



中華電信  
Chunghwa Telecom

# Q3 2013 Operating Results

November 1, 2013

# Disclaimer

## STATEMENT REGARDING UNAUDITED FINANCIAL INFORMATION

The unaudited financial information under T-IFRSs in this presentation is preliminary and subject to adjustments and modifications. Adjustments and modifications to the financial statements may be identified during the course of the audit /review work, which could result in significant differences from this preliminary unaudited financial information.

## NOTE CONCERNING FORWARD-LOOKING STATEMENTS

This presentation 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 presentation reflect the current belief of Chunghwa as of the date of this presentation 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 presentation 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 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.

# Mobile Broadband Spectrum Auction Completed

## Bidding Result

Band	Slot	Band-width	Floor Price (NT\$ bn)	Actual Payment (NT\$ bn)	Current Carrier	Winner
700 MHz	A1	10M	4.6	6.415	None	APBW
	A2	10M	4.6	6.81		FET
	A3	10M	4.6	6.81		Hon Hai
	A4	15M	6.9	10.485		TWM
900 MHz	B1	10M	1.6	3.655	APBW (due in Dec 2018)	Ding Hsin
	B2	10M	2.1	3.32	CHT (due in Jun 2017)	CHT
	B3	10M	2.1	2.37	CHT、TWM、 FET (due in Jun 2017)	Hon Hai
1800 MHz	C1	15M	2.2	18.525	FET (due in Jun 2017)	TWM
	C2	10M	1.4	10.07	CHT (due in Jun 2017)	CHT
	C3	10M	1.4	12.79	FET (due in Jun 2017)	FET
	C4	10M	1.4	11.715	TWM (due in Jun 2017)	FET
	C5	15M	3.0	25.685	None	CHT

Note: Total bidding price for the winners is NT\$118.65 bn

## CHT Secures Broadest Bandwidth including most sought after slot at 1800MHz

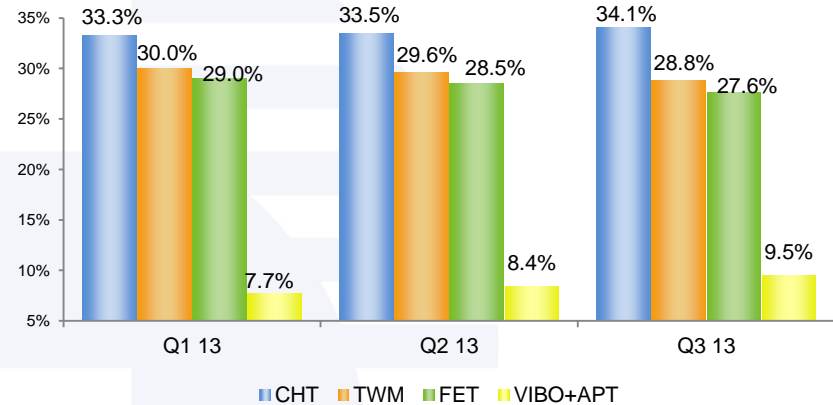
- acquiring the largest amount of bandwidth with 2x35 MHz
- acquiring the most sought after spectrum in the auction
  - ecosystem ready and not in use
  - compatible with 4G spectrum globally
- winning two spectrum slots currently held for our 2G operation
  - capable to maintain our 2G service and offer 4G services at the same time

# Chunghwa Telecom Overview

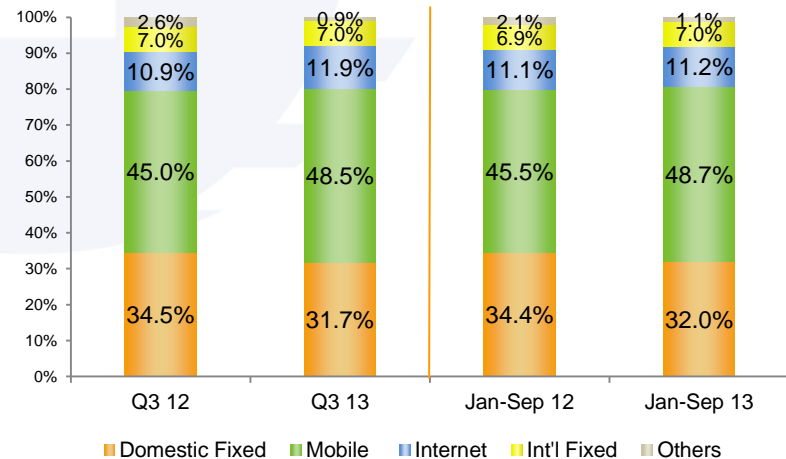
## Dominant Market Position (a)

- Domestic Fixed
  - #1 Local
    - 94.8% share by subs (11.62 mn subs)
    - 86.4% share by minutes
  - #1 DLD
    - 76.4% share by minutes
  - #1 Broadband access
    - 77.9% share by subs (b)(c) (4.55 mn subs)
- Mobile
  - #1 Mobile subscribers
    - 35.5% market share (d) (10.55 mn subs)
  - #1 Mobile revenue
    - 35.1% market share (d)
- Internet
  - #1 ISP
    - 68.9% share by subs (4.24 mn subs)
- International Fixed
  - #1 ILD
    - 53.6% share by minutes

## Highest Mobile Internet Subs Market Share(e)



## Revenue Breakdown (f)



Source: Company data, MOTC, and NCC statistics

- a) Market share as of August 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 3G mobile internet plan subscribers
- f) Revenues are based on T-IFRSs .

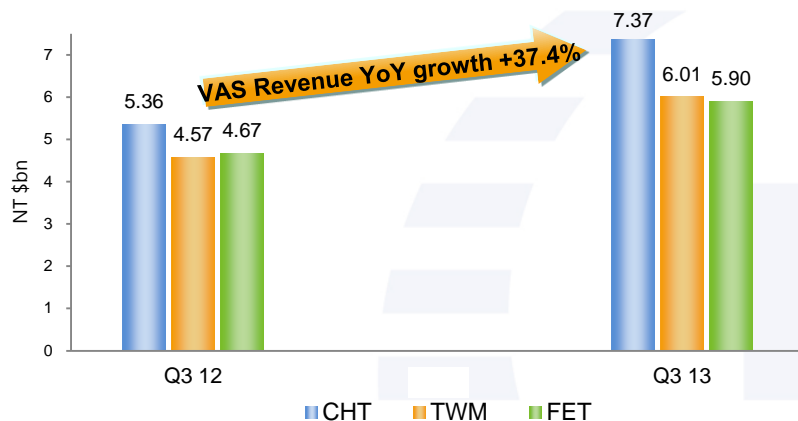


# **Business Overview**



# Number One Mobile Services Provider

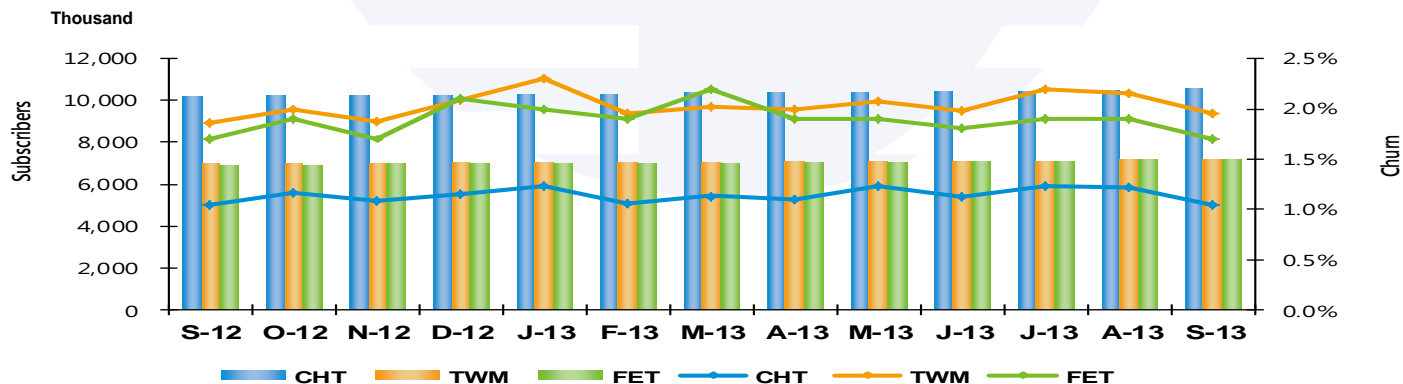
## Highest Mobile VAS Revenue Growth %



## Strategy

- Further introducing mid-to-low tier smartphones to expand mobile internet subscriber base
- Accelerating the migration of 2G customers to 3G networks
- Promoting 3G/Wi-Fi auto-authentication to enhance customers experience

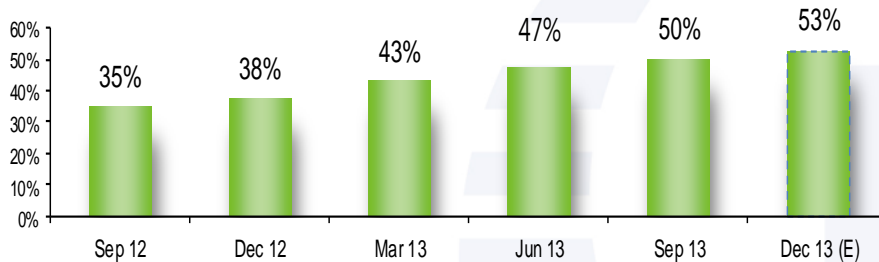
## Highest Subs & Lowest Churn



# Smartphone – Value Driver for Mobile

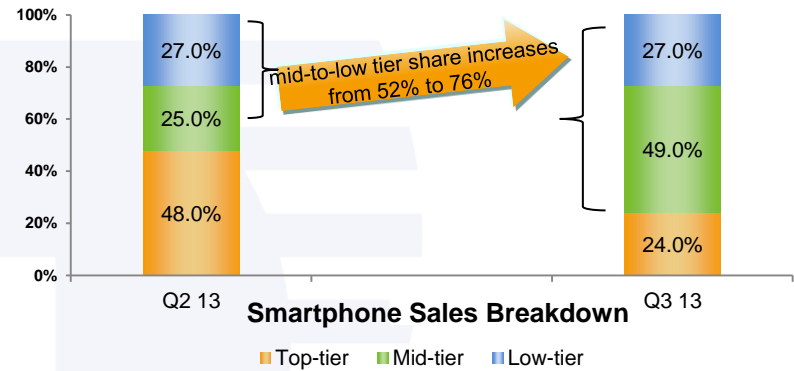
## Smartphone Adoption

Smartphone penetration (note)

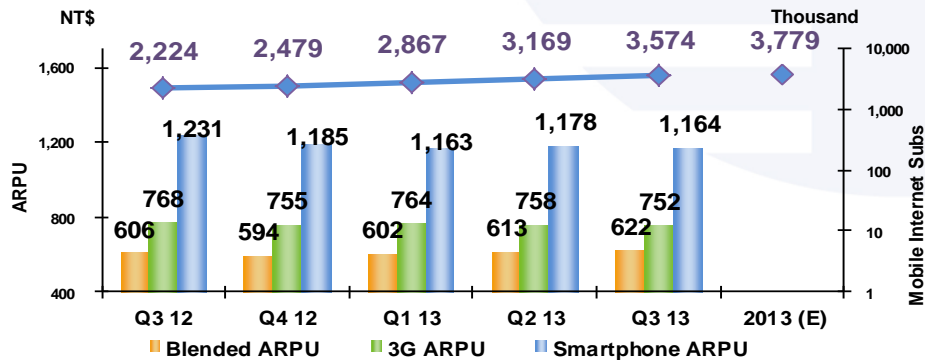


Note: number of smartphone (iOS/ Android/ Symbian S60 above/ WM/ Blackberry/ Bada/ Brew MP) in mobile network/ total postpaid subs

Smartphone customers account 89% of the total handsets CHT offered in Q3 2013

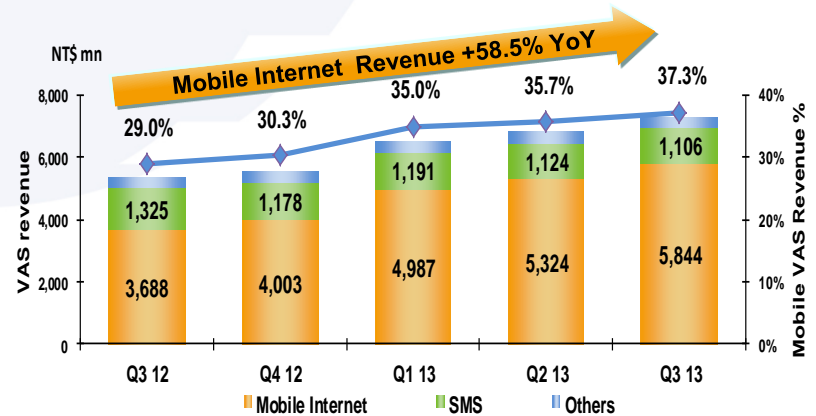


## ARPU & Mobile Internet Subs



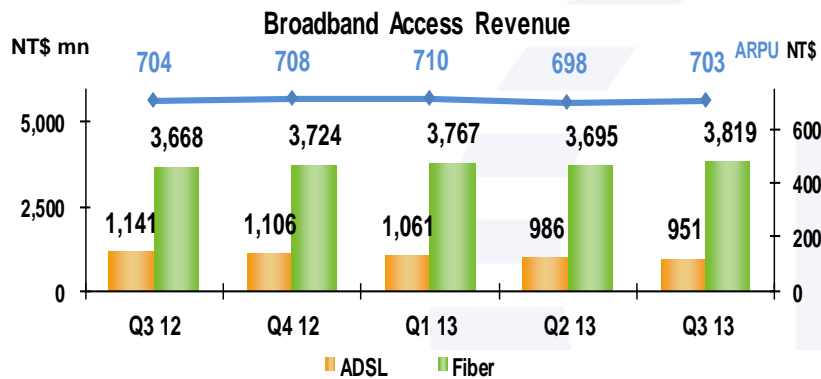
Note: Mobile internet subscriber number excludes subscribers without plan subscription.

## VAS Performance

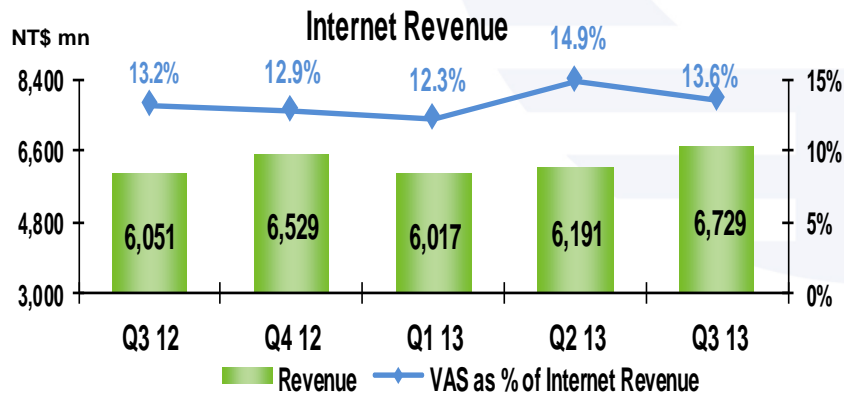


# Fixed Broadband and Internet Services

## Performance



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

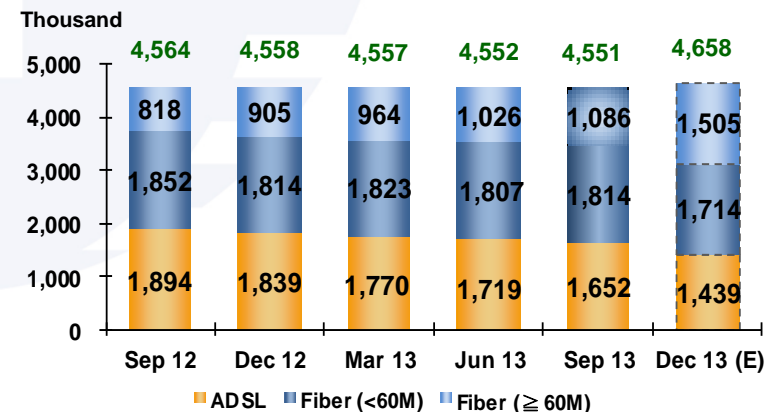


Note : Revenue is calculated based on T-IFRSs

## Strategy

- Continuing to migrate customers from low speed to high speed fiber services
- 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

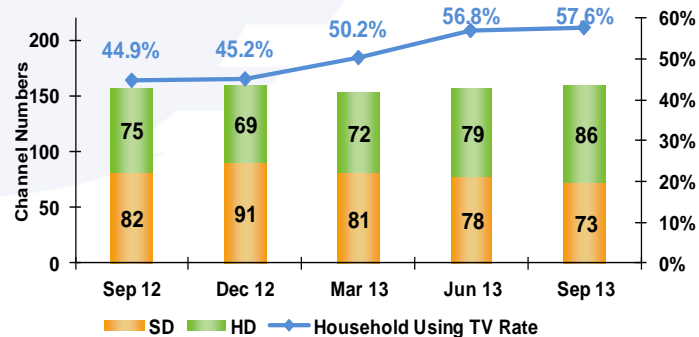
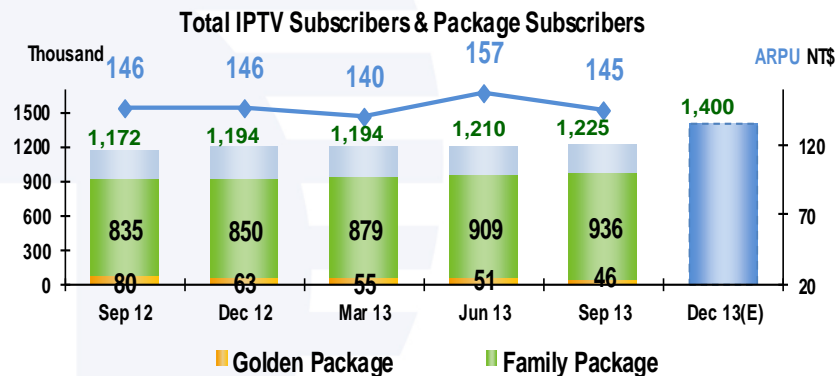
- IPTV revenue increased by over 13.1% YoY for the first nine months of 2013
- IPTV advertisement revenue grew by 34.2% YoY for the first nine months
- Household Using TV rate increased to 57.6%

## Strategy

- Differentiating MOD service by offering popular HD channels and VOD services
- Promoting MOD advertisement business
- Continuing to enrich local content
- Enhancing new platform to facilitate digital convergence service offerings

## Subscriber & Usage

- Subscriber market share (CATV+IPTV) YoY grows from 18.4% to 19.5 % in Q2 2013
- 80.1% of IPTV subscribers sign up additional Packages



Note: Household Using TV Rate = average daily active subs per quarter / total IPTV subscribers

# ICT and Cloud Computing Initiatives

## Performance

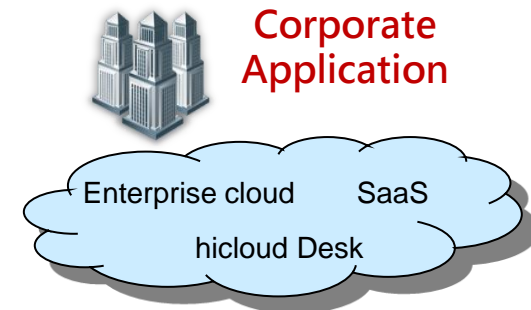
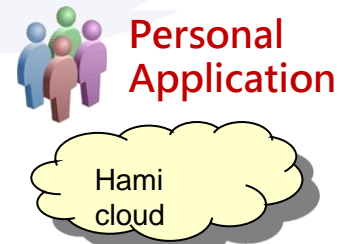
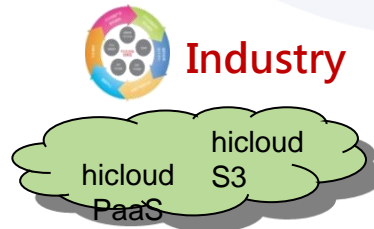
- Cloud service revenue doubled year on year in Q3 2013
- Personal Cloud (Hami+) subscribers accumulated to 1.12 million
- Acquiring several significant ICT projects with contract amount totaling NT\$3.3 bn, including China Trust lottery network construction projects, monitoring and recording system project for police departments under two local governments and other government IDC projects

*Expecting to acquire a compound architect ICT project, a large-scale information application system project and a cloud service project from the Government*

## Strategy

- Leveraging core telecom infrastructure and services to expand ICT business
- Leading the cloud computing industry by taking advantage of broadband and IDC service foundation
- Strategic partnership with international companies, eg. Microsoft, Trend Micro, IBM, etc.
- Cooperating with ISV<sup>1</sup> to run hicloud apps mall

Note 1: Independent Software Vendor





# Regulatory Update



# Regulatory Update

## 4G Spectrum Auction

- NCC released the detailed regulation for 4G technology-neutral licenses and spectrum bidding in May 2013
- NCC announced seven qualified bidders on August 13, 2013
- The bidding process started from September 3, and completed on October 30, 2013

## Digital Convergence

- Executive Yuan returned the Telecom Act amendment proposal to NCC again on July 16, 2013
- NCC will submit the draft for the Digital Convergence Regulation in February 2014 in order to integrate the current Broadcasting and Telecom related regulation



# Financials Overview



# Financials: Income Statement Highlights

(NT\$bn)	Consolidated					
	Q3 2012 (T-IFRSs)	Q3 2013 (T-IFRSs)	Growth Rate	Jan-Sep 2012 (T-IFRSs)	Jan-Sep 2013 (T-IFRSs)	Growth Rate
<b>Revenues</b>	<b>55.28</b>	<b>56.72</b>	<b>2.6%</b>	<b>165.17</b>	<b>169.18</b>	<b>2.4%</b>
<b>Operating Costs and Expenses</b>	<b>42.64</b>	<b>44.12</b>	<b>3.5%</b>	<b>126.39</b>	<b>132.67</b>	<b>5.0%</b>
<b>Other Income and Expenses</b>	<b>(0.01)</b>	<b>(0.01)</b>	<b>-</b>	<b>(1.27)</b>	<b>(0.02)</b>	<b>-</b>
<b>Income from Operations</b>	<b>12.63</b>	<b>12.59</b>	<b>(0.4%)</b>	<b>37.51</b>	<b>36.49</b>	<b>(2.7%)</b>
<b>Net Income<sup>1</sup></b>	<b>10.70</b>	<b>10.65</b>	<b>(0.5%)</b>	<b>31.73</b>	<b>30.48</b>	<b>(3.9%)</b>
<b>Net Income Margin (%)</b>	<b>19.35</b>	<b>18.77</b>	<b>-</b>	<b>19.21</b>	<b>18.02</b>	<b>-</b>
<b>EBITDA</b>	<b>20.73</b>	<b>20.65</b>	<b>(0.4%)</b>	<b>61.68</b>	<b>60.51</b>	<b>(1.9%)</b>
<b>EBITDA Margin (%)</b>	<b>37.50</b>	<b>36.40</b>	<b>-</b>	<b>37.35</b>	<b>35.77</b>	<b>-</b>

Note:

1. Net income attributable to owners of the parent.

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

# Financials: Business Segment Revenues

(NT\$bn)	Consolidated					
	Q3 2012	Q3 2013	Growth	Jan-Sep 2012	Jan-Sep 2013	Growth
	(T-IFRSs)	(T-IFRSs)	Rate	(T-IFRSs)	(T-IFRSs)	Rate
<b>Domestic Fixed</b>	<b>19.06</b>	<b>17.97</b>	<b>-5.71%</b>	<b>56.84</b>	<b>54.21</b>	<b>-4.64%</b>
Local	10.42	9.58	-8.05%	31.03	28.59	-7.88%
DLD	0.94	0.87	-7.26%	2.87	2.61	-9.03%
Broadband Access	4.81	4.77	-0.81%	14.31	14.28	-0.22%
<b>Mobile</b>	<b>24.88</b>	<b>27.53</b>	<b>10.60%</b>	<b>75.20</b>	<b>82.30</b>	<b>9.44%</b>
Mobile Voice	13.13	12.26	-6.62%	39.29	36.66	-6.71%
Mobile VAS	5.36	7.37	37.42%	14.98	20.71	38.25%
Handset Sales	6.20	7.74	24.78%	20.51	24.40	18.96%
<b>Internet</b>	<b>6.05</b>	<b>6.73</b>	<b>11.21%</b>	<b>18.24</b>	<b>18.94</b>	<b>3.84%</b>
Internet Services	4.23	4.28	0.96%	12.64	12.89	1.98%
Internet VAS	0.65	0.67	4.24%	1.94	2.03	4.80%
<b>International Fixed</b>	<b>3.86</b>	<b>3.97</b>	<b>2.80%</b>	<b>11.37</b>	<b>11.81</b>	<b>3.83%</b>
ILD	2.89	2.85	-1.47%	8.66	8.54	-1.36%
Leased line	0.34	0.36	8.23%	0.90	1.05	17.26%
<b>Others</b>	<b>1.44</b>	<b>0.53</b>	<b>-63.06%</b>	<b>3.52</b>	<b>1.93</b>	<b>-45.26%</b>
<b>Total</b>	<b>55.28</b>	<b>56.72</b>	<b>2.60%</b>	<b>165.17</b>	<b>169.18</b>	<b>2.43%</b>

Note: The calculation of figures is based on NT\$ mn.

# Financials: Costs & Expenses

(NT\$bn)	Consolidated					
	Q3 2012 (T-IFRSs)	Q3 2013 (T-IFRSs)	Growth Rate	Jan-Sep 2012 (T-IFRSs)	Jan-Sep 2013 (T-IFRSs)	Growth Rate
<b>Operating Costs</b>	<b>34.61</b>	<b>35.79</b>	<b>3.4%</b>	<b>104.70</b>	<b>108.52</b>	<b>3.6%</b>
<b>Operating Expenses</b>	<b>8.03</b>	<b>8.33</b>	<b>3.7%</b>	<b>21.69</b>	<b>24.15</b>	<b>11.3%</b>
<b>Marketing</b>	<b>6.13</b>	<b>6.37</b>	<b>4.0%</b>	<b>15.98</b>	<b>18.32</b>	<b>14.7%</b>
<b>General and Administrative</b>	<b>0.94</b>	<b>1.04</b>	<b>9.8%</b>	<b>2.97</b>	<b>3.10</b>	<b>4.3%</b>
<b>R&amp;D Expense</b>	<b>0.96</b>	<b>0.92</b>	<b>(3.8%)</b>	<b>2.74</b>	<b>2.73</b>	<b>(0.7%)</b>
<b>Total</b>	<b>42.64</b>	<b>44.12</b>	<b>3.5%</b>	<b>126.39</b>	<b>132.67</b>	<b>5.0%</b>

Note: The calculation of figures is based on NT\$ mn.



# Cash Flow & EBITDA Margin

(NT\$bn)	Consolidated					
	Q3 2012 (T-IFRSs)	Q3 2013 (T-IFRSs)	Growth Rate	Jan-Sep 2012 (T-IFRSs)	Jan-Sep 2013 (T-IFRSs)	Growth Rate
<b>Net Cash Flow from Operating Activities</b>	<b>15.08</b>	<b>17.10</b>	<b>13.4%</b>	<b>41.49</b>	<b>45.00</b>	<b>8.5%</b>
<b>CAPEX</b>	<b>8.33</b>	<b>7.72</b>	<b>(7.3%)</b>	<b>22.56</b>	<b>23.31</b>	<b>3.3%</b>
<b>Free Cash Flow</b>	<b>6.75</b>	<b>9.38</b>	<b>39.0%</b>	<b>18.93</b>	<b>21.69</b>	<b>14.6%</b>
<b>Cash and Cash Equivalents at the end of period</b>	<b>31.49</b>	<b>34.75</b>	<b>10.4%</b>	<b>31.49</b>	<b>34.75</b>	<b>10.4%</b>
<b>EBITDA Margin(%)</b>	<b>37.50</b>	<b>36.40</b>	<b>-</b>	<b>37.35</b>	<b>35.77</b>	<b>-</b>

Note:

1. The calculation of figures is based on NT\$ mn.
2. Free cash flow is subtracting Capex from net cash flows from operating activities.

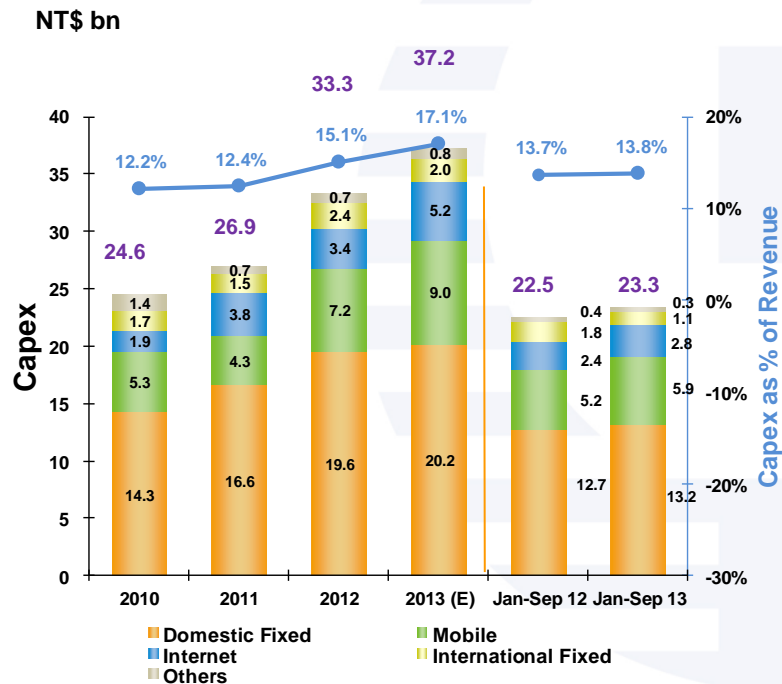
# Forecast & Operating Results

(NT\$bn)	Consolidated					
	Q3 2013 (T-IFRSs)	Q3 2013 (T-IFRSs E)	Achieving Rate	Jan-Sep 2013 (T-IFRSs)	2013 (T-IFRSs E)	Achieving Rate
<b>Revenues</b>	<b>56.72</b>	<b>54.67</b>	<b>103.8%</b>	<b>169.18</b>	<b>217.82</b>	<b>77.7%</b>
<b>Operating Costs and Expenses</b>	<b>44.12</b>	<b>42.60</b>	<b>103.6%</b>	<b>132.67</b>	<b>172.71</b>	<b>76.8%</b>
<b>Other Income and Expenses</b>	<b>(0.01)</b>	<b>-</b>	<b>-</b>	<b>(0.02)</b>	<b>-</b>	<b>-</b>
<b>Income from Operations</b>	<b>12.59</b>	<b>12.07</b>	<b>104.2%</b>	<b>36.49</b>	<b>45.11</b>	<b>80.9%</b>
<b>Net Income</b>	<b>10.65</b>	<b>10.10</b>	<b>105.4%</b>	<b>30.48</b>	<b>37.59</b>	<b>81.1%</b>
<b>EPS</b>	<b>1.37</b>	<b>1.30</b>	<b>105.4%</b>	<b>3.93</b>	<b>4.85</b>	<b>81.0%</b>
<b>EBITDA</b>	<b>20.65</b>	<b>20.40</b>	<b>101.2%</b>	<b>60.51</b>	<b>78.21</b>	<b>77.4%</b>
<b>EBITDA margin (%)</b>	<b>36.40</b>	<b>37.31</b>	<b>97.6%</b>	<b>35.77</b>	<b>35.91</b>	<b>99.6%</b>

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



- 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

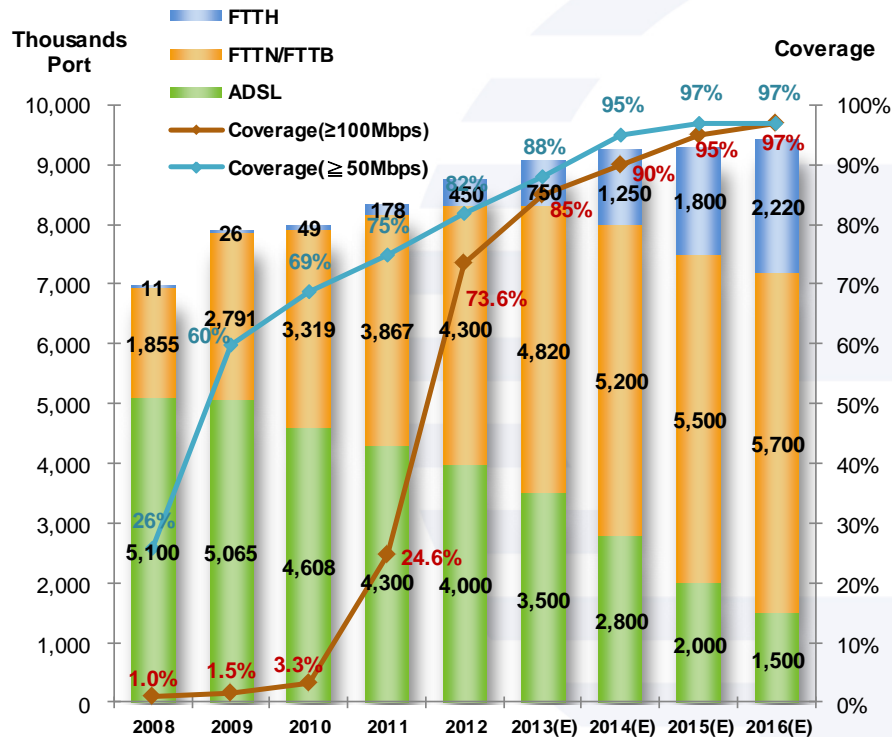


# Regulatory Update (2013/4/1~2017/3/31)

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"> <li>■ xDSL monthly fee</li> <li>■ FTTx monthly fee (exclude FTTH and FTTB)</li> </ul>	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. $\Delta\text{CPI}$ 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		

# 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.

- ④ FTTx coverage ( $\geq 100\text{M}$ ) reach 97% by 2016
- ④ Increase FTTH construction in order to meet the demand of high speed broadband
- ④ Fiber construction plan including capex will be reviewed in accordance with market demand