



## CHT 2011 Results Conference Call Script February 22, 2012 at 4:00 A.M. (EST)

**Fufu:** Thank you. This is Fufu Shen, Investor Relations Director of Chunghwa Telecom. Welcome to our full year 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. This will be followed by Q&A.

During today's call, management will discuss business, operational and financial highlights for the quarter. 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 full year 2011 earnings results conference call.

On **slide 3**, total consolidated revenue for the full year 2011 amounted to NT\$ 217.5 billion, with the increase mainly due to higher fixed line revenue resulting from the pricing right shift for fixed to mobile calls, as well as the increase in mobile VAS revenue and handset sales. Higher construction revenue from our property development subsidiary also contributed to the revenue growth.

Focus on Stable Dividend

Moving onto **slide 4**.

We have maintained a 90% payout ratio for past few years, and this is expected to continue. On January 4, the amended Company Act was announced. In accordance with the amendment, a company that is profitable is allowed to directly distribute cash to shareholders from its capital surplus or legal reserves. Our capital surplus and legal reserves as the end of 2011 totaled NT\$169.5 billion and NT\$66.1 billion respectively.

As we understand the importance of stable dividends to some investors, the management team will decide whether to take advantage of this amendment and distribute this special dividend based on operational results. Relevant proposals require board and AGM approval prior to implementation. We recently participated in China Airlines' secondary offering and signed an MOU with the airline to form a strategic alliance. The board approved the project on Jan. 16 after an extensive discussion by board members, which included the effectiveness of a strategic alliance, the execution of cooperation, and whether the possible risks could be accepted. Prior to receiving board approval, the issue was also discussed by the board's strategy committee back in August 2011.

Going forward, we will remain committed to distributing dividends to shareholders.

I will now hand over to President Chang for our business overview.

#### Business Overview

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

#### Maintain Mobile Market Leadership

In order to make a proper comparison with peers, we would like to normalize the effect of the pricing right shift for fixed to mobile calls. After normalization, the pro forma mobile service revenue represented a growth rate of 3.9%, the highest among the three major operators.

Furthermore, our market share of mobile service revenue remained flat, evidencing our success at maintaining our market prominence.

#### Maintain Mobile Competitive Status

##### On Slide 7.

You can see the mobile VAS revenue growth rate after normalizing the effect of a temporary price discount, demonstrating our success at maintaining our growth momentum and competitiveness.

This temporary discount, which involves subscribers whose mobile data usage per month is less than or equal than 1GB being given a 20% discount, will last until Dec. 2012.

Mobile data network quality remains our focus. We would like to ensure we maintain our leading edge in terms of network quality. Our construction and capacity expansion of base stations is on track. By the end of 2012, we plan to have 4,000 HSPA+ base stations to provide more capacity service in hot spots in order to effectively relieve traffic congestion. In addition, we are continuing to install Wi-Fi APs to offload traffic from mobile networks, and we expect to accumulate 30,000 public Wi-Fi APs by the end of 2012.

#### Largest Mobile Customer Base in the Market

Moving to **slide 8.**

Let's return to our mobile business.

As mobile competition is becoming increasingly fierce, we plan to supplement existing strategies by offering popular high-end smartphones as well as mid- and low-tier models in response to customer demand and to provide attractive value added services.

Please see the next slide for the various models we offer.

### Smartphone-Value Driver for Mobile

On **slide 9**.

Due to the continued popularity of smartphones, mobile internet and mobile data usage continues to increase. At the end of 2011, we had 1.5 million mobile internet subscribers, representing strong growth momentum of 85.4% year over year. We expect to add 700 thousand mobile internet subscribers by the end of 2012, representing 46.6% year on year growth. Our smartphone penetration rate had reached 23% in terms of our postpaid customer base as of the end of 2011.

### Broadband Service Performance

**Slide 10** shows the results for our broadband business.

Migrating broadband customers to higher speed has been our major strategy for the past few years.

As telecoms is a regulated industry, we reduced our fiber tariff in June 2011 in order to satisfy customer demand for lower broadband tariffs and minimize regulator intervention. This brought in 400 thousand fiber subscribers, including those upgraded from our ADSL service. We anticipate that relevant revenue will return to the level before this tariff reduction by the second quarter of this year due to continued revenue growth momentum.

As part of a separate initiative, we offered a 20% discount for ADSL subscribers at the start of this year in order to expand our subscriber base. Overall broadband revenue, which has been affected due to the two tariff reductions that I mentioned, should recover to second quarter 2011 levels by the second quarter of 2013. We anticipate that this move will bring in non-broadband customers and help us acquire customers from cable operators as well as enhance customer loyalty. We expect the subscriber net add for this year to be 500 thousand. As customers are our most important resource, we believe more customers will utilize our broadband VAS due to this initiative.

### Growing Momentum in MOD/IPTV

Moving onto **slide 11**.

MOD subscriber numbers and revenue have continued to increase. We expect to acquire additional 500 thousand subscribers this year, which will directly contribute to revenue.

We have made progress in terms of acquiring quality content. For example, we have acquired new media broadcasting rights for the 2012 Olympics for our MOD, mobile and HiNet platforms. And, recently, so-called "Linsanity" has boosted our household viewing rate since many of our MOD subscribers wish to watch Lin's games via HD quality broadcasting.

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

Our corporate ICT business revenue amounted to NT\$6.2 billion for fiscal year 2011, representing a year-over-year increase of 29.8%. Moving forward, we expect this service revenue to continue to grow in 2012.

We will also continue strengthening our cloud computing infrastructure and closely cooperate with relevant partners to develop innovative cloud applications, including personal, storage, enterprise, tourism, distribution and healthcare cloud services to further expand our revenue stream in the mid term. In the first half of 2012, we plan to offer personal, storage, and enterprise cloud services.

### Participation in China Airline Secondary Offering

In August 2010, we began to study business opportunities for tourism cloud services as the government has announced its decision to focus on the development of the tourism industry. We started a dialogue with the relevant parties of the industry in March 2011 regarding the offering of ICT services on a tourism cloud platform. Moreover, we established Transportation & Tourism service department in December 2011 to develop relevant cloud platform.

China Airlines, the leading airline company in Taiwan, has a significant influence on the tourism value chain, with more than 2,000 domestic travel agencies, as well as the availability of China Airlines service channels in 25 major cities in mainland China. The formation of the alliance will facilitate the development of new business.

With our participation in China Airlines' secondary offering earlier this year, we expect to leverage the airline's expertise and operational experience within the tourism and transportation industries to develop relevant ICT services, including intelligent tourism and transportation cloud services. We plan to offer tourism cloud service to serve the value chain of the tourism industry, and we expect China Airlines to help by introducing and acquiring parties along the chain as well as their customers. A special committee has been set up to advance the project, and the board will review it periodically to ensure its effectiveness. In addition, we will periodically report on the progress of the cooperation to all of our investors. Please refer to slide 14 for the major items of the MOU we signed with China Airlines.

### Major Items of MOU with China Airline

There are three aspects of cooperation, including tourism services, aviation ICT services and enterprise cooperation.

In terms of tourism services, both companies will work together to initiate a comprehensive business environment for the tourism value chain, and to promote intelligent B2B tourist service packaging and operation by integrating our ICT service and China Airlines' tourism products.

As we mentioned earlier, we started researching cloud service opportunities within the tourism industry in mid 2010, and we are aware of entry barriers for new business. However, following the announcement of our cooperation with China Airlines, some tourism value chain partners have contacted us regarding possible business opportunities. We expect to play the role of mediator to create value for the different parties within the value chain, and to provide tourists with a seamless service via our tourism cloud platform.

### Closing Remark for Business Overview

On **slide 15**.

A combination of regulatory changes and increased market competition resulted in pricing pressures in 2011. We anticipate that these pressures will continue in 2012, with market conditions impacting revenues and cost & expenses. However, we expect to generate growth momentum from our ongoing development of FTTx, fixed and mobile VAS, cloud computing, ICT enabled services and enterprise solutions.

And that's all for our operational overview. I will now hand over to Dr. Yeh for our financial overview.

### Financials Overview

**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 17**.

The following discussion is focused on the fourth quarter of 2011. Please refer to the slides for the full year 2011 results.

### Income Statement Highlights

**Slide 17** shows our income statement on a consolidated basis.

Total revenue for the fourth quarter 2011 was 54.9 billion NT dollars, a 5% increase compared to the same period of 2010, primarily due to higher fixed line revenue resulting from the pricing right shift for fixed to mobile calls, and the increase in mobile VAS revenue and handset sales.

Additionally, higher construction revenue from our property development subsidiary also contributed to the revenue growth. This revenue growth was offset by the decline in revenue due to mobile and VOIP substitution, the mandated tariff reduction as well as our company's tariff reduction.

Operating costs and expenses for the fourth quarter of 2011 grew by 10.2% to 43.1 billion NT dollars.

Income from operations decreased by 10.4% to 11.8 billion NT dollars.

Net income decreased by 5.9% to 10 billion NT dollars.

EBITDA decreased by 7.2% to 19.9 billion NT dollars, mainly as a result of the increase in operating costs and expenses.

### Business Segment Revenues

**Slide 18** shows our revenue for each business segment for the fourth quarter of 2011.

In the domestic fixed line business, local revenues increased by 26.6% year over year, mainly due to the shift of pricing right for fixed to mobile calls. The 13.1% 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, decreased by 1.9% year over year, mainly due to the company's tariff reduction in June as well as the mandated tariff reduction.

Mobile revenue increased by 7.3% year over year. The rise was mainly due to growth in mobile VAS and handset sales relating to our smartphone promotion, which offset the decline in mobile voice revenue resulting primarily from the fixed to mobile calls pricing right shift and the mandated tariff reduction.

Internet revenue decreased by 1.7%, also due to the company's tariff reduction in June.

International fixed line revenue decreased by 1.1%, mainly due to the decrease in international long distance service revenue as a result of market competition.

Others declined by 7.7%, primarily due to less revenue consolidated from the subsidiaries.

### Costs and Expenses

**Slide 19** shows the breakdown of operating costs and expenses.

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

### Cash Flow

As shown on **slide 20**, cash flow from operating activities decreased by 9.4% year over year to 29.3 billion NT dollars during 2011.

We maintained a strong cash position as of December 31, 2011, with cash and cash equivalents amounting to 67.4 billion NT dollars.

### Forecast & Operating Results

**Slide 21** shows our 2012 unconsolidated forecast.

Total revenue for 2012 is expected to decrease by NT\$3.6 billion dollars to NT\$188.9 billion dollars, primarily due to a 2.4 billion NT dollars decline due to a reduction in tariffs for domestic

long distance calls, a NT\$2.0 billion resulting from the mandated tariff reduction, as well as the broadband price cut, promotional packages for free on-net calls, and the decline in voice revenue. However, our ongoing promotion of mobile internet, broadband services, MOD and cloud computing services is expected to partially offset the decline.

Operating costs and expenses for 2012 are expected to increase by NT\$2.5 billion, mainly due to three reasons: 1) the promotion of our mobile internet and broadband businesses, 2) maintenance and material expenses, which are expected to increase, and 3) handset costs relating to smartphones sales, which are expected to rise. Furthermore, expenses to acquire digital content are also expected to rise, relating to content such as broadcasting rights for 2012 London Olympic game. As a result, income from operations and EBITDA are expected to decrease as compared to 2011.

Non-operating income is expected to decrease due to a decline of the profit relating to construction sales from our property development subsidiary. Hence, net income and EPS are expected to decrease year on year.

#### Effective and Efficient Capital Expenditure

Moving to **Slide 22**. We will moderately speed up our capital expenditure for the following years. As mentioned earlier, we will focus on fixed and mobile broadband construction to facilitate the migration to even higher speed fiber solutions. At the same time, we will also assess the efficiency of our capex utilization. Budgeted capex for 2012 is NT\$33.1 billion, and we will continue focus on core businesses for future investments.

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

**- Q&A Session -**