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Business Report

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President

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Throughout last year, due to the global cyclical economic recovery, the financial markets remain accommodative and the stabilization of commodity prices, the advanced economies have sped up their recovery, boosted the public confidence in economy, and got over the shadow of deflation. At home, exports soared as prices of raw materials rose and shipments of electronic products increased, and there was also a modest growth in private consumption. As global economy has seen sustained recovery and the government has devoted to removing investment barriers and promoting Forward-looking Infrastructure Development Program, there will be more substantial investments. According to the latest forecasts by main institutions both at home and abroad, the economy of Taiwan will continue to grow mildly in 2018.

Since the restructuring of our company in 2003, we have run the existing businesses of mails, savings and remittances, and insurance actively to offer comprehensive and quality customer care for people across the country, meeting their basic needs and thus becoming their most-trusted state-owned business institution.

In 2017, thanks to the efforts of every fellow colleague to promote business and reach annual goals planned last year, our services are highly recognized by people in Taiwan based on several opinion polls. What follows is the graphic presentations of our results in 2017, followed by the planned goals for 2018.

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I. 2017 Operation Results

(I) Major Operation Items: Estimation and Execution

Items	Units	Result this year	Estimation	Result previous year	Estimation accomplished (%)	Increase over previous year (%)
Mail Operations	Thousand pcs.	2,387,131	2,539,544	2,537,847	94.00%	-5.94%
Philately	Thousand NT\$	760,804	689,830	820,751	110.29%	-7.30%
Savings (Average daily balance)	100 Million NT\$	61,109.33	61,563.00	59,964.82	99.26%	1.91%
Domestic Remittances (Total amount)	100 Million NT\$	16,974.26	16,050.00	16,708.66	105.76%	1.59%
Simple Life Insurance (Premium income)	100 Million NT\$	1,437.79	1,420.00	1,461.61	101.25%	-1.63%
Agential Services (Total amount)	100 Million NT\$	174.88	154.83	179.92	112.95%	-2.80%

- Notes: 1.The slight reduction in the number of mail pieces processed and delivered, compared with that in the previous year, mainly resulted from the development of electronic communications and social networking services and the governmental policies of going paperless, adopting electronic official documents, electronic bills and so on.
- 2.The reduction in the amount of philately income compared with that in the previous year mainly resulted from the fewer sets of stamp issues and a decrease in sales volume of stamp yearbooks this year.
- 3.The reduction in premium income of Simple Life Insurance, compared with that in the previous year, is due to the adjustments we made to the product structure, promoting sales of the long-term endowment insurance products and other guaranteed life insurance products, with the aim of creating steady growth of our insurance business.
- 4.The decrease in the total amount of agential services, compared to that in the same period in the previous year, resulted from the drop in the number of Chinese tourists affected the number of ATM cash advance transactions and UnionPay transactions.

(II) Capital Utilization

Postal capital utilization is institutionalized in accordance with Article 18 of the Postal Remittances and Savings Act and Article 27 of Postal Simple Life Insurance Act. Below is the tabular presentation of the postal capital utilization as of the end of December 2017:

2017 Postal Capital Utilization

Unit: NT\$ 100 Million

Items	As of the end of December of 2017	Percentage in Postal Capital (%)	As of the end of December of 2016	Increase/ Decrease (%)
Demand deposits (including reserves against deposits in the Central Bank of the ROC and the revolving funds in all branch offices)	2,307	3.39%	2,448	-5.75%
Time deposits (including time savings deposits)	19,007	27.90%	18,174	4.58%
Interbank Call Loans and Short Term Notes and Bills	16,683	24.49%	16,669	0.08%
Bonds (including government bonds, corporate bonds, and financial bonds)	19,966	29.31%	20,255	-1.42%
Overseas Investment	8,247	12.11%	7,925	4.06%
Stocks and Mutual Funds (including investment outsourcing)	1,367	2.01%	1,226	11.50%
Mortgage loans on Certificates of Deposit, Insurance Policies and Real Estate.	502	0.73%	507	-0.98%
Real Estate Investment	38	0.06%	24	58.33%
Total	68,117	100%	67,228	1.32%



(III) Financial Status and Profitability Analysis

In fiscal year 2017, the total revenue (including operating revenue and non-operating revenue) amounted to NT\$271,935.48 million and total expenditure (including operating costs, operating expenses and non-operating expenses) totaled NT\$254,284.41 million. Profit before tax was NT\$17,651.07 million, and the income tax payable was NT\$7,043.46 million, and the net profit was NT\$10,607.61 million, with an increase of NT\$1,494.41 million over the estimated NT\$9,113.20 million. The ROA (return on assets), ROE (return on equity) after tax and net profit margin for the year were 0.15%, 6.53%, and 3.91% respectively.

(M) Research and Development

The relevant business units of our company conducted analyses of financial situations and investigations on industrial dynamics and trends, both at home and abroad, on a regular and irregular basis, and compiled referential business reports for the benefit of operation. What follows is a list of major research developments in 2017 that deserves our mention:

1. 354 reports done regularly on the analyses of domestic and international financial situations.

- (1) Analytical reports on domestic and international macroeconomics (monthly).
- (2) Analytical reports on domestic fixed income market (weekly)
- (3) Analytical reports on domestic stock market (weekly).
- (4) Analytical reports on international investments (weekly and monthly)

2. 24 overseas study reports.

3. 3 research projects commissioned to experts and academic institutes, with each project listed as follows:

- (1) A 2017 Customer Satisfaction Investigation of Postal Services.
- (2) R&D service of early warning system of mail delivery workload.
- (3) A research project on the application of Chunghwa Post big data.

II. 2018 Outline of Operation Plan

(I) Strategy

We aim to offer comprehensive and quality services of mails, savings and remittances, and insurance to meet people's everyday needs; to boost core postal services, integrate logistics, cash flow, and informational flow, and to expand services of electronic commerce; to enhance the utilization of postal capital and to boost the effectiveness of asset activation to enlarge operational capacity.

(II) Policy

1. Related to implementing government policies

- (1) To be in line with economic policies, expand investments in public construction plans and support investment plans of the private sectors.
- (2) To be in line with financial policies, offer basic economic protection for our people and help construct a social security network.
- (3) To be in line with cross-strait policies, enhance the interaction and cooperation so as to offer convenient services to people.
- (4) To be in line with the asset policies, enhance asset management and utilization to enlarge operational capacity.

2. Related to Management

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- (1) Re-integrate resources of postal service and diversify products so as to offer comprehensive and quality mails, savings and remittances, and insurance services.
- (2) Develop postal service business by integrating our advantages of cash flow, logistics, and information flow so as to broaden the corporation niche of the company.
- (3) Allocate assets properly, enhance the effectiveness of capital utilization, activate asset utilization, and promote the effectiveness of such developments.
- (4) Make good use of our information technology, enhance information security, improve the operating procedures, and strengthen the overall effectiveness of our service.
- (5) Enhance management of human resources and actively cultivate talents to improve competitiveness.
- (6) Enhance corporate governance, optimize the financial structure and improve the risk management.
- (7) Actively advocate for charitable activities, take social responsibility and create a positive corporate image.

3. Related to Coordinating Supply and Demand

- (1) To enhance service quality and work effectiveness, relocate and renovate branch offices, improve facilities, and create a bright, comfortable and user-friendly environment for clients.
- (2) To enhance operational efficiency, expand information appliances and upgrade operating systems to meet clients' diverse needs.
- (3) To be in line with business developments, construct postal logistics park, offer supporting services for related businesses, and strengthen our corporate competitiveness.

(III) Operation Goals

1. **Mail:** Estimate to handle 1,906.12 million pieces.
2. **Philately:** Estimate a revenue of NT\$589.83 million.
3. **Savings:** Estimate an average daily balance of NT\$6,435.0 billion year-round.
4. **Remittances:** Estimate a total amount of NT\$1,605.8 billion year-round.
5. **Simple Life Insurance:** Estimate a total amount of premium income of NT\$142.8 billion year-round.
6. **Agential Services:** Estimate to handle a total amount of NT\$15,251 million year-round.

(M) Surplus Goal

Estimate to generate a profit before tax of NT\$10,338.96 million.