



CHT 3Q 2011 Results Conference Call Script October 28, 2011 at 4:00 A.M. (EST)

Fufu: Thank you. This is Fufu Shen, Investor Relations Director of Chunghwa Telecom. Welcome to our third 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 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 third quarter 2011 earnings results conference call.

On **slide 3**, total consolidated revenue for the third quarter of 2011 amounted to NT\$55.7 billion, with the increase mainly from higher fixed line revenue, mobile VAS and handset sales. Higher property sales from our property development subsidiary also contributed to the revenue growth, and we continued to expand our traditional telecom service business during the quarter.

Moving on to **slide 4**, which shows our cash return over the last several years. This year, we have returned NT\$19.4 billion via capital reduction and distributed dividends of NT\$42.9 billion relating to the year 2010.

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. Now, let me take you through our business performance.

Business Highlights

We've outlined our business highlights on Slide 6 to give an overview of some key corporate developments.

Beginning with our mobile business, smartphones as percentage of total handsets sold continued to grow, reaching 45% for the third quarter compared to 40% for the first half of this year. Due to the close correlation with the popularity of the smartphone, VAS revenue as percentage of total mobile revenue increased to 21.6% for the third quarter as compared to 15.1% for the same period of last year. We successfully addressed market competition by offering limited "free on-net call" and "my hot line" packages to enhance customer loyalty.

In terms of broadband, we reduced our broadband tariff in June, especially for higher speed services such as 20 Mbps and 50 Mbps, in order to speed up the migration to fiber solutions and facilitate the take-up of relevant applications. As of now, 50 Mbps subscribers total 365 thousand. As for our IPTV service, this has proved to be competitive and has performed quite well this year, with subscribers already totaling 980 thousand. We expect the growth momentum to continue as customers have reacted positively to the enriched Family Package. On the content front, we expect to have 43 HD channels by year-end, making our platform a top-notch one in the Taiwan market. In addition, in response to customer demand for ubiquitous services, we plan to launch our new IPTV platform in December of this year. Via the new platform, customers will be able to enjoy our high quality programs on TVs, computers, tablets as well as handsets by taking advantage of our cloud computing technology.

Number One Mobile Service Provider

Slide 7 focuses on our mobile business. We have been maintaining the highest number of subscribers and the lowest churn rate in the market. Although our churn rate increased in the third quarter due to market competition, we managed to lower it by providing limited "free on-net call" and "my hot line" packages. We are carefully monitoring the competitive landscape and will retain the flexibility to implement appropriate measures to maintain our leadership.

Smartphone-Value Driver for Mobile

Slide 8. Due to the continued popularity of smartphones, mobile internet and mobile data usage continue to increase. At the end of September, there were 1.32 million mobile internet subscribers, compared to 809 thousand as of December 2010, evidencing strong growth momentum. We expect to accumulate 1.47 million mobile internet subscribers by year-end.

The construction and capacity expansion of base stations are on track. We already have over 2,000 base stations with speeds of 21 Mbps. We believe that we continue to maintain the best quality of mobile service in Taiwan according to the survey of major networks quality. In addition, we are continuing to install Wi-Fi APs to offload traffic on mobile networks, and we expect to accumulate 20,000 public Wi-Fi APs by the end of 2011.

Broadband Service-Growth Drivers in Fixed Line

Slide 9 shows the results for our broadband business.

Due to the previously mentioned reduction in our broadband tariff, our broadband ARPU dropped to 742 NT dollars for the third quarter as compared to 780 NT dollars for the second quarter. Although the lower broadband tariff had 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.

Growing Momentum in MOD/IPTV

Moving onto **slide 10**. We have seen steady MOD subscriber growth in the third quarter as we continue enriching the Family Package with more premium content.

We have achieved over 980 thousand MOD subscribers so far, and we expect to reach 1 million in November. 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 22nd. In addition, we have acquired new media broadcasting rights for the 2012 Olympics for our MOD, mobile and HiNet platforms.

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

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 12.

Income Statement Highlights

This slide shows our income statement on a consolidated basis.

Total revenue for the third quarter 2011 was 55.7 billion NT dollars, a 9.5% 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. The increase was also due to mobile VAS and handset sales and the revenue recognition of the government integrated taxation information system project. Additionally, higher property sales from our property development subsidiary also contributed to the revenue growth.

Operating costs and expenses grew by 14.9% to 41.8 billion NT dollars.

Income from operations for the third quarter of 2011 decreased by 3.9% to 13.9 billion NT dollars.

Net income for the third quarter 2011 decreased by 0.2% to 11.9 billion NT dollars.

EBITDA for the third quarter 2011 decreased by 4.1% to 21.9 billion NT dollars, mainly as a result of the increase in operating costs and expenses.

Business Segment Revenues

Slide 13 shows our revenue for each business segment for the third quarter of 2011.

In the domestic fixed line business, local revenues increased by 32.6% year over year, mainly due to the shift of pricing right for fixed to mobile calls. The 11.4% 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 2.1% year over year, mainly due to our company's tariff reduction in June as well as the mandated tariff reduction.

Mobile revenue increased by 6.6% year over year. The rise 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 resulting primarily from the fixed to mobile calls pricing right shift and the mandated tariff reduction.

Internet revenue rose by 0.6%, with the lower growth rate also due to our company tariff reduction in June.

International fixed line revenue decreased by 6.0%, mainly due to the decrease in international long distance service revenue as a result of market competition.

Others grew by 94.8%, primarily due to the increase in property sales mentioned previously.

Costs and Expenses

Slide 14 shows the breakdown of operating costs and expenses.

The increase in operating costs and expenses in the third quarter 2011 was mainly due to the increase in costs of handset sold, interconnection costs and transition fees resulting from the shift in pricing right of fixed-to-mobile calls, and the increase in corporate solution & ICT expenses and maintenance expenses.

Cash Flow

As shown on **slide 15**, cash flow from operating activities decreased by 2.3% year over year to 19 billion NT dollars during the third quarter 2011.

We maintained a strong cash position as of September 30, 2011, with cash and cash equivalents amounting to 48.8 billion NT dollars.

Forecast & Operating Results

Slide 16 shows our results of operations as compared to our guidance.

Net income for the third quarter 2011 results was essentially in line with our guidance, while income from operations was slightly below, primarily due to broadband and mobile internet tariff reduction, accrual of the refund for fixed line services affixed to ADSL services, higher cost for maintenance, material and rental expense for high-speed broadband network and mobile base stations, as well as personnel expense due to salary raise. We anticipate that the full year operating result will be in line with our guidance.

MOD/IPTV

Moving to **Slide 17**. 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.

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

- Q&A Session -