



CHT 3Q 2012 Results October 26, 2012 at 5:00 A.M. (EST)

Fufu: Thank you. This is Fufu Shen, Investor Relations Director of Chunghwa Telecom. Welcome to our third quarter 2012 results conference call. Joining me on the call today are Dr. Lu, Chairman and Dr. Yeh, CFO.

During today's call, management will first discuss business, operational and financial highlights then 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 2012 earnings results conference call.

Recent Events

Fiber and MOC Service Highly Recognized

Before getting into our business overview on slide 4, I am glad to share with you that according to recent third party customer surveys, our broadband and MOD services continue to be extremely well received and highly ranked by our customers. The Global View magazine found that our fiber access services enjoys the highest customer satisfaction rating amongst other various broadband access technologies, including ADSL, cable modem and data cards. Since Chunghwa provides the most comprehensive fiber access services in Taiwan, we believe that we are well positioned to capitalize on growing customer demand for such high-quality entertainment options.

Additionally, a recent survey by the Taiwan Digital Convergence Development Association showed that customers regard Chunghwa's IPTV services as more superior than our competitors' cable TV in terms of picture quality, channel selection as well as overall general service satisfaction. In fact, approximately 94 percent of the respondents said that they were impressed by Chunghwa's MOD

broadcast of the Olympic Games this summer, which has led to greater interest from advertising customers.

We are encouraged by these survey results which clearly demonstrate the value our customers find in Chunghwa's diversified and innovative services. We will continue to offer innovative and high quality services to meet the needs of our customers in today's evolving digital and mobile world. Now, let's go through our businesses.

Business Overview

Smartphone-Value Driver for Mobile

Please refer to slide 6 for our mobile business. We continue to maintain our leadership by providing fast, reliable and seamless wireless access and, at the same time, a great customer service experience for our subscribers. We also continue attracting new customers with our price competitive mobile plans. By leveraging our customer base through attractive data plan upgrades, our smartphone adoption expectations remain on track. For the third quarter of 2012, smartphones accounted for 67% of all new handset sales. As a percentage of postpaid subscribers, smartphone penetration increased to 35.3% at the end of the third quarter. By year-end, we expect this rate to approach 39%.

In addition, we continue the expansion and transformation of many of our retail stores, while at the same time extending open hours in our high traffic locations to better service our customers. During the third quarter, we added 30 service stores; bringing our accumulated total to 605 service centers and stores island wide.

Growing Mobile Value-added Services

Moving to slide 7.

Mobile internet service revenue continues its strong growth momentum in 3Q 2012 with over 51.5% year over year growth. We believe that this trend remains sustainable as we continue to see the strong adoption of smartphones and other mobile internet devices.

We continue to rollout new promotional campaigns targeting new and existing customers. For example, we recently began offering a new promotional plan that provides subscribers favorable voice tariffs with mobile internet service. Due to its competitive offering in the market, we believe this campaign to be well-received by customers from our preliminary result.

Fixed Broadband Internet Services

Slide 8 shows the results for our broadband business.

Attracting new customers while migrating existing broadband customers to higher speed service continues to be our key strategy and focus. While competition in cable modem is becoming more intense, we believe that the higher quality we offer through our competitively priced fiber and ADSL connections will continue to attract new subscribers, helping strengthen our leadership.

Broadband ARPU remained stable at NT\$704 in the third quarter. We are also happy to see more subscribers signing up for higher speed connections, which would contribute to incremental ARPU growth over the long run. As of the end of September, subscribers signing up for 50M connections reached 818,000. As more subscribers migrate to higher speed services going forward, we expect broadband ARPU will continue to grow moderately as well.

Growing Momentum in MOD/IPTV

On Slide 9. ARPU for MOD increased by over 8% to NT\$147 in the third quarter from NT\$136 in the second quarter. This increase was attributable to the higher package subscriptions and advertising revenue during the London Olympic Games. We expect advertising revenue to more than double in the 2nd half of 2012 as compared to the first half based upon the strong viewership that advertisers experienced during the London Olympic Games.

In addition, we will continue to enhance the new platform's interactive capabilities, and offer interactive programs, advertising and applications to subscribers in order to not only enhance users' overall enjoyment, but to also to create new opportunities for advertisers.

ICT and Cloud Computing Initiatives

On slide 10, our ICT and cloud computing businesses are growing in importance as revenue contributors for Chunghwa.

As customer demand increases, we plan to scale with it and we are progressing as planned. In addition to CaaS, SaaS and PaaS, we continue to offer innovative cloud services to our retail and corporate customers. Since 2009, by leveraging our past experience with many government projects, we started offering ICT services to a wider variety of corporate and government customers. Current example projects include intelligent street monitoring systems for local governments, government taxation information systems, logistics management, and smart residential buildings. Recently, we have won major contracts for projects such as motor vehicle registration and administration system, government cloud platform and many others. In addition, many of these major projects will allow us to continue generating stable revenue from on-going maintenance services once completed. We believe that more time will be needed to further stimulate user demand and trust for cloud services. But as demand slowly gains traction and market acceptance, we will be well positioned to benefit directly with our wide range of services.

Regulatory Update

On slide 12 for the regulatory update.

As you are all aware, the Executive Yuan returned the draft for the Telecom Act amendment to the NCC for reconsideration. We would like to see the amendment of Telecom Act to be considered as part of the Digital Convergence legislation along with the three broadcasting related regulations, in order to facilitate cross-business operations. In doing so, we believe this would further provide the proper legal framework necessary to help further advance these related industries' future development as the media consumption habits in today's society continue rapidly evolve.

Additionally, the NCC announced draft amendments for the "Regulations Governing Network Interconnection among Telecommunications Enterprises" in September 2012, which is meant to create a standard practice for IP Peering. Currently, in this new regulation's preliminary form, we would be required to provide free IP peering to other ISPs which meet certain requirements. In late September, we provided our opinion to the NCC, suggesting that it revoke the draft because it does not conform to internationally accepted practices which advocate light regulation and business negotiation amongst ISPs. As a matter of fact, we haven't seen any case in any market where a government authority has imposed such regulation on IP peering.

Now, I would like to hand it over to Dr. Yeh for our financial overview.

Financial Overview

Thank you, Chairman Lu and good day everyone. Thanks for joining us today. I will review our financial results in detail, beginning with **slide 14**.

Income Statement Highlights

On slide 14 are our income statement highlights

While total revenues for the third quarter were 2.3% lower year over year, operating costs and expenses reported a 1.1% increase year over year. As a result, income from operations and net income decreased by 12.8% and 14.6%, respectively.

Business Segment Revenues

Please refer to slide 15 for our business segment revenue.

While the mobile VAS and handset sales revenue from the Company's subsidiary Senao continued their strong growth momentum during the quarter, total net revenue decreased. This decrease was primarily attributable to several declining factors including; Mobile voice revenue attributable to Chunghwa's market competition and the National Communication Committee's ("NCC") tariff reduction, revenue recognized under domestic fixed and internet segments from the government taxation information system project which is nearing completion, domestic service revenue due to mobile substitution, as well as Domestic Long Distance ("DLD"), broadband and ISP revenue due to tariff cuts.

Costs and Expenses

Slide 16 shows the breakdown of operating costs and expenses. The operating costs and expenses increase in the third quarter was mainly from the cost of handsets sold and personnel expense of 500 million NT dollars due to an early retirement program offered during the quarter. In line with our strategy, maintenance, material, rental and depreciation expenses increased in order to support our broadband and mobile internet service build-out.

Cash Flow & EBITDA Margin

As shown on slide 17, cash flow from operating activities decreased to 15.8 billion NT dollars during the third quarter, this was mainly due to a decline in income from operations.

We maintained a strong cash position with cash and cash equivalents amounting to 38.8 billion NT dollars, as of September 30, 2012.

Meanwhile, the EBITDA margin decrease was primarily due to tariff cuts and the higher handset sales from our subsidiary Senao, of which the EBITDA margin is relatively lower than our traditional telecom services. The EBITDA margin decrease for the parent company was less than one percentage point.

Forecast & Operating Results

Slide 18 shows our 2012 unconsolidated forecast and the results of our third quarter 2012 operations.

Although we continue to experience regulatory pressure and market competition, we are pleased that our results for the first nine months of this year were in line with our earlier guidance.

With the changing telecom landscape and fierce market competition, we will continue to focus on stabilizing our business and we will maintain our full year guidance, which has been factored in the impact of iPhone5. However, the EBITDA margin may be slightly lower, because we revised up the estimated handset sales in the fourth quarter.

Effective and Efficient Capital Expenditure

As stated in our earlier guidance, we moderately increased our capital expenditure budget for 2012 with a focus on fixed and mobile broadband construction. The execution rate for the first nine months is 68%. We expect the year-end execution rate will reach more than 90% which is higher than that of last year.

With increased capex devoted to the aforementioned two areas, we definitely improved our customer experience and satisfaction and we will further facilitate customers' migration to higher speed fiber solutions and enhance the quality of our mobile network. We will review our capex budget and execution on a regular basis, focusing on making the most cost-effective spending decisions possible.

Lastly, recently our property subsidiary Light Era acquired land from a private party in Taoyuan, which locates near high speed rail station. This property will be used to develop smart residential buildings. We will plan to deploy state-of-the-art technologies and services including fiber broadband, ICT services, energy saving technologies and remote surveillance service technologies to these properties.

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

- Q&A Session -