



中華電信
Chunghwa Telecom

Q2 2014 Operating Results

July 30, 2014

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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.

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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.

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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.



Business Overview

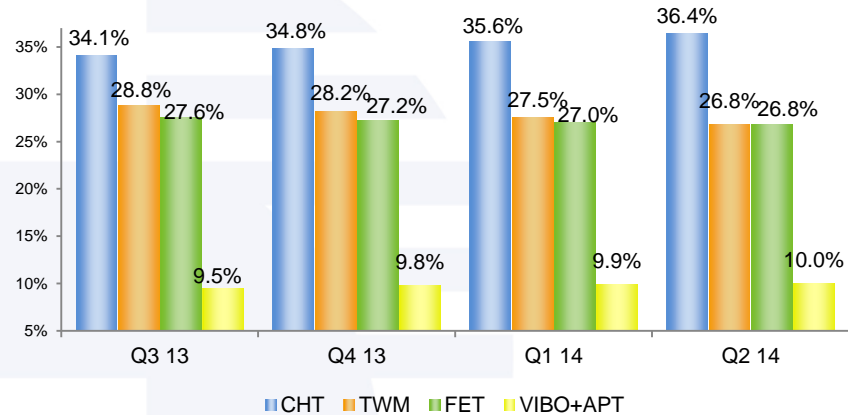


Chunghwa Telecom Overview

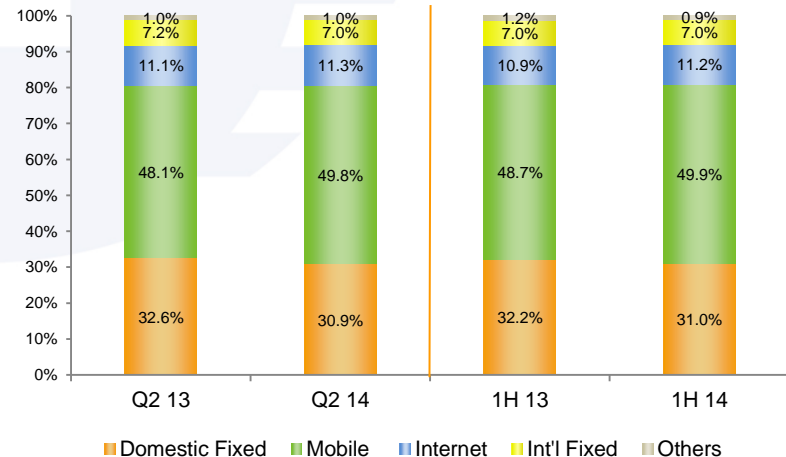
Strong Market Position ^(a)

- Domestic Fixed
 - #1 Local
 - 94.5% share by subs (11.46 mn subs)
 - 85.2% share by minutes
 - #1 DLD
 - 78.6% share by minutes
 - #1 Broadband access
 - 77.0% share by subs ^{(b)(c)} (4.54 mn subs)
- Mobile
 - #1 Mobile subscribers
 - 36.2% market share ^(d) (10.92 mn subs)
 - #1 Mobile revenue
 - 35.4% market share ^(d)
- Internet
 - #1 ISP
 - 68.5% share by subs (4.24 mn subs)
- International Fixed
 - #1 ILD
 - 56.0% share by minutes

Highest Mobile Internet Subs Market Share^(e)



Revenue Breakdown ^(f)

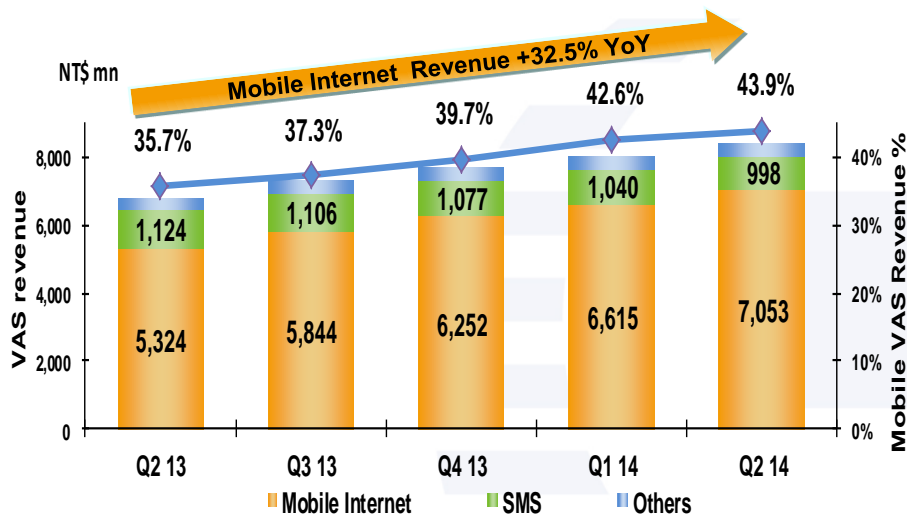


Source: Company data, MOTC, and NCC statistics

- a) Market share as of May 2014
- 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 .

Number One Mobile Services Provider

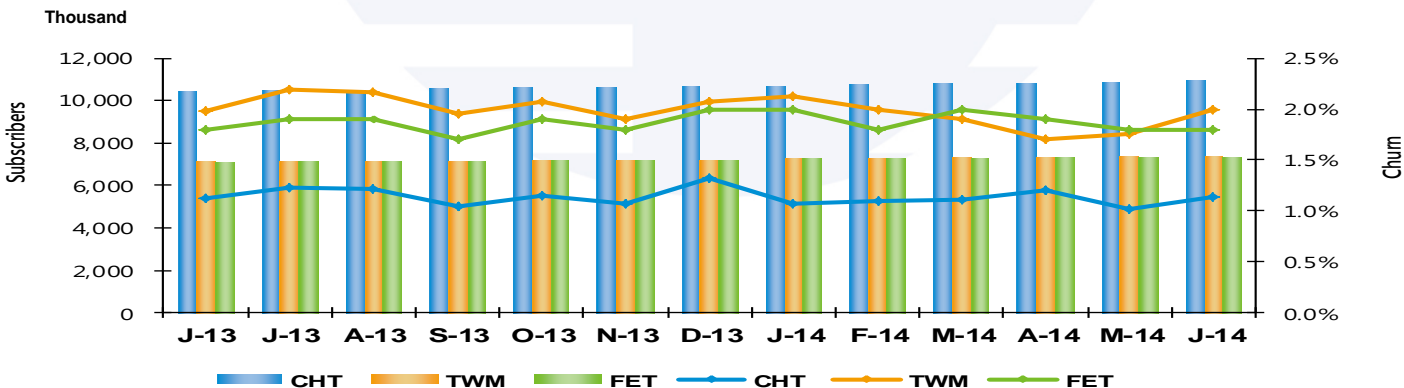
VAS Performance



Strategy

- 📍 Focusing on 4G service promotion
- 📍 Expanding 4G smart device profile
- 📍 Continuing the migration of 2G customers to 3G network
- 📍 Accelerating 4G network deployment to enhance capital efficiency

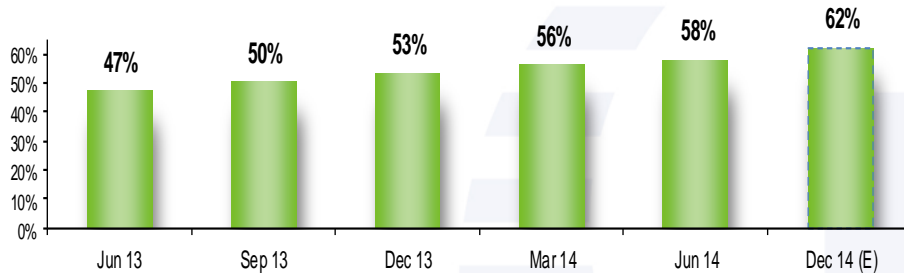
Highest Subs & Lowest Churn



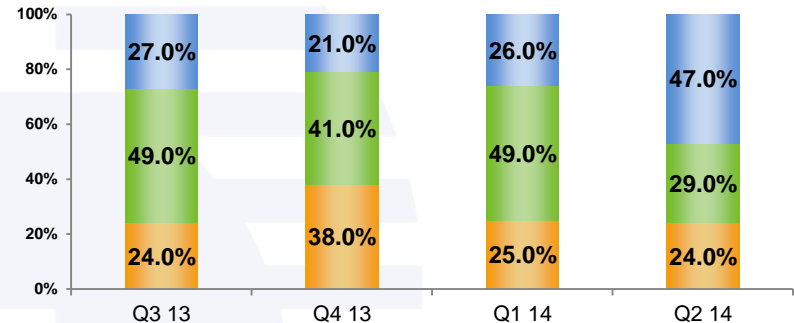
Smartphone – Value Driver for Mobile

Smartphone Adoption

Smartphone penetration*



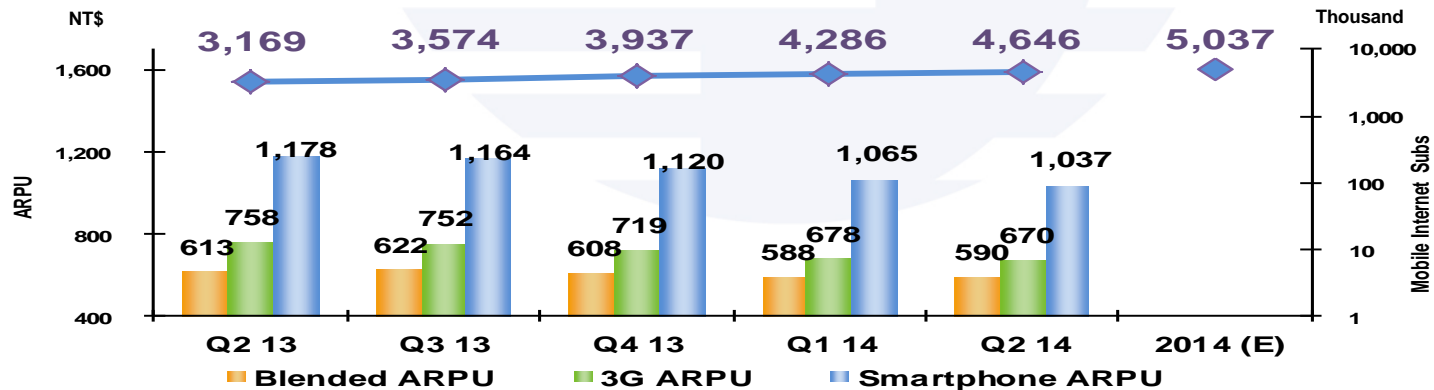
Smartphones accounted for 90% of the total handsets CHT offered in Q2 2014



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

Smartphone Sales Breakdown
 Top-tier Mid-tier Low-tier

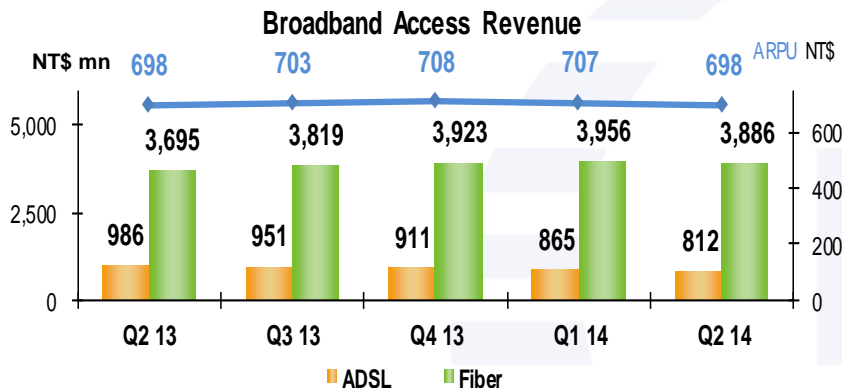
ARPU & Mobile Internet Subs



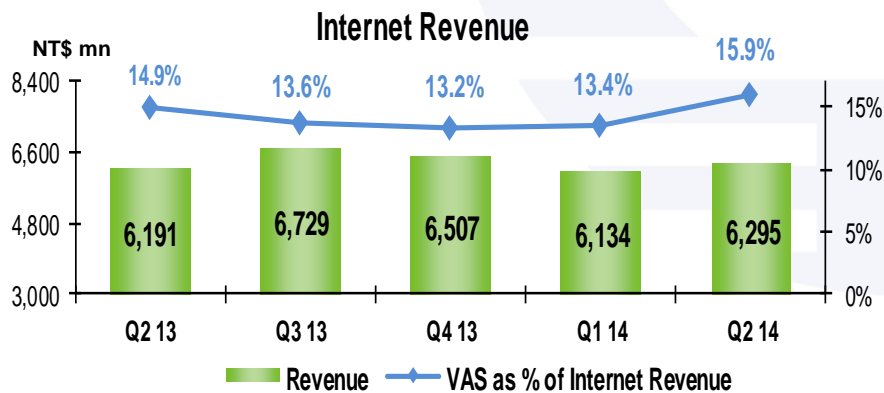
Note: Mobile internet subscriber number excludes subscribers without plan subscription.

Fixed Broadband and Internet Services

Performance



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

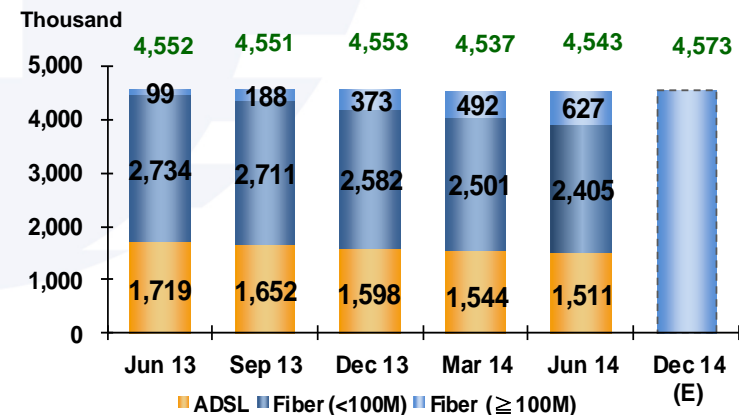


Note : Revenue is calculated based on T-IFRSs

Strategy

- Launching 300M/100M fiber service to maintain leadership
- Continuing to migrate customers from low speed to high speed fiber services
- Expediting FTTH construction and enhancing household coverage of 100M service
- Leveraging network capability to offer higher-speed upload service

Fixed Broadband Subs



MOD/ IPTV Service

Performance

- IPTV revenue increased by 8.8% YoY in Q2 2014
- Household TV Usage rate increased to 58.9%

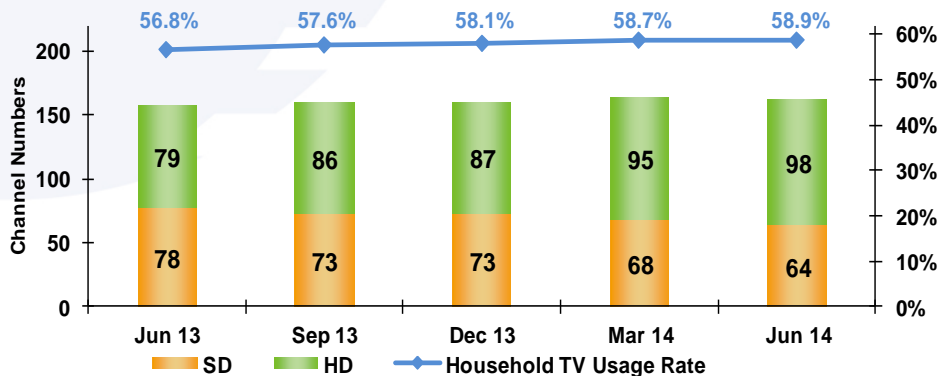
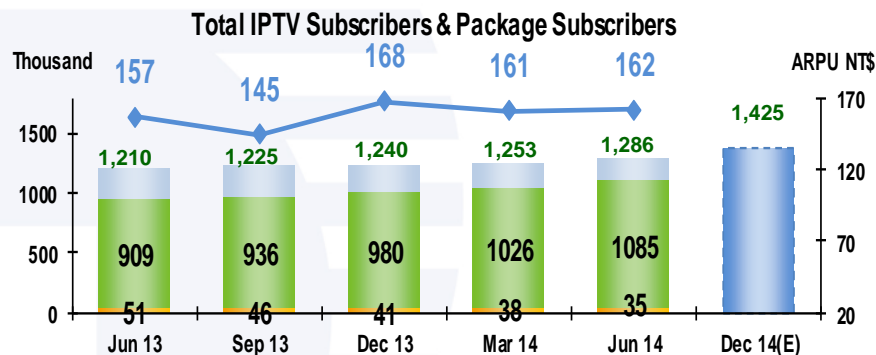
Strategy

- Continuing to enrich local contents and VOD programs
- Optimizing MOD cost structure
- Leveraging the existing broadband subscriber base to grow MOD subscription
- Providing the SVoD packages and improving user experience to differentiate from CATV services

Note: SVoD or Subscription Video on Demand

Subscriber & Usage

- Subscriber market share (CATV+IPTV) QoQ grew from 19.8% to 20.1% in Q1 2014
- 87.1% of IPTV subscribers signed up additional Packages



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

ICT and Cloud Computing Initiatives

Performance

- Cloud and information security service revenue increased by 6.8% YoY in 1H 2014
- Personal Cloud (Hami+) subscribers accumulated to 2.02 million
- Acquired several significant ICT projects in Q2 2014 with contract amount totaling NT\$1.63 bn
 - Data system project for Department of land
 - Host computer leasing project for Ministry of Labor
 - Cloud computing system for National Police Agency
 - ICT project for a hospital

Expecting to secure ICT projects for several public sectors.

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
- Establishing strategic partnership with international companies, eg. Microsoft, Trend Micro, IBM, etc.
- Cooperating with ISV* to run hicloud apps mall

* Independent Software Vendor



Government

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



Industry

hicloud PaaS
hicloud S3



Personal Application

Hami cloud



Corporate Application

Enterprise cloud SaaS
hicloud Desk



Financials Overview



Financials: Income Statement Highlights

(NT\$bn)	Consolidated					
	Q2 2013 (T-IFRSs)	Q2 2014 (T-IFRSs)	Growth %	1H 2013 (T-IFRSs)	1H 2014 (T-IFRSs)	Growth %
Revenues	55.84	55.78	(0.1)	112.45	110.83	(1.4)
Operating Costs and Expenses	43.19	43.45	0.6	88.55	86.59	(2.2)
Income from Operations	12.65	12.32	(2.6)	23.88	24.22	1.4
Net Income¹	10.64	10.60	(0.3)	19.84	20.84	5.0
Net Income Margin² (%)	19.50	19.21	-	18.23	19.04	-
EPS	1.37	1.37	-	2.56	2.69	5.1
EBITDA	20.59	20.85	1.3	39.85	41.12	3.2
EBITDA Margin (%)	36.88	37.38	-	35.44	37.10	-

Note:

1. Net income attributable to owners of the parent.
2. Net income margin is based on consolidated net income (including net income attributable to NCI)
3. The calculation of figures is based on NT\$mn.
4. The figures of 2014 are un-audited.

Financials: Business Segment Revenues

(NT\$bn)	Consolidated					
	Q2 2013 (T-IFRSs)	Q2 2014 (T-IFRSs)	Growth %	1H 2013 (T-IFRSs)	1H 2014 (T-IFRSs)	Growth %
Domestic Fixed	18.18	17.23	(5.2)	36.23	34.38	(5.1)
Local	9.58	9.00	(6.1)	19.00	17.90	(5.8)
DLD	0.89	0.84	(5.7)	1.74	1.66	(4.9)
Broadband Access	4.68	4.70	0.4	9.51	9.52	0.1
Mobile	26.87	27.78	3.4	54.77	55.29	0.9
Mobile Voice	12.29	10.78	(12.3)	24.39	21.63	(11.3)
Mobile VAS	6.82	8.44	23.7	13.34	16.49	23.5
Handset Sales	7.57	8.35	10.4	16.67	16.78	0.7
Internet	6.19	6.29	1.7	12.21	12.43	1.8
Internet Services	4.30	4.31	0.2	8.61	8.60	(0.1)
Internet VAS	0.76	0.81	7.7	1.36	1.48	8.9
International Fixed	4.03	3.93	(2.4)	7.84	7.72	(1.5)
ILD	2.87	2.75	(4.2)	5.69	5.48	(3.7)
Leased line	0.35	0.35	(0.3)	0.69	0.71	3.2
Others	0.57	0.55	(2.8)	1.40	1.01	(27.9)
Total	55.84	55.78	(0.1)	112.45	110.83	(1.4)

Note:

1. The calculation of figures is based on NT\$ mn.
2. The figures of 2014 are un-audited.

Financials: Costs & Expenses

(NT\$bn)	Consolidated					
	Q2 2013 (T-IFRSs)	Q2 2014 (T-IFRSs)	Growth %	1H 2013 (T-IFRSs)	1H 2014 (T-IFRSs)	Growth %
Operating Costs	35.28	34.97	(0.9)	72.73	69.97	(3.8)
Operating Expenses	7.91	8.48	7.2	15.82	16.62	5.1
Marketing	5.96	6.52	9.4	11.95	12.69	6.2
General and Administrative	1.01	1.06	4.7	2.06	2.14	4.0
R&D Expense	0.94	0.90	(3.4)	1.81	1.79	(0.5)
Total	43.19	43.45	0.6	88.55	86.59	(2.2)

Note:

1. The calculation of figures is based on NT\$ mn.
2. The figures of 2014 are un-audited.

Cash Flow & EBITDA Margin

(NT\$bn)	Consolidated					
	Q2 2013 (T-IFRSs)	Q2 2014 (T-IFRSs)	Growth %	1H 2013 (T-IFRSs)	1H 2014 (T-IFRSs)	Growth %
Net Cash Flow from Operating Activities	19.37	14.42	(25.6)	27.90	24.03	(13.9)
CapEx	(8.05)	(7.32)	(9.1)	(15.59)	(13.09)	(16.0)
Free Cash Flow	11.32	7.10	(37.3)	12.31	10.94	(11.1)
Cash and Cash Equivalents at the end of period	58.99	28.14	(52.3)	58.99	28.14	(52.3)
EBITDA Margin(%)	36.88	37.38	-	35.44	37.10	-

Note:

1. The calculation of figures is based on NT\$ mn.
2. Free cash flow is calculated by subtracting CapEx from Net Cash Flows from Operating Activities.
3. The figures of 2014 are un-audited.

Forecast & Operating Results

(NT\$bn)	Consolidated					
	Q2 2014 (T-IFRSs)	Q2 2014 (T-IFRSs E)	Achieving %	Jan-Jun 2014 (T-IFRSs)	2014 (T-IFRSs E)	Achieving %
Revenues	55.78	55.88	99.8	110.83	228.23	48.6
Operating Costs and Expenses	43.45	44.20	98.3	86.59	184.70	46.9
Income from Operations	12.32	11.69	105.4	24.22	43.53	55.7
Net Income	10.60	9.73	109.0	20.84	35.84	58.1
EPS	1.37	1.25	109.0	2.69	4.62	58.1
EBITDA	20.85	20.05	103.9	41.12	77.10	53.3
EBITDA Margin (%)	37.38	35.88	-	37.10	33.78	-

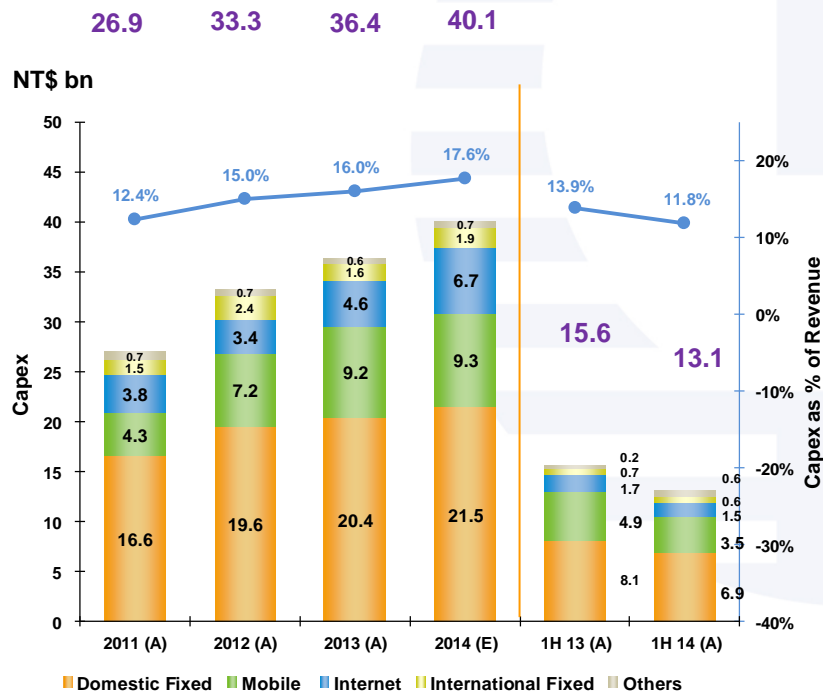
Note 1: The information therein is predictive and may not necessarily be fully realized in the future, and that reference to the company's significant accounting policy and summary of basic assumptions shall be made for further details.

Note 2: The figures of 2014 are un-audited.

Effective and Efficient Capital Expenditure

Capital Expenditure

- Budgeted capex for 2014: NT\$40.1bn
- Continue to focus on core businesses for future investments
 - 4G / 3G
 - FTTx
 - Service Platforms
 - Cloud / IDC



Note: Figures are on consolidated basis



Q&A





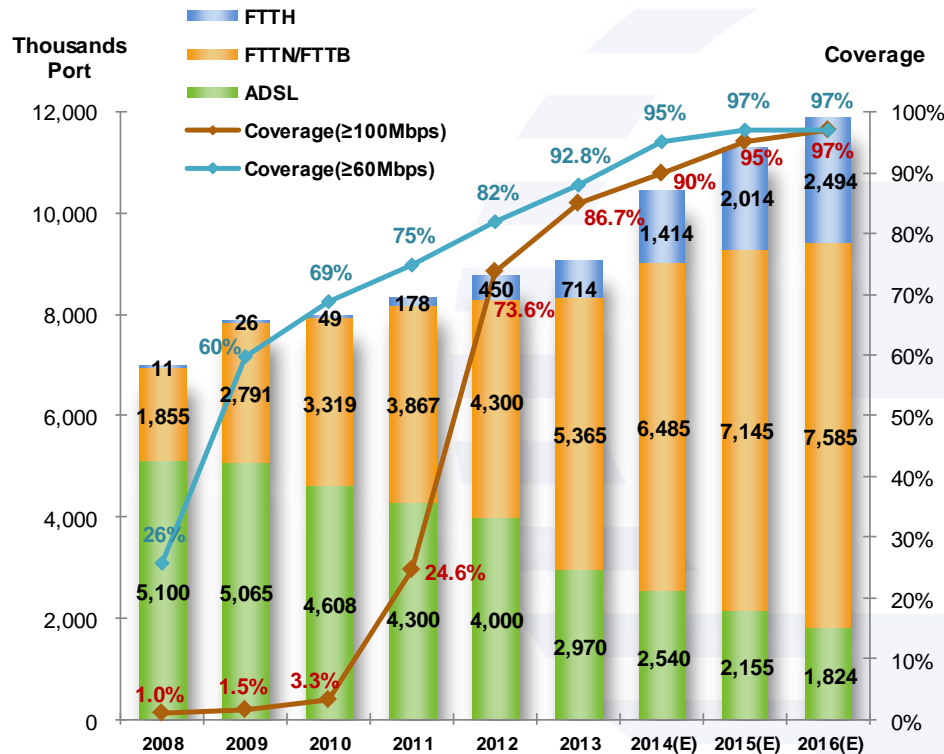
Reference



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% 2013 = 0.79%
		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 over 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



Note:

- (1) The Coverage rate is based on the household number (8.32mn) as of June 2014
- (2) Wireline : Fixed + Internet
- (3) 100Mbit/s fiber construction adopted traditional technologies in 2011, and DSL bonding technologies and GPON solutions in 2012.

Fiber Deployment Plan

- 🌐 FTTx coverage (≥100Mbit/s) reach 97% by 2016
- 🌐 Increase FTTH construction in order to meet the demand of ultra fast broadband*
- 🌐 Fiber construction plan including CAPEX will be reviewed in accordance with market demand

***Note:**

Chunghwa Telecom defines ultra fast broadband as connection with downstream speeds of 300Mbit/s or more.