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President

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Looking back at 2018 when the US purchasing power and corporate investment were enormous, the global economy continued to grow, except that the economies of the Eurozone and Japan were on the decline as a result of Brexit and the uncertainties arising from trade conflicts. As for Taiwan, the economic growth rate in the fourth quarter of 2018 dropped to 1.76% and the monitoring indicator turned to blue light in December, showing that the economic expansion slowed down. Looking forward to 2019, in a wave of global trade protectionism, trade momentum has weakened. However, the stable job market in our country and the active pay adjustment will help create greater domestic demand. Various institutes estimated that the economic growth rate in Taiwan will be between 2.1% and 2.6%.

With a business model that comprises the services of mails, savings and remittances, and insurance, Chunghwa Post is the most trusted state-owned enterprise that provides comprehensive, quality, and local services to citizens around the country in order to meet their basic needs.

In the face of a severe and ever-changing environment, Chunghwa Post has encountered many challenges in regard to national missions and its own operation. Thanks to the constant effort of all colleagues, Chunghwa Post again attained its operational goals in 2018. The operating results in 2018 and a summary of operational goals for 2019 are presented as follows:

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I. 2018 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.	2,190,191	1,906,118	2,387,131	114.90%	-8.25%
Philately	Thousand NT\$	658,042	589,830	760,804	111.56%	-13.51%
Savings (Average daily balance)	100 Million NT\$	61,496.16	64,350.00	61,109.33	95.57%	0.63%
Domestic Remittances (Total amount)	100 Million NT\$	17,172.88	16,058.00	16,974.26	106.94%	1.17%
Simple Life Insurance (Premium income)	100 Million NT\$	1,336.72	1,428.00	1,437.79	93.61%	-7.03%
Agential Services (Total amount)	100 Million NT\$	156.19	152.51	174.88	102.41%	-10.69%

- Notes: 1. Compared with last year, there was a decrease in the number of mail pieces processed primarily due to the development of electronic communications, social networking services, and the governmental policies of going paperless by adopting electronic official documents, electronic bills, etc.
2. Compared with last year, there was a decrease in the amount of philately income due to a decrease in the sales of 2018 stamp sets and stamp yearbooks.
3. Compared with last year, the premium income of Simple Life Insurance decreased because many insurance policies matured this year and the amount of renewal premium declined.
4. Compared with the same period last year, the total amount of agential services decreased primarily because some requester entities changed the payment method for pension to the payment method for salary (which is of no administration fees) and because a 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 2018:

2018 Postal Capital Utilization

Unit: NT\$ 100 Million

Items	As of the end of December of 2018	Percentage in Postal Capital (%)	As of the end of December of 2017	Increase/ Decrease (%)
Demand deposits (including reserves against deposits in the Central Bank of the ROC and the revolving funds in all branch offices)	2,449	3.52%	2,307	6.16%
Time deposits (including time savings deposits)	19,734	28.40%	19,007	3.82%
Interbank Call Loans and Short Term Notes and Bills	16,049	23.10%	16,683	-3.80%
Bonds (including government bonds, corporate bonds, and financial bonds)	20,155	29.01%	19,966	0.95%
Overseas Investment	9,323	13.42%	8,247	13.05%
Stocks and Mutual Funds (including investment outsourcing)	1,184	1.70%	1,367	-13.39%
Mortgage loans on Certificates of Deposit, Insurance Policies and Real Estate	487	0.70%	502	-2.99%
Real Estate Investment	101	0.15%	38	165.79%
Total	69,482	100%	68,117	2.00%

(III) Financial Status and Profitability Analysis

In fiscal year 2018, the total revenue (including operating revenue and non-operating revenue) amounted to NT\$259,615.81 million and the total expenditure (including operating costs, operating expenses and



non-operating expenses) totaled NT\$247,413.97 million. Profit before tax was NT\$12,201.84 million, and the income tax payable was NT\$2,229.44 million, and the net profit was NT\$14,431.28 million, with an increase of NT\$5,638.63 million over the estimated NT\$8,792.65 million. The ROA (return on assets), ROE (return on equity) after tax and net profit margin for the year were 0.2%, 8.63%, and 5.56% respectively.

(IV) 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 2018 that deserves our mention:

1. Three hundred and forty-eight (348) 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. Eleven (11) overseas study reports.

3. Four (4) research projects commissioned to experts and academic institutes, with each project listed as follows:

- (1) The feasibility analysis of the Postal Park of Smart Logistics operating as a logistics company at the A7 exit of Taoyuan (Airport) Metro.
- (2) A study on the assessment system for giving the allowance to the staff working in special areas
- (3) A study on the salary structure relating of full-time and contract personnel.
- (4) An outsourcing study on the fees of domestic parcel/package and express mails.

II. 2019 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 actively accelerate the transformation of postal services and work towards the three business objectives, "smart logistics, digital finance, and long-term care"; to enhance the utilization of postal capital and boost the effectiveness of asset activation to enlarge operational capacity; to promote the use of smart green electric vehicles to conform to the government's green policy.

(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.
- (5) To be in line with New Southbound Policy, promote the exchange and cooperation with the postal businesses in the Southeast Asian countries.

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2. Related to Management

- (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 service of smart logistics to broaden the scope of postal service, create demand for parcel and package delivery, and gain greater advantage to Chunghwa Post's operation.
- (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 various charitable activities, continue organizing events for the elderly, take social responsibility and create a positive corporate image.
- (8) Gradually replace the current vehicles with electric ones to be in line with the government's green policies.
- (9) Promote the transition into digital finance and provide an O2O service in response to the digitalization of financial services.

3. Related to Coordinating Supply and Demand

- (1) To enhance service quality and work effectiveness, relocate and renovate post offices branches, improve facilities, and create a bright, comfortable and friendly postal 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.
- (4) In response to the trend of automatization, provide a 24/7 self-help smart logistics box (iBox) for receiving or sending mails.
- (5) In response to the trend of Internet economy, construct a public platform and network of comprehensive cross-border logistics, internally accelerating the transformation of traditional postal services and externally facilitating the expansion of local enterprises into global market.

(III) Operation Goals

- 1. Mail:** Estimate to handle 2 billion and 4.94 million pieces.
- 2. Philately:** Estimate a revenue of NT\$ 610.96 million.
- 3. Savings:** Estimate an average daily balance of NT\$ 6,564.3 billion year-round.
- 4. Remittances:** Estimate a total amount of NT\$1,604 billion year-round.
- 5. Simple Life Insurance:** Estimate a total amount of premium income of NT\$ 140 billion year-round.
- 6. Agential Services:** Estimate to handle a total amount of NT\$ 8 billion and 665.48 million year-round.

(IV) Surplus Goal

Estimate to generate a profit before tax of NT\$ 11 billion and 36.23 million.