



中華電信
Chungwa Telecom



2Q 2017 Operating Results

July 27, 2017

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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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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

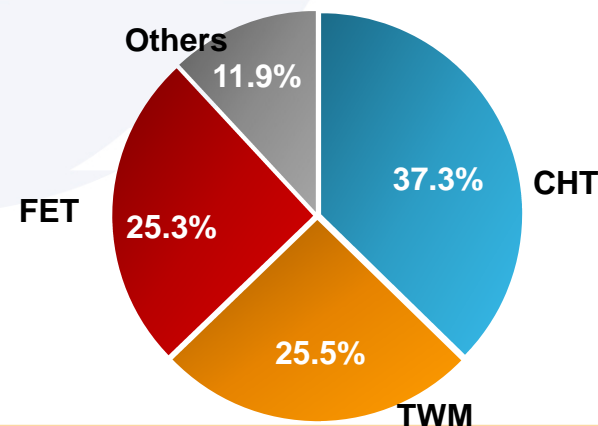
Strong Market Position ^(a)

- Domestic Fixed
 - #1 Local
 - 93.4% share by subs (10.85mn subs)
 - 84.9% share by minutes
 - #1 DLD
 - 83.4% share by minutes
 - #1 Broadband access
 - 74.2% share by subs ^{(b)(c)} (4.47 mn subs)
- Mobile
 - #1 Mobile subscribers
 - 37.3% market share ^(d) (10.74mn subs)
 - #1 Mobile revenue
 - 37.2% market share ^{(d)(e)}
- Internet
 - #1 ISP
 - 68.1% share by subs (4.16 mn subs)
- International Fixed
 - #1 ILD
 - 59.9% share by minutes

Operational Strategies

- Streamline services and strengthen profitability
- Capitalize and remain at the forefront of digital convergence trends
- Leverage governments' new southbound development policy
- Broaden corporate governance initiatives
- Continue to invest in talent, network construction and R&D

Mobile Subs Market Share



Source: Company data, MOTC, and NCC statistics

a) Market share as of May. 2017

b) CHT access circuits were not included

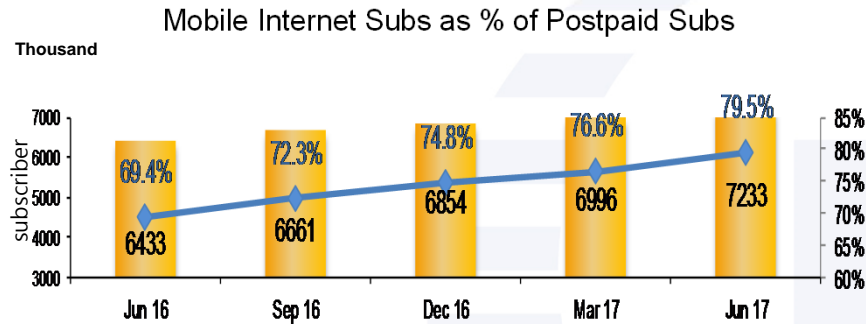
c) Excluding PWLAN subscriber numbers

d) Includes 2G, 3G and 4G

e) Revenues are based on T-IFRSs .

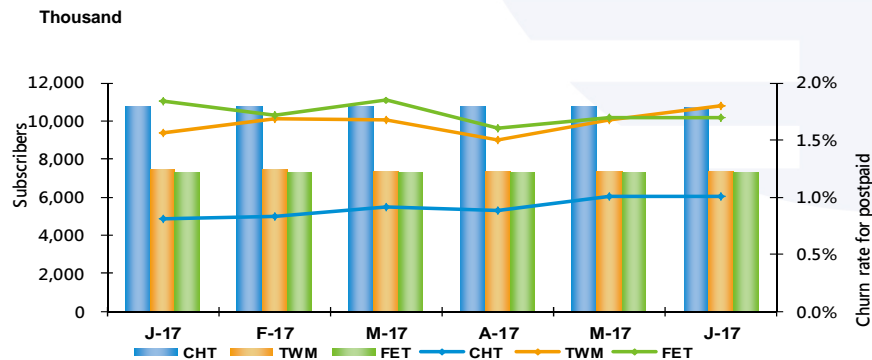
Number One Mobile Services Provider

Mobile Internet Adoption



Note : Subscribers with mobile internet plan subscription.

Highest Subs & Lowest Churn



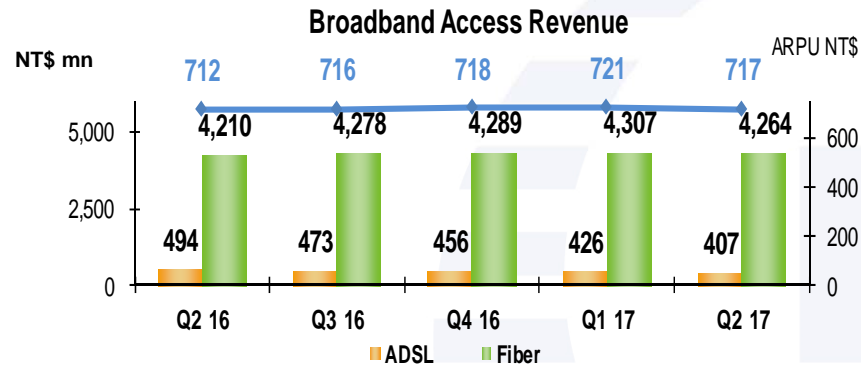
Note : Churn rate for postpaid subscribers

Strategy

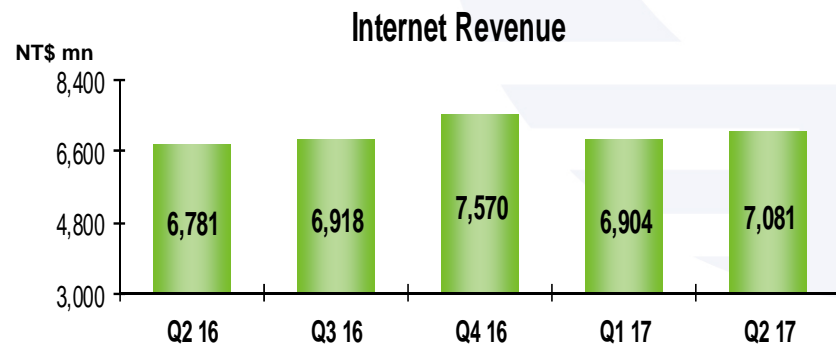
- Continue raising threshold for unlimited data usage to move towards tier-pricing and fair usage policies
- Re-allocate marketing resource to shepherd subscription toward high-end bundled plans
- Strengthen subscriber acquisition and retention initiatives
- Promote VAS and new applications
- Grow enterprise customers revenues

Fixed Broadband and Internet Services

Performance



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

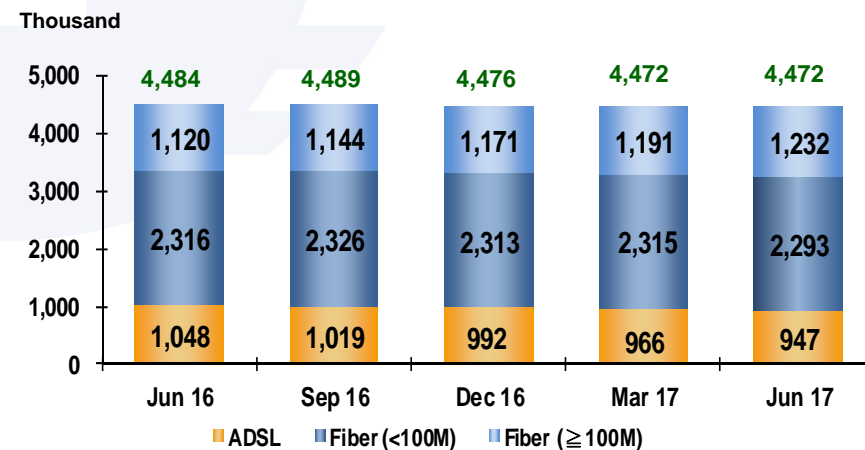


Note : Revenue is calculated based on T-IFRSs

Strategy

- Leverage network capability to offer high-speed upload service
- Leverage Big Data capability for precision marketing and precision network construction
- Leverage mobile, broadband and Wi-Fi capabilities to offer seamless internet services
- Expedite CDN construction and OTT promotion to enhance digital convergence product competitiveness

Fixed Broadband Subs



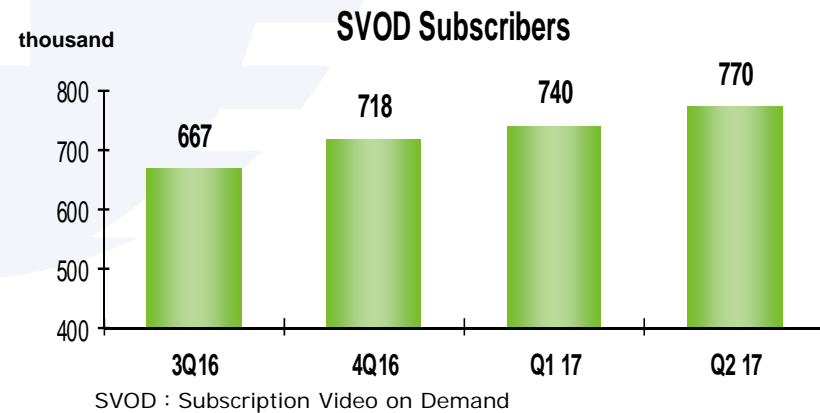
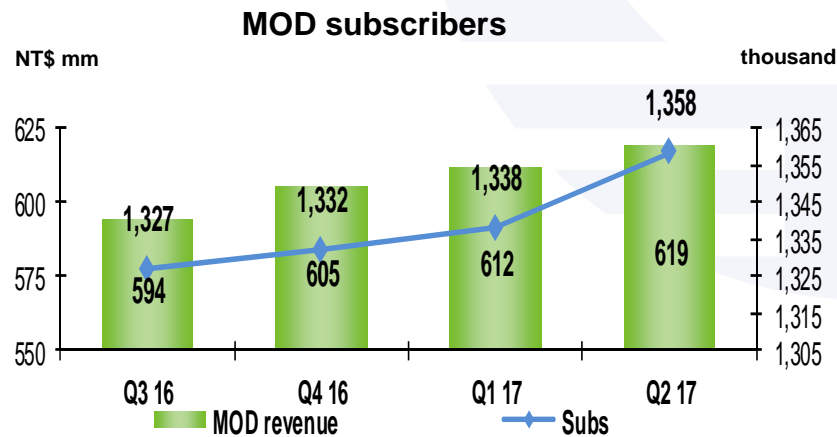
MOD/ IPTV Service

Performance

- Subscriber market share (CATV+IPTV) YoY remained at around 20.4% in Q1 2017
- Household TV Usage rate increased to 73.1% from 69.3% YoY for Q2 2017

Strategy

- Continue to enrich content, including movies, drama, TV series and cartoons for SVOD
- Leverage the existing broadband and 4G mobile subscriber base to grow MOD subscribers
- Plan to carry OTT service onto IPTV platform
- Lead to launch MOD 4K trial service in March



Enterprise ICT Initiatives

Enhancement

- Further explore ICT business opportunity by establishing IoT platform to facilitate IoT application environment
- Leverage our strengths in information security, big data analysis, cloud computing, etc.
- Continue to build ICT core capabilities to enhance our service strength

Strategy

- Leverage our advantage on network infrastructure, IDC, CDN, etc. to expand ICT business
- Launch highest-rated cloud IDC to further explore business opportunities in finance, ISP and ICP/OTT industries
- Offer ICT total solutions by integrating our capabilities on cloud, information security, IoT and customization
- Develop in-house big data capability for future commercialization
- Cooperate with partners to develop an ecosystem to provide IoT services across various industries



Financials Overview



Financials: Income Statement Highlights

(NT\$bn)	Consolidated					
	Q2 2017	Q2 2016	Growth %	H1 2017	H1 2016	Growth %
Revenues	55.67	56.20	(0.9)	110.20	113.14	(2.6)
Operating Costs and Expenses	43.35	43.31	0.1	86.33	86.46	(0.1)
Income from Operations	12.32	12.88	(4.3)	23.85	26.66	(10.5)
Net Income ²	10.44	11.06	(5.6)	20.04	22.73	(11.8)
Net Income Margin ³ (%)	19.36	20.17	-	18.71	20.56	-
EPS	1.35	1.43	(5.6)	2.58	2.93	(11.8)
EBITDA	20.35	20.99	(3.1)	39.95	42.90	(6.9)
EBITDA Margin (%)	36.54	37.35	-	36.25	37.92	-

Note:

1. Financials are prepared in accordance with T-IFRSs. Figures for Q2 and H1 2017 are unaudited.
2. Net income attributable to owners of the parent.
3. Net income margin is based on consolidated net income (including net income attributable to NCI)
4. The calculation of growth rates is based on NT\$mnn.

Financials: Business Segment Revenues

(NT\$bn)	Q2 2017	Q2 2016	Growth %	H1 2017	H1 2016	Growth %
Domestic Fixed	16.99	18.35	(7.4)	33.76	36.08	(6.4)
Local	7.43	8.01	(7.3)	14.81	15.97	(7.2)
DLD	0.67	0.73	(8.7)	1.32	1.45	(8.8)
Broadband Access	4.67	4.70	(0.7)	9.40	9.53	(1.4)
MOD	0.62	0.57	8.0	1.23	1.16	6.4
Mobile	26.79	26.48	1.2	53.45	54.64	(2.2)
Mobile Voice	8.36	9.44	(11.4)	16.85	19.08	(11.7)
Mobile VAS	10.81	10.35	4.5	21.41	20.66	3.6
Sales of Mobile Handsets, and Data Cards	7.32	6.43	13.9	14.61	14.32	2.0
Internet	7.08	6.78	4.4	13.99	13.44	4.1
Data Communications	5.27	5.17	2.0	10.52	10.31	2.0
Application VAS	1.22	1.12	9.2	2.37	2.19	8.1
International Fixed	3.69	3.66	0.9	6.84	7.26	(5.8)
ILD	2.23	2.21	0.7	3.94	4.39	(10.3)
Leased line	0.45	0.45	0.0	0.94	0.92	2.0
Others	1.12	0.93	20.4	2.17	1.72	25.3
Total	55.67	56.20	(0.9)	110.21	113.14	(2.6)

Note:

1. Financials are prepared in accordance with T-IFRSs. Figures for Q2 and H1 2017 are unaudited.
2. The calculation of growth rates is based on NT\$ mn.
3. Businesses shown under each segment are highlighted; therefore, sum of the highlighted revenues is not equal to the total.

Financials: Costs & Expenses

(NT\$bn)	Consolidated					
	Q2 2017	Q2 2016	Growth %	H1 2017	H1 2016	Growth %
Operating Costs	35.08	35.25	(0.5)	69.70	70.36	(0.9)
Operating Expenses	8.27	8.06	2.6	16.63	16.10	3.3
Marketing	6.15	6.01	2.4	12.43	12.01	3.6
General and Administrative	1.16	1.10	4.9	2.32	2.25	3.0
R&D Expense	0.96	0.95	1.5	1.88	1.84	1.8
Total	43.35	43.31	0.1	86.33	86.46	(0.1)

Note:

1. Financials are prepared in accordance with T-IFRSs. Figures for Q2 and H1 2017 are unaudited.
2. The calculation of growth rates is based on NT\$ mn.

Financials: Cash Flow

(NT\$bn)	Consolidated					
	Q2 2017	Q2 2016	Growth %	H1 2017	H1 2016	Growth %
Net Cash Flow from Operating Activities	15.94	13.41	18.9	26.59	19.90	33.6
CapEx	5.08	3.43	47.9	9.69	6.82	42.1
Free Cash Flow	10.86	9.98	8.9	16.90	13.08	29.2
Cash and Cash Equivalents at the end of period	48.34	44.64	8.3	48.34	44.64	8.3

Note:

1. Financials are prepared in accordance with T-IFRSs. Figures for Q2 and H1 2017 are unaudited.
2. The calculation of growth rates is based on NT\$ mn.
3. Free cash flow is calculated by subtracting CapEx from Net Cash Flows from Operating Activities.

Operating Results vs. Forecast

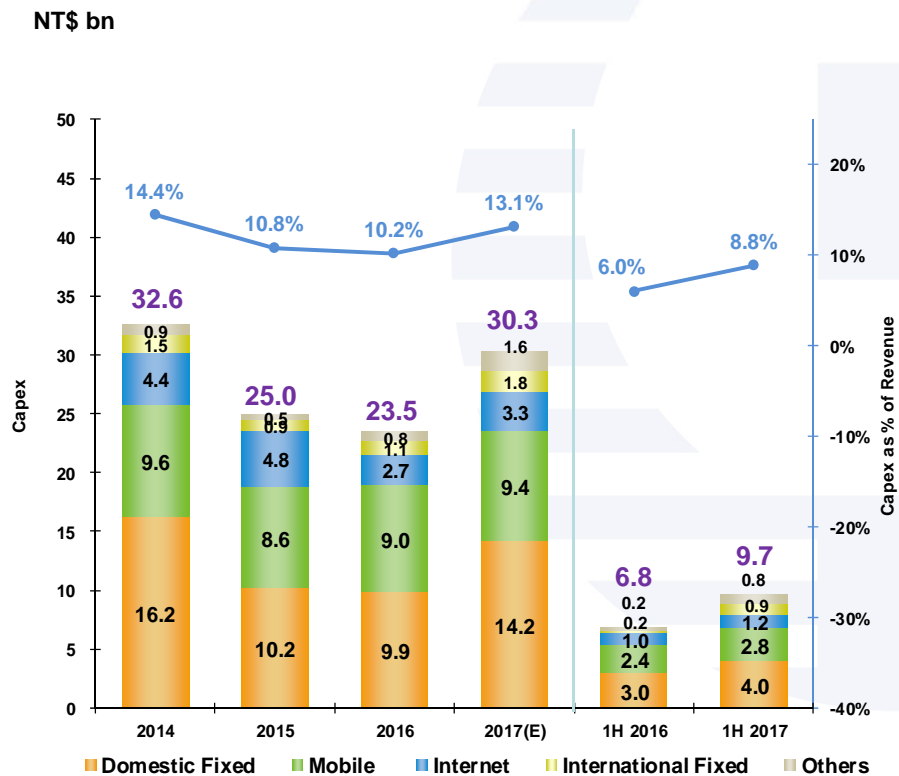
(NT\$bn)	Consolidated						
	Q2 2017 (A)	Q2 2017 (E)	Achieving %	1H 2017 (A)	1H 2017 (E)	Achieving %	2017 (E)
Revenues	55.67	56.05	99.3	110.20	110.71	99.5	231.16
Operating Costs and Expenses	43.35	44.77	96.8	86.33	88.74	97.3	186.45
Income from Operations	12.32	11.27	109.3	23.85	21.95	108.7	44.66
Net Income ²	10.44	9.42	110.9	20.04	18.35	109.2	36.89
EPS	1.35	1.21	110.9	2.58	2.37	109.2	4.75
EBITDA	20.35	19.56	104.0	39.95	38.61	103.5	77.91
EBITDA Margin (%)	36.54	34.90	-	36.25	34.88	-	33.70

Note:

1. Financials are prepared in accordance with T-IFRSs. Figures for Q2 and H1 2017 are unaudited.
2. Net income attributable to owners of the parent.

Effective and Efficient Capital Expenditure

Capital Expenditure



- Budgeted capex for 2017: NT\$30.3 bn
- Continue to focus on core businesses for future investments
 - FTTx
 - 4G
 - IDC/ Cloud
 - Service Platforms

Reference



Regulatory Update (2017/4/1 ~ 2020/3/31)

Target	Business	Applicable Services		X factor	Years in effect	Formula : $\Delta\text{CPI} - X$
SMP (Significant Market Power)	Fixed-line	1	■ Broadband access monthly fee (exclude FTTH、FTTB、ADSL and >100Mbps service)	3.19%	3	1. The three year tariff reduction plan is applicable from April 1, 2017 to March 31, 2020 and applied based on the previous year tariff. 2. ΔCPI for year 2016 = 1.40%
		2	Domestic leased line wholesale service	5.1749%		
		3	IP Peering			
All 2G/3G/4G Operators	Mobile	mobile interconnection fee		NT\$1.15/min (new rate not yet announced, currently same as in 2016)		

Q&A

