



## **Chunghwa Telecom Reports Consolidated Operating Results for the Third Quarter and First Nine Months of 2011**

Taipei, Taiwan, R.O.C. October 28, 2011 - Chunghwa Telecom Co., Ltd. (TAIEX: 2412, NYSE: CHT) ("Chunghwa" or "the Company") today reported its operating results for the third quarter and first nine months of 2011. All figures were prepared in accordance with generally accepted accounting principles of the Republic of China ("ROC GAAP") on a consolidated basis.

*(Comparisons, unless otherwise stated, are to the prior year period)*

### **Third Quarter 2011 Financial Highlights**

- Total consolidated revenue increased by 9.5% to NT\$55.71 billion
- Mobile communications revenue increased by 6.6% to NT\$23.76 billion; mobile value-added services (VAS) revenue increased by 40.5% to NT\$3.92 billion
- Internet revenue increased by 0.6% to NT\$6.44 billion; internet VAS revenue increased by 13.3% to NT\$0.61 billion
- Domestic fixed communications revenue increased by 17.1% to NT\$20.52 billion
- International fixed communications revenue decreased by 6.0% to NT\$3.78 billion
- Total operating costs and expenses increased by 14.9% to NT\$41.83 billion
- Net income totaled NT\$11.93 billion, representing a 0.2% decrease
- Basic earnings per share (EPS) increased by 25.2% to NT\$1.54

### **First Nine Months 2011 Financial Highlights**

- Total consolidated revenue increased by 8.3% to NT\$162.61 billion
- Mobile communications revenue increased by 3.5% to NT\$68.95 billion; mobile VAS revenue increased by 40.4% to NT\$11.21 billion
- Internet revenue increased by 2.5% to NT\$18.78 billion; internet VAS revenue increased by 14.7% to NT\$1.85 billion
- Domestic fixed communications revenue increased by 14.3% to NT\$59.5 billion
- International fixed communications revenue decreased by 2.3% to NT\$11.43 billion
- Total operating costs and expenses increased by 12.7% to NT\$119.37 billion
- Net income totaled NT\$37.07 billion, representing a 0.3% increase
- Basic EPS increased by 24.7% to NT\$4.75

Dr. Shyue-Ching Lu, Chairman and Chief Executive Officer, said, "I would like to report to you some key business developments for the third quarter. For mobile business, smartphones as percentage of total handsets sold continued to grow, reaching 45% for the quarter. We successfully addressed market competition by offering limited "free on-net call" and "my hot line" packages to enhance customer loyalty. Within our domestic fixed-line business, our strategy to promote higher-speed broadband services has enabled us to accumulate over 365 thousand subscribers to our 50 Mbps offering to date. Our IPTV packages remain competitive, with subscribers currently totaling 980 thousand. We anticipate that the positive feedback engendered by our enriched Family Package will provide impetus for further growth, in addition to our planned expansion in the number of HD channels to 43 by the end of this year. In response to customer demand for ubiquitous services, we plan to launch our new IPTV platform in December this year so that customers can take advantage of our cloud computing technology to enjoy our high-quality programs on televisions, computers, tablets and handsets. I am pleased with the progress we have made in executing on these and other initiatives within our VAS and broadband segments, and I am confident that these segments will play an increasingly important role in the Company's future growth."

## **Revenue**

Chunghwa's total consolidated revenue for the third quarter of 2011 increased by 9.5% year-over-year to NT\$55.71 billion, of which 42.6% was from the mobile business, 11.6% was from the internet business, 36.8% was from the domestic fixed business, 6.8% was from the international fixed business, and the remainder was from others. Despite the National Communications Commission ("NCC") tariff reduction that came into effect on April 1, 2010, Chunghwa succeeded in maintaining its growth momentum, due mainly to an increase in fixed line revenue resulting from the shift in the pricing right of a fixed-to-mobile call from mobile to fixed network operators, as well as mobile VAS and handset sales. In addition, property sales from the Company's property development subsidiary also contributed to Chunghwa's revenue growth.

Total revenue for the mobile business amounted to NT\$23.76 billion for the third quarter 2011, representing a year-on-year increase of 6.6%, mainly due to growth in mobile VAS revenue and handset sales relating to smartphone promotions, which offset the decline in mobile voice revenue. The decline in mobile voice revenue resulted primarily from the shift in pricing right for fixed to mobile calls from mobile to fixed operators and the NCC mandated tariff reduction.

Chunghwa's internet business revenue increased to NT\$6.44 billion in the third quarter of 2011, with a lower 0.6% year-over-year growth rate than before due to the company's broadband tariff reduction in June.

For the third quarter of 2011, domestic fixed revenue totaled NT\$20.52 billion, representing an increase of 17.1% year-over-year. Local revenues increased by 32.6% year-over-year, mainly due to the shift in pricing right for fixed to mobile calls. The 11.4% decline in Domestic Long Distance (“DLD”) revenues was due to mobile and Voice over Internet Protocol (“VOIP”) substitution, as well as reflecting the mandated tariff reduction.

Broadband access revenue, including ADSL and Fiber to the x (“FTTx”), decreased by 2.1% year-over-year to NT\$5.01 billion, primarily due to the company’s broadband tariff reduction in June, as well as the mandated tariff reduction

International fixed line revenue decreased by 6.0% to NT\$3.78 billion, primarily due to the decrease in international long distance service revenue as a result of market competition.

Other revenue grew by 94.8%, primarily due to the increase in property sales from the Company’s property development subsidiary.

For the first nine months of 2011, total revenue was NT\$162.61 billion, a 8.3% increase compared to the same period last year. Of this total, 36.6% was contributed by the domestic fixed business, 42.4% was from the mobile business, 11.5% was from the Internet business, the international fixed business accounted for 7.0%, and the remainder was from others.

### **Costs and Expenses**

Total operating costs and expenses for the third quarter of 2011 amounted to NT\$41.83 billion, an increase of 14.9% compared to the same period of 2010. This increase was mainly due to the higher cost of handsets sold, interconnection costs and transition fees resulting from the shift in pricing right of fixed-to-mobile calls, and the increase in corporate solution & ICT expenses and maintenance expenses.

Total operating costs and expenses for the first nine months of 2011 increased by 12.7% year-over-year to NT\$119.37 billion, due mainly to the same reasons as for the third quarter.

### **Income Tax**

Income tax expense for the third quarter of 2011 was NT\$2.08 billion, representing a 9% decrease compared to NT\$2.28 billion for the same period of 2010. The decrease was due to the lower Income from operations.

### **EBITDA and Net Income**

EBITDA for the third quarter of 2011 decreased by 4.1% to NT\$21.9 billion, while income from operations decreased by 3.9% to NT\$13.88 billion. The decreases in both EBITDA and income from operations reflected the higher operating costs and expenses.

The EBITDA margin for the third quarter of 2011 was 39.38% compared to 44.98% in the

same period of 2010, and the operating margin was 24.9%, compared to 28.4% in the previous year. Net income decreased by 0.2% year-over-year to NT\$11.93 billion. Earnings per share increased by 25.2% year-over-year to NT\$1.54, primarily due to the capital reduction in January 2011, which reduced the total number of outstanding shares by 20%.

### **Capital Expenditure (“Capex”)**

Total capex for the third quarter of 2011 amounted to NT\$6.66 billion, a 7.9% year-over-year increase. Of the NT\$6.66 billion capex figure, 66.5% was used for the domestic fixed communications business, 13.4% was for the mobile business, 10.7% was for the internet business, 6.3% was for the international fixed communications business, and the remainder was for other uses.

### **Cash Flow**

Cash flow from operating activities for the third quarter of 2011 decreased by 2.3% year-over-year to NT\$19.1 billion.

## **Business and Operational Highlights**

### **Broadband/HiNet**

- As of September 30, FTTx subscribers had reached 2.32 million, accounting for 51.8% of total broadband users. This year, the Company is continuing to execute on its strategy to encourage FTTx migration. On June 22, the Company further reduced its broadband service tariffs, especially for speeds of 20Mbps and 50Mbps, to stimulate the momentum of migration and subscription. Although the lower broadband tariff had a temporary impact on the Company’s revenue, the Company believes the speed upgrade will have a positive effect on its promotion of broadband value added services in the long run.
- HiNet broadband subscribers totaled 3.67 million at the end of September 2011, a year-over-year rise of 3.0%.

### **Mobile**

- As of September 30, 2011, Chunghwa had 9.96 million mobile subscribers, an increase of 4.0% compared to 9.58 million at the end of September 2010.
- As of September 30, 2011, Chunghwa had 1.32 million mobile internet subscribers compared to 653 thousand subscribers as of September 2010, demonstrating the strong growth momentum that the Company has achieved. Chunghwa expects to accumulate 1.47 million mobile internet subscribers by year-end.
- Mobile VAS revenue for the third quarter of 2011 rose 40.5% year-over-year to NT\$3.92 billion, with mobile Internet revenue increasing 80.5% year-over-year, making it the largest contributor to VAS revenue.

### **Domestic/International Fixed-line**

- As of the end of September 2011, the Company maintained its leading fixed-line market position, with fixed-line subscribers totaling 12.24 million.
- As of October 28, 2011, Chunghwa's Multimedia-on-demand (MOD) subscriber number has reached over 980 thousand and continues to rise, suggesting that the enriched content is meeting customer needs.

### **Financial Statements**

Financial statements and additional operational data can be found on the Company's website at [www.cht.com.tw/ir/filedownload](http://www.cht.com.tw/ir/filedownload).

### **NOTE CONCERNING FORWARD-LOOKING STATEMENTS**

This press release contains forward-looking statements. These statements constitute "forward-looking" statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, and as defined in the U.S. Private Securities Litigation Reform Act of 1995. These forward-looking statements can be identified by terminology such as "will," "expects," "anticipates," "future," "intends," "plans," "believes," "estimates" and similar statements. Statements that are not historical facts, including statements about Chunghwa's beliefs and expectations, are forward-looking statements. Forward-looking statements involve inherent risks and uncertainties that could cause actual results to differ materially from the forward-looking statements. A number of important factors could cause actual results to differ materially from those contained in any forward-looking statement. Investors are cautioned that actual events and results could differ materially from those statements as a result of a number of factors including, but not limited to the risks outlined in Chunghwa's filings with the U.S. Securities and Exchange Commission on Forms F-1, F-3, 6-K and 20-F, in each case as amended. The forward-looking statements in this press release reflect the current belief of Chunghwa as of the date of this press release and Chunghwa undertakes no obligation to update these forward-looking statements for events or circumstances that occur subsequent to such date, except as required under applicable law.

This press release is not an offer of securities for sale in the United States. Securities may not be offered or sold in the United States absent registration or an exemption from registration. Any public offering of securities to be made in the United States will be made by means of a prospectus that may be obtained from the issuer or selling security holder and that will contain detailed information about the company and management, as well as financial statements.

## **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 (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.

## **About Chunghwa Telecom**

Chunghwa Telecom (TAIEX 2412, NYSE: CHT) is Taiwan's leading telecom service provider. The Company provides fixed-line, mobile and Internet and data services to residential and business customers in Taiwan.

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