



CHT 1H 2011 Results Conference Call Script August 26, 2011 at 6:00 A.M. (EST)

Fufu: Thank you. This is Fufu Shen, Investor Relations Director of Chunghwa Telecom. Welcome to our second quarter 2011 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 discuss business, operational and financial highlights for the second quarter 2011. 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 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 second quarter 2011 earnings results conference call.

On **slide 3**, total consolidated revenue for the second quarter of 2011 amounted to NT\$54.4 billion, mainly from the increased fixed line revenue, mobile VAS and handset sales. In addition, an increase of construction revenue from our property development subsidiary also contributed to the revenue growth. During the second quarter 2011, we continued to enjoy growth in our traditional telecom service business and to win additional major ICT contracts.

Moving on to **slide 4**, which shows our cash return over the last several years. In addition to the NT\$18.4 billion cash returned via the capital reduction in January, on August 17, we distributed a dividend per share of NT\$5.5243, amounting to a total of NT\$42.9 billion relating to the year 2010.

Our continuing commitment to shareholders is evidenced by our decision to distribute the highest dividend payout ratio of 90%, with the remaining 10% set aside as legal reserve in accordance with Company Law. However, once our legal reserve reaches our capital stock level, which is expected to occur in 3 or 4 years, we will be exempted from this requirement. As a result, a dividend payout ratio of over 90% is likely in 3 or 4 years.

Recent Development

Before beginning the financial overview for the second quarter, I would like to take you through some recent developments, as shown on slide 6.

Digital Rainforest

As innovative offerings and premium customer service are key elements of Chunghwa's corporate culture, we have taken the decision to leverage these strengths to further differentiate ourselves from our peers.

We have therefore announced our Digital Rainforest initiative to offer a cutting edge broadband service to address customers' desire for even higher speeds, a cloud computing platform to encourage innovation, integrated service platforms for up- and downstream partners to develop relevant applications and contents, as well as cooperation with vendors and international operators on carbon emission reduction to promote sustainability.

In order to provide superior customer service, we are renovating our service channels and outlets to offer an enhanced user experience.

We anticipate that these efforts will enrich the development of the industry and result in a win-win situation for Chunghwa, its partners and customers.

Cloud Computing

Slide 7 illustrates our cloud computing business.

Our cloud computing service is one of our new businesses that have attracted considerable attention. This B to b to C initiative involves Chunghwa and its partners working together to offer a developing platform, hicloud PaaS, for independent software vendors to develop cloud applications that are then provided to customers in the hicloud apps mall.

We are also collaborating with government network communication entities and independent software vendors to promote innovative cloud services and applications. We expect to have over 1,000 SME customers by the end of this year.

Comprehensive Service Channels

Slide 8 demonstrates our service channel transformation initiative.

As a service provider, we are keenly focused on improving the quality of our customer service. "ECHT" is the guideline we are using to establish a brand new spectrum of distribution channels.

"E" stands for user Experience. In these renovated service channels, we plan to create optimal user experience by communicating and sharing services with our customers.

"C" stands for Caring. We plan to demonstrate our care by bridging the digital gap and offering customized services to people of different ages and in different areas.

"H" stands for Holistic. We aim to offer integrated and versatile telecom services that meet customer needs.

"T" stands for Trustworthy. We will provide reputable and quality services to retain customer loyalty.

We plan to establish over 20 service channels in 2011, over 100 in 2012, and 50 in both 2013 and 2014.

Now, I will hand over to Dr. Yeh for our financial results.

Financial Overview

Dr. Yeh, CFO: Thank you, Chairman Lu and good day everyone. Thanks for joining us today. I will review our financial results in detail, beginning with **slide 10**.

Income Statement Highlights

Slide 10 shows our income statement on a consolidated basis.

Our total revenue for the second quarter 2011 was 54.4 billion NT dollars, a 9.6% increase compared to 2010, primarily due to an increase in fixed line revenue resulting from the shift in the pricing right of a fixed-to-mobile call from mobile operators to fixed network operators as well as mobile VAS and handset sales. Additionally, an increase of construction revenue from our property development subsidiary also contributed to the revenue growth.

Operating costs and expenses grew 12.3% to 39 billion NT dollars.

Income from operations for the second quarter of 2011 increased 3.4% to 15.4 billion NT dollars.

Net income for the second quarter 2011 increased 2.8% to 13.3 billion NT dollars.

EBITDA for the second quarter 2011 was flat at 23 billion NT dollars.

Business Segment Revenues

Slide 11 shows our revenue for each business segment for the second quarter of 2011.

In the domestic fixed line business, local revenues increased by 33.6% year over year, mainly due to the shift of pricing right for fixed to mobile calls. The 13.9% decline in DLD revenues was due to mobile and VOIP substitution, as well as reflecting the mandated tariff reduction.

Broadband access revenue, including ADSL and FTTx, increased by 3% 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 1.1% year over year. The increase was mainly due to growth in mobile VAS revenue and handset sales relating to our smartphone promotion, which offset the decline in mobile voice revenue resulted primarily from the fixed to mobile calls pricing right shift.

Internet revenue rose by 3.4%, mainly due 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 increased by 3.9%, mainly due to the growth of international long distance service revenue and leased line revenue.

Others grew by 369.3%, primarily because of the increase in construction revenue as aforementioned.

Costs and Expenses

Slide 12 shows the breakdown of operating costs and expenses.

The increase in operating costs and expenses in the second quarter 2011 was mainly due to the increase in interconnection costs and transition fees resulting from the shift in pricing right of fixed-to-mobile calls, and higher costs of handset sold.

.Cashflow

As shown on **slide 13**, cash flow from operating activities was 16.3 billion NT dollars during the second quarter 2011. The year-over-year decrease was mainly due to a higher bonus payout.

2011 Forecast

Slide 14 shows our results of operations for the first half 2011 as compared with our full-year guidance, and the results of our second quarter 2011 operations as compared with our second quarter guidance on an unconsolidated basis.

Our second quarter 2011 results were essentially in line with our second quarter guidance.

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

Business Overview

Thank you, Dr. Yeh. Now, let me take you through our business performance.

Mr. Chang, President: Thank you, Dr. Yeh. Now, let me take you through our business performance.

Broadband Services

Slide 16 shows the results for our broadband services.

This year, we are focusing on promoting our 50Mbps FTTx service, and we expect to reach 400 thousand subscribers by the end of 2011. We have therefore reduced our broadband tariff in June, especially for higher speed services, such as 20Mbps and 50Mbps FTTx services, to stimulate the momentum of migration and subscription growth. The new tariff plans have so far been welcomed, and we have received a lot of subscription requests. Although the lower broadband tariff will have a temporary impact on our revenue, we believe the speed upgrade will have a positive effect on our promotion of broadband value added services in the long run.

MOD/IPTV

Moving on to **slide 17**. We have seen further MOD subscriber growth in the second quarter as we continue enriching the Family Package with more premium content. This has served to accelerate package subscription growth.

We have achieved over 930 thousand MOD subscribers so far, and we expect to reach 1 million in November - one month earlier than our original year-end target. In addition, we anticipate that package service subscribers, including for Golden package and Family Packages, will be over 850 thousand by the end of 2011.

We have made progress on acquiring content. For example, we started offering Next TV news, the first domestic 24-hour HD news channel, on our MOD platform on August 22. Additionally, we have acquired 2012 Olympics new media broadcasting rights for our MOD, mobile and HiNet platforms.

Number One Mobile Services Provider

Slide 18 on our mobile business. We have been successful in maintaining the highest number of subscribers and the lowest churn rate in the market. As our number of subscribers continues to grow, we believe we will reach our 10 million subscriber target this year, as expected.

Smartphone

Slide 19 Due to the continued popularity of smartphones, mobile internet and mobile data usage continue to increase. By the end of June, there were 1.15 million mobile internet subscribers, showing

strong growth momentum compared to 809 thousand as of December 2010. As a result, we have raised our end-2011 mobile internet subscriber target from 1.2 million to 1.4 million. Given the higher data traffic on our mobile network, we will speed up the construction and capacity expansion of these base stations. We anticipate that we will have over 2,000 base stations with speeds of 21Mbps by year end. In addition, we are continuing the installation of Wi-Fi APs to offload traffic on mobile networks, and expect to accumulate 20,000 public Wi-Fi APs by the end of 2011.

Capital Expenditure

Slide 20 on capex. We will moderately speed up our capital expenditure for the following years. As we mentioned earlier, we will focus on fixed and mobile broadband construction to facilitate the migration from Mbps Era to Gbps Era.

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

- Q&A Session -