



中華電信
Chungwa Telecom



FY 2011 Operating Results

February 22, 2012

Disclaimer

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The unaudited financial information under ROC GAAP in this presentation is preliminary and subject to adjustments and modifications. The audited financial statements and related notes with reconciliation to U.S. GAAP will be included in our annual report on Form 20-F for the year ending December 31, 2010. Adjustments and modifications to the financial statements may be identified during the course of the audit work, which could result in significant differences from this preliminary unaudited financial information.

NOTE CONCERNING FORWARD-LOOKING STATEMENTS

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SPECIAL NOTE REGARDING NON-GAAP FINANCIAL MEASURES

A body of generally accepted accounting principles is commonly referred to as “GAAP”. A non-GAAP financial measure is generally defined by the SEC as one that purports to measure historical or future financial performance, financial position or cash flows but excludes or includes amounts that would not be so adjusted in the most comparable U.S. GAAP measure. We disclose in this report certain non-GAAP financial measures, including EBITDA. EBITDA for any period is defined as consolidated net income (loss) excluding (i) depreciation and amortization, (ii) total net comprehensive financing cost (which is comprised of net interest expense, exchange gain or loss, monetary position gain or loss and other financing costs and derivative transactions), (iii) other expenses, net, (iv) income tax, (v) cumulative effect of change in accounting principle, net of tax and (vi) (income) loss from discontinued operations.

In managing our business we rely on EBITDA as a means of assessing our operating performance. We believe that EBITDA can be useful to facilitate comparisons of operating performance between periods and with other companies because it excludes the effect of (i) depreciation and amortization, which represents a non-cash charge to earnings, (ii) certain financing costs, which are significantly affected by external factors, including interest rates, foreign currency exchange rates and inflation rates, which have little or no bearing on our operating performance, (iii) income tax and tax on assets and statutory employee profit sharing, which is similar to a tax on income and (iv) other expenses or income not related to the operation of the business.

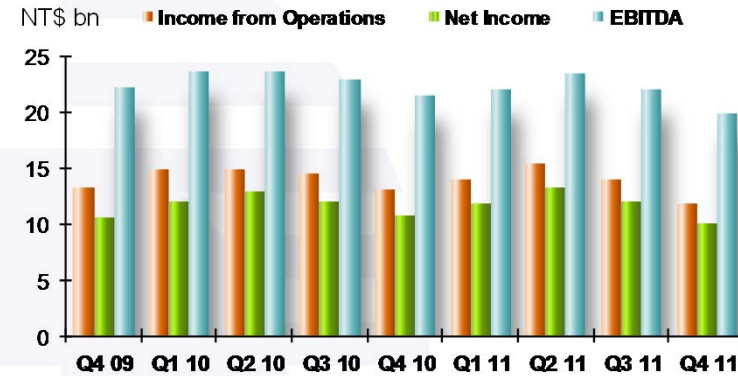
EBITDA is not a measure of financial performance under U.S. GAAP or ROC GAAP. EBITDA should not be considered as an alternate measure of net income or operating income, as determined on a consolidated basis using amounts derived from statements of operations prepared in accordance with U.S. GAAP or ROC GAAP, as an indicator of operating performance or as cash flows from operating activity or as a measure of liquidity. EBITDA has material limitations that impair its value as a measure of a company’s overall profitability since it does not address certain ongoing costs of our business that could significantly affect profitability such as financial expenses and income taxes, depreciation, pension plan reserves or capital expenditures and associated charges. These non-GAAP measures are not in accordance with or an alternative for GAAP financial data, the non-GAAP results should be reviewed together with the GAAP results and are not intended to serve as a substitute for results under GAAP, and may be different from non-GAAP measures used by other companies.

2011 Performance

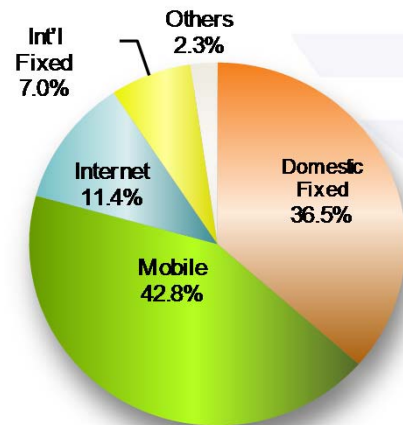
Consolidated Revenue



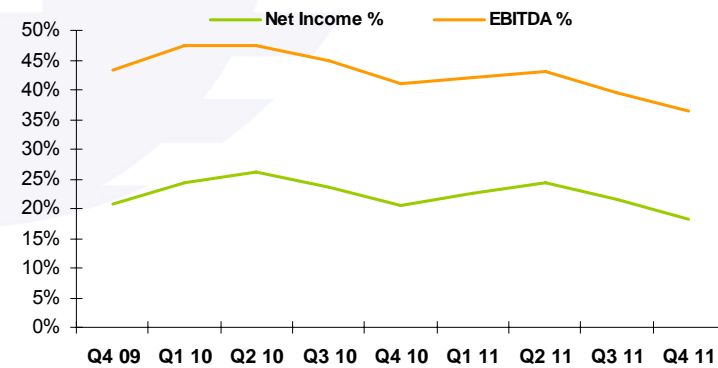
Income and EBITDA



2011 Revenue Breakdown (Consolidated)

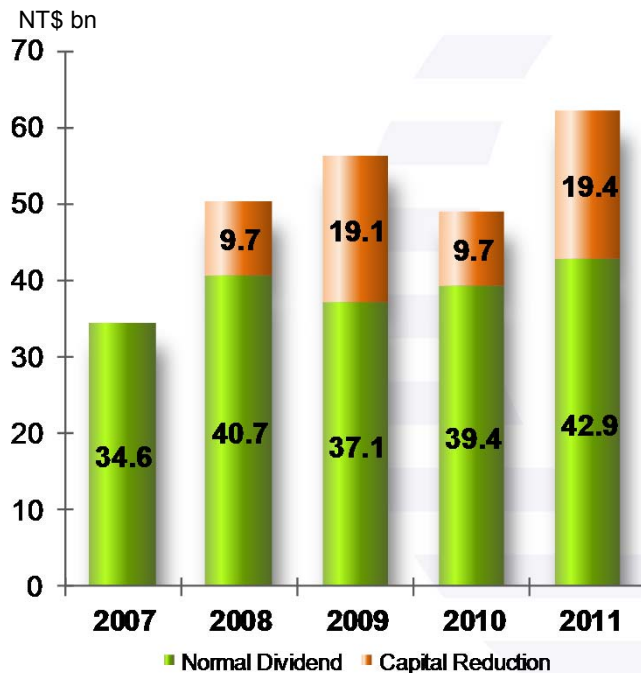


Net Income and EBITDA Margin



Focus on Stable Dividend

Cash Return



Note:

1. The cash return was calculated based on cash dividend and cash return from capital reduction, stock dividend was not included.
2. 1 ADR = 10 common shares
3. The cash dividend for year 2011 was calculated based on total share number 7,757,446,545

- Expect to maintain a stable dividend
- Company Act was amended on 2012/01/04:
 - A company which is profitable is allowed to directly distribute cash to shareholders from its capital surplus or legal reserve.
 - When the legal reserve has exceeded 25% of the Company's paid-in capital, the excess may be transferred to capital or distributed in cash.



Business Overview



Mobile – Maintain Market Leadership

Mobile Service Revenue

(NT\$bn)	2010	2011	Growth%
CHT	73.1	70.9	-2.96%
CHT, normalizing F2M effect ¹	73.1	75.9	3.90%
TWM ²	54.2	55.8	3.04%
FET ³	54.4	56.3	3.56%

After normalizing the F2M pricing right revert impact in 2011, CHT

- Remain growing momentum
- Maintain mobile service revenue market share

Note 1. Non-GAAP, including interconnection and transition revenue from CHT fixed group

2. Calculated based on mobile VAS revenue and its percentage as of total mobile service revenue announced by TWM

3. From FET website - Mobile service revenue

4. The calculation of figures is based on NT\$m

Market Share of Mobile Service Revenue

	2010	2011	change%
CHT	34.6%	32.9%	-1.7%
Peers	65.4%	67.1%	+1.7%
CHT, normalizing F2M effect ²	34.6%	34.4%	-0.2%
Peers, normalizing F2M effect ²	65.4%	65.6%	+0.2%


Note 1. Calculated based on NCC announcement

2. Non-GAAP, including interconnection and transition revenue from CHT fixed group

Mobile – Maintain Competitive Status

Mobile VAS Revenue

(NT\$bn)	Q4 2010	Q4 2011	Growth %	2010	2011	Growth %
CHT	3.07	4.01	31%	11.05	15.22	38%
CHT, adjusting the effect of mobile data usage < = 1GB per month getting 20% discount ¹	3.07	4.29	40%	11.05	15.68	42%
TWM ²	2.51	3.61	44%	8.67	12.77	47%
FET ²	2.49	3.59	44%	8.92	12.57	41%


 Maintain competitive status after adjusting the effect of price discount

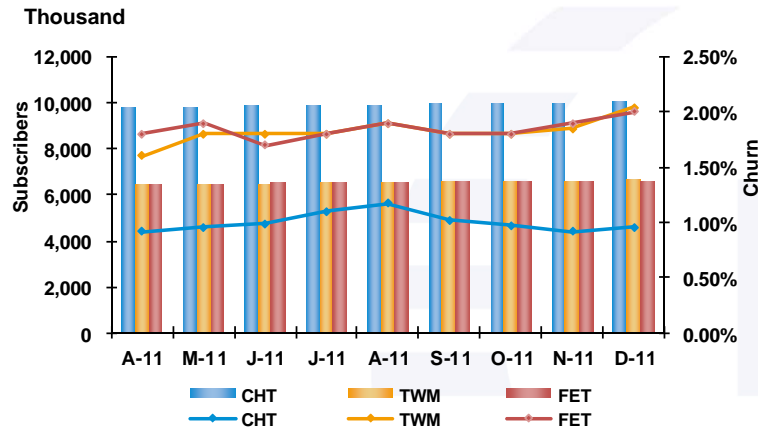
Note 1. Non-GAAP

2. From TWM and FET presentation for result conference call and monthly fact sheet

3. Mobile data usage per month < = 1GB get 20% discount will last till Dec. 2012

Largest Mobile Customer Base in the Market

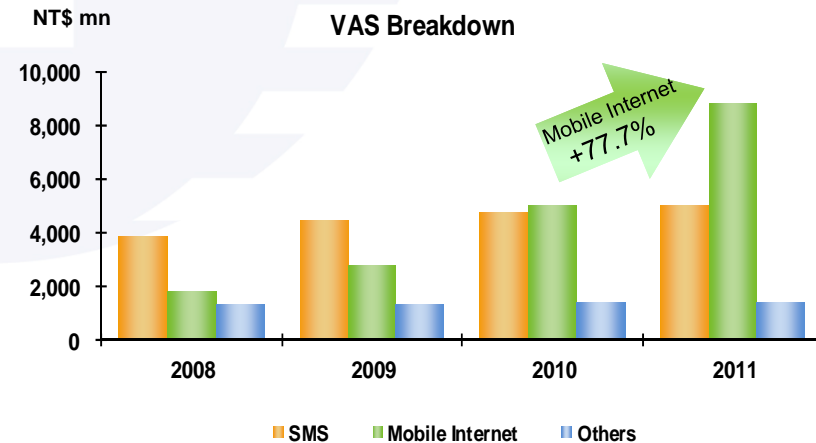
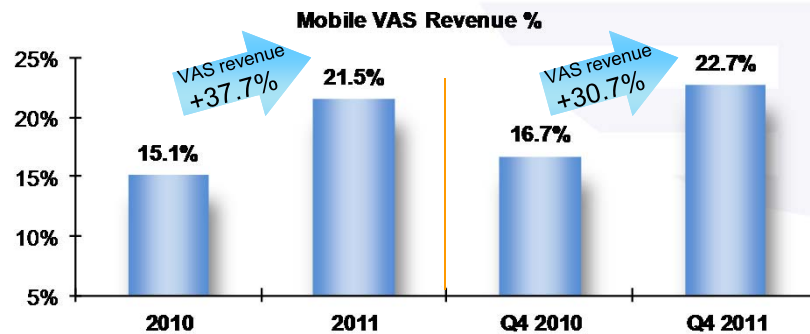
High Subs & Lowest Churn



Strategies

- Maintain mobile leadership by acquiring customers, minimizing churn rate, and increasing user loyalties via compelling user experiences
- Select popular high-end smartphone as well as mid and low tier models to offer customized services
- Increase mobile VAS revenue by offering customized and integrated Hami VAS services with mobile Internet tariff plans over 3.75G+Wi-Fi networks
- Provide alternative network by accumulating Wi-Fi APs totaled 20,000 by year 2011, expect to accumulate 30,000 by 2012

VAS Performance

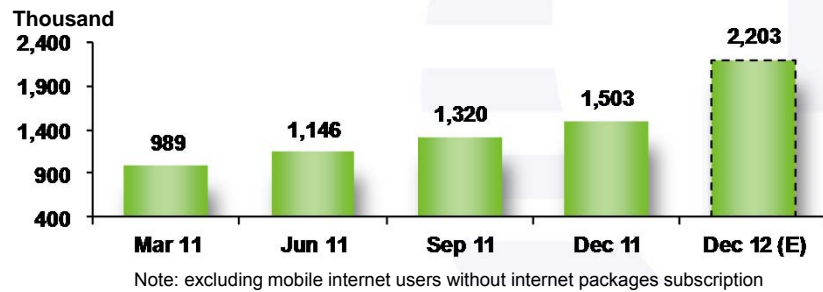


Smartphone – Value Driver for Mobile

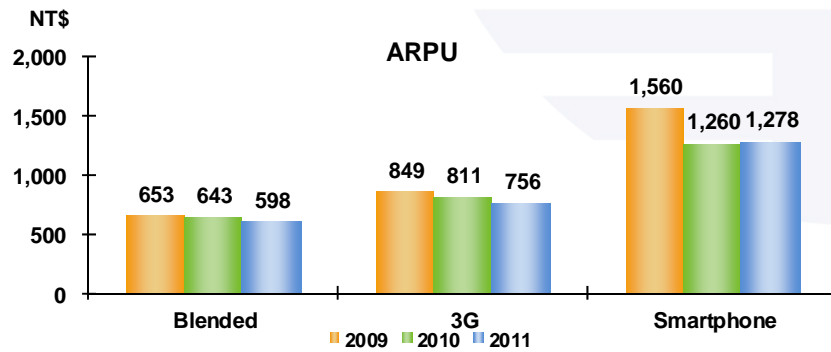
Performance

- Smartphone customers account for 48% of the total handsets CHT offered in year end 2011
 - Q4 2011 reached 57.6%
 - The percentage is expected to reach 70% by 2012

Mobile Internet Subs



ARPU



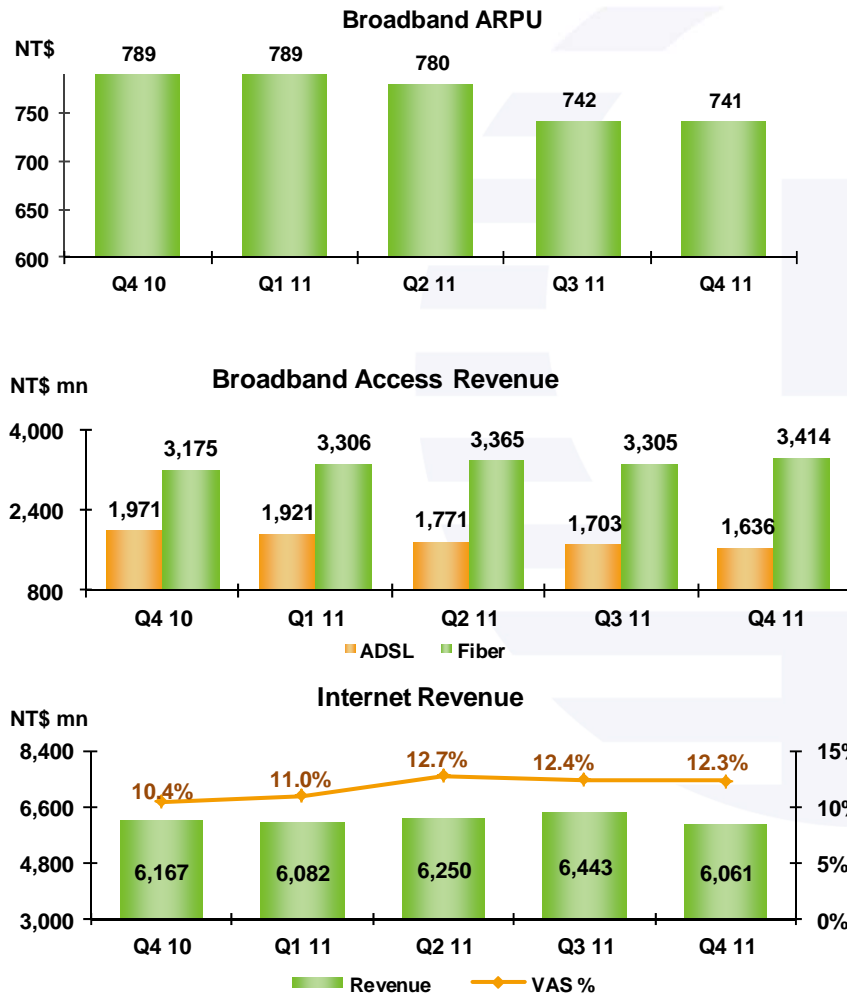
Various Smartphone Models

- Offering smartphone models from low to high end



Broadband Services Performance

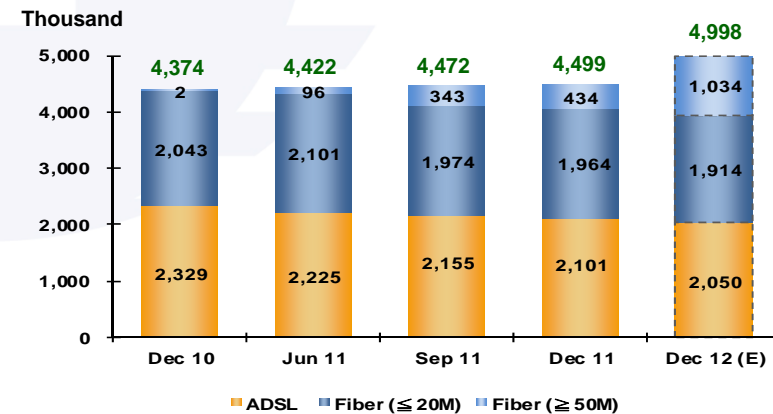
Performance



Strategies

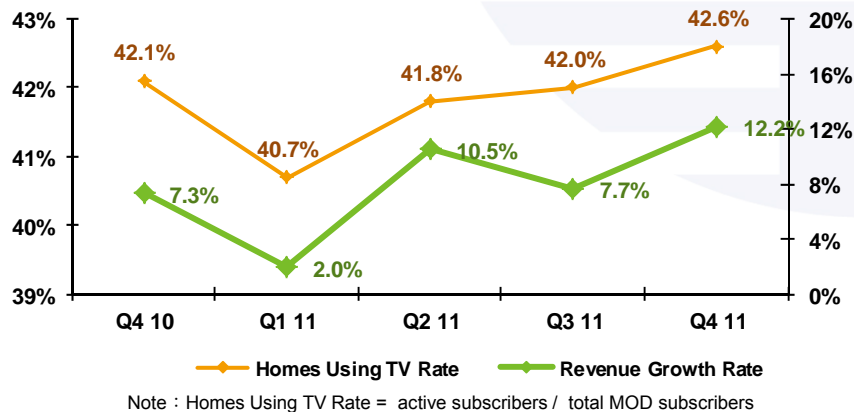
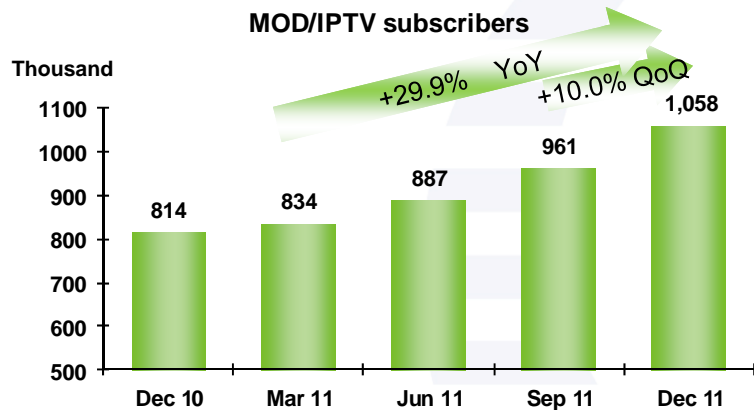
- Continue migrating customers to higher speed services
- Increase fiber network coverage and promote high speed internet
- Deploy and develop triple play services to increase digital convergence competitiveness
- Promote IOT services etc. to stimulate the demand for innovative broadband VAS

Broadband Subscribers



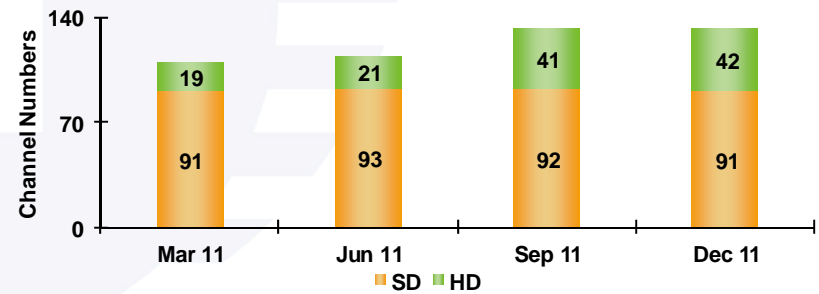
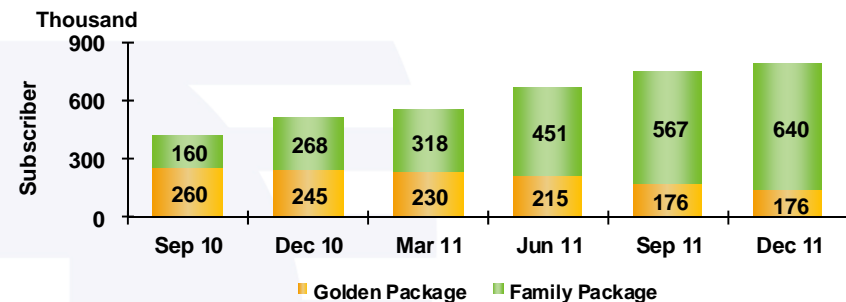
Growing Momentum in MOD/ IPTV

MOD/IPTV Subscribers



Performance

- Launched Family Packages on Apr. 16, 2010
- Continue enriching contents of Family Packages



- Providing the highest number of HD channels in local market (Ex: ESPN, National Geographic, FOX, Star movies, ELTA, eye TV, Universal Channel...)
- Acquire Olympic 2012 new media broadcasting right

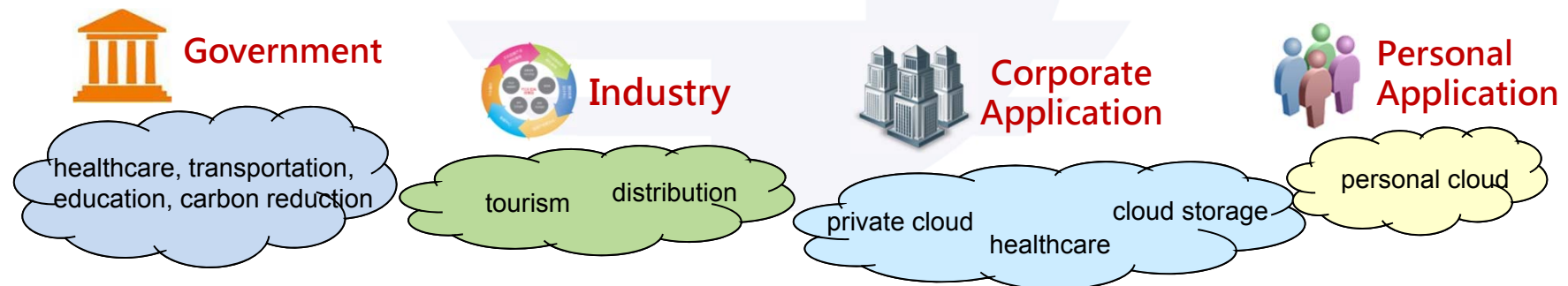
Business Opportunity- ICT and Cloud Computing

Strategy for ICT Business

- ④ To expand business scope and focus on ICT potential business lines and government project
 - ITS, iEN, information security, IMO, call center, ICT for developers and IDC
 - IOT
- ④ ICT YoY revenue growth in 2011: 29.8 %

Strategy for Cloud Computing

- ④ To strengthen cloud computing infrastructure to develop innovative cloud applications to facilitate digital life for customers
- ④ 2012 focus: expect to offer personal, storage, enterprise, tourism, distribution, and healthcare cloud services



Participation in China Airlines Secondary Offering

Project Details

- The board approved to participate in China Airline's secondary equity offering on 2012/01/16
- Chunghwa acquires 5.1% of China Airlines shares after the offering, and expects to acquire a board seat
- Unit price of transaction: NT\$11.73, was about 20% discount of closing price on the date of board meeting

Memorandum of Understanding



- Major Content: Chunghwa Telecom and China Airlines will leverage each other's resources to develop innovative ICT services relating to the tourism and logistics industries
- Purpose: The company will plan the integrated ICT cloud services; whereas China Airlines will contribute its expertise and operational experience within the tourism industry

Follow-up

- A special committee is set up to advance the project
- The board will review it periodically



Major Items of MOU with China Airlines

Item	Content
Tourism Service	<ul style="list-style-type: none">④ Tourism cloud application platform<ul style="list-style-type: none">– Initiate a comprehensive business environment through Chunghwa’s “tourism and transportation cloud services” and China Airlines’ business channel④ Intelligent touristic service packaging and operating<ul style="list-style-type: none">– Integrate Chunghwa’s ICT services and China Airlines’ tourism packages to promote B2B touristic services
Aviation ICT Service	<ul style="list-style-type: none">④ Offer transportation mobility service<ul style="list-style-type: none">– Transportation cloud application platform will be introduced to offer customers travel plan and information services④ Offer Intelligent logistic service<ul style="list-style-type: none">– Logistic monitoring and tracking service, customs clearance management services– Improve logistic efficiency and quality by offering intelligent fleet management solution
Enterprise Cooperation	<ul style="list-style-type: none">④ Share enterprises resources and integrate business know-how<ul style="list-style-type: none">– China Airlines will adopt Chunghwa’s ICT services to optimize service efficiency– Enhance customer value via jointly offering preferential service to customers and co-marketing



Closing Remark for Business Overview

- ④ Facing price reduction pressure because of the government regulation and market competition in 2011, and expecting most of the pressure will continue to impact both revenue and cost & expense in 2012.
- ④ Expecting to see the continual development of FTTx, fixed and mobile VAS, cloud computing, ICT enabled services as well as enterprise solutions to inject our growth momentum.





Financials Overview



Financials: Income Statement Highlights

(NT\$bn)	ROC GAAP (Consolidated)					
	2010	2011	Growth Rate	Q4 2010	Q4 2011	Growth Rate
Net Revenues	202.43	217.52	7.5%	52.30	54.91	5.0%
Operating Costs and Expenses	145.06	162.51	12.0%	39.16	43.14	10.2%
Income from Operations	57.37	55.01	(4.1%)	13.14	11.77	(10.4%)
Net Income	47.61	47.10	(1.1%)	10.67	10.03	(5.9%)
Net Income Margin (%)	23.52	21.65		20.39	18.27	
EBITDA	91.41	87.29	(4.5%)	21.47	19.93	(7.2%)
EBITDA margin (%)	45.16	40.13		41.05	36.30	

Note: The calculation of figures is based on NT\$m. The figure of 2011 was un-audited.

Financials: Business Segment Revenues

(NT\$bn)	ROC GAAP (Consolidated)					
	2010	2011	Growth Rate	Q4 2010	Q4 2011	Growth Rate
Domestic Fixed	70.69	79.35	12.3%	18.64	19.85	6.5%
Local	32.25	41.69	29.3%	8.19	10.37	26.6%
DLD	6.65	5.79	-12.9%	1.59	1.39	-13.1%
Broadband Access	20.32	20.42	0.5%	5.15	5.05	-1.9%
Mobile	89.04	93.01	4.5%	22.42	24.06	7.3%
Mobile Voice	62.00	55.67	-10.2%	15.27	13.68	-10.4%
Mobile VAS	11.05	15.22	37.7%	3.07	4.01	30.7%
Handset Sales	15.90	22.02	38.5%	4.09	6.34	55.0%
Internet	24.48	24.84	1.4%	6.17	6.06	-1.7%
Internet Services	18.19	17.95	-1.3%	4.63	4.40	-4.8%
Internet VAS	2.15	2.47	14.6%	0.54	0.62	14.5%
International Fixed	15.53	15.22	-2.0%	3.84	3.79	-1.1%
ILD	12.86	12.42	-3.4%	3.27	3.04	-7.0%
Leased line	0.95	0.99	3.9%	0.14	0.27	86.6%
Others	2.68	5.10	90.2%	1.24	1.15	-7.7%
Total	202.43	217.52	7.5%	52.30	54.91	5.0%

Note: The calculation of figures is based on NT\$m. The figure of 2011 was un-audited.

Financials: Costs & Expenses

(NT\$bn)	ROC GAAP (Consolidated)					
	2010	2011	Growth Rate	Q4 2010	Q4 2011	Growth Rate
Operating Costs	115.33	131.46	14.0%	31.26	34.69	11.0%
Operating Expenses	29.73	31.05	4.4%	7.90	8.45	6.9%
Marketing	22.47	23.39	4.1%	5.99	6.55	9.3%
General and Administrative	4.01	4.15	3.4%	1.09	0.99	(9.5%)
R&D Expense	3.25	3.51	8.2%	0.82	0.91	10.6%
Total	145.06	162.51	12.0%	39.16	43.14	10.2%

Note: The calculation of figures is based on NT\$m. The figure of 2011 was un-audited.

Cash Flow

(NT\$bn)	ROC GAAP (Consolidated)					
	2010	2011	Growth Rate	Q4 2010	Q4 2011	Growth Rate
Net Cash Flow from Operating Activities	84.77	74.34	(12.3%)	32.34	29.29	(9.4%)
CAPEX	24.62	26.86	9.1%	9.12	10.28	12.7%
Free Cash Flow	60.15	47.48	(21.1%)	23.22	19.01	(18.1%)
Cash and Cash Equivalent at the end of period	90.87	67.39	(25.8%)	90.87	67.39	(25.8%)

Note:

1. The calculation of figures is based on NT\$m.
2. Free cash flow is subtracting Capex from net cash flows from operating activities.
3. The figure of 2011 was unaudited.

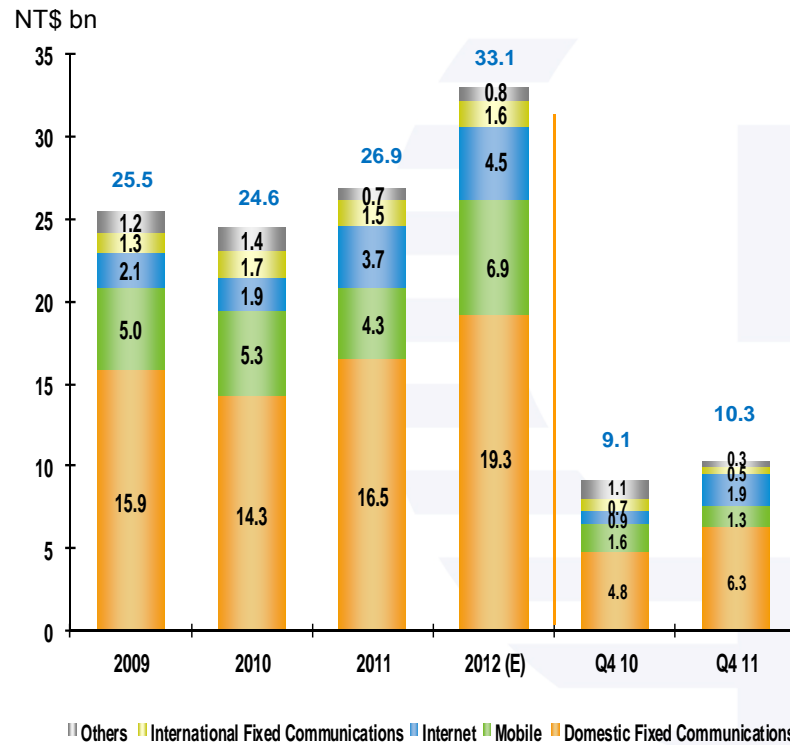
Forecast & Operating Results

(NT\$bn)	ROC GAAP (Parent Company Only)		
	2011	2012 (E)	Growth Rate
Net Revenues	192.46	188.88	(1.9%)
Operating Costs and Expenses	141.26	143.75	1.8%
Income from Operations	51.20	45.13	(11.9%)
Net Income	47.10	39.18	(16.8%)
EPS	6.05	5.05	
EBITDA	83.11	77.09	(7.2%)
EBITDA margin (%)	43.18	40.81	

Note: These projections are based on a number of estimates and assumptions and are inherently subject to significant uncertainties and contingencies. The figure of 2011 was un-audited.

Effective and Efficient Capital Expenditure

Capital Expenditure



CapEx as % of Revenue	2009	2010	2011	2012 (E)	Q4 10	Q4 11
	12.8%	12.2%	12.3%	17.3%	17.4%	18.7%

Note: Figures are on consolidated basis, except 2012 expected amount.

- Moderately speed up mid-term capital expenditure
 - Focus on Fixed and Mobile broadband
- Budgeted capex for 2012: NT\$33.1 bn
- Continue to focus on core businesses for future investments
 - 3G / HSPA / HSPA+ / LTE
 - FTTx
 - Wi-Fi / Femtocell
 - Service Platforms
 - Cloud computing

Q&A



Reference



Regulatory Update

Tariff Regulation

- Wireline and wireless tariff reduction starting from April 1, 2010 over 3 years (PIs refer to reference page 26)

F2M calls Pricing Right

- Pricing rights was reverted back to fixed operator in the beginning of 2011 (PIs refer to reference page 27)

Digital Convergence Regulation

- Executive Yuan had passed Digital Convergence Policy Initiative in July 2010
 - Telecom Act and Broadcasting-related Regulations will be amended and reviewed by Legislative Yuan in June 2012
 - Digital Convergence Framework is expected to be approved in June 2014

2G license Extension

- Local GSM 900/1800 license will expire in 2012 and 2013
- License renewal guideline was released by MOTC on Nov 25 2010
 - The term of original 2G license can be extended to Jun 2017
 - The licenses to be auctioned in 2015 will be technology neutral

Single-tariff for fixed-line calls

- In Jan 2011, Legislative Yuan resolved that NCC and CHT to propose a single tariff for island-wide fixed-line phone service, and the single tariff was effective since 2012/01/01

Tariff Regulations

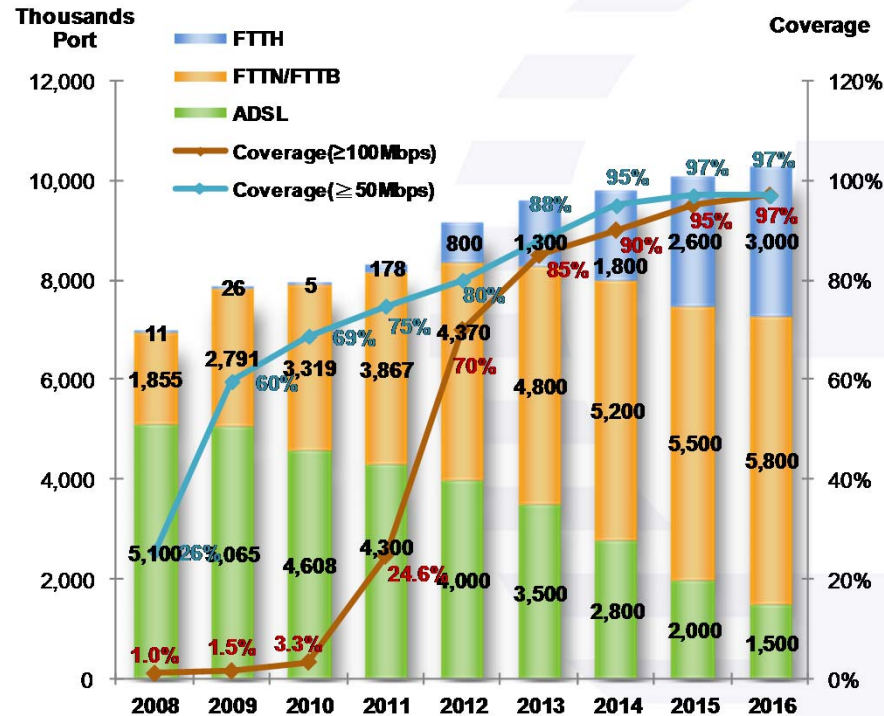
Target	Business Operation	Applicable services	X factor	Years in effect	Formula: $\Delta\text{CPI} - X$
SMP (Significant Market Power)	Fixed-line	1 IP Peering	4.816%	3	1. The three year tariff reduction plan is applicable from Apr 1, 2010 to Mar 31, 2013 and applied based on the previous year tariff.
		2 Domestic wholesale leased line			
		3 ADSL circuit			
		4 Domestic long distance call (excl. Public phone call)			
All 2G/3G operators	Mobile	1 Domestic SMS	5%	3	2. ΔCPI for year 2009 = -0.87
		2 Off-net voice call tariffs including (1) Off-net mobile (2) Mobile to fixed calls			3. ΔCPI for year 2010 = 0.96
		3 voice call interconnection	NCC will modify regulations of wholesale rates of voice call termination on mobile network.		

Regulatory Update- F2M call pricing

	Payment to Mobile Operators (NT\$/Minute)						F2M call pricing
Dominant Fixed-line Market player (CHT)	◎ Mobile Interconnection Fee (NT\$2.15) + Transition Fee (NT\$1.956~0) in peak hours and Mobile Interconnection Fee (NT\$2.15) only in off-peak hours ◎ Transition Fee decreases to zero over the period of 6 years						No higher than CHT's 2G tariff before the reverse
	2011	2012	2013	2014	2015	2016	
	1.956	1.7304	1.3843	1.0383	0.6922	0.3461	
Other Fixed-line Operators	Mobile Interconnection Fee (zero transition fee) in all hours						No higher than CHT's 2G tariff before the reverse

Continuing Broadband Network Construction

Fiber Deployment Plan



Note:

(1) The Coverage rate is based on the household number (8.07mn) as of Dec. 2011

(2) Wireline : Fixed + Internet

- FTTx access exceeded ADSL access in Aug. 2011
- FTTx coverage (≥ 100Mbps) expected to reach 97% by year 2016
- Broadband access + ISP revenue slightly growing in upcoming years
- Wireline^(note) VAS revenues expected to have higher growth