Stock Exchange, Chunghwa is required under ROC laws to prepare its financial statements in accordance with IFRS starting from fiscal year 2013.

In the slide, we are providing the possible financial impact after the adoption of IFRS. These assessments may be changed as the FSC may issue new rules governing the adoption of IFRSs, and as other laws and regulations may be amended to comply with the adoption of IFRSs. However, due to these uncertainties and other potential factors, the assessments may be affected accordingly.

You may see from the table that the most significant one is the impact of employee benefits. The pension obligations of employees upon privatization in 2005 were calculated based on IFRS. The impact, which amounted to NT\$20.6 billion shall be retroactively deducted from the retained

earnings and transferred to additional paid-in capital, while the total shareholder' equity remained unchanged.

The adoption of IFRS to the consolidated financial statements for the first quarter this year increased Chunghwa's consolidated net income by NT\$106,963 thousand.

Effective and Efficient Capital Expenditure

Moving to **slide 18**. Our budgeted capex for this year is NT\$33.1 billion. We began our network expansion plan last year in order to enhance our network quality for better customer services. As a result, our first quarter capex was relatively higher than that for the first quarter of 2011.

That's all for the presentation. We would now like to open up for questions.

**- Q&A Session -**