



中華電信  
Chunghwa Telecom

## CHT 2Q2015 Results July 30, 2015 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 2015 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 2015 conference call.

We reported robust operational results for the second quarter, with total revenues, operating income, pretax income, net income and EPS all increasing year over year and outperforming our guidance.

We remain on track in our goal of acquiring 4G subscribers, accumulating over 2.9 million 4G subscribers in July. We expect to reach 3 million 4G subscribers in early August. As you know, we launched a 4G unlimited data promotional plan back on April 16<sup>th</sup> for NT\$ 988 per month. The plan has since expired at the end of June, which demonstrates our intention to gradually move toward a healthier tiered-pricing structure.

Furthermore, we continue to target high-end customers for 4G migration, but have also begun targeting mid-to-low end customers as well with the launch of a new promotional tiered data

program for this target group on July 1<sup>st</sup>. Additionally, we have focused on further promoting mobile value-added services by bundling Hami services such as mobile TV, audio and video streaming when introducing attractive promotional plans. We expect these initiatives to help continue the 4G service growth momentum and allow us to reach our 4.2 million subscriber target by the end of this year.

#### Number One Mobile Services Provider

Slide 5 provides an update on our mobile business.

During the second quarter, mobile VAS revenue grew by 16.8% year over year, mainly driven by the 22.6% increase in mobile Internet revenue.

For mobile operations, we are focusing on 4G service promotions and mobile internet subscriber expansion by further targeting mid-to-low end customers. We continue leveraging our high-speed 4G network to promote value-added services and new applications as well as migrating our 2G customers to the 3G and 4G networks and promoting the usage of more data services.

As mentioned, we launched the 988 unlimited data plan with lower subsidies and voice allowances in mid-April. Through the end of June, approximately 100,000 subscribers had already signed up for the plan, which successfully helped drive subscriber growth momentum.

#### Fixed Broadband and Internet Services

Slide 6 shows the results for our broadband business.

During the second quarter, we continued to see a steady migration of subscribers to higher-speed fiber services. We witnessed 57% year-over-year growth in subscribers opting for connection speeds of 100Mbps or higher, reaching 985,000 by the second quarter of 2015.

We will continue leveraging our network capabilities, offering high-speed upload services and optimizing broadband network quality to increase customer satisfaction. As an integrated telecom services provider, we will leverage our mobile, broadband and Wi-Fi capabilities to offer seamless Internet services. Last, but not least, we will expedite OTT service offerings and content delivery network (CDN) construction to enhance our competitiveness within our digital convergence products.

#### MOD/IPTV Service

Moving on to slide 7.

Our IPTV revenue increased year-over-year primarily attributable to the significant growth in content distribution, VOD and advertisement revenues. As such, ARPU increased year-over-year. In addition, customers continued to sign up for additional packages and SVOD programs. Household TV usage rates continue to steadily climb, signifying the increasing popularity of MOD programs, and the recognition they are receiving from customers.

In addition to the fiber convergence plan, which encouraged more IPTV subscriptions, we will continue enriching local content and VOD programs, as well as including OTT services. We will also focus on optimizing the MOD cost structure to enhance capital efficiency.

#### ICT and Cloud Computing Initiatives

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

We will continue leveraging our competitive advantages with regards to network infrastructure, IDC, CDN etc. to offer customized and comprehensive ICT solutions to enterprise customers.

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 2015, total revenues increased by 2.0% and operating costs and expenses increased by 0.6% year over year. Our income from operations increased by 6.8% and our net income increased by 5.1%. In addition, our EBITDA margin increased to 37.9% in the second quarter, from 37.4% the same period in 2014.

### Business Segment Revenues

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

The increase in total revenues was driven by the growth in mobile value-added service revenue and ICT project revenue, which offset the decrease in fixed and mobile voice revenue. We are pleased that our mobile VAS revenue continued to grow rapidly and the declining rate of mobile voice revenue was lower year-over-year.

### Costs and Expenses

Moving on to Slide 12, our second quarter 2015 operating costs and expenses increased by 0.6% year over year, mainly due to the higher costs of goods sold, increasing costs for ICT projects and higher 4G license amortization expenses, which offset the decrease in interconnection and depreciation expenses.

### Cash Flow & EBITDA Margin

On slide 13, in the second quarter of 2015, cash inflow from operating activities increased by NT\$3.78 billion, or 26.2 % compared to the same period of 2014.

As of June 30, 2015, we had NT\$34.31 billion of cash and cash equivalents.

The increase in EBITDA margin was primarily due to the total revenue growth and the decrease of interconnection expenses in the second quarter of 2015.

### Operating Results vs. Forecast

Slide 14 shows our 2015 second quarter operating results as compared to our guidance.

We reported robust operating results in the second quarter of 2015, with total revenues, operating income, pretax income, net income and EPS all increasing year over year and outperforming our guidance. The better than expected revenues and operating income were mainly due to higher revenue from mobile and domestic ICT businesses. Additionally, investment income under the equity method and foreign currency exchange gains were also higher than expected. As a result, net income and EPS also exceeded our guidance.

Looking at our performance thus far in 2015, we believe our business operations and developments are on track, and we are confident that we will achieve results that exceed our full year guidance.

Effective and Efficient Capital Expenditure

Lastly, on slide 15.

Though we will continue to construct our 4G network aggressively, we are still budgeting a lower capex of NT\$30.7 billion for 2015 when compared with that of 2014. We will continue monetizing our existing installed equipment and building infrastructure for new services such as 300Mbps broadband, based on the potential demand and effectiveness of the service. Furthermore, the mobile network will be constructed according to the existing equipment utilization status and business growth potential to enhance capital efficiency.

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

**- Q&A Session -**