



中華電信
Chunghwa Telecom

Q1 2013 Operating Results

May 2, 2013

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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.

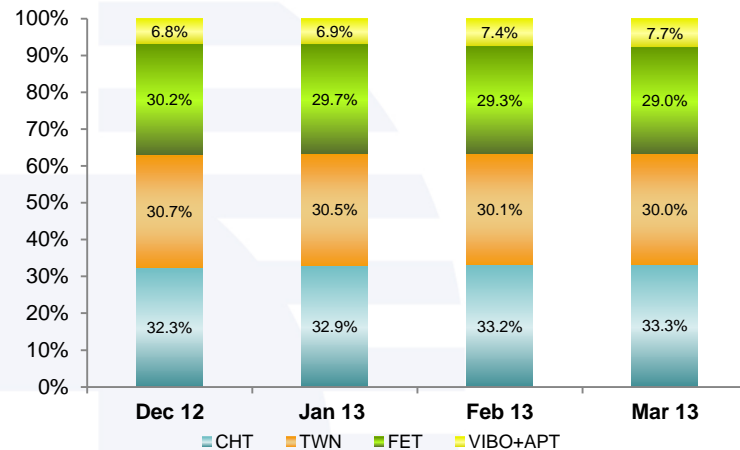
EBITDA is not a measure of financial performance under U.S. GAAP or T-IFRSs. EBITDA should not be considered as an alternate measure of net income or income from operations, as determined on a consolidated basis using amounts derived from statements of operations prepared in accordance with U.S. GAAP or T-IFRSs, 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.

Chunghwa Telecom Overview

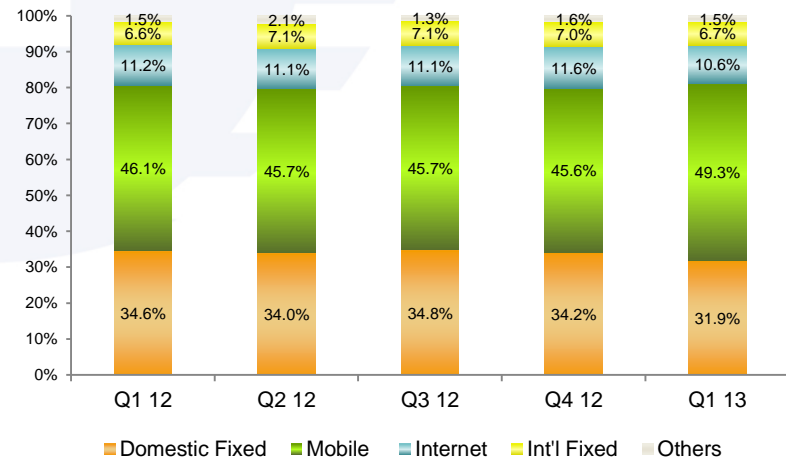
Dominant Market Position (a)

- Domestic Fixed
 - #1 Local
 - 94.9% share by subs (12.0 mn subs)
 - 87.1% share by minutes
 - #1 DLD
 - 75.8% share by minutes
 - #1 Broadband access
 - 78.9% share by subs (b)(c) (4.56 mn subs)
- Mobile
 - #1 Mobile subscribers
 - 35.1% market share (d) (10.35 mn subs)
 - #1 Mobile revenue
 - 35.0% market share (d)
- Internet
 - #1 ISP
 - 69.5% share by subs (4.25 mn subs)
- International Fixed
 - #1 ILD
 - 54.0% share by minutes

Mobile Internet Subs Market Shares (e)



Revenue Breakdown (f)

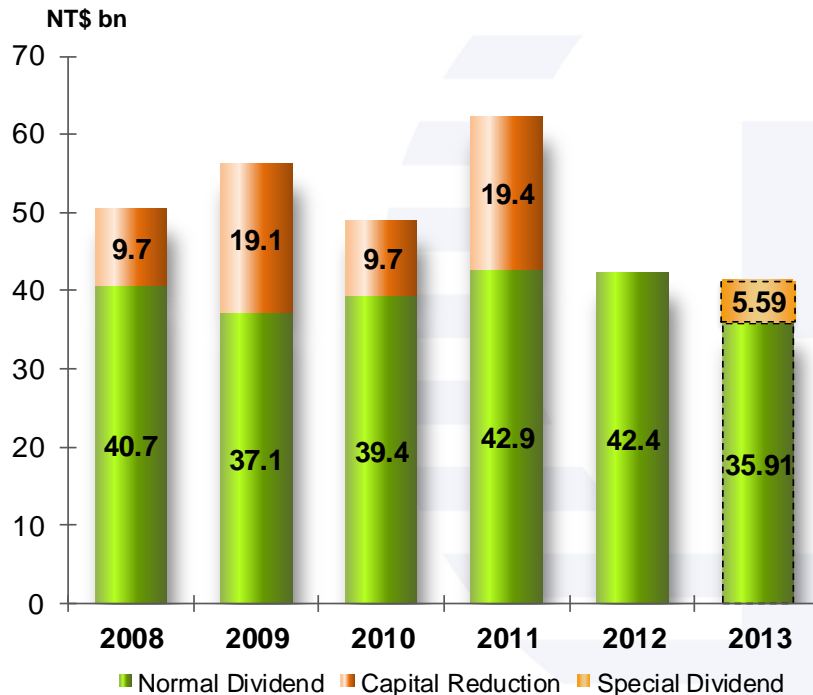


Source: Company data, MOTC, and NCC statistics

- a) Market share as of Mar. 2013
- b) CHT access circuits were not included
- c) Excluding PWLAN subscriber numbers
- d) Includes 2G, 3G and PHS
- e) Market shares are based on mobile internet plan subscribers.
- f) Revenues for Q1 12 and for Q1 13 are based on T-IFRSs and are un-audited.

Committed to Improving Shareholder Value

Cash Return



- Board resolved to distribute special cash dividend of NT\$0.7205 per share from capital surplus
- Total payment will be NT\$5.35 per share or NT\$41.5 billion including the earnings distribution of NT\$4.6295 per share for fiscal year 2012

Note:

- The special dividend for year 2013 will be distributed from capital surplus.
- The cash return was calculated based on cash dividend and cash return from capital reduction, stock dividend was not included.
- 1 ADR = 10 common shares
- The cash dividend has been calculated based on total share number 7,757,446,545 since year 2012.



Business Overview



Number One Mobile Services Provider

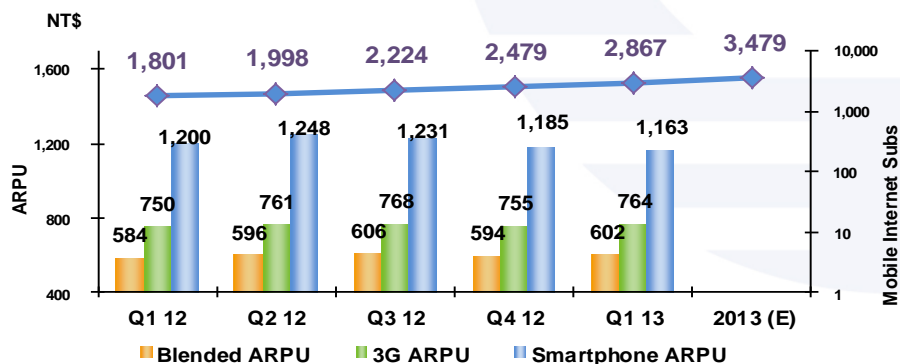
Performance

- Increasing mobile internet subscriber share from 32.3% to 33.3% in 1Q 2013 QoQ
- Representing the highest mobile VAS revenue growth rate in 1Q 2013 among three major operators

Strategy

- Further introducing mid to low tier smartphones to expand mobile internet subscriber base
- Enhancing top-tier smartphone subscribers' stickiness and promoting tablet SIM cards
- Accelerating the migration of 2G customers to 3G network
- Enabling 3G/Wi-Fi auto-authentication to enhance customers experience
- Increasing mobile VAS revenue by:
 - Offering promotion programs focusing on additional data plan adoption with favorable voice discount
 - Providing customized and integrated Hami VAS services
 - Promoting eBooks, music and Hami Apps

ARPU & Mobile Internet Subs

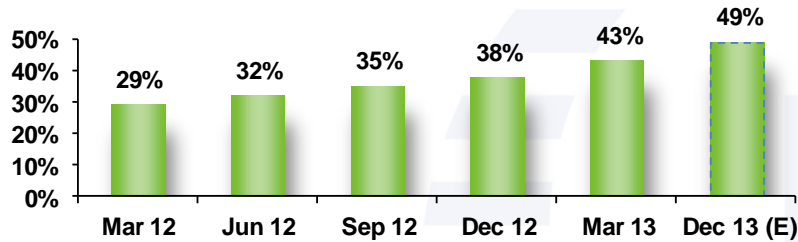


Note: Mobile internet subscriber number excludes subscribers without package subscription.

Smartphone – Value Driver for Mobile

Smartphone Adoption

Smartphone penetration (note)



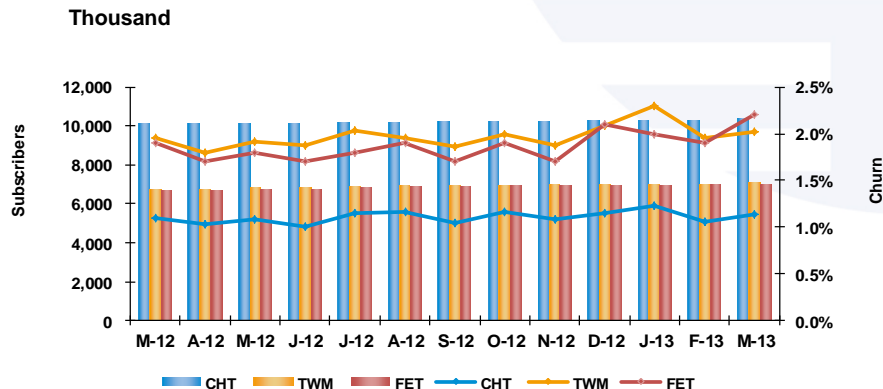
Note: number of smartphone (iOS/ Android/ Symbian S60 above/ WM/ Blackberry/ Bada/ Brew MP) in mobile network/ total postpaid subs

1Q 2013 smartphone sales breakdown:

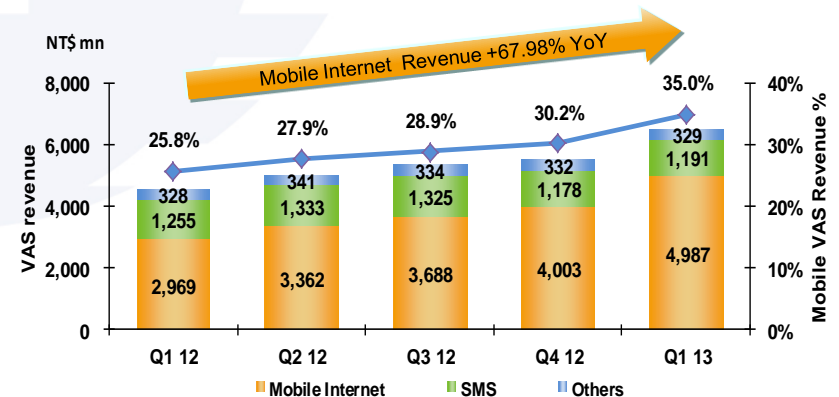
- Top-tier: 56 %
- Mid-tier: 19 %
- Low-tier: 25 %

Smartphone customers account 84% of the total handsets CHT offered in 1Q 2013

Highest Subs & Lowest Churn

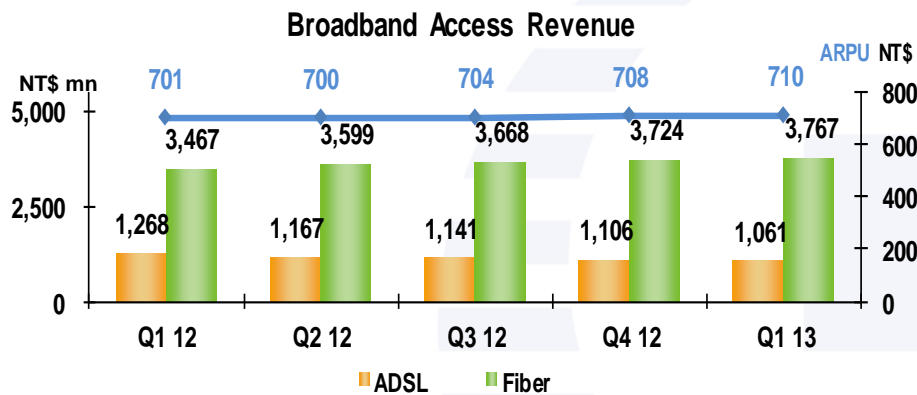


VAS Performance

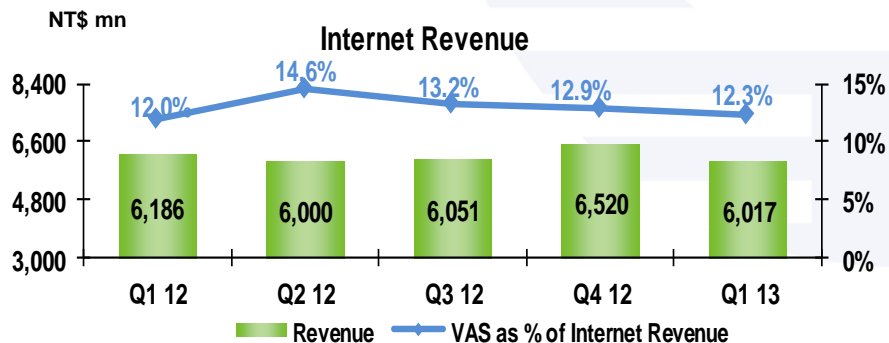


Fixed Broadband and Internet Services

Performance



Note1 : Broadband ARPU is calculated as access plus ISP
 Note2 : Revenue is calculated based on T-IFRSs

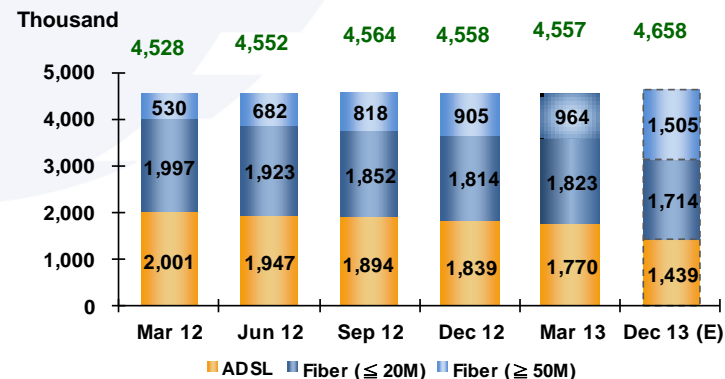


Note : Revenue is calculated based on T-IFRSs

Strategy

- Promoting fiber convergence plan (fiber solution + MOD family package)
- Increasing fiber network coverage, promoting high-speed internet to further expand fiber broadband customer base
- Applying data mining capability for precision marketing and network construction
- Offering high-speed enterprise broadband services and explore enterprise IOT broadband demand

Fixed Broadband Subs



MOD/ IPTV Service

Performance

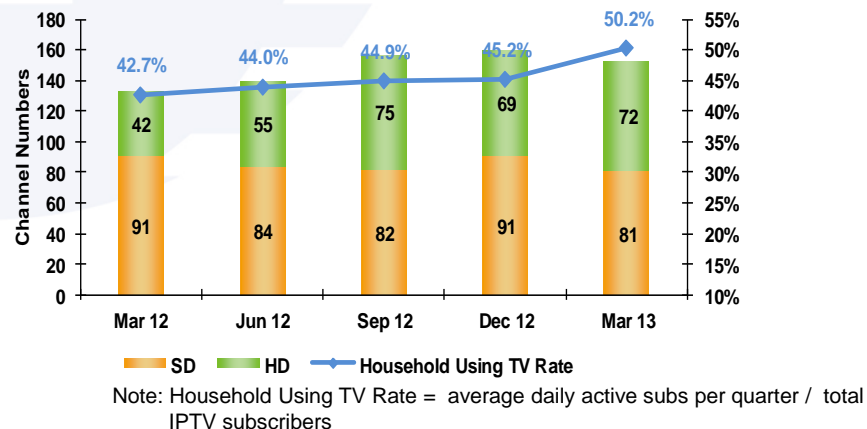
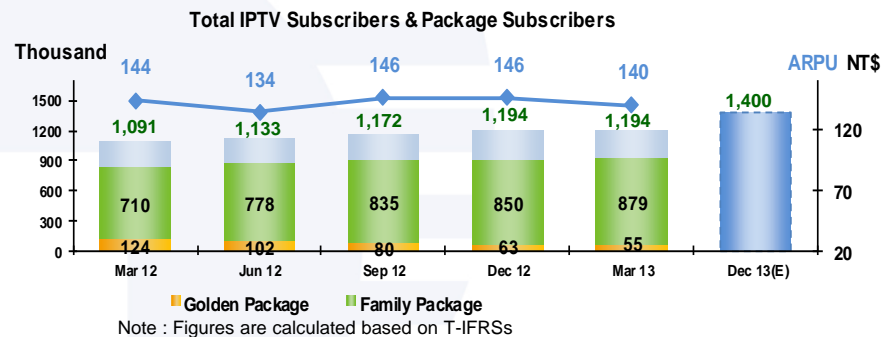
- IPTV revenue grew over 8.4% YoY in Q1 2013
- IPTV advertisement revenue in 1Q 2013 doubled

Strategy

- Enhancing new platform to facilitate digital convergence service offerings
- Offering multi-screen cloud services
- Cooperating with local TV manufacturers to imbed and co-market with our IPTV services
- Promoting MOD advertisement business
- Continuing to enrich local content and introduce popular channels
- Increasing HD channel selection

Subscriber & Usage

- Subscriber market share (CATV+IPTV) YoY grows from 17.3% to 19.3 % in Q4 2012
- 78.2% of IPTV subscribers sign up additional Packages
 - Package subscription rate YoY increase from 76.5% to 78.2%



ICT and Cloud Computing Initiatives

Strategy

- ④ Leverage core telecom infrastructure and services to expand cloud services, energy saving initiatives, information security, intelligent buildings and IOT services



Government

10 cloud applications: public security, food products, health, environment, transportation, ...



Personal Application

Hami cloud



Industry

hicloud PaaS
hicloud S3



Corporate Application

Enterprise cloud SaaS ERP
hicloud Desk

Focus in 2013

- ④ **Cloud Service:** 2013 revenue expects to be doubled
 - **Government Cloud**
Offer cloud service to government organizations to facilitate their works
 - **Virtual Private Cloud**
Build a private environment in our data center to accommodate demand from major accounts
 - **SaaS**
Cooperate with prestigious independent software vendors to offer SaaS services including CRM/ERP/POS
 - **Personal Cloud (Hami+)**
Offer personal digital convergence service to accommodate the increasing demand. Subs no. is expected to double to one million in 2013.
- ④ **Information Security:** 2013 revenue expects to increase 30%.
Offer anti-hacker and content filtering services to enterprises and organizations to comply with Personal Information Security Act
- ④ **Intelligent Buildings:** 2013 revenue expects to increase 20%.
Leverage FTTH capability and IEN products with partners' automation solutions to increase customers' asset value by providing intelligent and green value-added services



Regulatory Update



Regulatory Update

Tariff Regulation

- Mandatory tariff reduction starting from April 1, 2013 over 4 years (Please refer to reference page 22)
- NCC regulate mobile wholesale tariff to reduce retail price indirectly
 - NCC announced mobile interconnection rate reduction from Jan. 5, 2013
 - The rate is to reduce from NT\$2.15/min to NT\$1.15/min in 4 years with CAGR -14.5%
 - The company reduced mobile retail price including prepaid and postpaid

Telecom Act Amendment

- Executive Yuan returned the draft to NCC for reconsideration in Oct. 2012
- CHT expects the amendment to focus more on the facilitation of digital convergence capabilities for the overall industry
- NCC resolved Telecom Act amendment draft on Feb. 20, 2013

IP Peering

- NCC announced the draft of amendment of “Regulation Governing Network Interconnection among Telecommunications Enterprises” (the “Draft Regulations”) to create standards for IP Peering in Sep. 2012
- CHT has submitted a proposal to NCC to amend the Draft Regulations, suggesting the IP peering issue to conform to international-accepted practices for ‘light regulation and mutual business negotiation among ISPs

2G license Extension & 4G License Award

- Chunghwa has received the approval from NCC for the extension of the 2G license to be extended to June 2017
- NCC released a draft for 4G technology-neutral licenses and spectrum bidding
- The final arrangement details are expected to be released in May 2013
- The bidding process is expected to finish before November 2013



Financials Overview



Financials: Income Statement Highlights

(NT\$bn)	Consolidated					
	2011 (ROC GAAP)	2012 (ROC GAAP)	Growth Rate	Q1 2012 ¹ (T-IFRSs)	Q1 2013 ¹ (T-IFRSs)	Growth Rate
Net Revenues	217.49	220.13	1.2%	55.48	56.63	2.1%
Operating Costs and Expenses	162.41	171.22	5.4%	44.01	45.39	3.1%
Income from Operations	55.08	48.91	(11.2%)	11.47	11.24	(2.0%)
Net Income²	47.07	39.90	(15.2%)	9.60	9.14	(4.7%)
Net Income Margin (%)	21.64	18.13	(16.2%)	17.30	16.14	(6.7%)
EBITDA	87.37	81.42	(6.8%)	19.54	19.26	(1.4%)
EBITDA margin (%)	40.17	36.99	(7.9%)	35.21	34.02	(3.4%)

1. Figures for the first quarter in 2012 and 2013 are un-audited.

2. Net income attributable to owners of the parent.

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

Financials: Business Segment Revenues

(NT\$bn)	Consolidated					
	2011 (ROC GAAP)	2012 (ROC GAAP)	Growth Rate	Q1 2012 ¹ (T-IFRSs)	Q1 2013 ¹ (T-IFRSs)	Growth Rate
Domestic Fixed	79.35	75.55	-4.8%	19.17	18.05	-5.9%
Local	41.69	40.22	-3.5%	10.20	9.42	-7.6%
DLD	5.79	3.77	-34.9%	1.00	0.85	-15.2%
Broadband Access	20.42	19.18	-6.1%	4.73	4.83	2.0%
Mobile	93.00	100.80	8.4%	25.58	27.90	9.1%
Mobile Voice	55.67	52.03	-6.5%	13.12	12.10	-7.8%
Mobile VAS	15.22	20.45	34.3%	4.57	6.49	42.2%
Handset Sales	22.01	28.23	28.3%	7.79	9.13	17.1%
Internet	24.83	24.76	-0.3%	6.19	6.02	-2.7%
Internet Services	17.95	17.02	-5.2%	4.21	4.31	2.5%
Internet VAS	2.47	2.58	4.6%	0.57	0.60	4.9%
International Fixed	15.22	15.32	0.7%	3.64	3.82	4.8%
ILD	12.42	12.07	-2.9%	2.78	2.82	1.5%
Leased line	0.99	1.22	22.8%	0.26	0.34	28.9%
Others	5.09	3.71	-27.1%	0.90	0.84	-6.3%
Total	217.49	220.13	1.2%	55.48	56.63	2.1%

1. The figures for the first quarter of 2012 and 2013 are un-audited.

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

Financials: Costs & Expenses

(NT\$bn)	Consolidated					
	2011 (ROC GAAP)	2012 (ROC GAAP)	Growth Rate	Q1 2012 ¹ (T-IFRSs)	Q1 2013 ¹ (T-IFRSs)	Growth Rate
Operating Costs	131.53	141.18	7.3%	36.58	37.44	2.3%
Operating Expenses	30.88	30.04	(2.7%)	7.43	7.96	7.0%
Marketing	23.17	22.32	(3.7%)	5.57	6.04	8.5%
General and Administrative	4.18	4.02	(3.7%)	1.00	1.05	4.1%
R&D Expense	3.53	3.70	4.9%	0.86	0.86	1.0%
Total	162.41	171.22	5.4%	44.01	45.39	3.1%

1. The figures for the first quarter of 2012 and 2013 are un-audited.
2. The calculation of figures is based on NT\$ mn.

Cash Flow & EBITDA Margin

(NT\$bn)	Consolidated					
	2011 (ROC GAAP)	2012 (ROC GAAP)	Growth Rate	Q1 2012 ¹ (T-IFRSs)	Q1 2013 ¹ (T-IFRSs)	Growth Rate
Net Cash Flow from Operating Activities	75.36	67.56	(10.3%)	13.03	8.54	(34.5%)
CAPEX	26.88	33.28	23.8%	6.69	7.53	12.6%
Free Cash Flow	48.48	34.28	(29.3%)	6.34	1.01	(84.1%)
Cash and Cash Equivalents at the end of period (ROC GAAP)	67.39	53.20	(21.1%)	-	-	-
Cash and Cash Equivalents at the end of period (T-IFRSs)	26.41	30.94	17.2%	27.99	35.07	25.3%
EBITDA Margin(%)	40.17	36.99	(7.9%)	35.21%	34.02%	(3.4%)

1. The figures for the first quarter of 2012 and 2013 are un-audited.
2. The calculation of figures is based on NT\$ mn.
3. Under ROC GAAP, the cash and cash equivalents include time deposits with maturities of more than three months, while it is not the case under T-IFRSs.
4. Free cash flow is subtracting Capex from net cash flows from operating activities.

Forecast & Operating Results

(NT\$bn)	Consolidated					
	2012 ¹ (T-IFRSs)	2013 (T-IFRSs E)	Growth Rate	Q1 2013 ¹ (T-IFRSs)	Q1 2013 (T-IFRSs E)	Achieving Rate
Net Revenues	221.42	217.82	(1.6%)	56.63	53.61	105.6%
Operating Costs and Expenses	171.48	172.71	0.7%	45.39	42.95	105.7%
Income from Operations	49.94	45.11	(9.7%)	11.24	10.66	105.4%
Net Income	40.78	37.59	(7.8%)	9.14	8.83	103.5%
EPS	5.26	4.85	(7.8%)	1.18	1.14	103.5%
EBITDA	82.44	78.22	(5.1%)	19.26	18.85	102.2%
EBITDA margin (%)	37.23	35.91	(3.5%)	34.02	35.17	96.7%

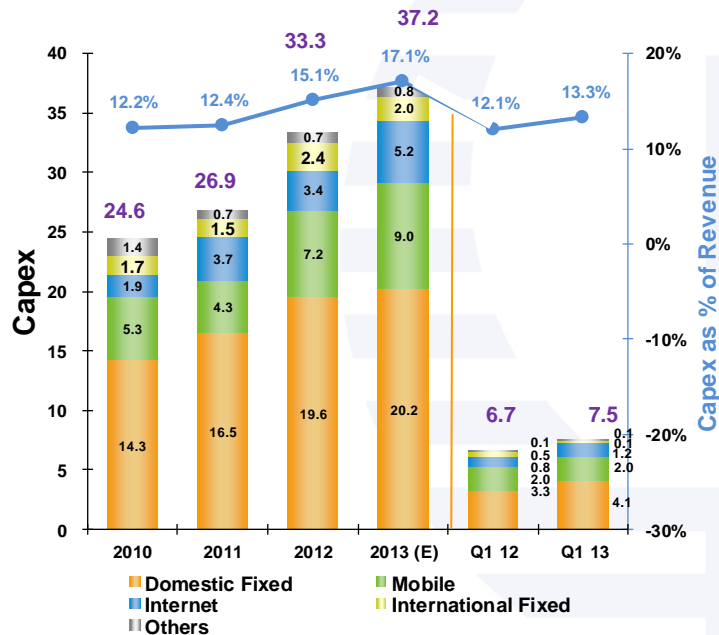
1. The figures for year 2012 and the first quarter of 2013 are un-audited.

2. The information therein is predictive and will not necessarily be fully realized in the future, and that reference to the company's significant accounting policy and summary of basic assumptions shall be made for further details.

Effective and Efficient Capital Expenditure

Capital Expenditure

NT\$ bn



- Increase capital expenditure
 - Fixed and Mobile broadband
 - Cloud deployment including cloud data center build out
- Budgeted capex for 2013: NT\$37.2 bn
- Continue to focus on core businesses for future investments
 - 3G / HSPA / HSPA+
 - FTTx
 - Wi-Fi
 - Service Platforms
 - Cloud computing

Note: Figures are on consolidated basis.



Q&A





Reference



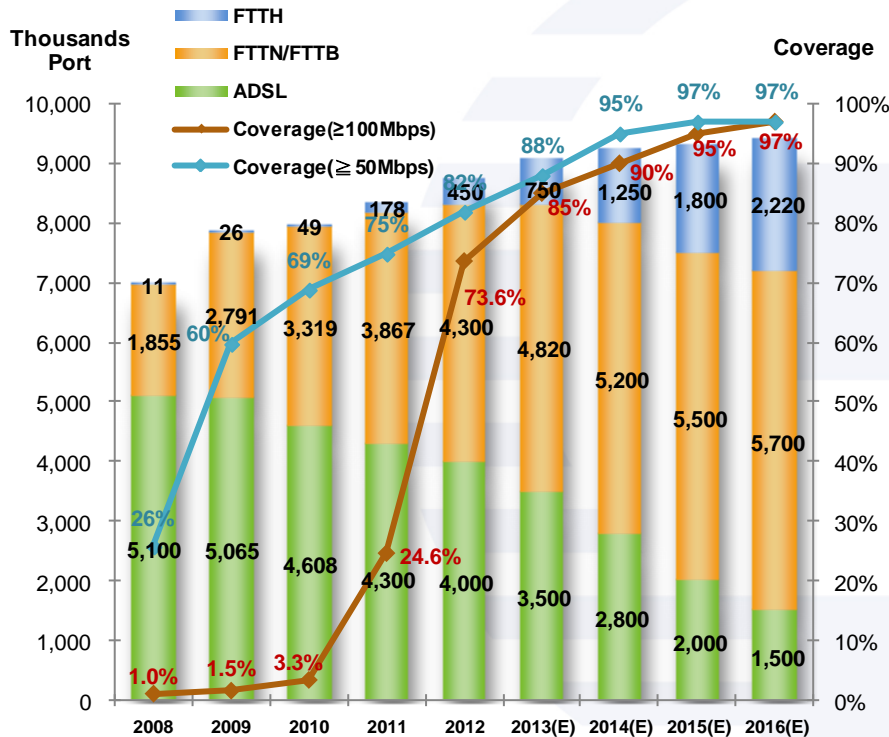
Regulatory Update (2013/4/1~2017/3/31)

Target	Business	Applicable Services		X factor	Years in effect	Formula : $\Delta\text{CPI} - X$
SMP (Significant Market Power)	Fixed-line	1	<ul style="list-style-type: none"> ■ xDSL monthly fee ■ FTTx monthly fee (exclude FTTH and FTTB) 	5.1749%	4	1. The four year tariff reduction plan is applicable from April 1, 2013 to March 31, 2017 and applied based on the previous year tariff. 2. ΔCPI for year 2012 = 1.93%
		2	Domestic leased line wholesale service			
		3	IP Peering			
All 2G/3G Operators	Mobile	mobile interconnection fee		Mobile interconnection rate reduced from NT\$2.15/min to NT\$1.15/min in four years 2013 : NT\$1.84/min 2014 : NT\$1.57min 2015 : NT\$1.34/min 2016 : NT\$1.15/min		

Note: Partial regulations above are yet to finalize.

Continuing Broadband Network Construction

Fiber Deployment Plan



Note:

- (1) The Coverage rate is based on the household number (8.19mn) as of December 2012
- (2) Wireline : Fixed + Internet
- (3) 100M fiber construction was applied traditional technologies in 2011, while applied DSL bonding technologies and GPON solutions in 2012.

- FTTx coverage (≥100M) reach 97% by 2016
- Increase FTTH construction in order to meet the demand of high speed broadband
- 1Gbps trial services has reached over 1,100 households
 - Chunghwa is one of the leading operators that provides 1Gbps residential broadband service
- Fiber construction plan including capex will be reviewed in accordance with market demand