



中華電信
Chunghwa Telecom

4Q 2016 Operating Results

January 25, 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.

NOTE CONCERNING FORWARD-LOOKING STATEMENTS

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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)

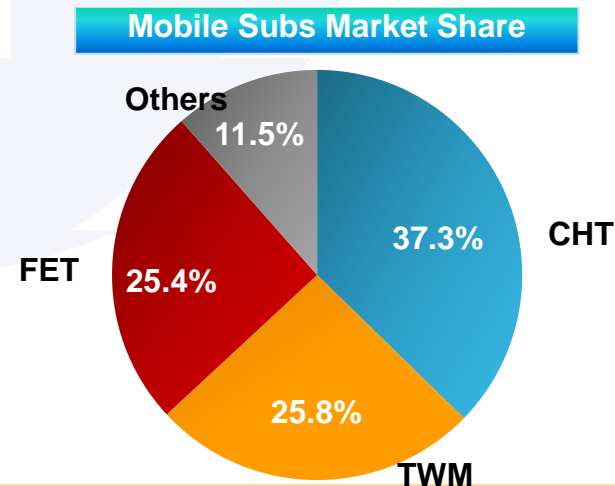
- ④ Domestic Fixed
 - #1 Local
 - 93.5% share by subs (10.96mn subs)
 - 85.1% share by minutes
 - #1 DLD
 - 83.0% share by minutes
 - #1 Broadband access
 - 74.4% share by subs ^{(b)(c)} (4.48 mn subs)
- ④ Mobile
 - #1 Mobile subscribers
 - 37.3% market share ^(d) (10.80mn subs)
 - #1 Mobile revenue
 - 36.9% market share ^{(d)(e)}
- ④ Internet
 - #1 ISP
 - 68.5% share by subs (4.18 mn subs)
- ④ International Fixed
 - #1 ILD
 - 56.2% share by minutes

Operational Strategies

- ④ Streamline services and strengthen profitability
- ④ Capitalize and remain at the forefront of digital convergence trends
- ④ Leverage governments' new southbound development policy
- ④ Broaden corporate governance initiatives
- ④ Continue to invest in talent, network construction and R&D

Source: Company data, MOTC, and NCC statistics

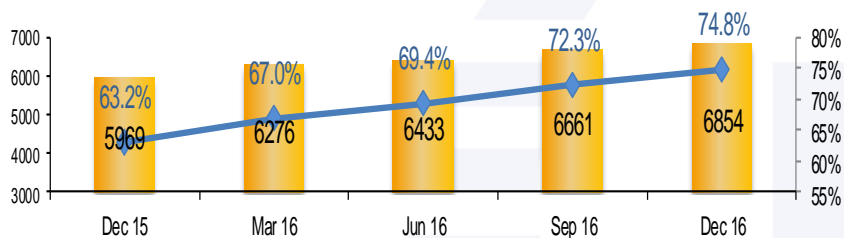
- a) Market share as of Nov. 2016
- b) CHT access circuits were not included
- c) Excluding PWLAN subscriber numbers
- d) Includes 2G, 3G and 4G
- e) Revenues are based on T-IFRSs .



Number One Mobile Services Provider

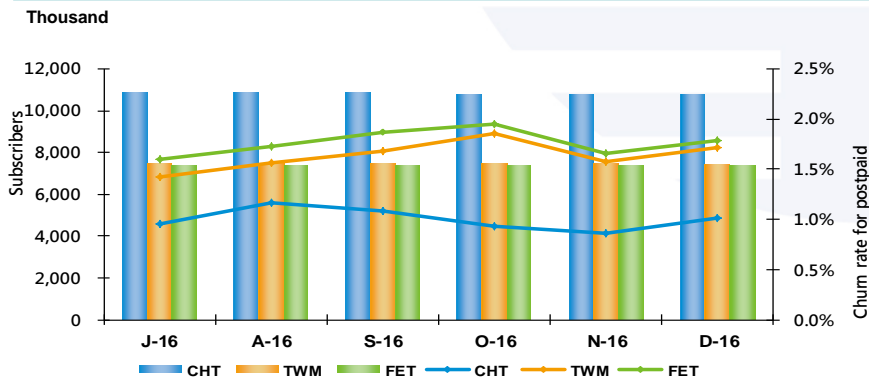
Mobile Internet Adoption

Mobile Internet Subs as % of Postpaid Subs



Note : Subscribers with mobile internet plan subscription.

Highest Subs & Lowest Churn



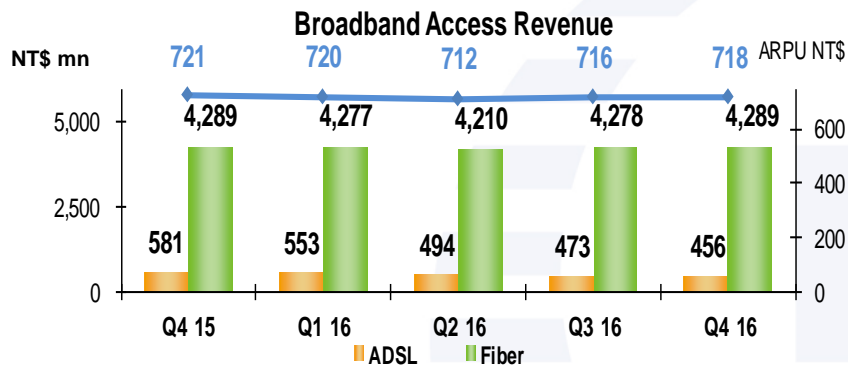
Note : Churn rate for postpaid subscribers

Strategy

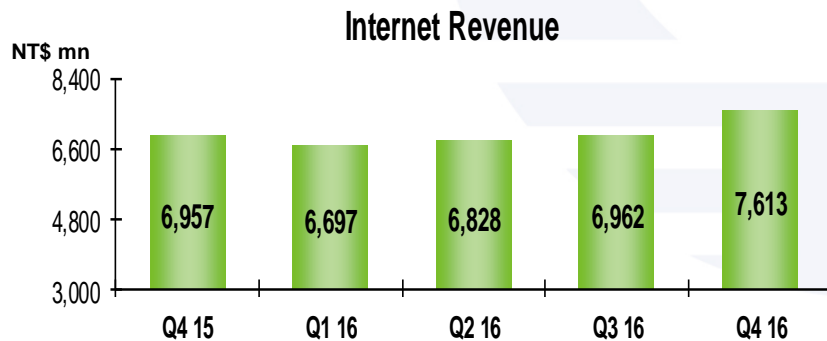
- Offering new 4G plans for mid-to-low and mid-to-higher tier customers, raising threshold for unlimited data usage to move towards tier-pricing and fair usage policies
- Strengthening subscriber acquisition and retention initiatives
- Promoting VAS and new applications
- Encouraging second SIM subscription for usage with wearable devices and IoT applications
- Growing 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

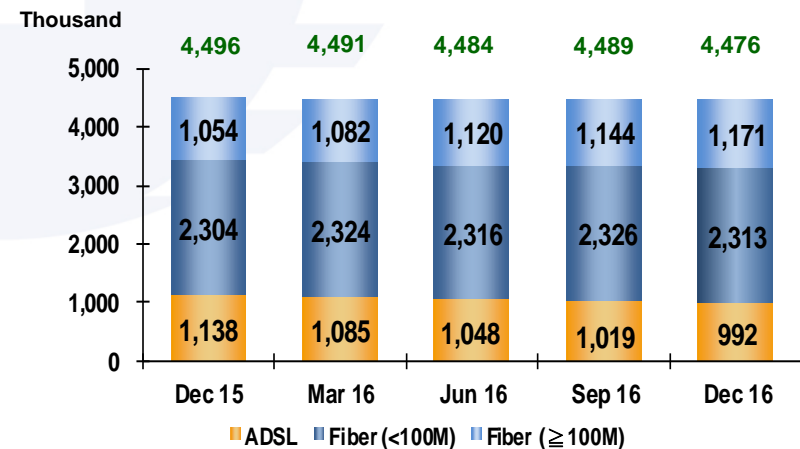


Note : Revenue is calculated based on T-IFRSs

Strategy

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

Fixed Broadband Subs



MOD/ IPTV Service

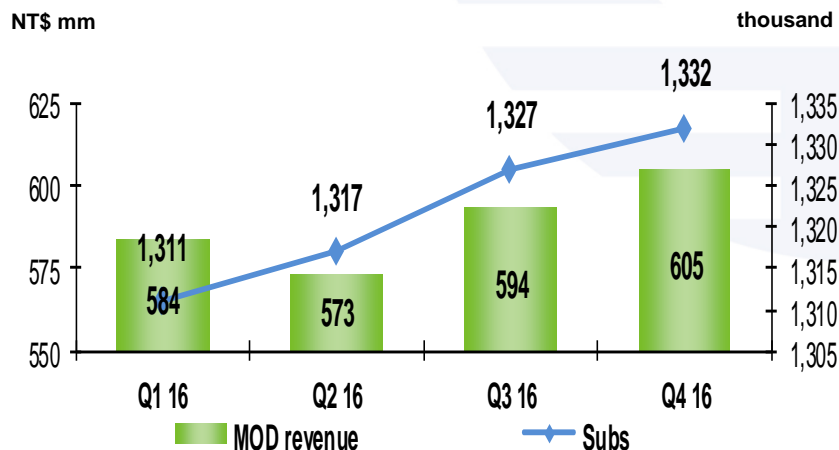
Performance

- Subscriber market share (CATV+IPTV) YoY remained at around 20.4% in Q3 2016
- Household TV Usage rate increased to 72.2% from 68.5% YoY for Q4 2016

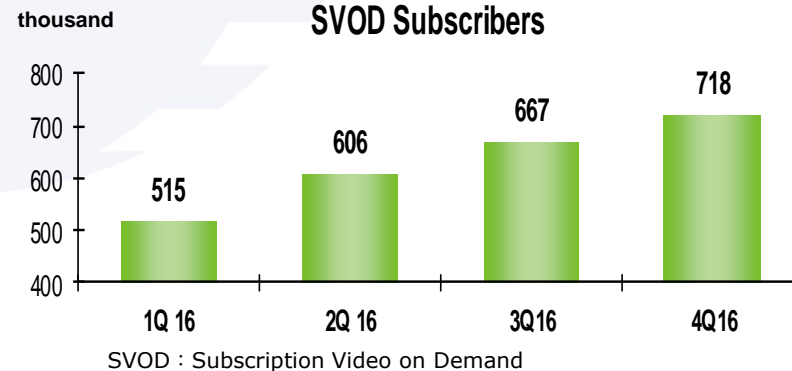
Strategy

- Continuing to enrich content, including movies, drama, TV series for SVOD
- Enhancing both MOD and OTT user interfaces
- Leveraging the existing broadband and 4G mobile subscriber base to grow MOD and OTT subscribers
- Leveraging the existing media content position in VOD to acquire OTT contents with all rights across three platforms
- Becoming the leading multi-screen service provider via a robust network infrastructure

MOD subscribers



SVOD Subscribers



Enterprise ICT Initiatives

Performance

- Information security and cloud service revenue increased 42% YoY in 2016
- Personal Cloud (Hami+) subscribers was 3.2 million till the end of 2016
- IoT service revenue totaled NT\$4.7 bn in 2016, a 43% increase YoY
- Acquired several significant ICT projects in 2016 with contract amount totaling NT\$20.3bn

Strategy

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



Financials Overview



Financials: Income Statement Highlights

(NT\$bn)	Consolidated					
	Q4 2016	Q4 2015	Growth %	2016	2015	Growth %
Revenues	58.35	62.22	(6.2)	230.01	231.79	(0.8)
Operating Costs and Expenses	47.98	50.86	(5.7)	181.46	181.33	0.1
Income from Operations	9.90	11.34	(12.7)	48.05	50.36	(4.6)
Net Income²	7.72	9.45	(18.3)	40.03	42.81	(6.5)
Net Income Margin³ (%)	13.73	15.69	-	17.91	18.84	-
EPS	1.00	1.22	(18.3)	5.16	5.52	(6.5)
EBITDA	18.04	19.58	(7.9)	80.53	83.81	(3.9)
EBITDA Margin (%)	30.92	31.46	-	35.01	36.16	-

Note:

1. Financials are prepared in accordance with T-IFRSs. Figures for Q4 2016 and 2016 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\$mn.

Financials: Business Segment Revenues

(NT\$bn)	Q4 2016	Q4 2015	Growth %	2016	2015	Growth %
Domestic Fixed	17.76	19.33	(8.1)	72.78	72.54	0.3
Local	7.74	8.23	(5.9)	31.65	33.57	(5.7)
DLD	0.70	0.76	(6.9)	2.88	3.12	(7.6)
Broadband Access	4.75	4.87	(2.6)	19.03	19.34	(1.6)
MOD	0.61	0.57	6.3	2.36	2.49	(5.5)
Mobile	28.39	31.08	(8.7)	110.82	114.88	(3.5)
Mobile Voice	8.90	10.15	(12.3)	37.29	41.28	(9.7)
Mobile VAS	10.47	10.13	3.4	41.50	39.59	4.8
Sales of Mobile Handsets, Tablets and Data Cards	8.72	10.58	(17.6)	30.85	33.17	(7.0)
Internet	7.61	6.96	9.4	28.10	26.38	6.5
Data Communications	5.25	5.17	1.5	20.91	20.41	2.5
Application VAS	1.69	1.21	40.1	5.01	3.98	25.9
International Fixed	3.45	3.78	(8.8)	14.43	14.86	(2.9)
ILD	2.07	2.28	(9.3)	8.83	9.65	(8.5)
Leased line	0.41	0.43	(5.3)	1.80	1.67	8.0
Others	1.14	1.08	5.8	3.87	3.15	23.1
Total	58.35	62.22	(6.2)	230.01	231.80	(0.8)

Note:

1. Financials are prepared in accordance with T-IFRSs. Figures for Q4 2016 and 2016 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					
	Q4 2016	Q4 2015	Growth %	2016	2015	Growth %
Operating Costs	38.69	41.82	(7.5)	147.56	148.13	(0.4)
Operating Expenses	9.29	9.04	2.8	33.90	33.20	2.1
Marketing	7.12	6.88	3.6	25.58	25.07	2.0
General and Administrative	1.17	1.16	0.8	4.53	4.51	0.4
R&D Expense	1.00	1.00	(0.3)	3.79	3.62	4.7
Total	47.98	50.86	(5.7)	181.46	181.33	0.1

Note:

1. Financials are prepared in accordance with T-IFRSs. Figures for Q4 2016 and 2016 are unaudited.
2. The calculation of growth rates is based on NT\$ mn.

Cash Flow & EBITDA Margin

(NT\$bn)	Consolidated					
	Q4 2016	Q4 2015	Growth %	2016	2015	Growth %
Net Cash Flow from Operating Activities	33.55	28.99	15.7	66.83	76.33	(12.4)
CapEx	11.17	9.61	16.2	23.48	25.08	(6.4)
Free Cash Flow	22.38	19.38	15.5	43.35	51.25	(15.4)
Cash and Cash Equivalents at the end of period	32.09	30.27	6.0	32.09	30.27	6.0
EBITDA Margin(%)	30.92	31.46	-	35.01	36.16	-

Note:

1. Financials are prepared in accordance with T-IFRSs. Figures for Q4 2016 and 2016 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					
	Q4 2016 (A)	Q4 2016 (E)	Achieving %	2016 (A)	2016 (E)	Achieving %
Revenues	58.35	62.74	93.0	230.01	233.49	98.5
Operating Costs and Expenses	47.98	51.50	93.2	181.46	185.53	97.8
Income from Operations	9.90	11.06	89.5	48.05	47.75	100.6
Net Income²	7.72	9.14	84.5	40.03	39.98	100.1
EPS	1.00	1.18	84.9	5.16	5.15	100.1
EBITDA	18.04	19.92	90.6	80.53	82.24	97.9
EBITDA Margin (%)	30.92	31.75	-	35.01	35.22	-

Note:

1. Financials are prepared in accordance with T-IFRSs. Figures for Q4 2016 and 2016 are unaudited.
2. Net income attributable to owners of the parent.

2017 Forecast

(NT\$bn)	Consolidated		
	2017 (E)	2016	Growth %
Revenues	231.16	230.01	0.5
Operating Costs and Expenses	186.46	181.46	2.8
Income from Operations	44.66	48.06	(7.1)
Net Income²	36.89	40.03	(7.8)
EPS	4.75	5.16	(7.8)
EBITDA	77.91	80.53	(3.3)
EBITDA Margin (%)	33.70	35.01	-

Note :

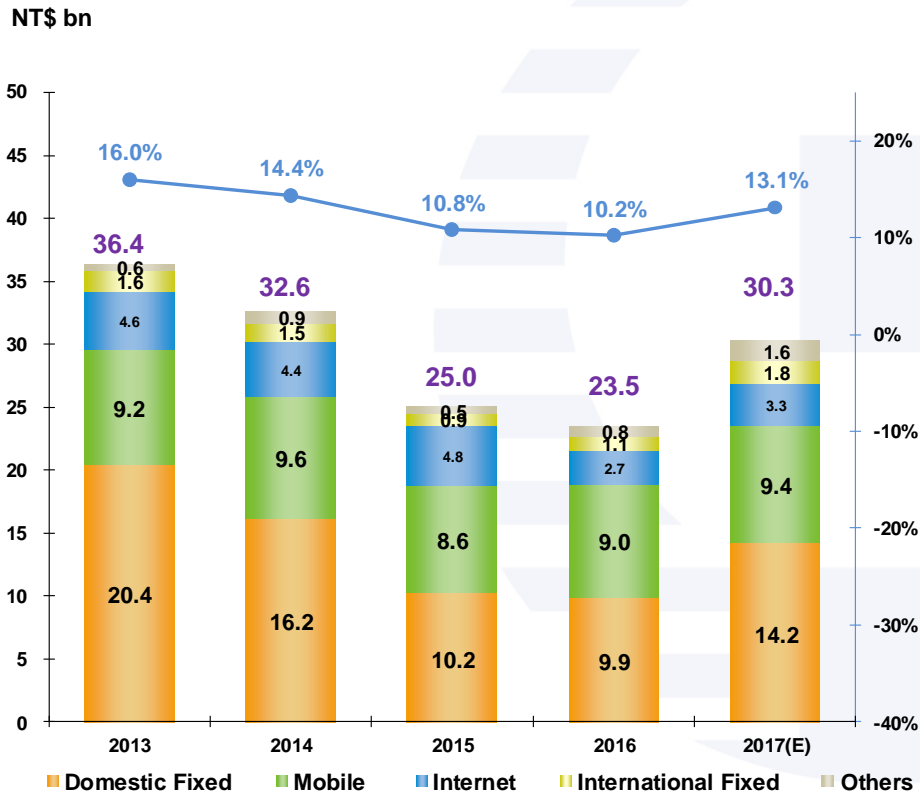
1. Financials are prepared in accordance with T-IFRSs.

2. Net income attributable to owners of the parent.

3. 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



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

Note: Capital expenditure here are cash-based.



Q&A

