



中華電信
Chunghwa Telecom

FY 2012 Operating Results

March 12, 2013

Taiwan, Technology & Beyond Conference in Taipei

Bank of America Merrill Lynch

Disclaimer

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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, 2012. 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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SPECIAL NOTE REGARDING NON-GAAP FINANCIAL MEASURES

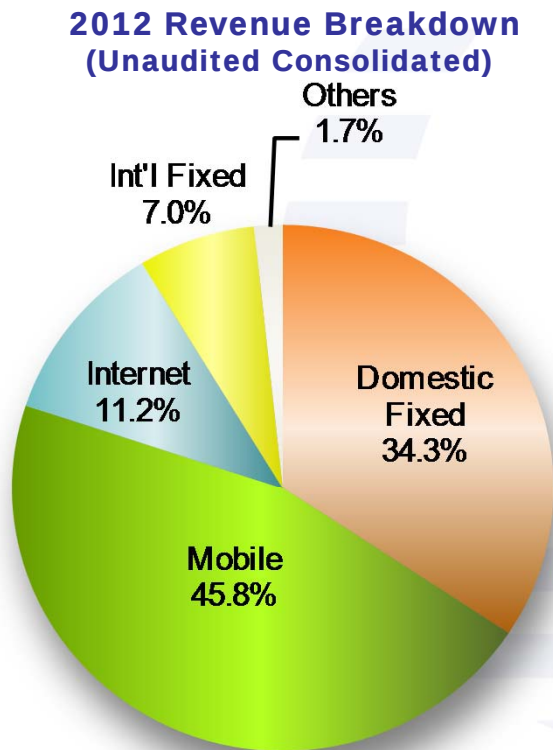
A body of generally accepted accounting principles is commonly referred to as “GAAP”. A non-GAAP financial measure is generally defined by the SEC as one that purports to measure historical or future financial performance, financial position or cash flows but excludes or includes amounts that would not 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 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.

Chunghwa Telecom Overview

Revenue Breakdown



Source: Company data, MOTC, and NCC statistics

a) Market share as of Dec. 2012

b) CHT access circuits were not included

c) Excluding PWLAN subscriber numbers

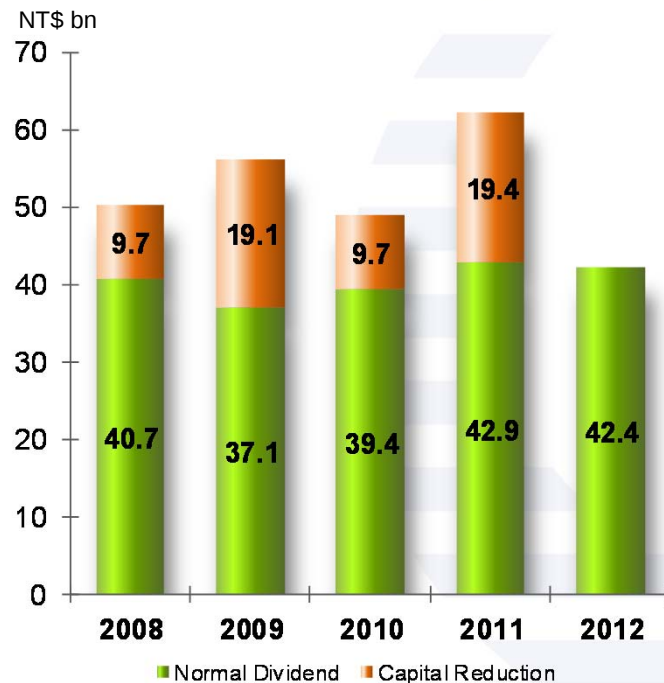
d) Includes 2G, 3G and PHS

Dominant Market Position ^(a)

- 🌐 **Domestic Fixed**
 - #1 Local
 - 95.0% share by subs (11.8 mn subs)
 - 87.1% share by minutes
 - #1 DLD
 - 75.4% share by minutes
 - #1 Broadband access
 - 79.2% share by subs ^{(b)(c)} (4.56 mn subs)
- 🌐 **Mobile**
 - #1 Mobile subscribers
 - 34.9% market share ^(d) (10.27 mn subs)
 - #1 Mobile revenue
 - 33.0% market share ^(d)
- 🌐 **Internet**
 - #1 ISP
 - 69.6% share by subs (4.24 mn subs)
- 🌐 **International Fixed**
 - #1 ILD
 - 51.0% share by minutes

Focus on Stable Dividend

Cash Return



- Expect to maintain a stable dividend
- The company's legal reserve is expected to amount of paid-in capital after 2015 AGM
- As a profitable company, our legal reserve and capital surplus is allowed to directly distribute cash to shareholders. Only the portion of legal reserve which exceeds 25% of the paid-in capital may be distributed

Note:

1. The cash return was calculated based on cash dividend and cash return from capital reduction, stock dividend was not included.
2. 1 ADR = 10 common shares
3. The cash dividend for year 2012 was calculated based on total share number 7,757,446,545

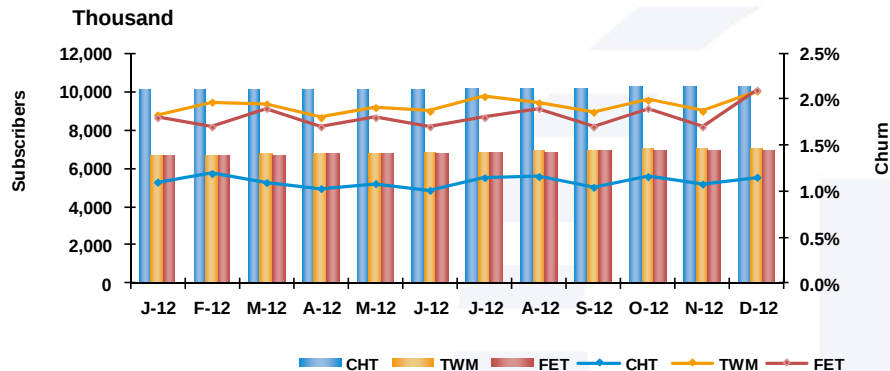


Business Overview



Smartphone – Value Driver for Mobile

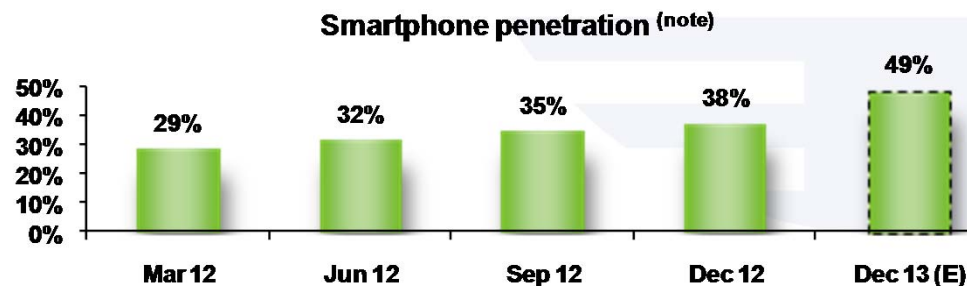
Highest Subs & Lowest Churn



Strategy

- Further introducing mid to low tier smartphones to expand mobile internet subscriber base
- Accelerating the migration of 2G customers to 3G network
- Enabling 3G/Wi-Fi auto-authentication to enhance customers experience
- Continuing to expand Wi-Fi access points to over 45,000 and 200 hot zones in metropolitan areas by year-end 2013
- Continuing upgrade retail stores

Smartphone Adoption



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

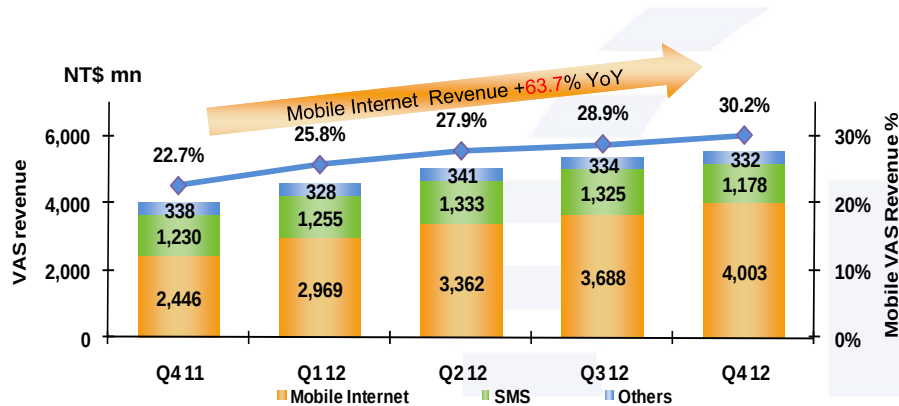
4Q 2012 smartphone sales breakdown:

- Top-tier: 52%
- Mid-tier: 26%
- Low-tier: 22%

- Smartphone customers account 75% of the total handsets CHT offered in 4Q 2012

Growing Mobile Value-added Services

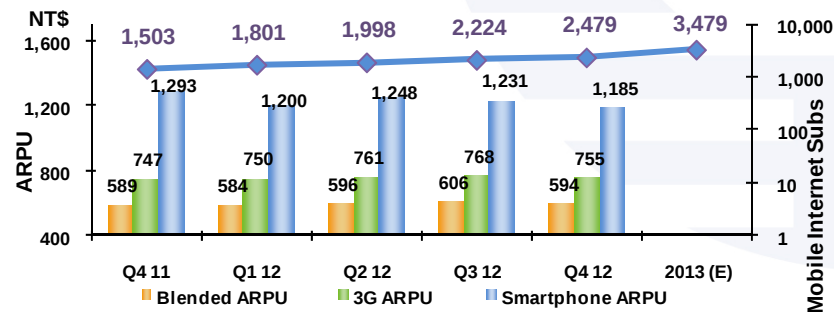
VAS Performance



Strategy

- Increasing mobile VAS revenue by:
 - Offering promotion programs focusing on additional data plan adoption with favorable voice discount
 - Providing customized and integrated Hami VAS services
 - Promoting eBooks, music and Hami Apps

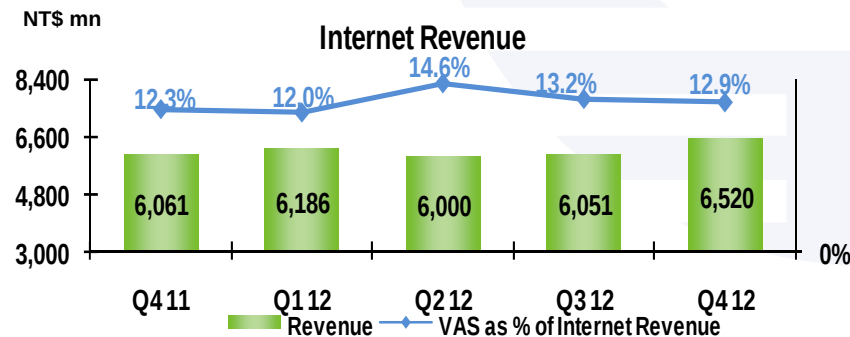
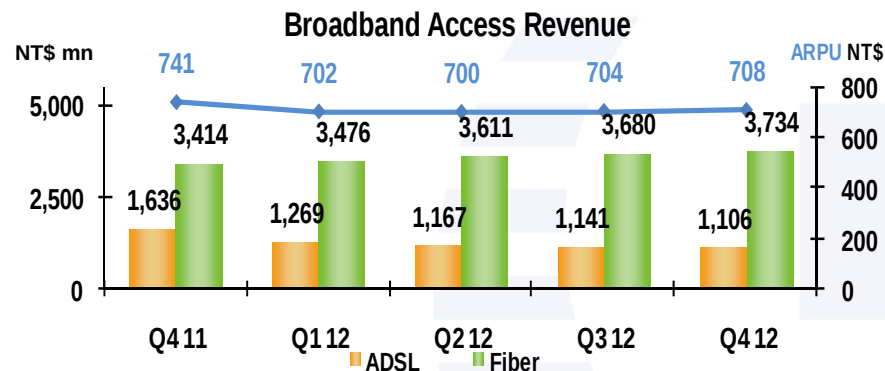
ARPU & Mobile Internet Subs



Note: Mobile subs are excluding mobile internet users without internet packages subscription

Fixed Broadband and Internet Services

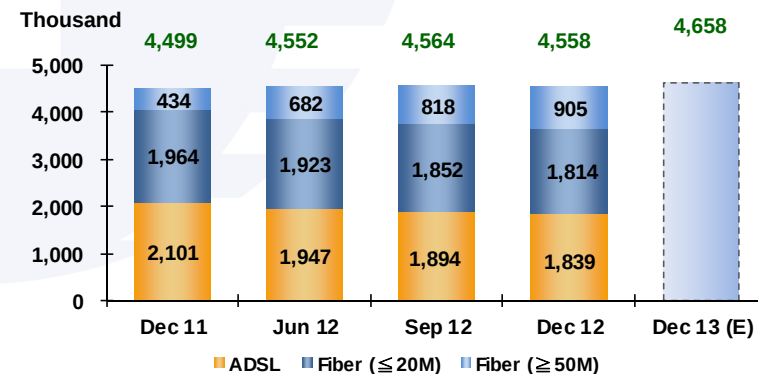
Performance



Strategy

- Increasing fiber network coverage, promoting high-speed internet to further expand fiber broadband customer base
- Applying data mining capability for precision marketing and network construction
- Offering high-speed enterprise broadband services and explore enterprise IOT broadband demand

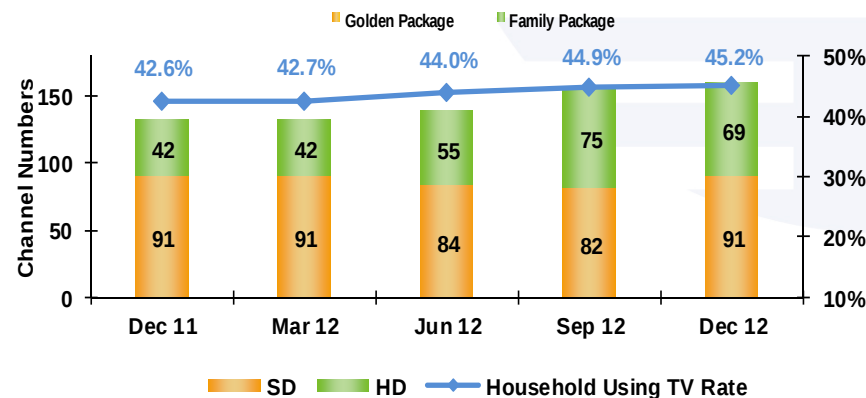
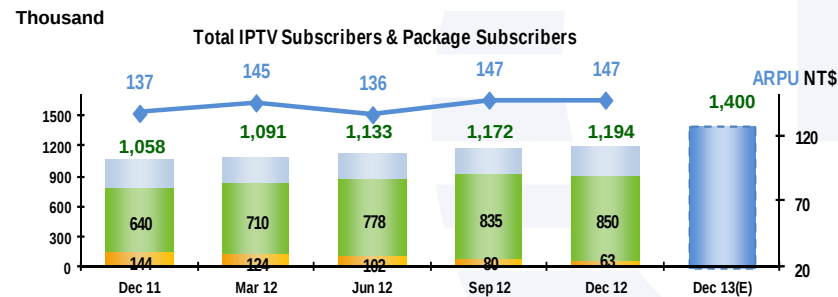
Fixed Broadband Subs



Growing Momentum in MOD/ IPTV

Subscriber & Usage

- Subscriber market share (CATV+IPTV) YoY grows from 15.9% to 19.0 % in Q3 2012
- 76.4% of IPTV subscribers sign up additional Packages
 - Package subscription rate YoY increase from 71.3% to 76.4%



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

Strategy

- Continuing to enrich local content and introduce popular channels
- Cooperating with local TV manufacturers to imbed and co-market with our IPTV services
- Enhancing new platform to facilitate digital convergence service offerings
- Increasing HD channel selection
- Offering multi-screen cloud services

Performance

- IPTV revenue grew over 26.1% YoY in Q4 2012
- IPTV advertisement revenue grew 3 times in the 2nd half of 2012 vs. 1st half

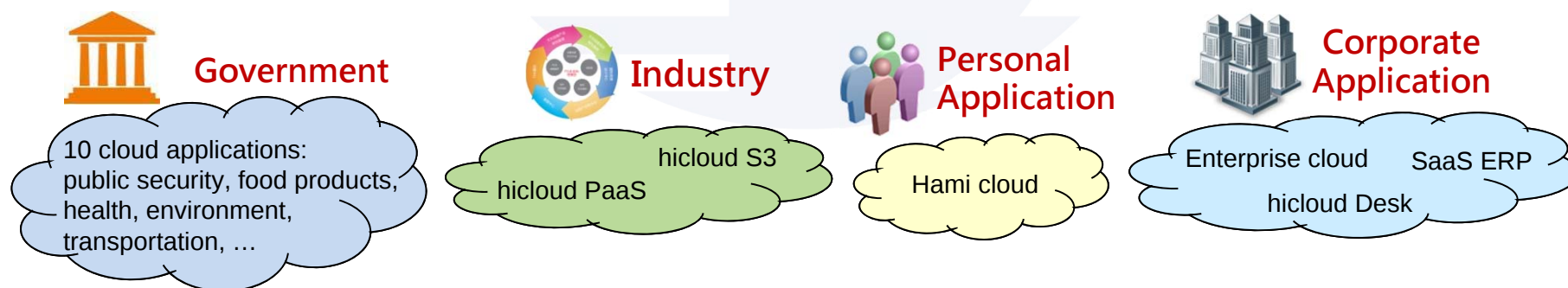
ICT and Cloud Computing Initiatives

ICT Business Strategy

- Expand business scope and focus to include:
 - ITS, iEN, information security, IMO, call center, IDC, Cloud Computing, ICT for developers
 - IOT
- Leveraging enterprise high speed broadband demand to offer VAS and explore emerging service opportunity
- Offering mobility apps solution to enhance enterprise application
- Cross-selling capability with existing customers
- ICT revenue grew 17% YoY in 2012

Cloud Computing Strategy

- Strengthen cloud computing infrastructure
- Provide hicloud CaaS, SaaS CRM, hicloud marketplace, Hami cloud, and Enterprise cloud
- Develop cloud core technology, Virtuoso and CloudBOSS, for R&H CAVE and government cloud applications
- 2013 focus: offer SaaS ERP, hicloud S3, hicloud PaaS, and hicloud Desk cloud services
- Major partners: Microsoft, Trend Micro, IBM, Intel, Fujitsu, R&H, Quanta, Inventec, Wiwynn, Show Chwan, NCP, CISA, ITRI, III





Regulatory Update



Regulatory Update

Mobile Interconnection rate

- NCC announced mobile interconnection rate reduction from Jan.2, 2013
- The rate is to reduce from NT\$2.15/min to NT\$1.15/min in 4 years with CAGR -14.5%

Tariff Regulation

- Mandatory tariff reduction starting from April 1, 2013 over 4 years (Please refer to reference page 23)
- Mobile retail tariff is expected to be reduced from April 1, 2013 in accordance with the mobile interconnection tariff reduction; however, the magnitude is yet to be decided

Telecom Act Amendment

- Executive Yuan returned the draft to NCC for reconsideration in Oct. 2012
- CHT expects the amendment to focus more on the facilitation of digital convergence capabilities for the overall industry

2G license Extension & 4G License Award

- Chunghwa has received the approval from NCC for the extension of the 2G license to be extended to June 2017
- NCC released a draft for 4G technology-neutral licenses and spectrum bidding
- The final arrangement details are expected to be released before June 30, 2013
- The bidding process is expected to finish before end of 2013



Financials Overview



Financials: Income Statement Highlights

(NT\$bn)	ROC GAAP (Consolidated)					
	2011	2012	Growth Rate	Q4 2011	Q4 2012	Growth Rate
Net Revenues	217.49	220.28	1.3 %	54.89	56.27	2.5 %
Operating Costs and Expenses	162.41	171.22	5.4 %	43.04	45.08	4.8 %
Income from Operations	55.08	49.06	(10.9 %)	11.85	11.19	(5.6 %)
Net Income	47.07	40.07	(14.9 %)	10.00	9.11	(8.9 %)
Net Income Margin (%)	21.64	18.19	(16.0 %)	18.22	16.19	(11.2 %)
EBITDA	87.37	81.54	(6.7 %)	20.02	19.30	(3.6 %)
EBITDA margin (%)	40.17	37.02	(7.9 %)	36.47	34.30	(6.0 %)

Note: The calculation of figures is based on NT\$m. The figure of 2012 was un-audited.

Financials: Business Segment Revenues

(NT\$bn)	ROC GAAP (Consolidated)					
	2011	2012	Growth Rate	Q4 2011	Q4 2012	Growth Rate
Domestic Fixed	79.35	75.70	(4.6 %)	19.85	19.32	(2.7 %)
Local	41.69	40.37	(3.2%)	10.37	9.85	(5.0%)
DLD	5.79	3.77	(34.9%)	1.39	0.9	(35.3%)
Broadband Access	20.42	19.18	(6.1%)	5.05	4.84	(4.2%)
Mobile	93.00	100.79	8.4 %	24.05	25.6	6.5 %
Mobile Voice	55.67	52.03	(6.5%)	13.68	12.74	(6.9%)
Mobile VAS	15.22	20.45	34.3%	4.01	5.51	37.3%
Handset Sales	22.01	28.23	28.3%	6.33	7.29	15.1%
Internet	24.83	24.76	(0.3 %)	6.06	6.52	7.6 %
Internet Services	17.95	17.02	(5.2%)	4.4	4.32	(1.9%)
Internet VAS	2.47	2.58	4.6%	0.62	0.64	3.4%
International Fixed	15.22	15.32	0.7 %	3.79	3.95	4.3 %
ILD	12.42	12.07	(2.9%)	3.04	3.02	(0.6%)
Leased line	0.99	1.22	23.3%	0.27	0.32	20.4%
Others	5.09	3.71	(27.2 %)	1.14	0.88	(23.0 %)
Total	217.49	220.28	1.3 %	54.89	56.27	2.5 %

Note: The calculation of figures is based on NT\$m. The figure of 2012 was un-audited.

Financials: Costs & Expenses

(NT\$bn)	ROC GAAP (Consolidated)					
	2011	2012	Growth Rate	Q4 2011	Q4 2012	Growth Rate
Operating Costs	131.53	141.14	7.3 %	34.77	36.77	5.8 %
Operating Expenses	30.88	30.08	(2.6 %)	8.27	8.31	0.5 %
Marketing	23.17	22.41	(3.3 %)	6.33	6.36	0.6 %
General and Administrative	4.18	4.00	(4.2 %)	1.02	1.03	1.2 %
R&D Expense	3.53	3.67	3.9 %	0.92	0.92	(0.3 %)
Total	162.41	171.22	5.4 %	43.04	45.08	4.8 %

Note: The calculation of figures is based on NT\$m. The figure of 2012 was un-audited.

Cash Flow & EBITDA Margin

(NT\$bn)	ROC GAAP (Consolidated)					
	2011	2012	Growth Rate	Q4 2011	Q4 2012	Growth Rate
Net Cash Flow from Operating Activities	75.36	67.61	(10.3 %)	30.31	24.53	(19.1 %)
CAPEX	26.88	33.34	24.0 %	10.29	10.78	4.7 %
Free Cash Flow	48.48	34.27	(29.3 %)	20.02	13.75	(31.3 %)
Cash and Cash Equivalent at the end of period	67.39	53.21	(21.0 %)	67.39	53.21	(21.0 %)
EBITDA Margin(%) -Consolidated	40.17	37.02	(7.9 %)	36.47	34.30	(6.0 %)
EBITDA Margin(%) -Parent company only	43.21	41.04	(5.0 %)	39.57	37.71	(4.7 %)

Note:

1. The calculation of figures is based on NT\$m. The figure of 2012 was un-audited.
2. Free cash flow is subtracting Capex from net cash flows from operating activities.

Forecast & Operating Results

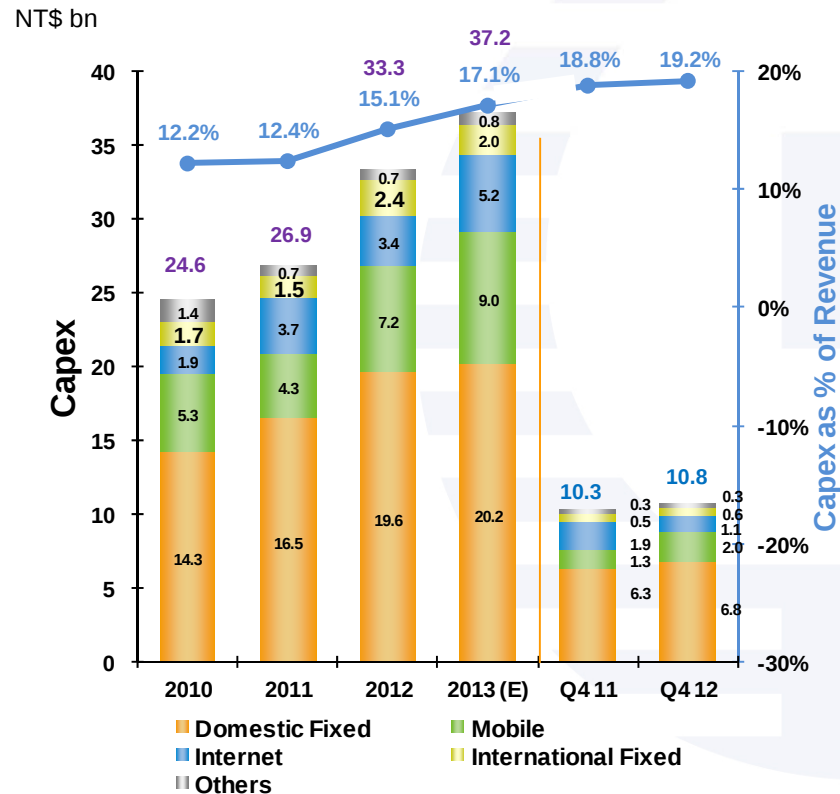
(NT\$bn)	(Consolidated)		
	2012 (ROC GAAP)	2013 (T-IFRSs E)	Growth Rate
Net Revenues	220.28	217.82	(1.1 %)
Operating Costs and Expenses	171.22	172.71	0.9 %
Income from Operations	49.06	45.11	(8.1 %)
Comprehensive Income attributable to owners of the parent (Note 2)	40.07	37.59	(6.2 %)
EPS	5.16	4.85	(6.1 %)
EBITDA	81.54	78.22	(4.1 %)
EBITDA margin (%)	37.02	35.91	(3.1 %)

Note 1: 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. The figure of 2013 is based on T-IFRSs.

Note2: The figure of 2012 was Net Income attributable to owners of the parent based on ROC GAAP.

Effective and Efficient Capital Expenditure

Capital Expenditure



- Increase capital expenditure
 - Fixed and Mobile broadband
 - Cloud deployment including cloud data center build out
- Budgeted capex for 2013: NT\$37.2 bn
- Continue to focus on core businesses for future investments
 - 3G / HSPA / HSPA+
 - FTTx
 - Wi-Fi
 - Service Platforms
 - Cloud computing

Note: Figures are on consolidated basis. The figure of 2012 was un-audited.

Business Outlook for 2013 and Beyond

- Focus on growth
 - Leverage solid customer base to provide new services
 - Enhance fixed and mobile VAS service offerings
 - Offer ICT enabling and cloud services
- Increase infrastructure investment over next 2 years
 - Expand fixed and mobile broadband networks
 - Build out cloud-related infrastructure
- Expect stabilizing EBITDA margins for telecom businesses in coming years

Q&A



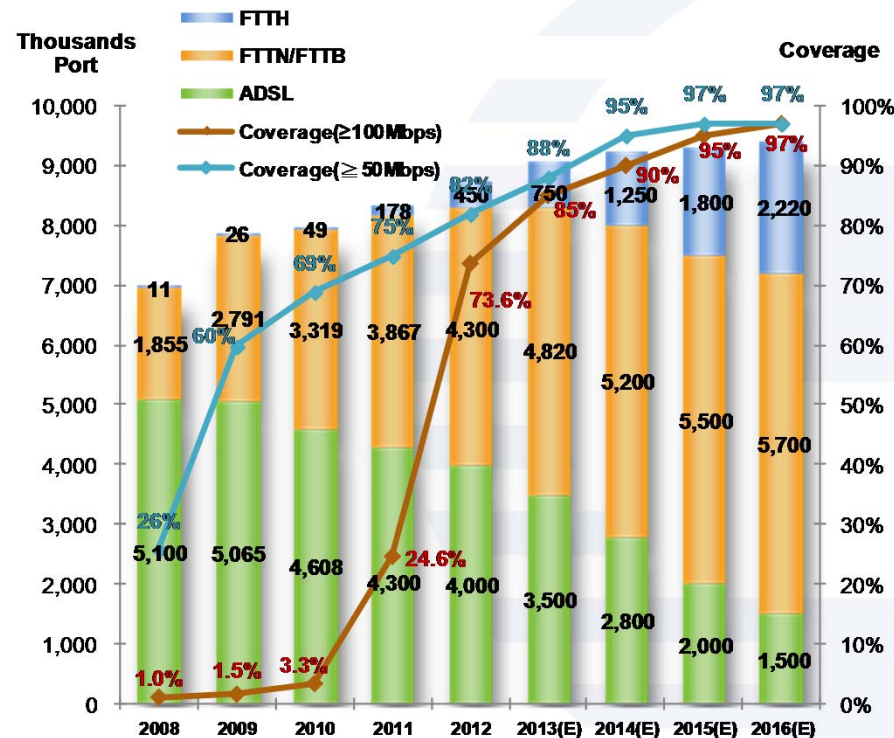
Reference



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	1. xDSL monthly fee 2. 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%
		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 in 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 (8.199mn) as of December 2012
- (2) Wireline : Fixed + Internet
- (3) 100M fiber construction was applied traditional technologies in 2011, while applied DSL bonding technologies and GPON solutions in 2012.

Fiber Deployment Plan

- ④ FTTx coverage (≥100M) reach 97% by 2016
- ④ Increase FTTH construction in order to meet the demand of high speed broadband
- ④ 1Gbps trial services has reached over 1,100 households
 - Chunghwa is one of the leading operators that provides 1Gbps residential broadband service
- ④ Fiber construction plan including capex will be reviewed in accordance with market demand