

## Chunghwa Telecom Co., Ltd.

Board of Directors  
Chairman : Dr. Chi-Kuo Mao  
President & CEO : Shyue-Ching Lu

Financial Spokerspersion  
Name : C. C. Chen  
Title : Senior Vice President &  
Secretary General  
TEL NO. : 886-2-2344-3605  
E-MAIL : chencc@cht.com.tw

Financial Agency Spokerspersion  
Name : Hank H. C. Wang  
Title : Senior Managing Director,  
Finance Department  
TEL NO. : 886-2-2344-2809  
E-MAIL : chank@cht.com.tw

Business Spokerspersion  
Name : Feng-Hsiung Chang  
Title : Senior Vice President  
TEL NO. : 886-2-2344-5768  
E-MAIL : fh5768@cht.com.tw

Business Agency Spokerspersion  
Name : Tai-Feng Leng  
Title : Senior Managing Director  
Marketing Department  
TEL NO. : 886-2-2344-5392  
E-MAIL : tfleng@cht.com.tw

## Chunghwa Telecom and Affiliates

Chunghwa Telecom Co., Ltd.  
21-3, Hsinyi Rd., Sec. 1, Taipei  
TEL : 886-2-2344-3691  
FAX : 886-2-2356-8306  
<http://www.cht.com.tw>

Northern Taiwan Business Group  
42, Jenai Rd., Sec. 1, Taipei  
TEL : 886-2-2344-2485  
FAX : 886-2-2397-0539  
<http://www.chtn.com.tw>

Central Taiwan Business Group  
161, Senmin Rd., Sec. 1, Taichung  
TEL : 886-4-2344-2511  
FAX : 886-4-2344-2516  
<http://www.chtc.com.tw>

Southern Taiwan Business Group  
230, Linsen 1st Rd., Kaohsiung  
TEL : 886-7-344-3350  
FAX : 886-7-344-3391  
<http://www.chts.com.tw>

Long Distance & Mobile Phone Business Group  
52, Chinshan S. Rd., Sec. 2, Taipei  
TEL : 886-2-2344-2825  
FAX : 886-2-2356-3023  
<http://www.chtldm.com.tw>

International Business Group  
31, Aikuo E. Rd., Taipei  
TEL : 886-2-2344-3580  
FAX : 886-2-2393-0064  
<http://www.chti.com.tw>

Data Communication Business Group  
21, Hsinyi Rd., Sec. 1, Taipei  
TEL : 886-2-2344-4756  
FAX : 886-2-2394-8404  
<http://www.hinet.net>

Telecommunication Laboratories  
12, Mintsu Rd., Sec. 3, Lane 551, Yangmei Jen,  
Taoyuan County  
TEL : 886-3-424-4239  
FAX : 886-3-424-4444  
<http://www.tl.gov.tw>

Telecommunication Training Institute  
168, Mintsu Rd., Panchiao  
TEL : 886-2-2963-9587  
FAX : 886-2-2963-9453  
<http://www.tti.com.tw>

Chunghwa Telecom is your---

great help in e-Life, and  
best partner for e-Commerce.

A leader in Mobile Info-society, and  
a value creator in Knowledge-base Economy.

## Contents

CHAIRMAN'S STATEMENT	2
MANAGEMENT DISCUSSION & ANALYSIS	6
-FIXED LINE SERVICES	
-WIRELESS SERVICES	
-INTERNET & DATA SERVICES	
-OTHER VALUE-ADDED SERVICES ON HINET AND TELECOMMUNICATIONS SERVICE	
INDEPENDENT AUDITORS' REPORT	14
BALANCE SHEETS	16
STATEMENTS OF INCOME	18
STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY	19
STATEMENTS OF CASH FLOWS	20
INDUSTRY FINANCIAL INFORMATION	22
STATEMENTS OF INCOME (PRO FORMA)	24
STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (PRO FORMA)	26
STATEMENTS OF CASH FLOWS (PRO FORMA)	28
ORGANIZATION CHART	30
BOARD OF DIRECTORS & EXECUTIVE MANAGEMENT	32



## CHAIRMAN'S STATEMENT



SHARPEN THE COMPETITIVE EDGE - MAINTAINING THE LEADERSHIP

CHALLENGING TO WIN MARKET SHARE IN FIERCE COMPETITION

FOCUSING RESOURCES ON HIGH-GROWTH BUSINESSES

CREATING NEW CORPORATE CULTURE AND ADJUSTING DIRECTION TO FACE TOUGHER CHALLENGES AHEAD

### SHARPEN THE COMPETITIVE EDGE - MAINTAINING THE LEADERSHIP

Amid the slump of the world economy and intensified competition, Chunghwa Telecom met the challenges during the FY2001 (January 1 to December 31, 2001). Though we incurred a minimal decrease in total revenue, we achieved a strong performance across all three major business areas - fixed line services, wireless services and Internet and data services.



Chairman  
Chi-Kuo Mao

毛國鈞



President & CEO  
Shyue-Ching Lu

呂正德

The total number of local telephone subscribers reached 12.8 million, an increase of 1.5% over the previous year (2000: 12.6 million). International outgoing calls totaled 1.3 billion minutes, an increase of 25.7% (2000: 1.1 billion minutes). Mobile phone subscribers increased from 4.6 million last year to 6.2 million, reclaiming the number one position in Taiwan's market share. Internet users increased to 2.7 million from 2.1 million.

Currently Chunghwa Telecom owns many No. 1s in Taiwan's highly competitive telecom arena. In addition to being the largest fixed-line service provider, it is the largest ISP with the HiNet brand of Internet, the largest broadband access provider, and also the largest nationwide mobile phone service provider. In terms of revenues, it is one of the largest incumbent operators in Asia. With strong synergy attributed to the dedication of our experienced and competent employees, we reached a ratio of 408 subscriber lines per employee. As a result, Chunghwa Telecom is accredited as one of the world-class telecommunications companies with high efficiency.

One of our strategic objectives is to maintain our leadership in the traditional voice market. We pursue this by reducing customers' churn and developing a variety of voice value-added services. Aiming at our dominated target markets and major accounts, we must comprehend our customers' service initiations, and further stimulate and encourage them to use more of our dedicated, versatile integrated telecommunications services with a view to enhancing their competitive edge in doing business. Through this

process, we also learn how to strengthen our competitive edge by controlling from the first to the last mile of our access network, retaining our cost advantage and upgrading our network infrastructure.

### CHALLENGING TO WIN MARKET SHARE IN FIERCE COMPETITION

During the period of 2001, a fierce business competition exploded in Taiwan's telecommunications sector as three new fixed-line entrants, who were awarded concessions in 2000, commenced their operations in 2001. Owing to the keen competition and stagnant world economy, our revenues in this period were down 2.5% at NT\$182 billion (2000: NT\$187 billion); Profit after taxation was down 8% at NT\$37 billion (2000: NT\$40 billion); And earnings per share showed a decrease of 8% at NT\$3.86 (2000: NT\$4.21). The outcome was of no discouragement and still within our estimation. Though on the fierce battlefield, we maintained a 99.7% market share based on revenues in local telephone service, 97.8% in long distance telephone service, and a rather minimal customer churn rate at below 10% in international long distance market. Due to the Internet and data sector deregulation in 1994, there are now over 180 ISPs and 3 broadband access providers in competition with us, yet we owned about 44% of the market share in terms of the number of subscribers. In the mobile phone sector, which was liberalized in 1997, there are 3 other nationwide mobile phone service providers, and Chunghwa Telecom had 32.8% market share in terms of total revenue from Taiwan's mobile phone market. In last August, we launched our GPRS, or 2.5G service, and branded this value-added mobile service

resources to high-growth businesses and other niches. As a result, our mobile phone service showed an increase of 22% in terms of the number of subscribers, by which we reclaim our leading position in Taiwan in both revenues and subscribers. As of December 31, 2001, we aggressively increased ADSL subscribers to a total of 857,000, accounting for 77% market share in terms of the number of broadband subscribers in Taiwan.

We kicked off a series of marketing initiatives such as rate rebates, loyalty programs, and sales bundling with other promotional packages. All these initiatives resulted in a net increase of over 1 million new mobile phone subscribers, or 71% higher than our closet mobile competitor for the first eight months of 2001. In the broadband service market, every month in 2001 we added approximately 70 thousand new subscribers, showing a subscriber take-up rate amongst the highest in the world.

We are also Taiwan's largest Internet service provider in terms of the number of subscribers. As of December 31, 2001 we had 2.7 million subscribers under the HiNet brand of Internet access service, representing a market share of approximately 44% of commercial Internet subscribers in Taiwan. With strong broadband infrastructure in the coming years, we expect brilliant growth, which will be encouraged by many niche and value-added services on HiNet, such as Higame, HiChannel, eMarketplace, and so forth.

Our human resources have been reallocated in compliance with existing and future business restructuring. We launched a special early-retirement package and the total headcount of our workforce sharply dropped 17% from last year (34,615 in 2000). Through effective reallocation, special training according to specific job requirements, and the implementation of performance-based incentive packages, we hope to dramatically improve our attributes of provision for service and market operation, and build a new paradigm in Taiwan for doing diversified and value-added telecommunications and information businesses. The intrinsic consideration

is to ensure the best services to our well-established and loyal customers.

### CREATING NEW CORPORATE CULTURE AND ADJUSTING DIRECTION TO FACE TOUGHER CHALLENGES AHEAD

Chunghwa Telecom is creating a new corporate culture and sharpening its competitive edge through restructuring. We must pursue technical upgrade and service innovation to optimize the revenue contribution from each business sector - both voice and high-growth areas. By creating new customers and keeping all existing ones to develop with us, we can create many new business models in synergy basis, and most of the ideas for these will come from our employees. When we implement these synergy models, our customers will enjoy rapid growth with us. In consequence, our new corporate culture will lay emphasis on mutual creation of value between Chunghwa Telecom and its customers. Our shareholders will enjoy the added value generated from these business models. We will pay special attention to those employees with creative ideas in services or business niches. We believe through the best practice of new corporate culture stressing the creation of customers and shareholders' value, and the realization of employees' ideas, we can ensure a long-lived operative conglomerate for Chunghwa Telecom.

In order to strengthen our competitiveness, we take various measures to enhance productivity, such as cost down, efficacy upgrade and effective management in assets and capital expenditure. To create more value for the company, we aim to drop the capital-expenditure-to-revenue ratio to 25% or less in the near future. We have rearranged the priority of our capital investment to accelerate pace of services with higher market and revenue potential. We also initiated rules and took steps to better use our lands and other capital assets. We will apply new strategies to expedite our capital investment diversification and financial leverage for increasing our Rate on Investment (ROI). At the same time we also need to adjust our pace, the direction, and the scale of our capital expenditure in consideration of the world's current trend, which shows

a tendency toward a moderate and conservative infrastructure investment, especially in traditional voice related service fields. Our belief is that all of these efforts will bring more than satisfactory results in maximizing the benefits of our shareholders.

The workforce previously focused on basic fixed-line voice services was re-trained and switched to handle mobile, ADSL, IP-based network, and other niches and high-growth business areas for increasing per employee's revenue contributions.

At present, the ARPU of Chunghwa Telecom's mobile phone service is the highest of the incumbent mobile operators in Taiwan. However, with the mobile phone penetration rapidly growing to an almost saturated state as well as its intensive competition, the ARPU of voice-only service is consequently declining slightly. This decline of ARPU in voice mobile will be offset by the expected growth of our value-added mobile data service, "emome". We are now exerting effort on enriching the content and quality of the value-added mobile service, in hope of increasing the popularity of our "emome" service. Apart from raising the ARPU of mobile service, how to substantially increase our ARPU for any of our business areas is a very important issue to Chunghwa Telecom and requiring corporate effort. Currently prospective strategies and concrete measures have been adopted for improving this aspect.

I would like to extend my heartfelt appreciation to our management team and especially to every individual employee in Chunghwa Telecom. Owing to very enthusiastic dedication, hard work, and great contribution rendered by all of our employees in harmonious synergy, we came up with many great achievements and yielded a very fruitful FY2001. In addition to being more than satisfied with the accomplishment creditable to our employees, we have to consolidate our resources and teamwork together once again for the even tougher challenges that lie ahead in 2002. We look boldly with certainty and confidence into these new challenges, because to us, the tougher they are, the better!































