CHT 2Q 2012 Results
August 30, 2012 at 5:00 A.M. (EST)

Fufu: Thank you. This is Fufu Shen, Investor Relations Director of Chunghwa Telecom. Welcome to our second quarter 2012 results conference call. Joining me on the call today are Dr. Lu, Chairman & CEO 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 second quarter 2012 earnings results conference call.
First of all, I am pleased to announce the promotion and appointment of our new president, Dr. Yen-Sung Lee, who has assumed the new role as of yesterday, August 29. Dr. Lee will oversee all of Chunghwa's daily operations. Previously, Dr. Lee was the senior executive vice president supervising the marketing and IT departments. With his extensive engineering and management background, he has significantly contributed to the development of our ICT& cloud businesses. Having been with Chunghwa for over 30 years, I am confident that Dr. Lee will continue to make further contributions to our future growth.

Chunghwa Telecom Overview
Please refer to **slide 3** for our second quarter overview. Before entering into our business segments, I would like to highlight several points to you as follows.

Even though we continue to experience heavy NCC regulatory pressure and intense market competition, we were pleased that our first half results were in line with our earlier guidance. Faced with an evolving telecom landscape and the fierce market competition, we continue to evaluate these changes while also taking proactive steps in key growth areas to help stabilize our overall business.

As an example, mobile value added service business continues its growth momentum. In order to accelerate the mobile VAS growth, we began offering different promotional packages bundling free on-net call services with data packages. These packages are designed differently to target and appeal to various types of mobile subscribers and we have begun to see some good success with such offerings, which I will discuss shortly.

For our broadband business, we continue to see our growth in subscribers for high-speed fiber connections remaining on track, especially demand for our faster, 50M connections. We will continue to promote our high-speed fiber connections to new customers, while also continue to encourage current customers’ migration, both of which will further provide incremental ARPU.

The successful broadcasting of 2012 London Olympic Games demonstrated our capability to offer multi-screen high-definition services on our platforms. Moreover, the operation of our new MOD platform, which includes interactive capabilities, was approved by the NCC in June. We expected that this new, interactive platform will help facilitate the convergence of our digital service offerings which we believe will be a key trend going forward.

Business Overview
Let’s go through our businesses.

Smartphone-Value Driver for Mobile
On **slide 5**.
For our mobile operation, we plan to maintain our leadership by further providing reliable and seamless wireless access and great customer service to our subscribers while attracting new customers with our price competitive mobile plans. By leveraging our customer base through attractive data plan upgrades, smartphone adoption remains on track. In fact, for the first half of 2012, smartphones accounted for 67% of all new handset sales. As a percentage of postpaid subscribers, smartphone penetration increased to 32% by the end of the second quarter. By year-end, we expect this rate to approach 39%.

In addition, we are in the process of expanding and transforming many of our retail stores. We believe this effort to improve the layout and customer services experience for our current and potential subscribers will create an impressive and pleasant user experience. We hope that such changes will lead to improve customer experience, satisfaction and loyalty for years to come.
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Growing Mobile Value-added Services
Moving to **slide 6**.
Mobile internet service revenue continued its strong momentum in 2Q 2012 with over 54% year over year growth. As discussed earlier, we believe that this trend will sustain as we continue to see adoption in smartphones and other mobile internet devices and we are actively promoting further adoption.

For example, this year, we began a promotional program focused on data plan adoption with free on-net calls. Our Student Data Plan, which is meant to attract students and young customers, saw a 90% uptake rate from existing customers who were not data users previously. We will continue to encourage our large base of mobile subscribers to upgrade to data plans through such promotional efforts. In addition we will also continue targeting new user growth and further expanding our market share.

Fixed Broadband Internet Services

Slide 7 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. Subscribers signing up for 50M connections reached 736,000 at the end of July and is on track with our expectations.

For year-end ADSL projections, we are revising down due to slower than expected uptake from new subscribers. We will continue to offer attractive promotions in an effort to further stimulate demand and develop more machine-to-machine connections to increase subscription.

Growing Momentum in MOD/IPTV

On **Slide 8**. Although the delay of the regulator's approval of new MOD platform operation dragged the growth momentum for 1H12 and thus we have to revise down our year-end subscriber target, we still observed the net add in July to be 50% higher than the average of the first half along with the 2012 Olympic Games broadcasting service.

As mentioned, with the new MOD platform, we will focus on service offerings of connect-, cloud- and social-TV. By leveraging the interactive capability, we would continue explore TV commerce opportunity as well as bring our customers better user experience.

ICT and Cloud Computing Initiatives

On **slide 9**, we believe our ICT and cloud computing businesses is becoming new revenue stream for Chunghwa.
As customer demand increases, we plan to scale with it. So far the progress has met our expectations. Although cloud services are gaining market acceptance, we believe we still need more time to further deploy the business and stimulate the demand.

Regulatory Update

On **slide 11** for the regulatory update.
The NCC submitted the proposal for amendment to Telecom Act to the Executive Yuan at the end of July. Currently, the Executive Yuan is soliciting opinions from various government departments. We understand the amendment of the regulation is aiming to facilitate the development of digital convergence service offerings; however, the proposal seems to deviate from the course. We are monitoring closely about the process of the amendment and would like to present our opinions for consideration.

Financials 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 13**.

Income Statement Highlights

While total revenue for the second quarter was flat compared to same period 2011, operating costs and expenses reported a 1.9% increase year over year, in spite of a reversal of allowance for doubtful accounts. As a result, income from operations and EBITDA decreased 6.3% and 3.6% respectively. In addition, we recognized a non-cash impairment loss on real estates and financial assets totaling 1.4 billion NT dollars. As a result, net income decreased 15.2%.

The EBITDA margin decrease was primarily due to tariff cut, the higher cost of handset sold including that from our subsidiary Senao, as well as the growth of corporate solution and ICT business, of which the EBITDA margin is relatively lower than the traditional telecom services.

Business Segment Revenues
Please refer to **slide14** for our business segment revenue.
Total revenue for the second quarter was flat year over year. The mobile VAS revenue and handset sales kept its growth momentum. However, the growth was offset by the decline in mobile voice revenue attributable to the marketing campaign and the NCC tariff reduction. The decline in DLD and broadband revenue due to tariff cuts also contributed to overall flat growth.

Costs and Expenses
Slide 15 shows the breakdown of operating costs and expenses.
The operating costs and expenses increase in the second quarter is mainly from the cost of handsets sold. Maintenance, material, rental and depreciation expenses also increased in order to support our broadband and mobile internet service promotions.

In addition, we considered the results of procedures implemented to enhance the collection of account receivable as well as the experience of decreases in uncollected receivables, and then decided to reverse 1.5 billion NT dollars of allowance for doubtful accounts. The reverse accounted for 3.9% of total operating costs and expenses for the second quarter, and explained the difference of 1.4 billion NT dollars between the audited unconsolidated pretax income and the unaudited unconsolidated pretax income announced on July 10th, 2012 for the second quarter of this year.

Cash Flow
As shown on **slide 16**, cash flow from operating activities decreased by 12.8% year over year to 14.2 billion NT dollars during the second quarter 2012, the decrease was mainly due to the decline of income from operations.

We maintained a strong cash position as of June 30, 2012, with cash and cash equivalents amounting to 75.1 billion NT dollars.

Forecast& Operating Results
Slide 17 shows our 2012 unconsolidated forecast and the results of our second quarter 2012 operations.

Our revenue was essentially in line with our second quarter guidance and operating costs and expenses were lower mainly due to the reversal of allowance for doubtful accounts and less handset subsidies. As a result, operating income, net income and EBITDA were better than our earlier guidance.

With the changing telecom landscape and the fierce market competition, we will continue to take efforts in stabilizing our business and will maintain our full year guidance.

Effective and Efficient Capital Expenditure
Moving to **Slide 18**. As in our earlier guidance, we plan to moderately increase our capital expenditure for 2012. As mentioned earlier, we will focus on fixed and mobile broadband

construction, improving the migration to higher speed fiber solutions and further enhancing the quality of our mobile network.

As a result, our first half year capex was higher than the prior year period. We expect the whole year capex spending will be in line with the capex budget.

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

- Q&A Session -