CHT FY 2012 Results
January 30, 2013 at 5:00 P.M. (Taipei Time)

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

This presentation is being made on January 30, 2013. The content of this presentation contains time-sensitive information that is accurate only as of the time hereof. If any portion of this presentation is rebroadcast, retransmitted, or redistributed at a later date, Chunghwa will not be reviewing or updating the material that is contained therein.

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 fourth quarter 2012 earnings results conference call.

2012 Performance

On slide 3, I would like to report to you that our total unaudited consolidated revenue reached NT$220.3 billion and net income was NT$40.1billion, both meeting our 2012 guidance despite strong market competition and continued tariff reductions from the NCC. 2013 will remain a challenging year due to competition and the NCC tariff reduction continuing to exert pressure on our top-line. Nevertheless, we have set a goal of maintaining revenue, controlling cost and investing efficiently in fixed and mobile broadband construction as well as emerging businesses including ICT and cloud businesses, in an effort to leverage our large infrastructure footprint by establishing new business opportunities and revenue streams.

Focus on Stable Dividend

Moving onto slide 4.
We have maintained a 90% dividend payout ratio for past few years, and this is expected to continue.

Taking into consideration our cash position as well as the lower EPS in 2012 as compared with that for previous years, we are thinking of the possibility of distributing a special dividend at the moment. Once we decide, we will report to you at an appropriate time.
Now, Dr. Lee, joining our earnings call for the first time, would like to report to you his business management plan after assuming his position. His prior title in the Company was senior executive vice president responsible for marketing sales, customer care and information system. Dr. Lee, please.

Thank you, Chairman Lu. Hello everyone. This is Yen-Sung Lee, president of Chunghwa Telecom. This is my first time joining the earnings call, and I am glad to share with you my managerial plans for Chunghwa over the coming years.

Our key goal is to grow our user base across all of our business lines. For 2013, we anticipate our mobile internet users will grow by over 1 million to 3.5 million subscribers by year end. This will be driven by our offering of more than 20 low priced and large screen smartphone handsets including exclusive ones bundled with low pricing plans that target non-data customers.

For fixed broadband services, we aim to provide a higher number of customers with higher speed services. For 2013, we expect to grow our customer base of 50 mbps connections or higher to over 1.5 million. Additionally, we expect to continue to grow our MOD, IPTV, and emerging ICT and cloud businesses. We believe that such services will naturally leverage our high-speed fiber network by bringing fast, reliable and cost-effective solutions to our retail and enterprise customers.

In order to enhance and streamline our managerial control processes, we will aim to construct a comprehensive internal value-chain that will include the integration of various operation and support systems. This will further reduce internal red-tape and enhance the coordination of our internal operation by creating a more seamless and efficient process for new service offerings to the market. We believe this will help dramatically improve the process for allocating internal resources towards areas of growth and further enhance investment and marketing decisions in order to be able to more effectively control cost and resource allocation. By enhancing these various managerial control mechanisms, we aim to further reduce internal operating expenses and improve our performance for years to come.

Now, I would like to discuss our 2013 business operation plans.

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. This is exemplified by the fact that we grew our subscriber base by 197,000 in 2012, mobile internet subscribers grew by over 64.9% year-over-year, and our churn rate remained at an industry low of only 1.15% for December 2012. For the fourth quarter of 2012, smartphones accounted for 75% of all new handset sales. As a percentage of postpaid subscribers, smartphone penetration increased to 38% at the end of the fourth quarter. In 2013, we target to increase smartphone penetration to 49% of all handsets sold.

We will further introduce mid- to low- tier smartphones to expand mobile internet subscriber base, and accelerate 2G customers migration to 3G network to target potential data users. In addition, we continue the expansion and transformation of many of our retail stores. During the fourth quarter, we added 25 service stores; bringing our total to 630 service centers island wide.

Growing Mobile Value-added Services

Moving to slide 7.

Mobile internet service revenue, one of our key drivers, continued its strong growth momentum in 4Q 2012 with over 63.7% year over year growth. We believe that this trend will remain sustainable as we continue to see the strong adoption of smartphones and other mobile internet devices as well as the proliferation of digital products that further drive consumer engagement on our network.

Fixed Broadband Internet Services

Slide 8 shows the results for our broadband business.

As we aim to provide every home in Taiwan the ability to stream any Internet-based content and entertainment options to their living rooms, we remain focused on building out our fast fiber network to further enable such demands. In doing so, attracting new customers while migrating existing broadband customers to higher speed service continues to be our key strategy and focus. While competition in cable industry is becoming more intense, we believe that our key differentiator will be the higher quality we offer through our competitively priced fiber and ADSL connections. This is supported by our higher net addition of subscribers in the past years as compared with other cable operators'. For 2013, we will focus on promoting 100M fiber broadband services and expect to growth this base by 300,000 subscribers.

Broadband ARPU remained stable at NT$708 in the fourth 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 2012, subscribers signing up for 50M connections reached 905,000.

Growing Momentum in MOD/IPTV

On Slide 9.

ARPU for MOD increased by over 7.3% to NT$147 in the fourth quarter from NT$137 in the prior year period. IPTV advertisement revenue tripled in 2nd half of 2012 compared with that in the first half. This represents another great avenue for monetization opportunities for Chunghwa as we continue to grow our content offering on our network.

In addition, we are cooperating with HonHai to co-sell its sixty inches TV sets with our IPTV service bundled together, providing customers high quality HD user experience. This effort will further increase customer stickiness and attract quality customers, who are increasingly demanding more high-quality entertainment options. Since this business model proved to be successful, we will continue to cooperate with HonHai and other local TV manufacturers to co-market various sizes of TV sets with our quality MOD services.

ICT and Cloud Computing Initiatives

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

For our ICT business, we continue to focus on expanding our existing enterprise solutions, while at the same time looking to prudently broaden our new offerings to our enterprise customers. Because of this cost-effective approach, we plan to leverage our existing infrastructure, while scaling these enterprise solutions with customer demand.

On cloud businesses side, we are providing cloud services and solutions to retails, enterprise accounts and government. We have been developing cloud core technologies to offer innovative cloud services to our customers. We plan to continue to leverage our enterprise high speed broadband network and offer VAS as well as explore other emerging service opportunities. Recently, we continue to acquire more major government projects including R&D and Evaluation Commission Executive Yuan Data Center, Motor Vehicle & Driver Information System Project and Disaster prevention and rescue cloud and expect to inject additional revenue in this regard. For this year, our focus will be more on cloud services to enterprises and retail customers.

We believe that the general acceptance of cloud services will take some time to develop, but as demand begins to gain traction and market acceptance, we will be well positioned to benefit directly from our wide range of services.

Regulatory Update
Slide 12 provides an update on the regulatory front.

As you are all aware, the NCC has mandated mobile interconnection rate reduction from Jan. 2, 2013 for four years and the tariff reduction for broadband service, IP peering and domestic leased line wholesale service prices reduction from April 1 for four years. We have incorporated the relevant impact derived from the regulation in our guidance for 2013.

For the Telecom Act, 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.

Additionally, the NCC announced a draft for 4G technology-neutral licenses and spectrum bidding. However, the final rules are expected to be released by June 30, 2013 and the bidding process to finish by the end of 2013.

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

Financial Overview
Thank you, President Lee 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 fourth quarter were 2.5% higher year-over-year, and operating costs and expenses reported a 4.8% increase year over year. As a result, income from operations and net income decreased by 5.6% and 8.9%, respectively.

Business Segment Revenues
Please refer to slide 15 for our business segment revenue.

Total revenue for the fourth quarter of 2012 increased by 2.52% year over year. This was primarily due to the growth in mobile VAS revenue, ICT revenue, handset sales and international leased line which offset the decline in voice and broadband revenues.

Costs and Expenses
Slide 16 shows the breakdown of operating costs and expenses. The operating costs and expenses increase in the fourth quarter was mainly from the rising cost of handsets sold and the higher ICT project costs.

Cash Flow& EBITDA Margin
As shown on slide 17, cash flow from operating activities decreased to NT$24.5 billion during the fourth quarter, this was mainly due to a decline in income from operations, an increase in land acquired by our property development subsidiary as well as the exemption of deposits for mobile VIP customers.

We maintained a strong cash position with cash and cash equivalents amounting to NT$53.2 billion as of December 31, 2012.

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

Forecast& Operating Results
Slide 18 shows our 2013 consolidated guidance.
Looking ahead at 2013, we will continue our strategic focus on the build-out and expansion of fiber and mobile broadband networks to provide quality services to customers, and remain our market leading position as staying ahead of the competition.

Total revenue for 2013 is expected to decrease by NT$2.5 billion to NT$217.8 billion due to less construction revenue from our property development subsidiary, declines in voice revenue, mandated tariff reductions and mobile interconnection rate reduction. However, growth in mobile internet revenue, broadband services, MOD and cloud computing services is expected to partially offset the decline.

Operating costs and expenses for 2013 are expected to increase by NT$1.5 billion, for two reasons: 1) bad debt reversal in 2012 vs. bad debt provision in 2013, 2) depreciation, amortization, maintenance and material expenses, which are expected to increase due to the promotion of our mobile internet and broadband businesses and cloud. Furthermore, mobile interconnection expenses are expected to be reduced due to a mandate of the NCC, and the construction cost to be decreased from the subsidiary Light Era. As a result, income from operations, EBITDA, comprehensive income attributable to owners of the parent and our EPS are expected to decrease as compared to 2012.

Effective and Efficient Capital Expenditure
On slide 19.
As stated in our earlier guidance, we moderately increased our capital expenditure for 2012 with a focus on fixed and mobile broadband construction.

Budgeted capex for 2013 is NT$37.2 billion. The spending will continue focus on broadband and mobile network construction, and the cloud deployment including cloud data center construction.

Please also note that 4G investments are not included in this estimate due to the inability to forecast these amounts prior to the auction.

With increased capex devoted to the aforementioned areas, we have continued to significantly improve 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.

Now, I would hand over to Dr. Lu for business outlook.

Business Outlook for 2013 Beyond

Thank you. Moving to slide 20. Looking ahead over the next couple of years, we have some general thoughts we would like to share.

Firstly, leveraging on our solid and quality customer base, expanded network capacity and enhanced network capability, we would like to further enhance our fixed and mobile VAS service offerings and promotion. Additionally, catering the trend of smart economy, we are offering ICT enabling services as well as cloud computing services. We are allocating more resources into leveraging our broadband network by providing more services over our fiber and mobile network and believe this trend will continue as everyone's data needs grow with better connectivity.

Secondly, as discussed, we plan to increase investment into further expanding our fixed and mobile broadband networks as well as cloud related infrastructure by approximately 13% from 2012 and will increase slightly and peak in 2014, after which we anticipate it beginning to slowly decline. We realize this is a big increase, but we deem it necessary in order to offer the services we see emerging in an increasingly digital world.

Lastly, we expect to see EBITDA margins for our telecom businesses to stabilize in the coming couple of years. Of course this does not take into consideration any new regulatory changes that may occur. Thank you for your attention and now we would like to open up for questions.

- Q&A Session -