

**Chunghwa Telecom Co., Ltd. and
Subsidiaries**

**Consolidated Financial Statements for the
Six Months Ended June 30, 2014 and 2013**

CHUNGHWA TELECOM CO., LTD. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(In Millions of New Taiwan Dollars)

ASSETS	June 30, 2014 (Unaudited)		December 31, 2013 (Audited)		June 30, 2013 (Unaudited)		LIABILITIES AND EQUITY	June 30, 2014 (Unaudited)		December 31, 2013 (Audited)		June 30, 2013 (Unaudited)	
	Amount	%	Amount	%	Amount	%		Amount	%	Amount	%	Amount	%
CURRENT ASSETS							CURRENT LIABILITIES						
Cash and cash equivalents	\$ 28,141	6	\$ 14,585	3	\$ 58,988	13	Short-term loans	\$ 1,085	-	\$ 254	-	\$ 195	-
Financial assets at fair value through profit or loss	-	-	-	-	1	-	Financial liabilities at fair value through profit or loss	-	-	-	-	-	-
Available-for-sale financial assets	-	-	24	-	2,667	-	Hedging derivative liabilities	-	-	-	-	29	-
Held-to-maturity financial assets	4,467	1	4,264	1	4,243	1	Trade notes and accounts payable	12,387	3	15,589	4	11,717	3
Hedging derivative assets	-	-	-	-	-	-	Payables to related parties	640	-	557	-	539	-
Trade notes and accounts receivable, net	23,610	5	22,901	5	23,655	5	Current tax liabilities	6,368	1	6,171	2	6,016	1
Accounts receivable from related parties, net	70	-	69	-	51	-	Dividends payable	18,526	4	-	-	35,913	8
Inventories	8,194	2	7,848	2	7,657	2	Other payables	38,862	9	26,792	6	27,875	6
Prepayments	5,595	2	2,224	1	5,396	1	Provisions	119	-	129	-	136	-
Other current monetary assets	5,182	1	4,636	1	8,974	2	Advance receipts	9,060	2	9,464	2	11,044	3
Other current assets	5,267	1	3,962	1	3,735	1	Current portion of long-term loans	300	-	300	-	-	-
Total current assets	80,526	18	60,513	14	115,367	25	Other current liabilities	1,607	-	1,599	-	1,571	-
							Total current liabilities	88,954	19	60,855	14	95,035	21
NONCURRENT ASSETS							NONCURRENT LIABILITIES						
Available-for-sale financial assets	5,215	1	5,470	1	5,534	1	Long-term loans	1,748	1	1,400	1	1,700	-
Held-to-maturity financial assets	5,715	1	7,502	2	10,207	2	Deferred income taxes liabilities	111	-	101	-	104	-
Investments accounted for using equity method	2,328	-	2,359	-	2,130	1	Provisions	121	-	123	-	149	-
Property, plant and equipment	298,533	66	302,714	69	296,564	65	Customers' deposits	4,775	1	4,835	1	4,811	1
Investment properties	8,010	2	8,018	2	7,781	2	Accrued pension liabilities	5,679	1	5,482	1	4,713	1
Intangible assets	43,763	10	44,399	10	5,481	1	Deferred revenue	3,566	1	3,701	1	3,797	1
Deferred income tax assets	1,778	-	1,506	-	1,339	-	Other noncurrent liabilities	1,329	-	1,335	-	289	-
Prepayments	3,410	1	3,608	1	3,554	1	Total noncurrent liabilities	17,329	4	16,977	4	15,563	3
Other noncurrent assets	5,212	1	4,883	1	6,052	2	Total liabilities	106,283	23	77,832	18	110,598	24
Total noncurrent assets	373,964	82	380,459	86	338,642	75							
							EQUITY ATTRIBUTABLE TO STOCKHOLDERS OF THE PARENT						
							Common stock	77,574	17	77,574	17	77,574	17
							Additional paid-in capital	146,717	32	163,294	37	163,292	36
							Retained earnings						
							Legal reserve	76,893	17	74,819	17	74,819	16
							Special reserve	2,820	1	2,676	1	2,676	1
							Unappropriated earnings	40,200	9	40,075	9	20,852	5
							Total retained earnings	119,913	27	117,570	27	98,347	22
							Other adjustments	(412)	-	(144)	-	(103)	-
							Total equity attributable to stockholders of the parent	343,792	76	358,294	81	339,110	75
							NONCONTROLLING INTERESTS						
								4,415	1	4,846	1	4,301	1
							Total equity	348,207	77	363,140	82	343,411	76
TOTAL	\$ 454,490	100	\$ 440,972	100	\$ 454,009	100	TOTAL	\$ 454,490	100	\$ 440,972	100	\$ 454,009	100

CHUNGHWA TELECOM CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (In Millions of New Taiwan Dollars, Except Earnings Per Share) (Unaudited)

	For the Three Months Ended June 30				For the Six Months Ended June 30			
	2014		2013		2014		2013	
	Amount	%	Amount	%	Amount	%	Amount	%
REVENUES	\$ 55,784	100	\$ 55,838	100	\$ 110,834	100	\$ 112,455	100
OPERATING COSTS	<u>35,037</u>	<u>63</u>	<u>35,279</u>	<u>63</u>	<u>70,037</u>	<u>63</u>	<u>72,730</u>	<u>65</u>
GROSS PROFIT	<u>20,747</u>	<u>37</u>	<u>20,559</u>	<u>37</u>	<u>40,797</u>	<u>37</u>	<u>39,725</u>	<u>35</u>
OPERATING EXPENSES								
Marketing	6,428	11	5,963	11	12,596	11	11,952	11
General and administrative	1,084	2	1,011	2	2,167	2	2,060	2
Research and development	<u>897</u>	<u>2</u>	<u>932</u>	<u>1</u>	<u>1,791</u>	<u>2</u>	<u>1,803</u>	<u>1</u>
Total operating expenses	<u>8,409</u>	<u>15</u>	<u>7,906</u>	<u>14</u>	<u>16,554</u>	<u>15</u>	<u>15,815</u>	<u>14</u>
OTHER INCOME AND EXPENSES	<u>(11)</u>	<u>-</u>	<u>(6)</u>	<u>-</u>	<u>(20)</u>	<u>-</u>	<u>(30)</u>	<u>-</u>
INCOME FROM OPERATIONS	<u>12,327</u>	<u>22</u>	<u>12,647</u>	<u>23</u>	<u>24,223</u>	<u>22</u>	<u>23,880</u>	<u>21</u>
NON-OPERATING INCOME AND EXPENSES								
Interest income	84	-	173	-	143	-	324	-
Other revenue	142	-	69	-	395	-	139	-
Other gains and losses	23	-	(42)	-	(10)	-	(31)	-
Financial costs	(10)	-	(6)	-	(19)	-	(14)	-
Share of the profit of associates and joint ventures accounted for using equity method	<u>256</u>	<u>1</u>	<u>239</u>	<u>1</u>	<u>417</u>	<u>1</u>	<u>333</u>	<u>1</u>
Total non-operating income and expenses	<u>495</u>	<u>1</u>	<u>433</u>	<u>1</u>	<u>926</u>	<u>1</u>	<u>751</u>	<u>1</u>
INCOME BEFORE INCOME TAX	12,822	23	13,080	24	25,149	23	24,631	22
INCOME TAX EXPENSE	<u>1,039</u>	<u>2</u>	<u>(666)</u>	<u>(1)</u>	<u>3,942</u>	<u>4</u>	<u>2,164</u>	<u>2</u>
NET INCOME	<u>11,783</u>	<u>21</u>	<u>13,746</u>	<u>25</u>	<u>21,207</u>	<u>19</u>	<u>22,467</u>	<u>20</u>
OTHER COMPREHENSIVE INCOME (LOSS)								
Items that will not be reclassified to profit or loss:								
Share of remeasurements of defined benefit pension plans of associates	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(40)</u>	<u>-</u>
Items that may be reclassified subsequently to profit or loss:								
Unrealized gain (loss) on available-for-sale financial assets	26	-	(246)	(1)	(234)	-	(333)	-
Income tax relating to items that may be reclassified subsequently	1	-	-	-	2	-	-	-
Exchange differences arising from the translation of the foreign operations	(51)	-	16	-	(37)	-	90	-
Share of exchange differences arising from the translation of the foreign operations of associates	(32)	-	(8)	-	(24)	-	3	-
Cash flow hedges	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total other comprehensive loss, net of income tax	<u>(56)</u>	<u>-</u>	<u>(238)</u>	<u>(1)</u>	<u>(293)</u>	<u>-</u>	<u>(280)</u>	<u>-</u>

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CHUNGHWA TELECOM CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (In Millions of New Taiwan Dollars, Except Earnings Per Share) (Unaudited)

	For the Three Months Ended June 30				For the Six Months Ended June 30			
	2014		2013		2014		2013	
	Amount	%	Amount	%	Amount	%	Amount	%
TOTAL COMPREHENSIVE INCOME	<u>\$ 11,727</u>	<u>21</u>	<u>\$ 13,508</u>	<u>24</u>	<u>\$ 20,914</u>	<u>19</u>	<u>\$ 22,187</u>	<u>20</u>
NET INCOME ATTRIBUTABLE TO								
TO								
Stockholders of the parent	\$ 11,576	21	\$ 13,411	24	\$ 20,869	19	\$ 21,758	19
Noncontrolling interests	<u>207</u>	<u>-</u>	<u>335</u>	<u>1</u>	<u>338</u>	<u>-</u>	<u>709</u>	<u>1</u>
	<u>\$ 11,783</u>	<u>21</u>	<u>\$ 13,746</u>	<u>25</u>	<u>\$ 21,207</u>	<u>19</u>	<u>\$ 22,467</u>	<u>20</u>
COMPREHENSIVE INCOME ATTRIBUTABLE TO								
Stockholders of the parent	\$ 11,536	21	\$ 13,162	23	\$ 20,601	19	\$ 21,454	19
Noncontrolling interests	<u>191</u>	<u>-</u>	<u>346</u>	<u>1</u>	<u>313</u>	<u>-</u>	<u>733</u>	<u>1</u>
	<u>\$ 11,727</u>	<u>21</u>	<u>\$ 13,508</u>	<u>24</u>	<u>\$ 20,914</u>	<u>19</u>	<u>\$ 22,187</u>	<u>20</u>
EARNINGS PER SHARE								
Basic	<u>\$ 1.49</u>		<u>\$ 1.73</u>		<u>\$ 2.69</u>		<u>\$ 2.80</u>	
Diluted	<u>\$ 1.49</u>		<u>\$ 1.72</u>		<u>\$ 2.69</u>		<u>\$ 2.80</u>	

(Concluded)

CHUNGHWA TELECOM CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

(In Millions of New Taiwan Dollars)

(Unaudited)

	Common Stock	Additional Paid-in Capital	Retained Earnings			Total Retained Earnings	Other Adjustments				Total Equity Attributable to Stockholders of the Parent	Noncontrolling Interests	Total Equity
			Legal Reserve	Special Reserve	Unappropriated Earnings		Exchange Differences Arising from the Translation of the Foreign Operations	Unrealized Gain (Loss) on Available-for-sale Financial Assets	Cash Flow Hedges	Total Other Adjustments			
BALANCE, JANUARY 1, 2013	\$ 77,574	\$ 168,877	\$ 70,829	\$ 2,676	\$ 39,037	\$ 112,542	\$ (97)	\$ 258	\$ -	\$ 161	\$ 359,154	\$ 4,336	\$ 363,490
Appropriation of 2012 earnings													
Legal reserve	-	-	3,990	-	(3,990)	-	-	-	-	-	-	-	-
Cash dividends distributed by Chunghwa	-	-	-	-	(35,913)	(35,913)	-	-	-	-	(35,913)	-	(35,913)
Cash dividends distributed by subsidiaries	-	-	-	-	-	-	-	-	-	-	-	(811)	(811)
Cash distributed from additional paid-in capital	-	(5,589)	-	-	-	-	-	-	-	-	(5,589)	-	(5,589)
Net income for the six months ended June 30, 2013	-	-	-	-	21,758	21,758	-	-	-	-	21,758	709	22,467
Other comprehensive income (loss) for the six months ended June 30, 2013	-	-	-	-	(40)	(40)	68	(332)	-	(264)	(304)	24	(280)
Total comprehensive income (loss) for the six months ended June 30, 2013	-	-	-	-	21,718	21,718	68	(332)	-	(264)	21,454	733	22,187
Exercise of employee stock options of subsidiaries	-	4	-	-	-	-	-	-	-	-	4	26	30
Compensation cost of employee stock option of a subsidiary	-	-	-	-	-	-	-	-	-	-	-	17	17
Increase in noncontrolling interests	-	-	-	-	-	-	-	-	-	-	-	-	-
BALANCE, JUNE 30, 2013	\$ 77,574	\$ 163,292	\$ 74,819	\$ 2,676	\$ 20,852	\$ 98,347	\$ (29)	\$ (74)	\$ -	\$ (103)	\$ 339,110	\$ 4,301	\$ 343,411
BALANCE, JANUARY 1, 2014	\$ 77,574	\$ 163,294	\$ 74,819	\$ 2,676	\$ 40,075	\$ 117,570	\$ 6	\$ (150)	\$ -	\$ (144)	\$ 358,294	\$ 4,846	\$ 363,140
Appropriation of 2013 earnings													
Legal reserve	-	-	2,074	-	(2,074)	-	-	-	-	-	-	-	-
Special reserve	-	-	-	144	(144)	-	-	-	-	-	-	-	-
Cash dividends distributed by Chunghwa	-	-	-	-	(18,526)	(18,526)	-	-	-	-	(18,526)	-	(18,526)
Cash dividends distributed by subsidiaries	-	-	-	-	-	-	-	-	-	-	-	(797)	(797)
Cash distributed from additional paid-in capital	-	(16,577)	-	-	-	-	-	-	-	-	(16,577)	-	(16,577)
Net income for the six months ended June 30, 2014	-	-	-	-	20,869	20,869	-	-	-	-	20,869	338	21,207
Other comprehensive loss for the six months ended June 30, 2014	-	-	-	-	-	-	(44)	(224)	-	(268)	(268)	(25)	(293)
Total comprehensive income (loss) for the six months ended June 30, 2014	-	-	-	-	20,869	20,869	(44)	(224)	-	(268)	20,601	313	20,914
Compensation cost of employee stock option of a subsidiary	-	-	-	-	-	-	-	-	-	-	-	53	53
BALANCE, JUNE 30, 2014	\$ 77,574	\$ 146,717	\$ 76,893	\$ 2,820	\$ 40,200	\$ 119,913	\$ (38)	\$ (374)	\$ -	\$ (412)	\$ 343,792	\$ 4,415	\$ 348,207

CHUNGHWA TELECOM CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Millions of New Taiwan Dollars)

(Unaudited)

	Six Months Ended June 30	
	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	\$ 25,149	\$ 24,631
Adjustments to reconcile income before income tax to net cash provided by operating activities:		
Depreciation	16,106	15,361
Amortization	785	602
Provision for doubtful accounts	148	138
Interest expenses	19	14
Interest income	(143)	(324)
Dividend income	(77)	(34)
Compensation cost of employee share options	53	17
Share of the profit of associates and joint ventures accounted for using equity method	(417)	(333)
Impairment loss on available-for-sale financial assets	9	27
Impairment loss on intangible assets	-	18
Provision for inventory and obsolescence	248	138
Impairment loss on property, plant and equipment	-	2
Loss (gain) on disposal of financial instruments	(44)	7
Loss on disposal of property, plant and equipment	20	10
Loss on disposal of investments accounted for by using equity method	4	-
Valuation gain on financial instruments at fair value through profit or loss, net	-	(35)
Gain arising on adjustments for hedged available-for-sale financial assets	-	(64)
Valuation loss on hedging derivative liabilities, net	-	58
Valuation loss on hedging derivative assets, net	-	6
Loss (gain) on foreign exchange	107	(69)
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Financial assets held for trading	-	5
Trade notes and accounts receivable	(855)	674
Receivables from related parties	-	(8)
Inventories	(593)	(599)
Other current monetary assets	(274)	(527)
Prepayments	(3,172)	(3,410)
Other current assets	(1,306)	741
Increase (decrease) in:		
Trade notes and accounts payable	(3,256)	(1,875)
Payables to related parties	83	(301)
Other payables	(4,188)	(3,622)
Provisions	(13)	19
Advance receipts	(403)	(88)

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CHUNGHWA TELECOM CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Millions of New Taiwan Dollars)

(Unaudited)

	Six Months Ended June 30	
	2014	2013
Other current liabilities	\$ 6	\$ (33)
Deferred revenue	(135)	(42)
Accrued pension liabilities	<u>195</u>	<u>130</u>
Cash generated from operations	28,056	31,234
Interest paid	(19)	(22)
Income tax paid	<u>(4,005)</u>	<u>(3,312)</u>
Net cash provided by operating activities	<u>24,032</u>	<u>27,900</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of available-for-sale financial assets	(47)	(1,798)
Proceeds from disposal of available-for-sale financial assets	84	1,342
Capital reduction of available-for-sale financial assets	44	18
Acquisition of time deposits and negotiable certificate of deposits with maturities of more than three months	(411)	(17,730)
Proceeds from disposal of time deposits and negotiable certificate of deposits with maturities of more than three month	435	33,820
Proceeds from disposal of held-to-maturity financial assets	1,570	1,571
Proceeds from disposal of hedging derivative assets	-	10
Derecognition of hedging derivative liabilities	-	(84)
Acquisition of investments accounted for using equity method	(133)	(60)
Capital reduction of associates	-	16
Acquisition of property, plant and equipment	(13,090)	(15,586)
Proceeds from disposal of property, plant and equipment	4	36
Acquisition of intangible assets	(149)	(321)
Increase in other noncurrent assets	(341)	(1,451)
Interest received	22	334
Cash dividends received	<u>452</u>	<u>361</u>
Net cash provided by (used in) investing activities	<u>(11,560)</u>	<u>478</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from short-term loans	831	227
Repayment of short-term loans	-	(144)
Proceeds from long-term loans	348	-
Repayment of long-term loans	-	(358)
Customers' deposits refunded	(59)	(95)
Decrease in other noncurrent liabilities	(5)	(84)
Proceeds from exercise of employee stock option granted by subsidiaries	<u>-</u>	<u>30</u>
Net cash provided by (used in) financing activities	<u>1,115</u>	<u>(424)</u>

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CHUNGHWA TELECOM CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Millions of New Taiwan Dollars)

(Unaudited)

	<u>Six Months Ended June 30</u>	
	<u>2014</u>	<u>2013</u>
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	\$ <u>(31)</u>	\$ <u>96</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	13,556	28,050
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	<u>14,585</u>	<u>30,938</u>
CASH AND CASH EQUIVALENTS, END OF PERIOD	<u>\$ 28,141</u>	<u>\$ 58,988</u>

(Concluded)

CHUNGHWA TELECOM CO., LTD. AND SUBSIDIARIES

NOTE TO CONSOLIDATED FINANCIAL STATEMENTS SIX MONTHS ENDED JUNE 30, 2014 AND 2013 (Unaudited)

STATEMENT OF COMPLIANCE

The Company has prepared its consolidated balance sheets as of June 30, 2014, and 2013, the related consolidated statements of comprehensive income for the three months ended June 30, 2014 and 2013 and for the six months ended June 30, 2014 and 2013, as well as the consolidated statements of changes in equity and cash flows for the six months ended June 30, 2014 and 2013 in accordance with the International Financial Reporting Standards, International Accounting Standard and International Financial Reporting Interpretations Committee, as issued by the International Accounting Standard Board (collectively, “IFRSs”). The consolidated financial statements are incomplete as they omit the related footnote disclosures as required under IFRSs.