



中華電信  
Chungwa Telecom



# Q3 2011 Operating Results

October 28, 2011

# Disclaimer

## STATEMENT REGARDING UNAUDITED FINANCIAL INFORMATION

The unaudited financial information under ROC GAAP in this presentation is preliminary and subject to adjustments and modifications. The audited financial statements and related notes with reconciliation to U.S. GAAP will be included in our annual report on Form 20-F for the year ending December 31, 2010. Adjustments and modifications to the financial statements may be identified during the course of the audit 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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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.

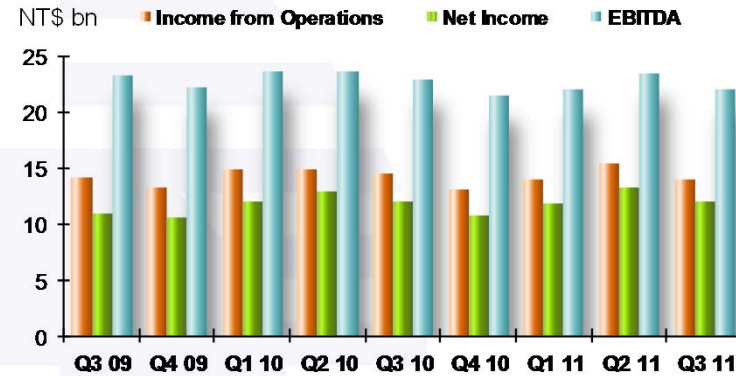
EBITDA is not a measure of financial performance under U.S. GAAP or ROC GAAP. EBITDA should not be considered as an alternate measure of net income or operating income, as determined on a consolidated basis using amounts derived from statements of operations prepared in accordance with U.S. GAAP or ROC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

# Solid Performance

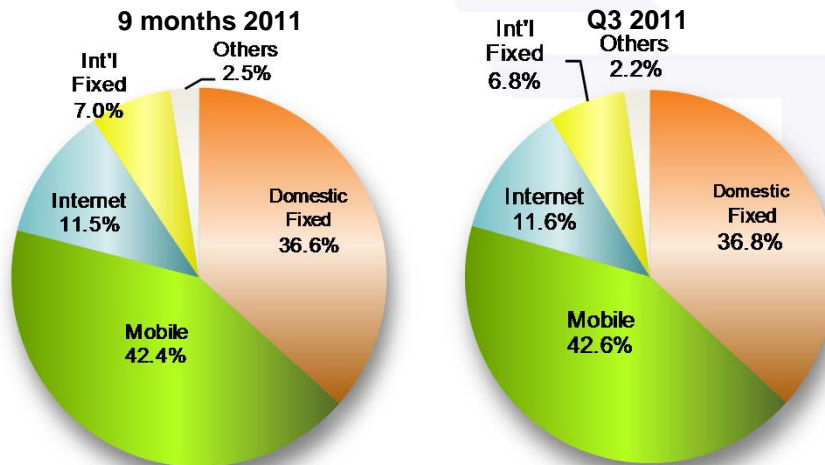
## Consolidated Revenue



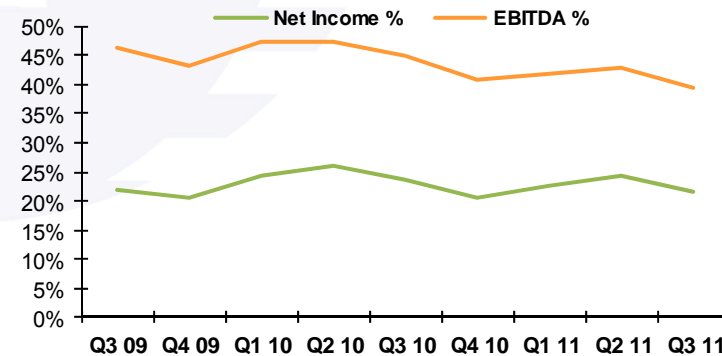
## Income and EBITDA



## Revenue Breakdown (Consolidated)

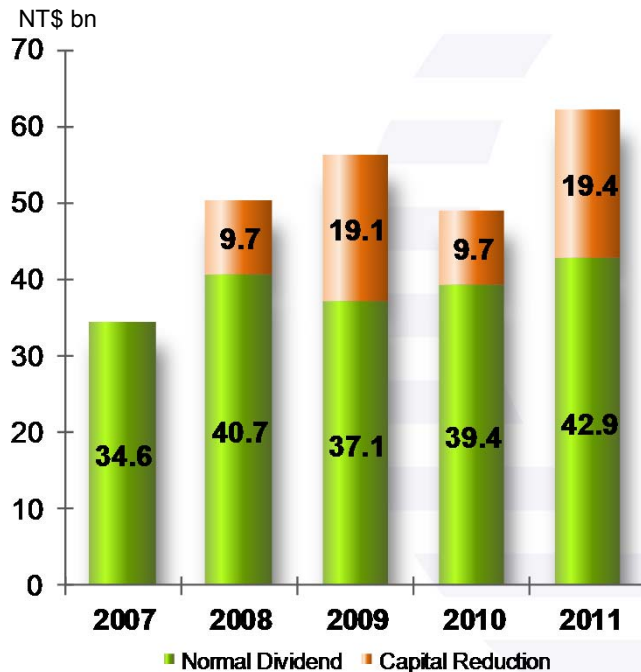


## Net Income and EBITDA Margin



# Consistent Return to Shareholders

## Cash Return



- NT\$5.5243 per share cash dividend for year 2010 has been distributed on August 17, 2011
- Cumulative cash returns of NT\$57.9bn to shareholders in the previous four rounds of capital reduction

Note:

- 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 for year 2011 was calculated based on total share number 7,757,446,545



# Business Overview



# Business Highlights

## Mobile

- Smartphone drives VAS revenue growth, smartphone represents 45% of handset sold in Q3
- Offer limited “on-net call free” and “my hot line” packages to retain customers’ loyalty

## Broadband

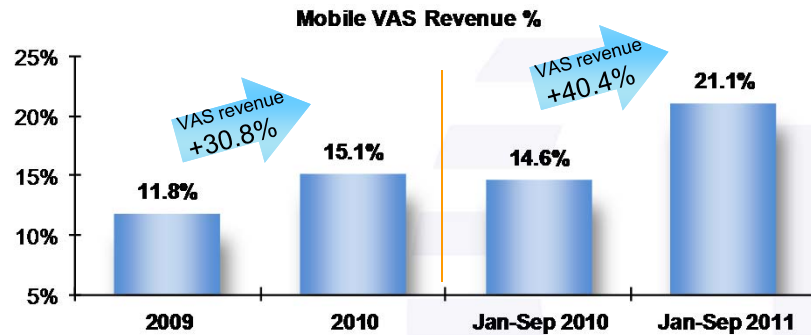
- Promoting higher-speed package, subscriber of 50Mbps reached 365,000
- Tariff reduction initiated by the company to attract customers to migrate to higher speed fiber services

## IPTV/MOD

- IPTV packages continue being popular and competitive
- We expect to have 43 HD channels by the end of 2011, being a top-notch audio/video platform that offers the richest HD content service in Taiwan
- New IPTV platform is ready to be launched in December 2011

# Number One Mobile Service Provider

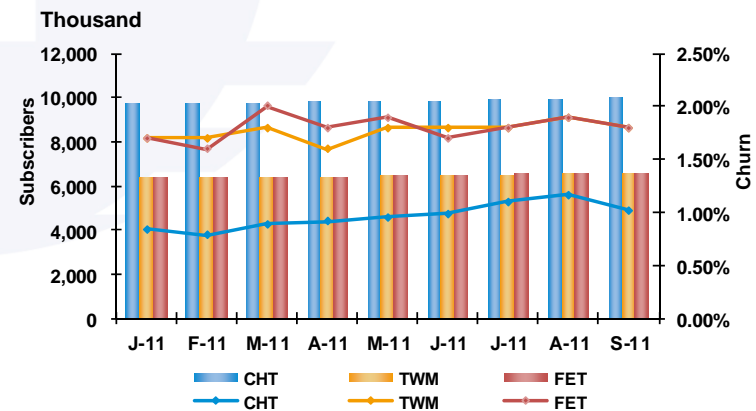
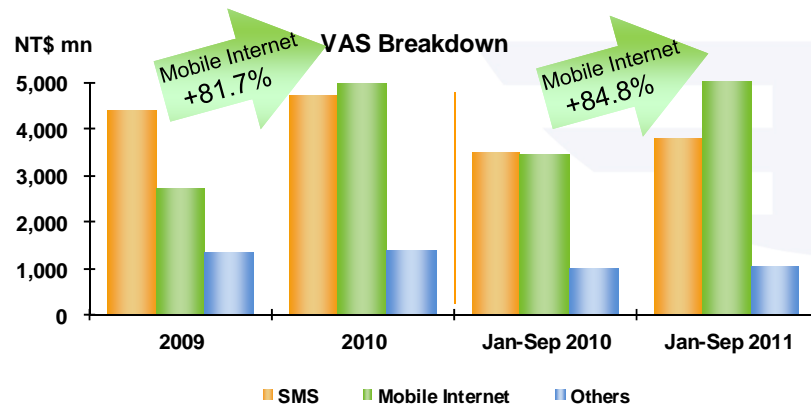
## VAS Performance



## Strategies

- Maintain mobile leadership by acquiring customers, minimizing churn rate, and increasing user loyalties via compelling user experiences
- Create value via smartphone and tablets services
- Increase mobile VAS revenue by offering customized and integrated Hami VAS services with mobile Internet tariff plans over 3.75G+Wi-Fi networks
- Provide alternative network by accumulating Wi-Fi APs totaled 19,000 by Sep. 2011, expect to accumulate 20,000 by 2011

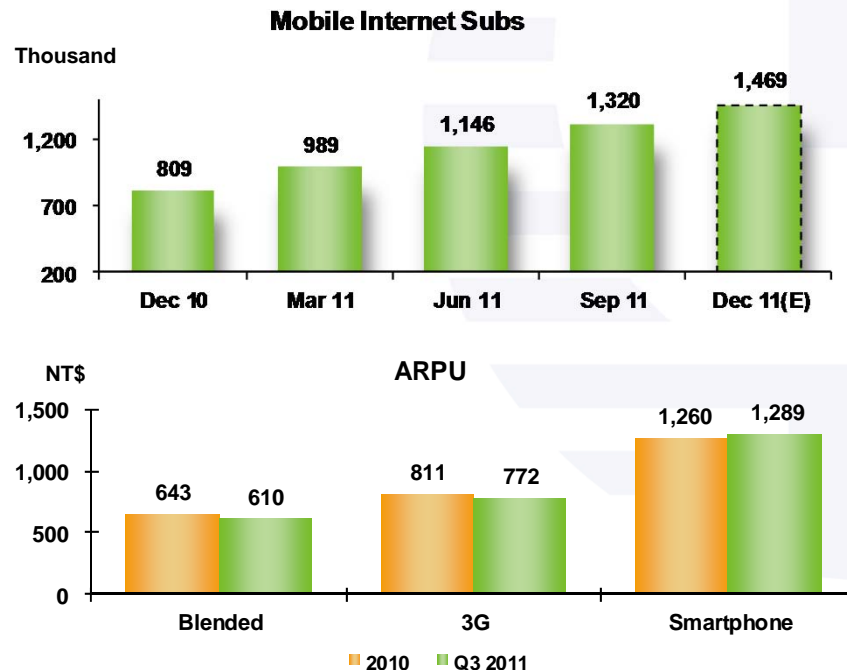
## High Subs & Lowest Churn



# Smartphone – Value Driver for Mobile

## Performance

- Smartphone customers account for 45% of the total handsets CHT offered in Q3 2011
  - The percentage for year 2010 was 25%
  - The percentage is expected to reach 35% to 45% by 2011



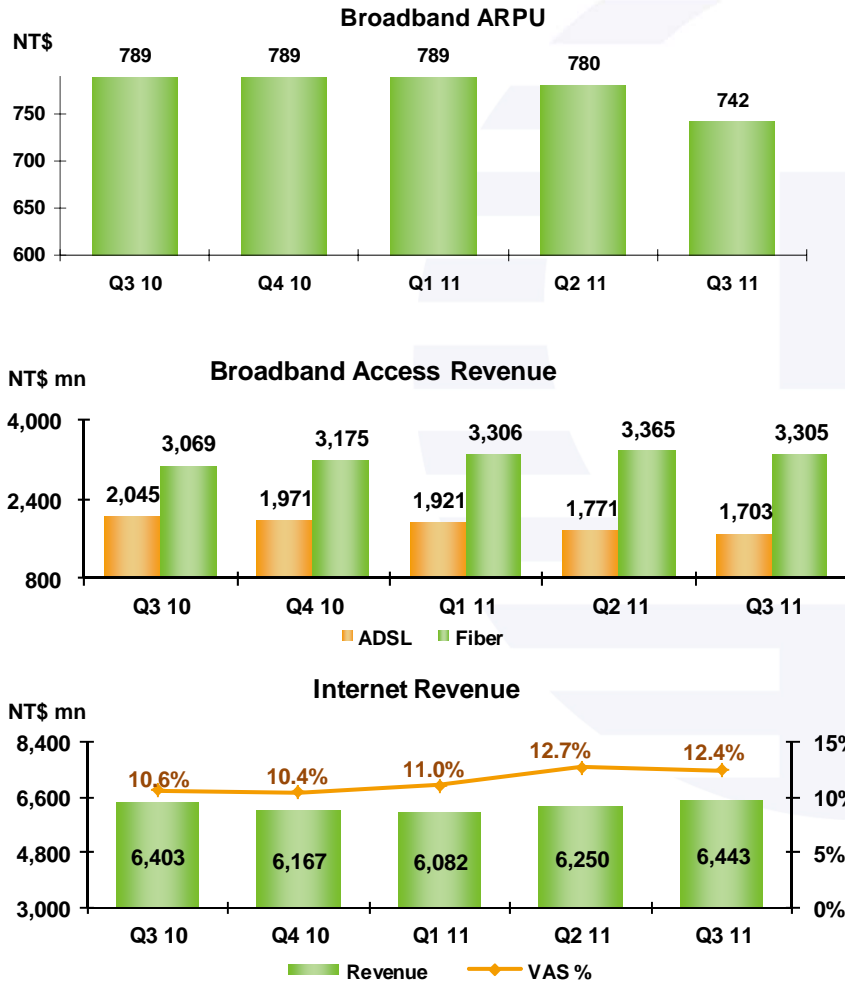
## Successful Smartphone Strategies

- Promote smartphones with variety of applications to increase premium customer penetration
- Introduce flagship smartphone models with professional service team to promote local contents- Hami app
- Provide quality mobile network by continue increase public Wi-Fi hot spots and offload 3G mobile internet loading



# Broadband Services - Growth Drivers in Fixed-line

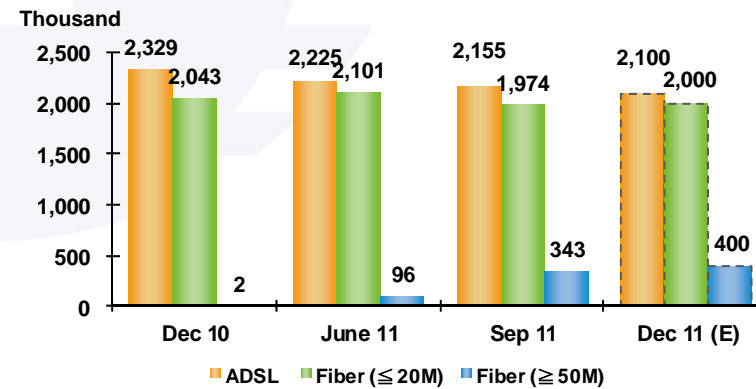
## Performance



## Strategies

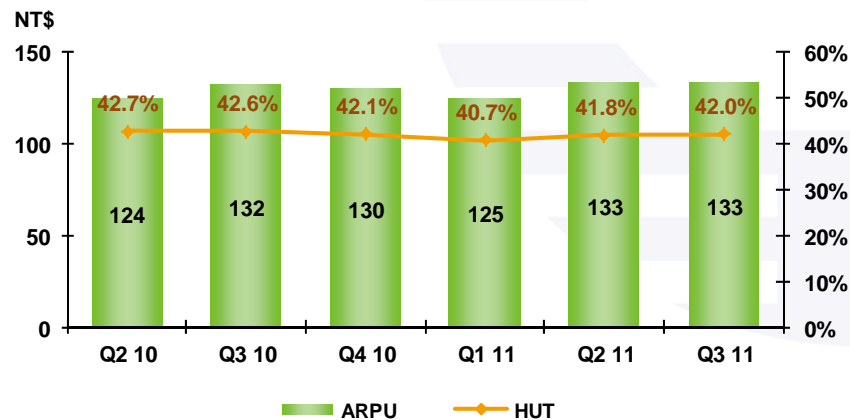
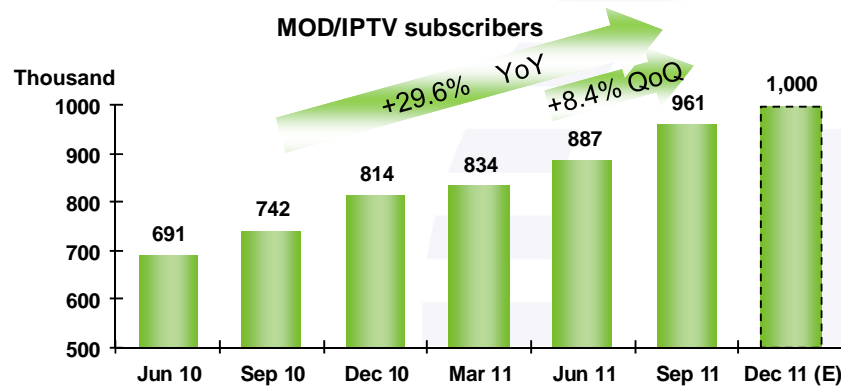
- Continue fiber network construction to increase household coverage
- Promote fiber high-speed broadband services and focus on 50Mbps service in 2011
- Further launch innovative value-added services such as cloudbox

## Broadband Subscribers



# Growing Momentum in MOD/ IPTV

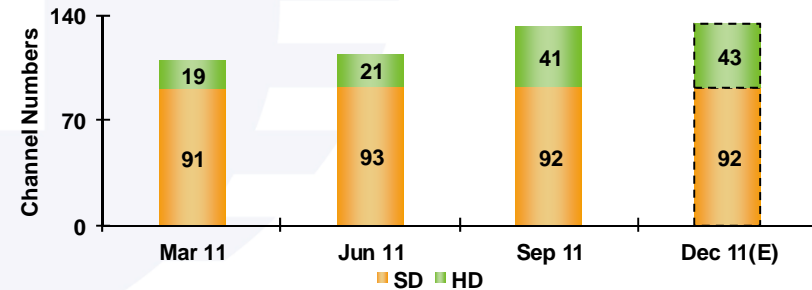
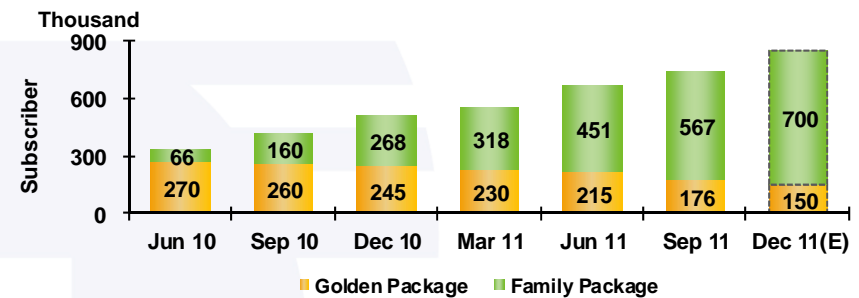
## MOD/IPTV Subscribers



Note : HUT: Homes Using TV rate

## Performance

- Launched Family Packages on Apr. 16, 2010
- Continue enriching contents of Family Packages



- Providing the highest number of HD channels in local market (Ex: ESPN, National Geographic, FOX, Star movies, ELTA, eye TV, Universal Channel...)
- Acquire Olympic 2012 new media broadcasting right



# Financials Overview



## Financials: Income Statement Highlights

(NT\$bn)	ROC GAAP (Consolidated)					
	Jan-Sep 2010	Jan-Sep 2011	Growth Rate	Q3 2010	Q3 2011	Growth Rate
Net Revenues	150.13	162.61	8.3%	50.85	55.71	9.5%
Operating Costs and Expenses	105.90	119.37	12.7%	36.41	41.83	14.9%
Income from Operations	44.23	43.24	(2.3%)	14.44	13.88	(3.9%)
Net Income	36.94	37.07	0.3%	11.95	11.93	(0.2%)
Net Income Margin (%)	24.61	22.79		23.50	21.42	
EBITDA	69.94	67.36	(3.7%)	22.88	21.94	(4.1%)
EBITDA margin (%)	46.59	41.42		44.98	39.38	

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

# Financials: Business Segment Revenues

(NT\$bn)	ROC GAAP (Consolidated)					
	Jan-Sep 2010	Jan-Sep 2011	Growth Rate	Q3 2010	Q3 2011	Growth Rate
<b>Domestic Fixed</b>	<b>52.05</b>	<b>59.50</b>	<b>14.3%</b>	<b>17.52</b>	<b>20.52</b>	<b>17.1%</b>
Local	24.06	31.33	30.2%	8.10	10.74	32.6%
DLD	5.05	4.40	(12.8%)	1.65	1.46	(11.4%)
Broadband Access	15.17	15.37	1.3%	5.11	5.01	(2.1%)
<b>Mobile</b>	<b>66.63</b>	<b>68.95</b>	<b>3.5%</b>	<b>22.30</b>	<b>23.76</b>	<b>6.6%</b>
Mobile Voice	46.73	41.99	(10.2%)	15.72	14.21	(9.6%)
Mobile VAS	7.98	11.21	40.4%	2.79	3.92	40.5%
Handset Sales	11.81	15.68	32.8%	3.77	5.61	49.0%
<b>Internet</b>	<b>18.32</b>	<b>18.78</b>	<b>2.5%</b>	<b>6.40</b>	<b>6.44</b>	<b>0.6%</b>
Internet Services	13.56	13.55	(0.1%)	4.58	4.35	(4.9%)
Internet VAS	1.61	1.85	14.7%	0.54	0.61	13.3%
<b>International Fixed</b>	<b>11.70</b>	<b>11.43</b>	<b>(2.3%)</b>	<b>4.01</b>	<b>3.78</b>	<b>(6.0%)</b>
ILD	9.59	9.38	(2.2%)	3.34	3.03	(9.3%)
Leased line	0.81	0.73	(10.6%)	0.25	0.26	5.2%
<b>Others</b>	<b>1.44</b>	<b>3.95</b>	<b>174.8%</b>	<b>0.62</b>	<b>1.21</b>	<b>94.8%</b>
<b>Total</b>	<b>150.13</b>	<b>162.61</b>	<b>8.3%</b>	<b>50.86</b>	<b>55.71</b>	<b>9.5%</b>

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

# Financials: Costs & Expenses

(NT\$bn)	ROC GAAP (Consolidated)					
	Jan-Sep 2010	Jan-Sep 2011	Growth Rate	Q3 2010	Q3 2011	Growth Rate
<b>Operating Costs</b>	<b>84.08</b>	<b>96.76</b>	<b>15.1%</b>	<b>28.94</b>	<b>34.17</b>	<b>18.1%</b>
<b>Operating Expenses</b>	<b>21.82</b>	<b>22.61</b>	<b>3.6%</b>	<b>7.47</b>	<b>7.66</b>	<b>2.5%</b>
<b>Marketing</b>	<b>16.48</b>	<b>16.85</b>	<b>2.2%</b>	<b>5.73</b>	<b>5.82</b>	<b>1.6%</b>
<b>General and Administrative</b>	<b>2.92</b>	<b>3.16</b>	<b>8.2%</b>	<b>0.88</b>	<b>0.94</b>	<b>5.8%</b>
<b>R&amp;D Expense</b>	<b>2.42</b>	<b>2.60</b>	<b>7.3%</b>	<b>0.86</b>	<b>0.90</b>	<b>5.1%</b>
<b>Total</b>	<b>105.90</b>	<b>119.37</b>	<b>12.7%</b>	<b>36.41</b>	<b>41.83</b>	<b>14.9%</b>

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

# Cash Flow

(NT\$bn)	ROC GAAP (Consolidated)					
	Jan-Sep 2010	Jan-Sep 2011	Growth Rate	Q3 2010	Q3 2011	Growth Rate
Net Cash Flow from Operating Activities	52.43	45.05	(14.1%)	19.49	19.05	(2.3%)
CAPEX	15.50	16.58	7.0%	6.18	6.66	7.9%
Free Cash Flow	36.93	28.47	(22.9%)	13.31	12.39	(6.9%)
Cash and Cash Equivalent at the end of period	67.40	48.80	(27.6%)	67.40	48.80	(27.6%)

Note:

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

# Forecast & Operating Results

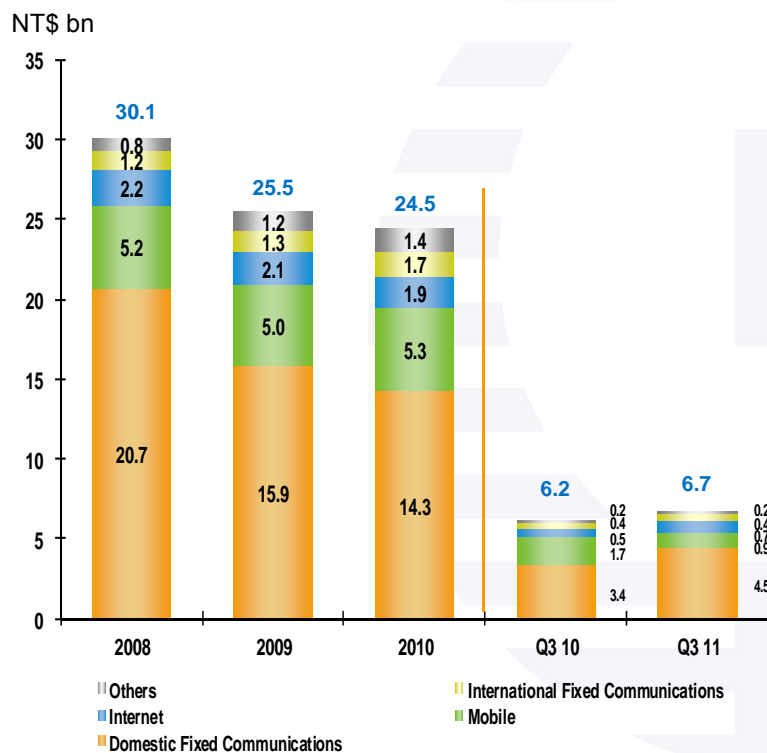
(NT\$bn)	ROC GAAP (Parent Company Only)					
	Jan-Sep 2011	2011 (E)	Achieving Rate	Q3 2011	Q3 2011 (E)	Achieving Rate
Net Revenues	144.57	190.02	76.1%	49.04	47.70	102.8%
Operating Costs and Expenses	104.21	138.61	75.2%	36.21	34.59	104.7%
Income from Operations	40.36	51.41	78.5%	12.83	13.11	97.8%
Net Income	37.07	45.73	81.0%	11.93	11.61	102.8%
EPS	4.75	5.87		1.54	1.49	
EBITDA	64.20	83.80	76.6%	20.79	21.13	98.4%
EBITDA margin (%)	44.41	44.10		42.40	44.29	

Note: These projections are based on a number of estimates and assumptions and are inherently subject to significant uncertainties and contingencies.



# Effective and Efficient Capital Expenditure

## Capital Expenditure



CapEx as % of Revenue	2008	2009	2010	Q3 10	Q3 11
	14.9%	12.8%	12.2%	12.1%	12.0%

Note: Figures are on consolidated basis.

- Moderately speed up mid-term capital expenditure
  - Focus on Fixed and Mobile broadband
- Continue to focus on core businesses for future investments
  - 3G / HSPA / HSPA+ / LTE
  - FTTx
  - Wi-Fi / Femtocell
  - Service Platforms
  - Cloud computing

Q&A



Reference



# Regulatory Update

## Tariff Regulation

- Wireline and wireless tariff reduction starting from April 1, 2010 over 3 years (Pls refer to reference page 21)

## F2M calls Pricing Right

- Pricing rights was reverted back to fixed operator in the beginning of 2011 (Pls refer to reference page 22~23)

## Digital Convergence Regulation

- Executive Yuan had passed Digital Convergence Policy Initiative in July 2010
  - Telecom Act and Broadcasting-related Regulations will be amended and reviewed by Legislative Yuan in June 2012
  - Digital Convergence Framework is expected to be approved in June 2014

## 2G license Extension

- Local GSM 900/1800 license will expire in 2012 and 2013
- License renewal guideline was released by MOTC on Nov 25 2010
  - The term of original 2G license can be extended to Jun 2017
  - The licenses to be auctioned in 2015 will be technology neutral

## Single-tariff for fixed-line calls

- In Jan 2011, Legislative Yuan resolved that NCC and CHT to propose a single tariff for island-wide phone service in six months

# Tariff Regulations

Target	Business Operation	Applicable services	X factor	Years in effect	Formula: $\Delta\text{CPI} - X$
SMP (Significant Market Power)	Fixed-line	1 IP Peering	4.816%	3	1. The three year tariff reduction plan is applicable from Apr 1, 2010 to Mar 31, 2013 and applied based on the previous year tariff.
		2 Domestic wholesale leased line			
		3 ADSL circuit			
		4 Domestic long distance call (excl. Public phone call)			
All 2G/3G operators	Mobile	1 Domestic SMS	5%	3	2. $\Delta\text{CPI}$ for year 2009 = -0.87 3. $\Delta\text{CPI}$ for year 2010 = 0.96 4. $\Delta\text{CPI}$ for year 2011 to be decided
		2 Off-net voice call tariffs including (1) Off-net mobile (2) Mobile to fixed calls			
		3 voice call interconnection	NCC will modify regulations of wholesale rates of voice call termination on mobile network.		



## Regulatory Update- F2M call pricing

	Payment to Mobile Operators (NT\$/Minute)						F2M call pricing
<b>Dominant Fixed-line Market player (CHT)</b>	◎ Mobile Interconnection Fee (NT\$2.15) + Transition Fee (NT\$1.956~0) in peak hours and Mobile Interconnection Fee (NT\$2.15) only in off-peak hours ◎ Transition Fee decreases to zero over the period of 6 years						No higher than CHT's 2G tariff before the reverse
	2011	2012	2013	2014	2015	2016	
	1.956	1.7304	1.3843	1.0383	0.6922	0.3461	
<b>Other Fixed-line Operators</b>	Mobile Interconnection Fee (zero transition fee ) in all hours						No higher than CHT's 2G tariff before the reverse



# F2M Call Pricing Right Revert Back

-Illustration of impact on profit

NT\$bn	Annual Impact <sup>a</sup>		
	Fixed Voice	Mobile Voice	Total
Service revenues from external customers	+11.48 <sup>b</sup>	-7.48	+4.00
Intersegment service revenues	-1.28 <sup>d</sup>	+5.74 <sup>c</sup>	+4.46
Operating costs & expenses	+5.32 <sup>e</sup>	-0.01 <sup>f</sup>	+5.31
Intersegment costs and expenses	+5.74 <sup>c</sup>	-1.28 <sup>d</sup>	+4.46
<b>Profit Impact</b>	<b>-0.86</b>	<b>-0.45</b>	<b>-1.31</b>

Note:

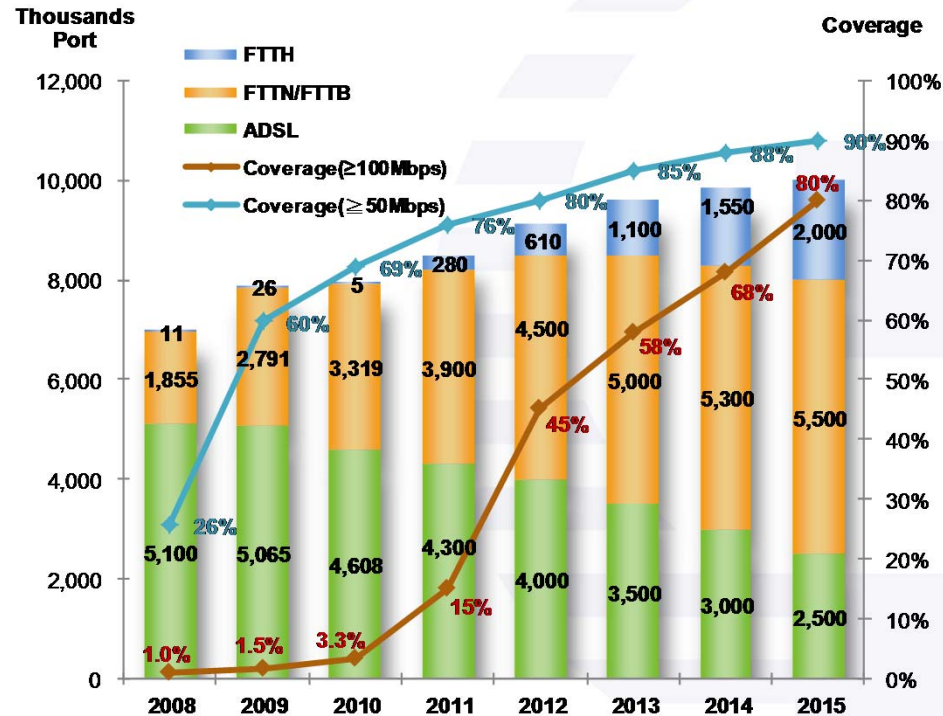
- (a) The illustration are based on actual traffic volume for year 2010.
- (b) Fixed voice revenue will increase but partially offset by the removal of interconnection and billing handling income from other mobile operators
- (c) Interconnection and transition payment from CHT fixed to CHT mobile segment
- (d) No more interconnection and billing handling fee from CHT mobile to CHT fixed segment
- (e) Interconnection and transition payment to other mobile operators and increase of franchise fee
- (f) Mobile franchise fee to decrease

Note: The interconnection and transition payment will be declining over years



# Continuing Broadband Network Construction

## Fiber Deployment Plan



- FTTx access expected to exceed ADSL access by year 2011
- FTTx coverage (≥ 100Mbps) expected to reach 80% by year 2015
- Broadband access + ISP revenue slightly growing in upcoming years
- Wireline<sup>(note)</sup> VAS revenues expected to have higher growth

Note:

(1) The Coverage rate is based on the household number (8.04mn) as of Sep. 2011

(2) Wireline : Fixed + Internet