CHT 1Q2013 Results
May 2, 2013 at 5:00 P.M. (Taipei Time)

Fufu: Thank you. This is Fufu Shen, Investor Relations Director of Chunghwa Telecom. Welcome to our first quarter 2013 results conference call. Joining me on the call today are Dr. Lee, Chairman, Mr. Shih, President 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 Lee.

Dr. Lu, Chairman and CEO: Thank you, Fufu. Hello, everyone. This is Yen-Sung Lee, the newly appointed Chairman of Chunghwa Telecom. Thank you all for joining our first quarter 2013 earnings results conference call.

To begin with, as the new Chairman, I would like to inform the investment community that we will not be making any sudden changes and aim to maintain our company's strong vision and direction, and will remain focused on the successful execution of these strategies.

Also, I am excited to introduce Mr. Mu-Piao Shih, our new president to you. Mr. Shih was the Company's Senior Executive Vice President in charge of the corporate planning and network deployment at Chunghwa. Prior to that, he was the President of the Company's mobile business. With his extensive and diverse business operation experience, we are sure that he will contribute a lot to the company's strategic execution and business development going forward.

Another important area to address is regarding the election of board members in our upcoming Annual General Meeting. In order to improve Chunghwa's overall corporate governance position, we will be increasing the number of independent directors on our Board from three to five members out of a total of 13 members. We believe this step clearly demonstrates our commitment to improving Chunghwa's overall corporate governance.

Chunghwa Telecom Overview
Moving onto slide 3, for our first quarter operating results, we are proud to say that we outperformed our competitors in adding more mobile internet subscribers since December 2012. This resulted in a 42.2% year-over-year increase in mobile VAS revenue in the first quarter this year. As our broadband and MOD subscriber numbers in the first quarter remained flat, we will offer fiber convergence plan combining our MOD Family packages to stimulate subscriber growth for these two businesses.

Committed to Improving Shareholder Value

Moving onto slide 4.
As we understand the importance of dividend distribution to our investors, the board approved a special cash dividend of NT$0.7205 per share from capital surplus. Including the earnings distribution of NT$4.6295 per share for fiscal year 2012, the total amount of payment to shareholders will be NT$5.35 per share. A timetable will be announced following shareholder approval of this proposal at the AGM scheduled to be held on June 25, 2013.
Now, President Shih, joining our earnings call for the first time, would like to lead you through our business overview.
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Business Overview

Number One Mobile Services Provider
Thank you, Chairman Lee. Please refer to slide 6 for our mobile business.

In the first quarter, mobile internet service performance was outstanding. Our mobile internet subscriber represented a strong growth of 59.6% year over year to 2.87million, resulting in an increase of our mobile internet subscriber market share to over 33.3%. Also, our mobile data revenue growth rate was 42.2% year over year, significantly higher than our peers. Also, taking into consideration the ending of the 20% discount for subscribers whose data usage was less than 1GB, we still maintained the highest growth rate. We believe that the success was partly due to our strategy to migrate our 2G subscribers to 3G service through attractive promotions. These promotions helped stimulate increased smartphone adoption and mobile internet subscriptions, proving the effectiveness of our strategy.

Smartphone-Value Driver for Mobile
On slide 7.
Our focus on promoting mid-to-low end smartphones is one of the major reasons for our continuous increase in mobile internet revenue and subscriber numbers. In the first quarter, we successfully migrated 2G customers to 3G network with smartphone adoption. Thus, we will continue this effort by introducing more mid-to-low end smartphone models and tablets and continue to expand this data service subscriber base while enhancing top-tier smartphone subscribers' stickiness

Fixed Broadband Internet Services
Slide 8 shows the results for our broadband business.

During the quarter, we continued to see strong migration of subscribers to higher speed fiber services. We experienced over 82% year-over-year growth in the number of subscribers opting for speed of 50Mbps and higher, growing to more than 960,000 in the first quarter. In addition, we reduced our broadband service tariff in April to facilitate subscriber migration to higher speed fiber services. Overall, even though total broadband subscriber numbers remained flat in the first quarter, we continue to encourage our subscribers to migrate to higher speed fiber offerings by offering attractive fiber convergence plans that combine our fiber solution with MOD family packages, leveraging both our network footprint and diverse content offering. As social networking activities become more integrated in our daily lives, we aim to also leverage our fast connections by cross-selling additional services like the hicloud box storage service into our large customer base.

MOD/IPTV Service

On Slide 9.

Our IPTV revenue increased by over 8.4% year over year and advertising revenue doubled in the first quarter of 2013. On the advertising front, we are increasingly focused on working with channel partners to aggressively grow our advertising revenue. We believe that advertisers are increasingly looking for such marketing opportunities and we will continue to focus on this opportunity throughout the year. Even though the growth of MOD subscribers was slow in the first quarter, we observed a moderate net add of 2,000 subscribers in April. We aim to offer new promotions to cross-sell our MOD and broadband services together in order to further stimulate subscriber growth.

In addition, we continue to encourage the adoption of our digital convergence service offerings by further enhancing this growing platform. By integrating our networks and leveraging our cloud technology, we are able to offer services like multi-screen MOD at any time via any device. Furthermore, we will continue our marketing campaign with HonHai's Big TV and plan to duplicate this model by cooperating with other local TV manufacturers, offering our high quality MOD programs combined with the HD TV to enhance user experience

ICT and Cloud Computing Initiatives

On slide 10.

We will continue to leverage core telecom infrastructure and services to expand services including cloud computing, energy saving, information security, intelligent buildings and IOT services.

This year, our key focus will remain on promoting cloud services including Government Cloud, Virtual Private Cloud for major accounts, SaaS for SMEs and Personal Cloud for retail customers. In addition, we will also focus on offering ICT applications on information security to enterprise customers and intelligent buildings that helps increase customers' asset value.

Regulatory Update

Slide 12 provides an update on the regulatory front.

As you are all aware, the NCC mandated mobile interconnection rate reduction became effective as of Jan. 5, 2013 for the next four years. Accordingly, we have reduced our mobile voice tariff. Additionally, the tariff reduction for broadband service, IP peering and domestic leased line wholesale also began as of April for the next four years.

For the Telecom Act, the NCC provided an amended draft in Feb. 2013 after it was returned by the Executive Yuan in October 2012 for reconsideration. From Chunghwa's perspective, 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 and streamline cross-business operations.

Additionally, regarding the free IP peering issue, the NCC held a public hearing on April 25 to collect opinions from stakeholders and academics since the related draft amendments announced in September 2012 caused a lot of disputes. We have maintained our position that the NCC should revoke the draft because it does not conform to internationally accepted practices which advocate light regulation and business negotiation amongst ISPs. To the best of our knowledge, we are not aware of any case in any market where a government authority has imposed such regulation on IP peering.

Finally, the final rules for 4G technology-neutral licenses are expected to be released this month. We are studying our options and have begun to prepare our bidding strategies in order to acquire the desired licenses and spectrum by November 2013.

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

Financial Overview

Thank you, President Shih 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.

Total revenues for the first quarter grew by 2.1%, and operating costs and expenses increased by 3.1% year over year. As a result, income from operations and net income decreased by 2.0% and 4.7%, respectively. In addition, the EBITDA margin decreased from 35.21% to 34.02% in the first quarter as compared to the same period of 2012.

Business Segment Revenues

Please refer to slide 15 for our business segment revenue.

Our total revenue increase was driven by 42.2% year over year growth in mobile VAS revenue and 17% growth in handset sales. This strong growth was mainly driven by our mobile internet subscriber increase.

Local service revenue decreased by 7.6% mainly due to mobile and VoIP substitution. In addition, the higher declining rate is attributed to the mobile promotional packages offering as well as the an increase of the amortization period of for fixed line installation revenue beginning earlier this year. Moreover, the 15.2% revenue decline in the DLD business was primarily due to tariff reductions which began in January 2012 and was reflected one month later in the February 2012 financials, resulting in a higher year over year comparison basis.
Mobile voice revenue decreased 7.8% due to promotional packages and the mandatory tariff reductions. If we factor out the mandated interconnection rate reduction starting this year, the declining rate is similar to previous quarters.

Costs and Expenses

On Slide 16, the operating costs and expenses increased 3.1% year over year.
The increase in operating costs was mainly from the rising cost of handsets sold, resulting from a strong mobile internet and handset sales growth during the quarter. Operating expenses increased

primarily because of higher marketing expenses, including bad debt as well as personnel and rental expenses related to Chunghwa and the subsidiary's channel expansion.

Cash Flow& EBITDA Margin

As shown on slide 17, cash flow from operating activities decreased to 8.5 billion NT dollars during the first quarter. This was mainly due to the delay of bill payment due to holidays, and higher handset procurement quantity which was necessary to meet customer demand.

We maintained a strong cash position with cash and cash equivalents amounting to 35.1 billion NT dollars as of March 31, 2013.

Meanwhile, the EBITDA margin decrease was primarily due to tariff cuts and the higher handset sales, of which the EBITDA margin is lower than our traditional telecom services.

In addition, please refer to note number three for the different definitions of cash and cash equivalents under ROC GAAP and T-IFRSs, which explains the lower cash position by the end of the first quarter of 2013.

Forecast& Operating Results

Slide 18 shows our 2013 our first quarter result as compare to our guidance for the quarter.

We achieved relatively higher revenue, operating income, net income and EBITDA as compare to our first quarter guidance, which was mainly attributable to higher handset sales and mobile VAS revenues. However, EBITDA margin was lower than expected due to the lower margins for handsets. Currently, we expect our full year operating result to remain in line with our earlier guidance.

Effective and Efficient Capital Expenditure

Lastly, on slide 19.

Budgeted capex for 2013 is 37.2 billion NT dollars. The spending will continue to focus on broadband and mobile network construction, and cloud deployment including cloud data center construction. We will review our capex budget and execution plan on a regular basis, focusing on making the most cost-effective spending decisions possible.

With increased capex devoted to these areas, we aim to continue improving our customer offerings, experience and satisfaction. By facilitating customers' migration to 3G services and higher speed fiber solutions we hope to enhance the quality of their overall experience on our network, providing the best customer experience available in Taiwan.

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

- Q&A Session -