



CHT First Quarter 2010 Results Conference Call Script April 30, 2010 at 6:00 A.M. (EST)

Fufu: Thank You. This is Fufu Shen, Investor Relations Director of Chunghwa. Welcome to our first quarter 2010 results conference call. Today we have Dr. Lu, our Chairman and CEO, Mr. Chang, our President, and Dr. Yeh, our CFO to speak to you and answer your questions. On today's call, Mr. Chang will review our business operations, then Dr. Yeh will review financial results and finally Dr. Lu will review our business outlook. At the end of our presentation, we will be happy to take your questions.

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 I pass to Dr. Lu, please note our safe harbor statement on **slide 1**. Now I would like to hand 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 2010 earnings result conference call.

Now let's start the presentation. On **slide 2**, building sustainable shareholders value is our primary focus. In order to achieve this goal, we tend to differentiate ourselves competitively on several factors, including wide customer base, high quality products and services, brand name, advanced network and strong financial position. .

In addition, our strategic execution is focused on three areas, including satisfying mobile customer usage demand for high-quality access and services, investing in next-wave broadband development, transformation and innovation to become an Information and Communication Technology (ICT) operator, as well as stepping up our commitment in preserving environment and social responsibilities.

Moving onto **slide 3**, again as part of our commitment to our shareholders, you can see our cash return for the last four years. We have been maintaining high dividend payout ratio and intend to continue this policy. Our Board of directors just approved a cash dividend for year 2009 of approximately NT\$39.4 billion, representing 90% payout ratio.

In addition, the fourth round capital reduction, which will reduce 20% of Chunghwa's existing paid-in capital, equivalent to approximately NT\$19.4 billion, was also approved in the previous board meeting. We have conducted three rounds of capital reduction in the previous years, and returned cash to shareholders in aggregate of NT\$38.5 billion.

The 2009 cash dividend and the capital reduction proposals will be submitted to AGM on June 18, 2010 for final voting from shareholders.

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

Dr. Chang, President:

CHT Overall Business Overview

Thank you, Chairman Lu. Now, let me take you through the business overview.

Starting **slide 5**, our consolidated revenue for the first quarter 2010 was NT\$49.6 billion, and we were able to maintain our leading market positions in each of our business segments.

CHT Fixed-line Services

Now moving to **slide 6**, for the first quarter 2010, we continued to maintain a stable market share for local, DLD and ILD businesses. As an incumbent, we were successful at defending our fixed-line market share and are confident that our strong market position will sustain in the future.

CHT Broadband Business Overview

Next **slide 7** shows our broadband subscriber data. At the end of first quarter 2010, Chunghwa had 4.3 million broadband subscribers, accounting for 82.7% of the market share. The fiber customers accounted for 40.4% of our total broadband subscribers.

As already mentioned, we plan to speed up our fiber deployment. We are providing even higher speed FTTH services including HDTV, remote surveillance, etc to meet the high-end customer segment's demand. In addition, we will also co-promote our broadband and wireless internet services at a favorable rate.

Moreover, we will continue to promote Internet value added services, which are the fundamental growth drivers of our Internet business. The accumulated internet VAS revenue as percentage of total internet revenue increased from 9.2% to 9.8% year over year in the first quarter of 2010.

As more ADSL subscribers upgraded to fiber solution, broadband ARPU grew by 1.8% year over year in the first quarter of 2010. We expect this broadband ARPU to continue growing as we continue upgrade ADSL subscribers to fiber solutions.

CHT MOD/IPTV

Please refer to **slide 8**.

By the end of first quarter 2010, we accumulated 665 thousand IPTV subscribers. ARPU increased 3.9% year over year in the first quarter 2010. Total MOD revenue increased by 1.6% in the first quarter 2010 year over year. In addition, we just began offer Family Package with enriched content, and have about 8,000 subscribers for this currently.

We've been strengthening our IPTV strategy in terms of content, marketing and interactivity. We will continue aggregating popular HD channels to better cater to our customer preferences. Currently, we have 103 SD channels and eight HD channels and there are 9 new channels under negotiation. In addition, to enhance functionality, we simplified user interface and our partners have re-packaged channels based on customers' preferences.

We target 900 thousand IPTV subscribers by year-end and expect IPTV revenue will increase 50% year over year for 2010.

We are committed to our IPTV strategy and will continue to execute in order to complement our existing services.

CHT Mobile Business Overview

Now on **slide 9**, we are the market leader in the mobile business, with the largest subscriber base of 9.4 million. Moreover, we had the lowest churn rate in the market, which is a strong testament of subscribers' recognition of our high-quality services.

Mobile VAS revenue as percentage of total mobile revenue increased year over year to 14.2% at the end of the first quarter 2010. We will continue our mobile business strategies to increase mobile VAS revenue by offering customized and integrated Hami services with mPro tariff plans on quality network.

Additional sales channels from 3C stores and hypermarkets are also added recently to strengthen our sales capability.

Mobile minutes of usage and revenue for the first quarter increased by 5.2% and 2.0% respectively.

Smartphone

On the left hand side of **slide 10**, you could see our performance on mobile data operation, including our data revenue percentage, smart phone customer base, mPro package growth and VAS usage. All these metrics were improved year over year for the first quarter 2010.

We foresaw the popularity of smart phones and have been very dedicated in leveraging these devices as part of our handset strategy. We promote smart phones with various applications to increase premium customer subscriptions. The smart phones promoted by Chunghwa are embedded with diversifying platforms supporting Mac OS, Andriod and Windows Mobile. The most popular models include those from Apple, HTC and Garmin-Asus. We expect that smartphone customers will account for 20% of the total handsets we offer in 2010.

Moreover, to satisfy diversified customer demand and increased usage, we will continue to offer attractive 3G VAS, especially over smart phones as more customers switched from voice-only products to data-centric devices.

Convergence

As shown on **slide 11**, to cater to customers growing demand for convergence, we are integrating internal resources to conduct cross-platform service operation, including marketing and advertising. Through this initiative, we expect to better facilitate the acquisition of attractive contents, increase usage and enhance ARPU.

Meanwhile, customers could view multimedia content via our three screens over IPTV, Internet and mobile platform. For example, the 2010 Winter Olympics was broadcasted live on these three platforms. We have also acquired the broadcasting rights for the upcoming World Exposition in Shanghai, FIFA World Cup and Taipei Int'l Flora Exposition this year.

In the future, we will improve the convergence services further by offering four screen services including touch panel phone sets for smart homes. Additional applications for smart homes also include video, micropayment, advertisement and personal information, etc.

Corporate Business

As shown on **slide 12**, our corporate ICT and corporate overseas business revenue amounted to NT\$992 million and NT\$1.2 billion for the first quarter of 2010, representing year-over-year increases of 9.3% and 37.8% respectively. Moving forward, we expect these service revenue to continue to grow.

In addition to the traditional telecom services, we plan to expand our corporate business scope and focus on ICT businesses to include government project. For example, we won the bid to provide the integrated taxation information system, and the total revenue associated with this project is expected to be about NT\$3.1 billion from 2010 to 2012.

Furthermore, we will also explore opportunities to expand our corporate overseas business such as international data and wholesale services.

Capital Expenditure

Next on **slide 13**, the total capex for the first quarter 2010 amounted to NT\$4.2bn, a 11.4% decrease compared to that for the same period in 2009. The decrease was due to the slight delay of the capex budget execution. Of the NT\$4.2bn capex, 80.6% was used for fixed and internet businesses, 17.8% was for mobile business and the rest was for other capital expenditure.

That's all for our business operation. Now, I will hand it over to Dr. Yeh for our financial overview.

Dr. Yeh, CFO: Thank you, President Chang and thank you all for joining our first quarter earning conference.

Income Statement Overview

Slide 15 shows our income statement highlights on a consolidated basis.

Our total revenue for the first quarter of 2010 was NT\$49.6 billion, representing 1% increase year-over-year. The main reasons for the increase were the economic recovery and our marketing efforts.

In addition, EBITDA increased by 0.9%, income from operations increased by 5.3% and net income increased by 11.8% year-over-year. The EBITDA increase was primarily due to the revenue increase. The net income growth was mainly because of the revenue increase, and the decreased income tax due to the income tax rate adjustment.

Segment Revenue

Slide 16 shows the revenue performance for each business segment for the first quarter of 2010. The mobile revenue increased by 2.1% year over year, mainly due to the growth of mobile data revenue, as well as the handset and data card sales. Growth for both mobile data revenue and sales revenue were primarily attributed to our successful promotion of smartphones along with mobile internet services. The overall economic recovery also helped boost the handset sales and the data revenue.

Internet revenue increased by 2.0%, mainly attributable to the HiNet and internet VAS revenue. The HiNet revenue growth was driven by the increase of broadband subscribers and the migration of ADSL subscribers to fiber solution. For internet VAS revenue growth, the growth from land administrative service, on-line music and advertisement services contributed the most.

In the domestic fixed line business, local and DLD revenues decreased by 2.5% and 10.6% year over year respectively. The decrease of local revenue was mainly due to mobile and VOIP substitution.

Broadband access revenue, including ADSL and FTTx, increased by 1.1% year over year. Although ADSL access revenue decreased as more ADSL subscribers migrated to fiber solutions, the decrease was fully offset by the FTTx access revenue growth. As customers demand bandwidth over time, we project the upward migration to continue and broadband revenue to increase.

International fixed line revenue increased by 9.3%, which was mainly due to the growth of ILD and leased line revenue. ILD revenue growth was driven by economic recovery while leased line revenue growth was because of our expansion of overseas data wholesale service and increased sales to multinational corporations.

Cost and Expenses Overview

As shown on **slide 17**, total operating costs and expenses for the first quarter of 2010 were NT\$34.7 billion, a decrease of 0.7% compared to the first quarter of 2009. This was due to the decrease in depreciation expense.

Cash Flow Overview

In terms of our cash flow shown on **slide 18**:

For the first quarter of 2010, our cash flow from operating activities decreased by 2.2% year-over-year to NT\$15.7 billion. This was primarily due to the increase in other monetary assets. Our free cash flow for the first quarter of 2010 increased by 1.5% compared to the same period of 2009 mainly due to the decrease in capital expenditure.

Our cash and cash equivalents amounted to NT\$79.2 billion as of the end of first quarter 2010. This represents 14.5% increase compared to the same period last year. This increase was mainly because of the lesser capital reduction distribution amount in February of 2010 compared to March of 2009.

1Q2010 Forecast

Slide 19 shows our forecast for the second quarter of 2010. Please be advised that the forecast is only for Chunghwa, the parent company.

Chunghwa currently estimates that the total revenue for the second quarter of 2010 will increase 0.1% year over year. This is mainly attributable to the anticipated growth of fiber, value-added services, as well as handset sales, and is offset by the expected decline in fixed-line and mobile services that were adversely affected by the NCC tariff reduction that became effective on April 1, 2010. The decline rate of income from operations and EBITDA will be similar for the second quarter of 2010, mainly due to the estimated growth of smartphone handset sales resulting in increase of handset sales cost compared to the second quarter of 2009. However, net income will be flat compared to the same period last year, mainly because of the decreased income tax resulting from the income tax rate adjustment.

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

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

I would like to recap some points regarding our operation. First, as economy recovers, we expect to be benefited from this trend and will take a more aggressive approach to promote our services.

Second, our FTTx and mobile internet subscribers continue to grow, illustrating solid customer demand for versatile multimedia services and ubiquitous services. We believe this trend will continue and potentially resulting in higher APRU for corresponding services. Third, ICT service as a new revenue stream is one of our key focuses. The integrated taxation information system project we won from the government, which expect to bring us NT\$3.1 billion revenue over three years, evidencing customers' affirmation of our outstanding technology and system integration capability. Finally, the tariff reduction mandated by NCC began on April 1. Although this will impact our revenue, we have factored this into our business plan and will do our best to mitigate the impact by exploring other revenue streams.

Mid-term Corporate Strategy

On **slide 21**, our mid-term strategy is solid in advancing network deployment, enhancing innovation, expanding on ICT services, exploring mainland China and overseas opportunities, and implementing CSR.

We are now focusing on not only "internet of people" but also "internet of things". We have provided intersection monitoring service for the police agency, accumulating more than 20,000 ADSL subscriptions, which account for about 1% of our total ADSL subscriber base in 2009. The subscription of intersection monitoring service effectively utilizes released capacity attributable to the migration of ADSL subscribers to FTTx solutions. In addition, we offer remote surveillance and home care services, which are also examples of "internet of things".

On innovation, recently we offer a free multimedia contents service named hiFree over our HiNet platform to our customers. We believe this will effectively increase customers' loyalty and encourage them to migrate to higher speed service in order to enjoy even better quality contents.

We will persistently follow and implement the strategy and are confident that we will report better performance in the future.

That concludes our presentation. Now, we will be happy to take your questions.

- Q&A Session -