Chunghwa Telecom Co., Ltd. and Subsidiaries

Consolidated Financial Statements as of December 31, 2010 and 2011, and for Each of the Three Years in the Period Ended December 31, 2011 and Report of Independent Registered Public Accounting Firm

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Chunghwa Telecom Co., Ltd.

We have audited the accompanying consolidated balance sheets of Chunghwa Telecom Co., Ltd. and subsidiaries (the "Company") as of December 31, 2010 and 2011, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for the years ended December 31, 2009, 2010 and 2011, all expressed in New Taiwan dollars. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the Republic of China and the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Chunghwa Telecom Co., Ltd. and subsidiaries as of December 31, 2010 and 2011, and the results of their operations and their cash flows for the years ended December 31, 2009, 2010 and 2011, in conformity with accounting principles generally accepted in the Republic of China.

Accounting principles generally accepted in the Republic of China vary in certain significant respects from accounting principles generally accepted in the United States of America. Information relating to the nature and effect of such differences is presented in Note 36 to the consolidated financial statements.

Our audits also comprehended the translation of New Taiwan dollar amounts into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 3. Such U.S. dollar amounts are presented solely for the convenience of the readers.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2011, based on the criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated April 16, 2012 expressed an unqualified opinion on the Company's internal control over financial reporting.

/s/ DELOITTE & TOUCHE

Deloitte & Touche
Taipei, Taiwan
The Republic of China

April 16, 2012

CHUNGHWA TELECOM CO., LTD. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(In Millions of New Taiwan or U.S. Dollars, Except Par Value)

		December 31		
		2010	2011	
ASSETS	Notes	NT$	NT$	US$ (Note 3)
CURRENT ASSETS				
Cash and cash equivalents	2, 5	$ 90,875	$ 67,390	$ 2,226
Financial assets at fair value through profit or loss	2, 6	77	46	2
Available-for-sale financial assets	2, 7	2,191	2,499	83
Held-to-maturity financial assets	2, 8	1,964	1,201	40
Trade notes and accounts receivable, net	2, 9, 22	14,503	22,396	740
Receivables from related parties	29	64	34	1
Other monetary assets	10	2,139	2,068	68
Inventories	2, 11, 22, 31	4,561	5,214	172
Deferred income tax assets	2, 26	91	115	4
Restricted assets	22, 30, 31	205	57	2
Other current assets	11, 12, 22, 27	4,121	5,519	182
Total current assets		120,791	106,539	3,520
LONG-TERM INVESTMENTS				
Investments accounted for using equity method	2, 13	1,725	2,563	84
Financial assets carried at cost	2, 14	2,734	2,760	91
Available-for-sale financial assets	2, 7	-	58	2
Held-to-maturity financial assets	2, 8	8,408	13,495	446
Other monetary assets	15, 31	1,000	1,000	33
Total long-term investments		13,867	19,876	656
PROPERTY, PLANT AND EQUIPMENT, NET	2, 16, 29, 30	305,730	302,612	9,997
INTANGIBLE ASSETS	2			
3G concession		5,989	5,240	173
Goodwill		283	245	8
Others		584	845	28
Total intangible assets		6,856	6,330	209
OTHER ASSETS				
Refundable deposits		1,462	1,760	58
Deferred income tax assets	2, 26	472	340	11
Others	2, 28, 29, 30	5,133	5,463	181
Total other assets		7,067	7,563	250
TOTAL		$ 454,311	$ 442,920	$ 14,632

		December 31		
		2010	2011	
LIABILITIES AND STOCKHOLDERS' EQUITY	Notes	NT$	NT$	US$ (Note 3)
CURRENT LIABILITIES				
Short-term loans	17	$ 115	$ 75	$ 2
Short-term bills payable	18	230	-	-
Financial liabilities at fair value through profit or loss	2, 6	-	4	-
Trade notes and accounts payable	22	11,555	14,265	471
Payables to related parties	29	140	788	26
Income tax payable	2, 26	4,568	3,539	117
Accrued expenses	19, 22	18,404	18,571	614
Due to stockholders for capital reduction	23	19,394	-	-
Current portion of long-term loans	21	309	702	23
Other current liabilities	11, 20, 22, 29	17,626	21,336	705
Total current liabilities		72,341	59,280	1,958
NONCURRENT LIABILITIES				
Long-term loans	21	3,148	1,058	35
Deferred income	2	2,589	2,578	85
Total noncurrent liabilities		5,737	3,636	120
RESERVE FOR LAND VALUE INCREMENTAL TAX	16	95	95	3
OTHER LIABILITIES				
Accrued pension liabilities	2, 28	1,291	1,444	48
Customers' deposits		5,781	5,014	166
Others		463	408	13
Total other liabilities		7,535	6,866	227
Total liabilities		85,708	69,877	2,308
EQUITY ATTRIBUTABLE TO STOCKHOLDERS OF THE PARENT	2, 7, 16, 23			
Common stock - NT$10 par value				
Authorized: 12,000,000 thousand shares				
Issued: 7,757,447 thousand shares		77,574	77,574	2,563
Additional paid-in capital		169,515	169,536	5,601
Retained earnings		111,653	115,866	3,828
Other adjustments				
Cumulative translation adjustments		(102)	(38)	(1)
Unrecognized net loss of pension		(40)	(38)	(1)
Unrealized gain on financial instruments		176	68	2
Unrealized revaluation increment		5,803	5,763	190
Total other adjustments		5,837	5,755	190
Total equity attributable to stockholders of the parent		364,579	368,731	12,182
MINORITY INTERESTS IN SUBSIDIARIES		4,024	4,312	142
Total stockholders' equity		368,603	373,043	12,324
TOTAL		$ 454,311	$ 442,920	$ 14,632

The accompanying notes are an integral part of the consolidated financial statements.

CHUNGHWA TELECOM CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME
(In Millions of New Taiwan or U.S. Dollars, Except Earnings Per Share That Are in New Taiwan or U.S. Dollars)

		Year Ended December 31			
		2009	2010	2011	
	Notes	NT$	NT$	NT$	US$ (Note 3)
NET REVENUES	29	$ 198,361	$ 202,430	$ 217,493	$ 7,185
OPERATING COSTS	29	112,736	115,332	131,531	4,345
GROSS PROFIT		85,625	87,098	85,962	2,840
OPERATING EXPENSES	29				
Marketing		22,293	22,469	23,172	766
General and administrative		3,765	4,012	4,180	138
Research and development		3,173	3,250	3,525	116
Total operating expenses		29,231	29,731	30,877	1,020
INCOME FROM OPERATIONS		56,394	57,367	55,085	1,820
NON-OPERATING INCOME AND GAINS	29				
Interest income		479	475	682	22
Equity in earnings of equity method investees, net		-	151	364	12
Gain on disposal of financial instruments, net		-	-	20	1
Gain on disposal of property, plant and equipment, net		-	-	298	10
Foreign exchange gain, net		89	-	81	3
Dividend income		55	26	34	1
Valuation gain on financial instruments, net		99	-	-	-
Others		700	380	402	13
Total non-operating income and gains		1,422	1,032	1,881	62
NON-OPERATING EXPENSES AND LOSSES					
Impairment loss on assets		110	125	148	5
Valuation loss on financial instruments, net		-	11	37	1
Interest expense		15	107	31	1
Loss on disposal of property, plant and equipment, net		7	216	-	-
Loss on disposal of financial instruments, net		142	157	-	-
Foreign exchange loss, net		-	17	-	-
Loss arising from natural calamities		149	19	1	-
Equity in losses of equity method investees, net		23	-	-	-
Others		132	60	50	2
Total non-operating expenses and losses		578	712	267	9
INCOME BEFORE INCOME TAX		57,238	57,687	56,699	1,873
INCOME TAX EXPENSE	2, 26	12,743	9,129	8,604	284
CONSOLIDATED NET INCOME		$ 44,495	$ 48,558	$ 48,095	$ 1,589

(Continued)

CHUNGHWA TELECOM CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME
(In Millions of New Taiwan or U.S. Dollars, Except Earnings Per Share That Are in New Taiwan or U.S. Dollars)

		Year Ended December 31			
		2009	2010	2011	
	Notes	NT$	NT$	NT$	US$ (Note 3)
ATTRIBUTABLE TO:					
Stockholders of the parent		$ 43,757	$ 47,609	$ 47,068	$ 1,555
Minority interests		738	949	1,027	34
		$ 44,495	$ 48,558	$ 48,095	$ 1,589
BASIC EARNINGS PER SHARE	27				
Before income tax		$ 5.79	$ 5.82	$ 7.11	$ 0.23
After income tax		$ 4.51	$ 4.91	$ 6.04	$ 0.20
DILUTED EARNINGS PER SHARE	27				
Before income tax		$ 5.77	$ 5.80	$ 7.09	$ 0.23
After income tax		$ 4.50	$ 4.89	$ 6.03	$ 0.20
BASIC EARNINGS PER EQUIVALENT ADS					
Before income tax		$ 57.96	$ 58.20	$ 71.10	$ 2.35
After income tax		$ 45.16	$ 49.10	$ 60.43	$ 2.00
DILUTED EARNINGS PER EQUIVALENT ADS					
Before income tax		$ 57.77	$ 58.02	$ 70.89	$ 2.34
After income tax		$ 45.01	$ 48.95	$ 60.25	$ 1.99
BASIC WEIGHTED AVERAGE SHARES OUTSTANDING (THOUSANDS)	27	9,696,808	9,696,808	7,789,326	
DILUTED WEIGHTED AVERAGE SHARES OUTSTANDING (THOUSANDS)	27	9,725,614	9,725,461	7,810,605	

The accompanying notes are an integral part of the consolidated financial statements. (Concluded)

CHUNGHWA TELECOM CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(In Millions of U.S. Dollars, Except Shares Data and Par Value)

	Equity Attributable to Stockholders of the Parent											
	Capital Stock (NT$10 Par Value) Common Stock			Retained Earnings								
	Shares (Thousands)	Amount NT$	Additional Paid-in Capital NT$	Legal Reserve NT$	Special Reserve NT$	Unappropriated Earnings NT$	Cumulative Translation Adjustments NT$	Unrecognized Net Loss of Pension NT$	Unrealized Gain (Loss) on Financial Instruments NT$	Unrealized Revaluation Increment NT$	Minority Interests NT$	Total Stockholders' Equity NT$
BALANCE, JANUARY 1, 2009	9,696,808	$ 96,968	$ 179,206	$ 52,859	$ 2,676	$ 41,277	$ 29	$ -	$ (2,272)	$ 5,813	$ 3,138	$ 379,694
Transfer of unrealized revaluation increment to income upon disposal of revalued assets	-	-	-	-	-	-	-	-	-	(10)	-	(10)
Appropriation of 2008 earnings												
Legal reserve	-	-	-	4,128	-	(4,128)	-	-	-	-	-	-
Cash dividend - NT$3.83 per share	-	-	-	-	-	(37,139)	-	-	-	-	-	(37,139)
Cancellation of preferred stock (Note 23)	-	-	-	-	-	-	-	-	-	-	-	-
Capital surplus transferred to common stock	969,680	9,697	(9,697)	-	-	-	-	-	-	-	-	-
Decrease in minority interests	-	-	-	-	-	-	-	-	-	-	(129)	(129)
Capital reduction (Note 23)	(969,680)	(9,697)	-	-	-	-	-	-	-	-	-	(9,697)
Consolidated net income in 2009	-	-	-	-	-	43,757	-	-	-	-	738	44,495
Equity adjustments in investees	-	-	1	-	-	(17)	-	-	-	-	-	(16)
Cumulative translation adjustment for foreign-currency investments held by investees	-	-	-	-	-	-	(21)	-	-	-	(1)	(22)
Defined benefit pension plan adjustments of investees	-	-	-	-	-	-	-	(44)	-	-	(1)	(45)
Unrealized gain on financial instruments	-	-	-	-	-	-	-	-	1,825	-	8	1,833
BALANCE, DECEMBER 31, 2009	9,696,808	96,968	169,510	56,987	2,676	43,750	8	(44)	(447)	5,803	3,753	378,964
Appropriation of 2009 earnings												
Legal reserve	-	-	-	4,374	-	(4,374)	-	-	-	-	-	-
Cash dividend - NT$4.06 per share	-	-	-	-	-	(39,369)	-	-	-	-	-	(39,369)
Decrease in minority interests	-	-	-	-	-	-	-	-	-	-	(696)	(696)
Capital reduction (Note 23)	(1,939,361)	(19,394)	-	-	-	-	-	-	-	-	-	(19,394)
Consolidated net income in 2010	-	-	-	-	-	47,609	-	-	-	-	949	48,558
Equity adjustments in investees	-	-	5	-	-	-	-	-	-	-	-	5
Cumulative translation adjustment for foreign-currency investments held by investees	-	-	-	-	-	-	(110)	-	-	-	(9)	(119)
Defined benefit pension plan adjustments of investees	-	-	-	-	-	-	-	4	-	-	1	5
Unrealized gain on financial instruments	-	-	-	-	-	-	-	-	623	-	26	649
BALANCE, DECEMBER 31, 2010	7,757,447	77,574	169,515	61,361	2,676	47,616	(102)	(40)	176	5,803	4,024	368,603
Transfer of unrealized revaluation increment to income upon disposal of revalued assets	-	-	-	-	-	-	-	-	-	(40)	-	(40)
Appropriation of 2010 earnings												
Legal reserve	-	-	-	4,761	-	(4,761)	-	-	-	-	-	-
Cash dividend - NT$5.52 per share	-	-	-	-	-	(42,855)	-	-	-	-	-	(42,855)
Decrease in minority interests	-	-	-	-	-	-	-	-	-	-	(727)	(727)
Consolidated net income in 2011	-	-	-	-	-	47,068	-	-	-	-	1,027	48,095
Equity adjustments in investees	-	-	21	-	-	-	-	-	-	-	-	21
Cumulative translation adjustment for foreign-currency investments held by investees	-	-	-	-	-	-	64	-	-	-	19	83
Defined benefit pension plan adjustments of investees	-	-	-	-	-	-	-	2	-	-	-	2
Unrealized loss on financial instruments	-	-	-	-	-	-	-	-	(108)	-	(31)	(139)
BALANCE, DECEMBER 31, 2011	7,757,447	$ 77,574	$ 169,536	$ 66,122	$ 2,676	$ 47,068	$ (38)	$ (38)	$ 68	$ 5,763	$ 4,312	$ 373,043
BALANCE, DECEMBER 31, 2011 (IN MILLIONS OF US$ - Note 3)		$ 2,563	$ 5,601	$ 2,184	$ 88	$ 1,556	$ (1)	$ (1)	$ 2	$ 190	$ 142	$ 12,324

The accompanying notes are an integral part of the consolidated financial statements.

CHUNGHWA TELECOM CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(In Millions of New Taiwan or U.S. Dollars)

	Year Ended December 31			
	2009	2010	2011	
	NT$	NT$	NT$	US$ (Note 3)
CASH FLOWS FROM OPERATING ACTIVITIES				
Consolidated net income	$ 44,495	$ 48,558	$ 48,095	$ 1,589
Adjustments to reconcile net income to net cash provided by operating activities:				
Provision for doubtful accounts	462	230	113	4
Depreciation and amortization	36,320	34,064	32,306	1,067
Amortization of premium (discount) of financial assets	16	38	61	2
Loss (gain) on disposal of financial instruments, net	142	157	(20)	(1)
Valuation loss (gain) on financial instruments, net	(99)	11	37	1
Loss (gain) on disposal of property, plant and equipment, net	7	216	(298)	(10)
Equity in losses (earnings) of equity method investees, net	23	(151)	(364)	(12)
Dividends received from equity investees	89	36	158	5
Loss arising from natural calamities	149	19	1	-
Impairment loss on assets	110	125	148	5
Deferred income taxes	1,099	27	56	2
Changes in operating assets and liabilities:				
Decrease (increase) in:				
Financial assets held for trading	221	32	(53)	(2)
Trade notes and accounts receivable	(1,492)	(2,749)	(8,313)	(275)
Receivables from related parties	(70)	(36)	144	5
Other monetary assets	350	(288)	58	2
Inventories	(88)	(475)	(665)	(22)
Other current assets	510	(858)	(1,046)	(34)
Increase (decrease) in:				
Trade notes and accounts payable	(1,565)	2,237	2,377	79
Payables to related parties	(206)	(260)	650	21
Income tax payable	(1,377)	257	(1,028)	(34)
Accrued expenses	950	954	196	7
Other current liabilities	777	2,447	2,609	86
Deferred income	422	105	(14)	-
Accrued pension liabilities	(3,960)	73	151	5
Net cash provided by operating activities	77,285	84,769	75,359	2,490
CASH FLOWS FROM INVESTING ACTIVITIES				
Acquisition of designated financial assets at fair value through profit or loss	(45)	(34)	(113)	(4)
Proceeds from disposal of financial assets at fair value through profit or loss	63	21	147	5
Acquisition of available-for-sale financial assets	(9,263)	(3,342)	(4,325)	(143)
Proceeds from disposal of available-for-sale financial assets	8,097	19,195	3,945	131
Acquisition of held-to-maturity financial assets	(2,100)	(6,917)	(6,544)	(216)
Proceeds from disposal of held-to-maturity financial assets	869	1,538	2,159	71
Acquisition of financial assets carried at cost	(116)	(318)	(236)	(8)
Proceeds from disposal of financial assets carried at cost	302	59	66	2
Capital reduction of financial assets carried at cost	-	-	7	-
Liquidating dividend	-	-	6	-
Capital reduction of equity investees	-	-	7	-
Prepaid long-term investment	(26)	(66)	(84)	(3)
Acquisition of investments accounted for using equity method	(560)	(35)	(365)	(12)
Acquisition of property, plant and equipment	(25,478)	(24,617)	(26,876)	(888)
Proceeds from disposal of property, plant and equipment	65	82	656	22

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CHUNGHWA TELECOM CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(In Millions of New Taiwan or U.S. Dollars)

	Year Ended December 31			
	2009	2010	2011	
	NT$	NT$	NT$	US$ (Note 3)
Acquisition of intangible assets	$ (274)	$ (278)	$ (556)	$ (18)
Decrease (increase) in restricted assets	(91)	31	12	-
Increase in other assets	(914)	(2,682)	(1,010)	(33)
Net cash used in investing activities	(29,471)	(17,363)	(33,104)	(1,094)
CASH FLOWS FROM FINANCING ACTIVITIES				
Increase (decrease) in short-term loans	485	(648)	(40)	(1)
Increase (decrease) in short-term note payable	-	230	(230)	(8)
Increase in long-term loans	400	3,238	-	-
Repayment of long-term loans	(124)	(119)	(1,697)	(56)
Decrease in customers' deposits	(118)	(81)	(895)	(30)
Increase (decrease) in other liabilities	(198)	61	48	2
Cash dividends paid	(37,139)	(39,369)	(42,855)	(1,416)
Capital reduction	(19,116)	(9,697)	(19,394)	(641)
Proceeds from exercise of employee stock option granted by subsidiary	58	97	94	3
Decrease in minority interest	(697)	(675)	(769)	(25)
Net cash used in financing activities	(56,449)	(46,963)	(65,738)	(2,172)
EFFECT OF EXCHANGE RATE CHANGES	(7)	(63)	111	4
EFFECT OF CHANGE ON CONSOLIDATED SUBSIDIARIES	613	(2,764)	(113)	(4)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(8,029)	17,616	(23,485)	(776)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	81,288	73,259	90,875	3,002
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 73,259	$ 90,875	$ 67,390	$ 2,226
SUPPLEMENTAL INFORMATION				
Interest paid (excluding capitalized interest expense)	$ 14	$ 98	$ 41	$ 1
Income tax paid	$ 13,024	$ 8,841	$ 9,574	$ 316
NON-CASH FINANCING ACTIVITIES				
Current portion of long-term loans	$ 117	$ 309	$ 702	$ 23
Reclassification from common capital stock to due to stockholders for capital reduction	$ 9,697	$ 19,394	$ -	$ -
CASH AND NON-CASH INVESTING ACTIVITIES				
Increase in property, plant and equipment	$ 25,151	$ 23,250	$ 28,257	$ 934
Decrease (increase) in payables to suppliers	359	1,356	(1,354)	(45)
Prepayments for equipment	(32)	11	(27)	(1)
	$ 25,478	$ 24,617	$ 26,876	$ 888

(Continued)

(In Millions of New Taiwan or U.S. Dollars)

InfoExplorer Co., Ltd. ("IFE") merged with International Integrated System, Inc. and e-ToYou International, Inc. on April 1, 2011. After the merger, IFE became the surviving entity and was renamed as International Integrated System, Inc. ("IISI"). International Integrated System, Inc. and e-ToYou International, Inc. were dissolved. As IFE issued new shares for the aforementioned share swap, the following table presents the allocation of acquisition costs of International Integrated System Inc. and e-ToYou International Inc. to assets acquired and liabilities assumed based on their fair values:

Cash and cash equivalents	$ 46
Accounts receivables	200
Financial assets at fair value through profit and loss	38
Other current assets	18
Long-term investments	34
Property, plant, and equipment	5
Refundable deposits	44
Other assets	4
Accounts payables	(80)
Other current liabilities	(25)
Other liabilities	(38)
Common stock issued by IFE	$ 246

Chunghwa has lost control over International Integrated System Inc. ("IISI") on June 24, 2011. The following table presents assets and liabilities of IISI based on their fair values:

Current assets (excluding cash)	$ 592
Long-term investments	64
Property, plant, and equipment	60
Intangible assets	3
Other assets	130
Current liabilities	(276)
Other liabilities	(103)
Net assets	(629)
Cash balance upon deconsolidation	$ (159)

The acquisition of Yao Yong Real Property Co., Ltd. ("YYRP") by Light Era Development Co., Ltd. ("LED") was made on March 1, 2010. The following table presents the allocation of acquisition costs of YYRP to assets acquired and liabilities assumed based on their fair values:

Cash and cash equivalents	$ 30
Other monetary assets	13
Deferred income tax assets	6
Property, plant, and equipment	2,782
Customers' deposits	(35)
Accrued expenses	(1)
Other current liabilities	(2)
Total	2,793
Percentage of ownership	100%
	2,793
Goodwill	1
Acquisition costs of acquired subsidiary	$ 2,794

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CHUNGHWA TELECOM CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(In Millions of New Taiwan or U.S. Dollars)

The acquisition of InfoExplorer Co., Ltd. ("IFE") was made on January 20, 2009. The following table presents the allocation of acquisition costs of IFE to assets acquired and liabilities assumed based on their fair values:

Cash and cash equivalents	$ 458
Receivables	13
Other current assets	15
Property, plant, and equipment	40
Identifiable intangible assets	53
Refundable deposits	3
Other assets	2
Payables	(83)
Income tax payable	-
Other current liabilities	-
Total	501
Percentage of ownership	49.07%
	245
Goodwill	38
Acquisition costs of acquired subsidiary (cash prepaid for long-term investments in December 2008)	$ 283

The acquisition of additional interest of Chunghwa Investment Co., Ltd. ("CHI") and its subsidiaries was made on September 9, 2009. The following table presents the allocation of acquisition costs of Chunghwa Investment Co., Ltd. and its subsidiaries to assets acquired and liabilities assumed based on their fair values:

Cash and cash equivalents	$ 914
Financial assets at fair value through profit or loss	51
Available-for-sale financial assets	568
Trade notes and accounts receivable	76
Inventories	60
Other current assets	19
Investments accounted for using equity method	57
Financial assets carried at cost	156
Property, plant, and equipment	90
Identifiable intangible assets	34
Other assets	22
Trade notes and accounts payable	(34)
Accrued expenses	(16)
Income tax payable	(1)
Short-term loans	(20)
Long-term loans	(24)
Other liabilities	(1)
Subtotal	1,951
Minority interests	(100)
Total	1,851
Percentage of additional ownership	40%
	741
Goodwill	18
Acquisition costs of acquired subsidiary paid in cash	$ 759

The accompanying notes are an integral part of the consolidated financial statements. (Concluded)

1. GENERAL

Chunghwa Telecom Co., Ltd. ("Chunghwa") was incorporated on July 1, 1996 in the Republic of China ("ROC") pursuant to the Article 30 of the Telecommunications Act. Chunghwa is a company limited by shares and, prior to August 2000, was wholly owned by the Ministry of Transportation and Communications ("MOTC"). Prior to July 1, 1996, the current operations of Chunghwa were carried out under the Directorate General of Telecommunications ("DGT"). The DGT was established by the MOTC in June 1943 to take primary responsibility in the development of telecommunications infrastructure and to formulate policies related to telecommunications. On July 1, 1996, the telecom operations of the DGT were spun-off to as Chunghwa which continues to carry out the business and the DGT continues to be the industry regulator.

As the dominate telecommunications service provider of fixed-line and Global System for Mobile Communications ("GSM") in the ROC, Chunghwa is subject to additional regulations imposed by the ROC.

Effective August 12, 2005, the MOTC had completed the process of privatizing Chunghwa by reducing the government ownership to below 50% in various stages. In July 2000, Chunghwa received approval from the Securities and Futures Commission (the "SFC") for a domestic initial public offering and its common shares were listed and traded on the Taiwan Stock Exchange (the "TSE") on October 27, 2000. Certain of Chunghwa's common shares had been sold, in connection with the foregoing privatization plan, in domestic public offerings at various dates from August 2000 to July 2003. Certain of Chunghwa's common shares had also been sold in an international offering of securities in the form of American Depository Shares ("ADS") on July 17, 2003 and were listed and traded on the New York Stock Exchange (the "NYSE"). The MOTC sold common shares of Chunghwa by auction in the ROC on August 9, 2005 and completed the second international offering on August 10, 2005. Upon completion of the share transfers associated with these offerings on August 12, 2005, the MOTC owned less than 50% of the outstanding shares of Chunghwa and completed the privatization plan.

Senao International Co., Ltd. ("SENAO") was incorporated in 1979. SENAO has been listed on the Taiwan Stock Exchange under the number "2450" since May 2001. SENAO engages mainly in selling and maintaining mobile phones and its peripheral products. Chunghwa acquired 31.33% shares of SENAO on January 15, 2007 and has substantial control in SENAO by obtaining half of the seats of the board of directors of SENAO on April 12, 2007. At general annual stockholder meeting of SENAO in June 2010, the Company continued to maintain control of a majority of the board of directors through the continued support of the largest beneficial shareholder. The Company's equity ownership of SENAO decreased from 31.33% as of January 15, 2007 to 28.44% as of December 31, 2011 due to the exercise of options by employees that were previously granted before 2007.

Senao International (Samoa) Holding Ltd. ("SIS") was established by SENAO in 2009. SIS engages mainly in international investment activities.

Senao International HK Limited ("SIHK") was established by SIS in 2009. SIHK engages mainly in international investment activities.

Senao Trading (Fujian) Co., Ltd. ("STF") was established by SIHK in 2011. STF engages mainly in the sale of information and communication technology products.

Senao International Trading (Shanghai) Co., Ltd. ("SITS") was established by SIHK in 2011. SITS engages mainly in the sale of information and communication technology products.

Senao International Trading (Shanghai) Co., Ltd. (“SEITS”) was established by SIHK in 2011. SEITS engages mainly in the provision of information and communication maintenance services.

The English name is the same as the above entity; however, the Chinese names included in the respective Articles of Incorporations are different.

Senao International Trading (Jiangsu) Co., Ltd. (“SITJ”) was established by SIHK in 2011. SITJ engages mainly in the sale of information and communication technology products.

Chunghwa established Chunghwa International Yellow Pages Co., Ltd. (“CIYP”) in January 2007. CIYP engages mainly in yellow pages sales and advertisement services.

CHIEF Telecom Inc. (“CHIEF”) was incorporated in 1991. CHIEF engages mainly in internet communication and internet data center (“IDC”) service. Chunghwa acquired 70% of the shares of CHIEF on September 2006.

Unigate Telecom Inc. (“Unigate”) was established by CHIEF in 1999. Unigate engages mainly in telecommunication and information software service.

CHIEF Telecom (Hong Kong) Limited (“CHIEF (HK)”) was established by CHIEF in 2003. CHIEF (HK) engages mainly in internet communication and internet data center (“IDC”) service. On August 20, 2009, the stockholders of CHIEF (HK) resolved to dissolve CHIEF (HK). CHIEF (HK) completed the liquidation procedures and obtained the required approval from local government on September 24, 2010.

Chief International Corp. (“CIC”) was established by CHIEF in 2008. CIC engages mainly in internet communication and internet IDC services.

Chunghwa System Integration Co., Ltd. (“CHSI”) was incorporated in 2002. CHSI engages mainly in providing communication and information integration services. Chunghwa acquired 100% shares of CHSI in December 2007.

Concord Technology Co., Ltd. (“Concord”), a subsidiary of CHSI, was incorporated in 2006. Concord engages mainly in investment activities.

Glory Network System Service (Shanghai) Co., Ltd. (“GNSS (Shanghai)”), a subsidiary of Concord, was incorporated in 2006. GNSS (Shanghai) engages mainly in planning and designing of systems and communications and information integration services.

Chunghwa Telecom Global, Inc. (“CHTG”) was incorporated in 2004. CHTG engages mainly in international data and internet services and long distance call wholesales to carriers. Chunghwa acquired 100% shares of CHTG in December 2007.

Donghwa Telecom Co., Ltd. (“DHT”) was incorporated in 2004. DHT engages mainly in international telecommunications, IP fictitious internet and internet transfer services. Chunghwa acquired 100% shares of DHT in December 2007.

Spring House Entertainment Inc. (“SHE”) was incorporated in 2000. SHE engages mainly in network services, producing digital entertainment contents and broadband visual sound terrace development. SHE was an equity method investee before Chunghwa obtained control interest over it in January 2008.

Ceylon Innovation Co., Ltd. (“CEI”) was established by SHE in April 2011. CEI has not started its operation and will engage mainly in international trade, general advertisement and book publishing service.

Chunghwa established Light Era Development Co., Ltd. (“LED”) in January 2008. LED engages mainly in development of property for rent and sale.

Yao Yong Real Property Co., Ltd. (“YYRP”) was incorporated in 2002. YYRP engages mainly in real estate management and leasing business. LED acquired 100% ownership interest of YYRP on March 1, 2010.

Chunghwa established Chunghwa Telecom Singapore Pte., Ltd. (“CHTS”) in July 2008, CHTS engages mainly in telecommunication wholesale, internet transfer services, international data, long distance call wholesales to carriers and the world satellite business.

Chunghwa established Chunghwa Telecom Japan Co., Ltd. (“CHTJ”) in October 2008. CHTJ engages mainly in telecommunication business, information processing and information providing service, development and sale of software and consulting services in telecommunication.

InfoExplorer Co., Ltd. (“IFE”) issued new shares as the consideration to merge with International Integrated System, Inc. and e-ToYou International, Inc. on April 1, 2011. After the merger, IFE became the surviving entity and was renamed as International Integrated System, Inc. (“IISI”). International Integrated System, Inc. and e-ToYou International, Inc. were dissolved. As a result of the additional shares being issued by IFE in connection with this transaction, Chunghwa’s ownership interest in IISI decreased from 49% to 33% after the merger, and after the stockholders’ meeting of IISI on June 24, 2011, Chunghwa lost control of the board of directors. Due to this loss of control, IISI and its subsidiaries including IESA and IEHK, were deconsolidated and going forward the investment is accounted for as an equity method investment.

Chunghwa Investment Co., Ltd. (“CHI”) was established in 2002. CHI engages mainly in professional investing in telecommunication business, and telecommunication valued-added services. CHI was equity-method investee of the parent company. Chunghwa acquired over 50% shares of CHI on September 2009.

Chunghwa Precision Test Tech. Co., Ltd. (“CHPT”) was established in 2005 as the subsidiary of CHI. CHPT engages mainly in production and marketing of semiconductor testers and printed circuit boards.

Chunghwa Precision Test Tech. USA Corporation (“CHPT(US)”) was established by CHPT in 2010. CHPT(US) engages mainly in production and marketing in semiconductor testers and printed circuit boards.

Chunghwa Investment Holding Company (“CIHC”) was established by CHI in 2004. CIHC engages mainly in investment activities.

CHI One Investment Co., Ltd. (“COI”) was established by CHI in 2009. COI engages mainly in investment activities.

Chunghwa has established New Prospect Investments Holdings Ltd. (“New Prospect”) in March 2006. The holding company is operating as an investment company and Chunghwa has 100% ownership interest in an amount of US$1 in the holding company as of December 31, 2011.

Chunghwa has established Prime Asia Investments Group Ltd. (“Prime Asia“) in March 2006. Prime Asia engages mainly in investment activities.

Chunghwa Hsingta Company Ltd. (“CHC”) was established by Prime Asia in December 2010. CHC engages mainly in investment activities.

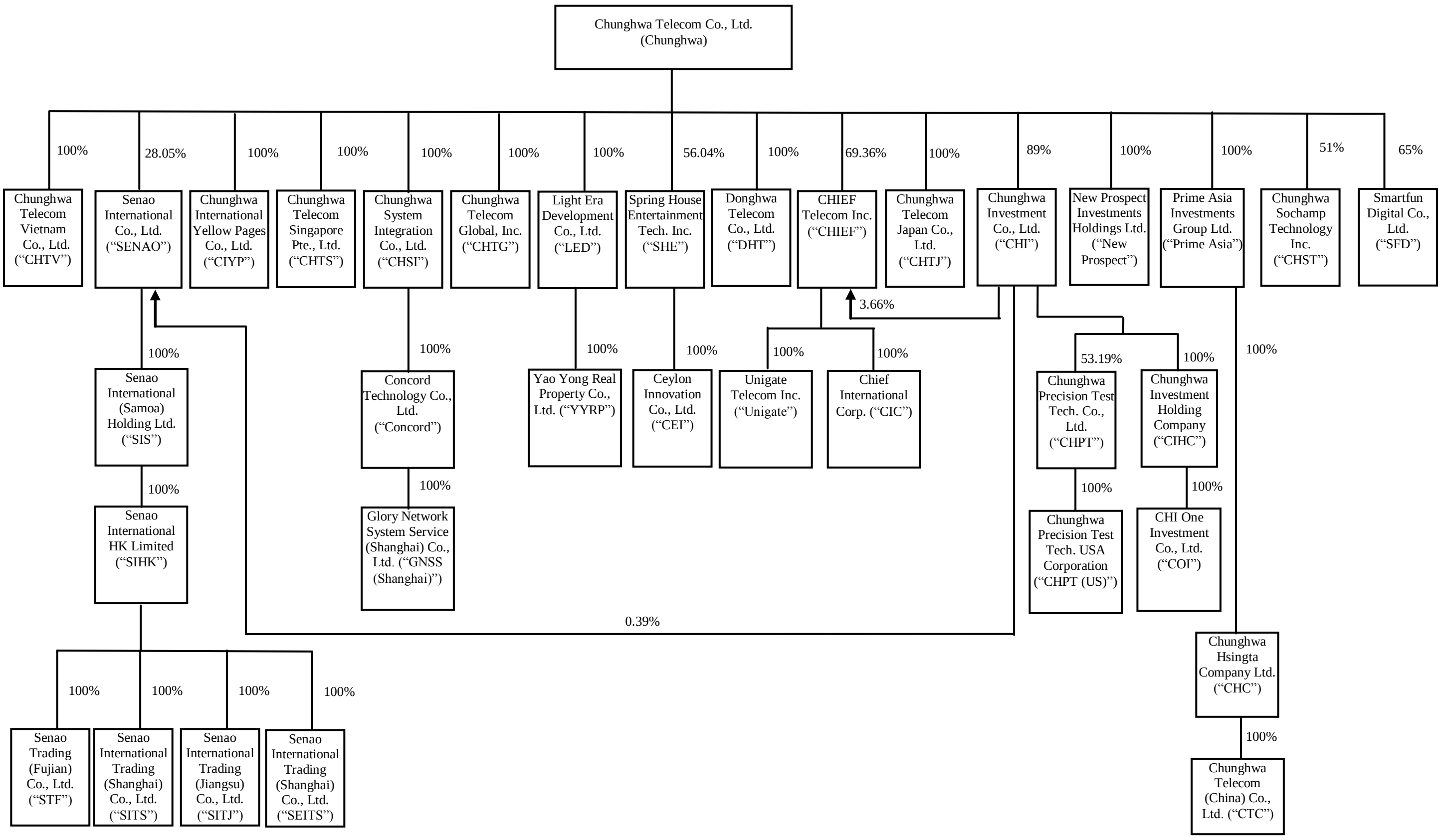
Chunghwa Telecom (China) Co., Ltd. (“CTC”) was established by CHC in March 2011. CTC engages mainly in energy conserving and providing services of planning, design, and intergration of information systems.

Chunghwa has established Chunghwa Telecom Vietnam Co., Ltd. ("CHTV") in May 2011. CHTV engages mainly in providing information and communications technology, international private leased circuit, and intelligent energy network services.

Chunghwa and Sochamp Technology Inc. established a joint venture, Chunghwa Sochamp Technology Inc. ("CHST"), in July 2011. CHST mainly engages in license plate recognition system.

Chunghwa and United Daily News established a joint venture, Smartfun Digital Co., Ltd. ("SFD"), in August 2011. SFD mainly engages in sales of educational software which provides digital parenting education.

The following diagram presents information regarding the relationship and ownership percentages between Chunghwa and its subsidiaries as of December 31, 2011:



Chunghwa together with its subsidiaries are hereinafter referred to collectively as the "Company". Minority interests in the aforementioned subsidiaries are presented as a separate component of stockholders' equity.

As of December 31, 2010 and 2011, the Company had 28,134 and 28,772 employees, respectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying consolidated financial statements were prepared in conformity with accounting principles generally accepted in the ROC ("ROC GAAP"). The significant accounting policies are summarized as follows:

Principle of Consolidation

The accompanying consolidated financial statements include the accounts of all directly and indirectly majority owned subsidiaries of Chunghwa, and the accounts of investees in which the Company's ownership percentage is less than 50% but over which the Company has a controlling interest. All significant intercompany transactions and balances are eliminated upon consolidation.

The consolidated financial statements for the year ended December 31, 2009 include the accounts of Chunghwa, SENAO, SIS, SIHK, CIYP, CHIEF, Unigate, CHIEF (HK), CIC, CHSI, Concord, GNSS (Shanghai), CHTG, DHT, SHE, LED, CHTS, CHTJ, IFE, CHI, CHPT, CIHC, COI, New Prospect and Prime Asia. The consolidated financial statements for the year ended December 31, 2010 include the accounts of Chunghwa, SENAO, SIS, SIHK, CIYP, CHIEF, Unigate, CHIEF (HK), CIC, CHSI, Concord, GNSS (Shanghai), CHTG, DHT, SHE, LED, YYRP, CHTS, CHTJ, IFE, IESA, IEHK, CHI, CHPT, CHPT(US), CIHC, COI, New Prospect, Prime Asia and CHC. The consolidated financial statements for the year ended December 31, 2011 include the accounts of Chunghwa, SENAO, SIS, SIHK, STF, SITS, SITJ, SEITS, CIYP, CHIEF, Unigate, CIC, CHSI, Concord, GNSS (Shanghai), CHTG, DHT, SHE, CEI, LED, YYRP, CHTS, CHTJ, IISI, IESA, IEHK, CHI, CHPT, CHPT (US), CIHC, COI, New Prospect, Prime Asia, CHC, CTC, CHTV, CHST, and SFD. The accounts of IISI, IESA and IEHK were deconsolidated on June 24, 2011 (see Note 1).

For foreign subsidiaries using their local currency as their functional currency, assets and liabilities are translated into New Taiwan dollars at the exchange rates in effect on the balance sheet date; stockholders' equity accounts are translated into New Taiwan dollars at historical exchange rates and income statement accounts are translated into New Taiwan dollars at average exchange rates during the year.

Business Combination

Acquisitions are accounted for using the purchase method of accounting. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given and liabilities incurred or assumed, by the Company in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets and liabilities are recognized at their fair values at the acquisition date.

Goodwill arising on acquisition is recognized as an asset and initially measured at cost, being the excess of the cost of the business combination over the Company's interest in the net fair value of the identifiable net assets.

The interest of minority stockholders in the acquiree is initially measured at historical cost.

Foreign-currency Transactions

Foreign-currency transactions other than derivative contracts are recorded in New Taiwan dollars at the rates of exchange in effect when the transactions occur. Exchange gains or losses derived from foreign-currency transactions or monetary assets and liabilities denominated in foreign currencies are recognized in earnings. At the balance sheet date, monetary assets and liabilities denominated in foreign currencies are revalued at prevailing exchange rates with the resulting gains or losses recognized in earnings.

At the balance sheet date, foreign-currency nonmonetary assets (such as equity instruments) and liabilities that are measured at fair value are revalued using prevailing exchange rates. When a gain or loss on a nonmonetary item is recognized in stockholders' equity, any exchange component of that gain or loss shall be recognized in stockholders' equity. Conversely, when a gain or loss on a non-monetary item is recognized in earnings, any exchange component of that gain or loss shall be recognized in earnings.

Foreign-currency nonmonetary assets and liabilities that are carried at cost continue to be stated at exchange rates at trade dates.

The financial statements of foreign equity investees and consolidated subsidiaries are translated into New Taiwan dollars at the following exchange rates. Assets and liabilities - spot rates at year-end; stockholders' equity - historical rates, income and expenses - average rates during the year.

The resulting translation adjustments of financial statements shall be recorded as cumulative translation adjustments, a separate component of stockholders' equity.

Accounting Estimates

Under above principles, certain estimates and assumptions have been used for the allowance for doubtful accounts, allowance for loss on inventories, depreciation of property, plant and equipment, impairment of assets, bonuses to employees, directors and supervisors, pension cost, and income tax, etc. Actual results may differ from these estimates.

Current and Noncurrent Assets and Liabilities

Current assets include cash and cash equivalents, and those assets held primarily for trading purposes or to be realized, sold or consumed within one year from the balance sheet date. All other assets are classified as noncurrent. Current liabilities are obligations incurred for trading purposes or to be settled within one year from the balance sheet date. All other liabilities are classified as noncurrent.

LED engages mainly in the development of property for rent and sale. The assets and liabilities of LED related to property development within its operating cycle, which is over one year, are classified as current items. Assets and liabilities related to property development over its operating cycle are classified as noncurrent items.

Cash Equivalents

Cash equivalents are commercial paper and treasury bills purchased with maturities of three months or less from the date of acquisition. The carrying amount approximates fair value.

Financial Assets and Liabilities at Fair Value Through Profit or Loss

Financial instruments classified as financial assets or financial liabilities at fair value through profit or loss ("FVTPL") include financial assets or financial liabilities held for trading and are designated as at FVTPL on initial recognition. The Company recognizes a financial asset or a financial liability when the Company becomes a party to the contractual provisions of the financial instrument. A financial asset is derecognized when the Company losses control of its contractual rights over the financial asset. A financial liability is derecognized when the obligation specified in the relevant contract is discharged, cancelled or expired.

Financial instruments at FVTPL are initially measured at fair value. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognized as expenses as incurred. Financial assets or financial liabilities at FVTPL are remeasured at fair value, subsequently with changes in fair value recognized in earnings. Cash dividends received subsequently (including those received in the period of investment) are recognized as income. On derecognition of a financial asset or a financial liability, the difference between its carrying amount and the sum of the consideration received and receivable or consideration paid and payable is recognized in earnings. Regular way purchases or sales of financial assets are accounted for using trade date accounting.

Derivatives that do not meet the criteria for hedge accounting are classified as financial assets or financial liabilities held for trading. When the fair value is positive, the derivative is recognized as a financial asset; when the fair value is negative, the derivative is recognized as a financial liability.

Fair values of financial assets and financial liabilities at the balance sheet date are determined as follows: forward exchange contracts and currency swap contracts are estimated by valuation techniques; index future contracts are determined at their market quotation on the balance sheet date; bonds are based on prices quoted by GreTai Securities Market (GTSM).

Available-for-sale Financial Assets

Available-for-sale financial assets are initially recognized at fair value plus transaction costs that are directly attributable to the acquisition. Changes in fair value from subsequent remeasurement are reported as a separate component of stockholders' equity. The corresponding accumulated gains or losses are recognized in earnings when the financial asset is derecognized from the balance sheet. A regular way purchase or sale of financial assets is accounted for using trade date accounting.

The recognition and derecognition of available-for-sale financial assets are the same with those of financial assets at FVTPL.

Fair values are determined as follows: Listed stocks - at closing prices at the balance sheet date; open-end mutual funds - at net asset values at the balance sheet date; bonds - quoted at prices provided by the Taiwan GreTai Securities Market; and financial assets and financial liabilities without quoted prices in an active market - at values determined using valuation techniques.

Cash dividends are recognized in earnings on the ex-dividend date, except for the dividends declared before acquisition which are treated as a reduction of investment cost. Stock dividends are recorded as an increase in the number of shares and do not affect investment income. The total number of shares subsequent to the increase of stock dividends is used to recalculate cost per share. The difference between the initial carrying amount of a debt instrument and its maturity amount is amortized using the effective interest method, with the amortized interest recognized in profit or loss.

An impairment loss is recognized when there is objective evidence that the financial asset is impaired. If, in a subsequent period, the amount of the impairment loss decreases, for equity securities, the previously recognized impairment loss is reversed to the extent of the decrease and recorded as an adjustment to stockholders' equity; for debt securities, the amount of the decrease is recognized in earnings, provided that the decrease is clearly attributable to an event which occurred after the impairment loss was recognized.

Held-to-maturity Financial Assets

Held-to-maturity financial assets are carried at amortized cost using the effective interest method. Those financial assets are initially recognized at fair value plus transaction costs that are directly attributable to the acquisition. Gains and losses are recognized at the time of derecognition, impairment or amortization. A regular way purchase or sale of financial assets is accounted for using trade date accounting.

If there is objective evidence which indicates that a financial asset is impaired, a loss is recognized. If, in a subsequent period, the amount of the impairment loss decreases and the decrease is clearly attributable to an event which occurred after the impairment loss was recognized, the previously recognized impairment loss is reversed to the extent of the decrease. The reversal may not result in a carrying amount that exceeds the amortized cost that would have been determined as if no impairment loss had been recognized.

Financial Assets Carried at Cost

Investments in equity instruments with no quoted prices in an active market and with fair values that cannot be reliably measured, such as non-publicly traded stocks and stocks traded in the Emerging Stock Market, are measured at their original cost. The accounting treatment for dividends on financial assets carried at cost is the same with that for dividends on available-for-sale financial assets. An impairment loss is recognized when there is objective evidence that the asset is impaired. A reversal of this impairment loss is disallowed.

Impairment of Accounts Receivable

An allowance for doubtful accounts is provided on the basis of a review of the collectibility of accounts receivable before January 1, 2011. The Company assesses the probability of collections of accounts receivable by examining the aging analysis of the outstanding receivables and assessing the value of the collateral provided by customers.

On January 1, 2011, the Company adopted the third-time revised Statement of Financial Accounting Standards (SFAS) No. 34, "Financial Instruments: Recognition and Measurement." One of the main revisions is that the impairment of receivables originated by the Company should be covered by SFAS No. 34. Accounts receivable are assessed for impairment at the end of each reporting period and considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the accounts receivable, the estimated future cash flows of the asset have been affected.

The amount of the impairment loss recognized is the difference between the asset carrying amount and the present value of estimated future cash flows, after taking into account the related collateral and guarantees, discounted at the receivable's original effective interest rate.

The carrying amount of the accounts receivable is reduced through the use of an allowance account.

Inventories

Inventories including merchandise and work-in-process are stated at the lower of cost (weighted-average cost) or net realizable value item by item, except for those that may be appropriate to group items of similar or related inventories. Net realizable value is the estimated selling price of inventories less all estimated costs of completion and costs necessary to make the sale. The calculation of the cost of inventory is derived using the weighted-average method.

Buildings and Lands Consigned to Constructing Firm

Inventories of LED are stated at the lower of cost or net realizable value item by item, except for those that may be appropriate to group as similar items or related inventories. Land acquired before construction is classified as land held for development, and then reclassified as land held under development after LED begins its construction project. Prepayments for licensing and other miscellaneous costs have been capitalized as part of inventory.

When using the completed-contract method for its construction projects, LED recognizes the proceeds from customers as advances from customers for land and building before the construction project is completed. After completion of the construction project and ownership is transferred to the customers, LED recognizes the relevant revenues.

When using percentage-of-completion method, profits are recorded based on LED's estimates of the percentage of completion of individual contracts, commencing when the work performed under the contracts reaches a point where the final costs can be estimated with reasonable accuracy. Changes in job performance, job conditions and estimated profitability may result in revisions to costs and income and are recognized in the period in which the revisions are determined. If the current estimates of total contract revenue and contract cost indicate a loss, a provision for the entire loss on the contract is recorded in the period in which it becomes evident.

The percentage of completion is measured based on the completion of the contract milestones predetermined by the architects and engineers. Construction in progress is stated at cost plus (less) amounts associated with estimated profit (loss) recognized on the basis of the percentage-of-completion method.

Investments Accounted for Using Equity Method

Investments in companies in which the Company exercises significant influence over the operating and financial policy decisions are accounted for by the equity method. Under the equity method, the investment is initially stated at cost and subsequently adjusted for its proportionate share in the net earnings of the investee companies. Any cash dividends received are recognized as a reduction in the carrying value of the investments.

Gains or losses on sales from the Company to equity method investees wherein Chunghwa exercises significant influence over these equity method investees are deferred in proportion to the Company's ownership percentage in the investees until such gains or losses are realized through transactions with third parties. Gains or losses on sales from equity method investees to Chunghwa are deferred in proportion to Chunghwa's ownership percentages in the investees until they are realized through transactions with third parties.

When the Company subscribes for additional investees shares at a percentage different from its existing ownership percentage, the resulting carrying amount of the investment in the investee differs from the amount of the Company's share of the investee's equity. The Company records such a difference as an adjustment to long-term investments with the corresponding amount charged or credited to additional paid-in capital to the extent available, with the balance charged to retained earnings.

Property, Plant and Equipment

Property, plant and equipment are stated at cost plus a revaluation increment, if any, less accumulated depreciation and accumulated impairment loss. The interest costs that are directly attributable to the acquisition, construction of a qualifying asset are capitalized as property, plant and equipment. Major renewals and betterments are capitalized, while maintenance and repairs are expensed as incurred.

When an indication of impairment is identified, any excess of the carrying amount of an asset over its recoverable amount is recognized as a loss. If the recoverable amount increases in a subsequent period, the amount previously recognized as impairment would be reversed and recognized as a gain. However, the adjusted amount may not exceed the carrying amount that would have been determined, net of depreciation, as if no impairment loss had been recognized.

An impairment loss on a revalued asset is charged to "unrealized revaluation increment" under equity to the extent available, with the balance recognized as a loss in earnings. If the recoverable amount increases in a subsequent period, the amount previously recognized as impairment loss could be reversed and recognized as a gain, with the remaining credited to "unrealized revaluation increment".

Depreciation expense is computed using the straight-line method over the following estimated service lives: land improvements - 10 to 30 years; buildings - 3 to 60 years; computer equipment - 2 to 15 years; telecommunication equipment - 3 to 20 years; transportation equipment - 3 to 10 years; and miscellaneous equipment - 2 to 12 years.

Upon sale or disposal of property, plant and equipment, the related cost, accumulated depreciation, accumulated impairment losses and any unrealized revaluation increment are deducted from the corresponding accounts, and any gain or loss is recorded as non-operating gains or losses in the year of sale or disposal.

Intangible Assets

Intangible assets mainly included 3G Concession, computer software, patents and goodwill.

The 3G Concession is valid through December 31, 2018. The 3G Concession fee is amortized on a straight-line basis from the date operations commence through the date the license expires. Computer software costs and patents are amortized using the straight-line method over the estimated useful lives of 2 to 20 years.

When an indication of impairment is identified for intangible assets other than goodwill, any excess of the carrying amount of an asset over its recoverable amount is recognized as a loss. If the recoverable amount increases in a subsequent period, the amount previously recognized as impairment would be reversed and recognized as a gain. However, the adjusted amount may not exceed the carrying amount that would have been determined, as if no impairment loss had been recognized.

Goodwill represents the excess of the consideration paid for business acquisition over the fair value of identifiable net assets acquired. Goodwill is tested for impairment annually. If an event occurs or circumstances change which indicates that the fair value of goodwill is below its carrying amount, an impairment loss is recognized. A subsequent reversal of such impairment loss is not allowed.

Idle Assets

Idle assets are carried at the lower of recoverable amount or carrying amount.

Pension Costs

For defined benefit pension plans, net periodic pension benefit cost is recorded in the consolidated statement of income and includes service cost, interest cost, expected return on plan assets, amortization of prior service costs, amortization of pension gains (losses) and curtailment or settlement gains (losses).

The Company recognizes into income, any unrecognized actuarial net gains or losses that exceed 10% of the larger of projected benefit obligations or plan assets, defined as the "corridor". Amounts inside this 10% corridor are amortized over the average remaining service life of active plan participants. Actuarial net gains and losses occur when actual experience differs from any of the many assumptions used to value the plans. Differences between the expected and actual returns on plan assets and changes in interest rate, which affect the discount rate used to value projected plan obligations, can have a significant impact on the calculation of pension net gains and losses from year to year.

Curtailment/settlement gains or losses are equal to the changes of underfunded status plus the a pro rata portion of the unrecognized prior service cost, unrecognized net gains (losses), and unrecognized transition obligations/assets, before the settlement/curtailment event multiplied by the percentage reduction in projected benefit obligation.

The projected benefit obligation represents the actuarial present value of benefits expected to be paid upon retirement based on estimated future compensation levels.

The carrying amount of accrued pension liability should be the sum of the following amounts when the calculation is positive: (a) projected benefit obligation as of balance sheet date, (b) minus (plus) unamortized actuarial loss (gain), (c) minus unamortized prior service cost, and (d) minus the fair value of plan assets. If the amount determined by above calculation is negative, it is viewed as prepaid pension cost. The prepaid pension cost is measured at the lower of: (a) the amount determined above, and (b) the sum of the following amounts: (i) unamortized actuarial loss, (ii) unamortized prior service cost, and (iii) the present value of refunds from the plan or reductions in future contributions to the plan.

The measurement of benefit obligations and net periodic cost (income) is based on estimates and assumptions approved by the Company's management such as compensation, age and seniority, as well as certain assumptions, including estimates of discount rates, expected return on plan assets and rate of compensation increases.

For employees under defined contribution pension plans, pension costs are recorded based on the actual contributions made to employees' individual pension accounts during their service periods.

Income Tax

The Company applies inter-period allocations for its income tax, whereby deferred income tax assets and liabilities are recognized for the tax effects of temporary differences and unused tax credits. Valuation allowances are provided to the extent, if any, that it is more likely than not that deferred income tax assets will not be realized. A deferred tax asset or liability is classified as current or noncurrent in accordance with the classification of its related asset or liability. However, if a deferred tax asset or liability does not relate to an asset or liability in the financial statements, then it is classified as either current or noncurrent based on the expected length of time before it is realized or settled.

Any tax credits arising from purchases of machinery, equipment and technology, research and development expenditures, personnel training, and investments in important technology based enterprises are recognized using the flow-through method.

Adjustments of prior years' tax liabilities are added to or deducted from the current year's tax provision.

Income taxes (10%) on undistributed earnings is recorded in the year of stockholders approval which is the year subsequent to the year the earnings are generated.

Share-based Compensation

Employee stock options granted on or after January 1, 2008 are accounted for using fair value method in accordance with SFAS No. 39, "Accounting for Share-based Payment." The adoption of SFAS No. 39 did not have any impact on the Company.

Employee stock options granted between January 1, 2004 and December 31, 2007 were accounted for under the interpretations issued by the Accounting Research and Development Foundation (the "ARDF"). The Company adopted the intrinsic value method, under which compensation cost was amortized over the vesting period.

Revenue Recognition

Revenues are recognized when they are realized or realizable and earned. Revenues are realized or realizable and earned when the Company has persuasive evidence of an arrangement, the goods have been delivered or the services have been rendered to the customer, the sales price is fixed or determinable and collectibility is reasonably assured.

Revenue is measured at the fair value of the consideration received or receivable and represents amounts agreed between the Company and the customers for goods sold in the normal course of business, net of sales discounts and volume rebates. For trade receivables due within one year from the balance sheet date, as the nominal value of the consideration to be received approximates its fair value and transactions are frequent, fair value of the consideration is not determined by discounting all future receipts using an imputed rate of interest.

Usage revenues from fixed-line services (including local, domestic long distance and international long distance), cellular services, Internet and data services, and interconnection and call transfer fees from other telecommunications companies and carriers are billed in arrears and are recognized based upon minutes of traffic processed when the services are provided in accordance with contract terms.

Other revenues are recognized as follows: (a) one-time subscriber connection fees (on fixed-line services) are deferred and recognized over the average expected customer service periods, (b) monthly fees (on fixed-line, mobile, Internet and data services) are accrued every month, and (c) prepaid services (fixed-line, mobile, Internet and data services) are recognized as income based upon actual usage by customers or when the right to use those services expires.

Where the Company enters into transactions which involve both the provision of air time bundled with products such as 3G data card and handset, total consideration received from handsets in these arrangements are allocated and measured using units of accounting within the arrangement based on relative fair values limited to the amount that is not contingent upon the delivery of other items or services.

Where the Company sells products to third party cellular phone stores the Company records the direct sale of the products, typically handsets, as gross revenue when the Company is the primary obligor in the arrangement and when title is passed and the products are accepted by the stores.

Expense Recognition

The costs of providing services and operating expenses are recognized as incurred.

Hedge Accounting

A hedging relationship qualifies for hedge accounting only if, all of the following conditions are met: (a) at the inception of the hedge, there is formal documentation of the hedging relationship and the entity's risk management objective and strategy for undertaking the hedge; (b) the hedge is expected to be highly effective in achieving offsetting changes in fair value attributable to the hedged risk, consistently with the risk management strategy documented for that particular hedging relationship; (c) the effectiveness of the hedge can be reliably measured; (d) the hedge is assessed on an ongoing basis and determined actually to have been highly effective throughout the financial reporting periods for which the hedge was designated.

The gain or loss from remeasuring the hedging instrument at fair value and the gain or loss on the hedged item attributable to the hedged risk are recognized in earnings.

The hedging items that do not meet the criteria for hedge accounting were classified as financial assets or financial liabilities at fair value through profit or loss.

Concentrations

For all periods presented, no individual customer or supplier constituted more than 10% of the Company’s revenues, trade notes and accounts receivables, purchases or trade notes and accounts payable. The Company invests its cash with several financial institutions. The Company also does not have concentrations of available sources of labor, services or other rights that could, if suddenly eliminated, severely impact its operations. However, telecommunications franchises and licenses are issued solely by authority of the ROC government. The withdrawal or the revocation of the franchise and licenses by the ROC government would severely impact the Company’s operations.

Earnings Per Share and Per Equivalent ADS

Earnings per share is computed by dividing net income attributable to stockholders of the parent by the weighted-average number of common shares outstanding during the periods. Earnings per equivalent ADS is calculated by multiplying the above earnings per share by ten as each ADS represents ten common shares.

Per share data has been restated for all periods presented to reflect capital reductions in 2008 and 2009 and the declaration of the stock dividends.

Securities issued by a subsidiary that enable their holders to obtain the subsidiary's common stock shall be included in computing the subsidiary's earnings per share data. Those per-share earnings of the subsidiary shall then be included in the consolidated earnings per share computations based on the consolidated Company's holding of the subsidiary's securities.

3. U.S. DOLLAR AMOUNTS

The Company maintains its accounts and expresses its consolidated financial statements in New Taiwan dollars. For convenience only, U.S. dollar amounts presented in the accompanying consolidated financial statements have been translated from New Taiwan dollars as set forth in the statistical release of the Federal Reserve Board as of December 30, 2011, which was NT$30.27 to US$1.00. The convenience translations should not be construed as representations that the New Taiwan dollar amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

4. EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES

The Company adopted the newly-revised Statements of Financial Accounting Standards No. 34, "Financial Instruments," ("SFAS No. 34") beginning from January 1, 2011. When an enterprise adopts the revised provisions, the initial recognition of loans and receivables shall be accounted for under SFAS No. 34. There was no effect on the consolidated net income and after-tax basic earnings per share for the year ended December 31, 2011 as a result of the adoption of SFAS No. 34.

5. CASH AND CASH EQUIVALENTS

	December 31	
	2010	2011
	NT$	NT$
	(In Millions)	
Cash		
Cash on hand	$ 125	$ 239
Bank deposits	7,047	6,258
Negotiable certificate of deposit, annual yield rate - ranging from 0.52%-0.91% and 0.80%-1.05% for 2010 and 2011, respectively	54,265	41,627
	61,437	48,124
Cash equivalents		
Commercial paper, annual yield rate - ranging from 0.41%-0.48% and 0.70%-0.80% for 2010 and 2011, respectively	26,550	18,966
Treasury bills, annual yield rate - ranging from 0.42%-0.43% and 0.70% for 2010 and 2011, respectively	2,888	300
	29,438	19,266
	$ 90,875	$ 67,390

6. FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	December 31	
	2010	2011
	NT$	NT$
	(In Millions)	
Derivatives - financial assets		
Currency swap contracts	$ 34	$ 6
Forward exchange contracts	-	-
	34	6
Designated financial assets at fair value through profit or loss		
Convertible bonds	43	40
	$ 77	$ 46
Derivatives - financial liabilities		
Currency swap contracts	$ -	$ 4
Index future contracts	-	-
Forward exchange contracts	-	-
	$ -	$ 4

The Company entered into currency swap contracts, forward exchange contracts and index future contracts to reduce its exposure to foreign currency risk and variability in operating results due to fluctuations in exchange rates and stock prices. However, the aforementioned derivatives did not meet the criteria for hedge accounting and were classified as financial assets or financial liabilities held for trading.

Outstanding currency swap contracts and forward exchange contracts as of December 31, 2010 and 2011:

	Currency	Maturity Period	Contract Amount (In Millions)
December 31, 2010			
Currency swap contracts	US$/NT$	2011.01-2011.03	US$25/NT$767
Forward exchange contracts - buy	NT$/US$	2011.01	NT$18/US$1
December 31, 2011			
Currency swap contracts	US$/NT$	2012.01-2012.03	US$43/NT$1,307
Currency swap contracts	US$/NT$	2012.01-2012.02	US$19/NT$571
Forward exchange contracts - buy	NT$/US$	2012.01	NT$60/US$2

Outstanding index future contracts as of December 31, 2011 were as follows:

	Maturity Period	Units	Contract Amount (In Millions)
December 31, 2011			
TAIFEX futures			
TX	2012.01	2	NT$3
TX	2012.02	4	NT$6
TX	2012.03	37	NT$52
TE	2012.03	19	NT$11
TF	2012.01	8	NT$6
TF	2012.02	5	NT$4
TF	2012.03	15	NT$12

As of December 31, 2011, the deposits paid for outstanding index future contracts were NT$5 million (classified as other current assets). The company did not have any outstanding index future contract on December 31, 2010.

The convertible bonds held by CHI are hybrid financial instruments that are designated to be measured at fair value and changes in fair value are recognized in earnings.

Net gains (loss) arising from financial assets and liabilities at fair value through profit or loss for the years ended December 31, 2010 and 2011 were NT$65 million (including realized settlement gain of NT$37 million and valuation gain of NT$28 million), and NT$(72) million (including realized settlement loss of NT$35 million and valuation loss of NT$37 million), respectively.

7. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	December 31	
	2010	2011
	NT$	NT$
	(In Millions)	
Open-end mutual funds	$ 1,562	$ 2,137
Domestic listed stocks	527	343
Corporate bonds	102	77
	2,191	2,557
Less: Current portion	2,191	2,499
	$ -	$ 58

Movements of unrealized gain (loss) on available-for-sale financial assets were as follows:

	Year Ended December 31		
	2009	2010	2011
	NT$	NT$	NT$
		(In Millions)	
Balance, beginning of year	$ (2,265)	$ (447)	$ 176
Impact on acquisition of subsidiaries	2	-	-
Recognized in stockholders' equity	1,685	204	(55)
Transferred to profit or loss	131	419	(53)
Balance, end of year	$ (447)	$ 176	$ 68

8. HELD-TO-MATURITY FINANCIAL ASSETS

	December 31	
	2010	2011
	NT$	NT$
	(In Millions)	
Corporate bonds, nominal interest rate ranging from 1.20%-4.75% and 1.20%-2.98% for 2010 and 2011, respectively; effective interest rate ranging from 1.00%-2.95% and 0.83%-2.89%, respectively	$ 9,868	$ 13,790
Bank debentures, nominal interest rate ranging from 1.60%-2.11% and 1.37%-1.60% for 2010 and 2011, respectively; effective interest rate ranging from 1.25%-2.45% and 1.25%-1.40%, respectively	504	906
	10,372	14,696
Less: Current portion	1,964	1,201
	$ 8,408	$ 13,495

9. ALLOWANCE FOR DOUBTFUL ACCOUNTS

	Year Ended December 31		
	2009	2010	2011
	NT$	NT$	NT$
		(In Millions)	
Balance, beginning of year	$ 3,051	$ 2,799	$ 2,551
Provision for doubtful accounts	455	215	105
Accounts receivable written off	(707)	(463)	(235)
Impact on changes of consolidated subsidiaries	-	-	2
Balance, end of year	$ 2,799	$ 2,551	$ 2,423

10. OTHER MONETARY ASSETS - CURRENT

	December 31	
	2010	2011
	NT$	NT$
	(In Millions)	
Accrued custodial receipts of MOD service	$ 53	$ 119
Accrued custodial receipts from other carriers	387	3
Other receivables	1,699	1,946
	$ 2,139	$ 2,068

11. INVENTORIES

	December 31	
	2010	2011
	NT$	NT$
	(In Millions)	
Merchandise	$ 2,147	$ 2,999
Work in process	765	782
Raw materials	-	25
	2,912	3,806
Land held for sale	-	579
Land held under development	1,237	111
Construction in progress	376	682
Land held for development	36	36
	$ 4,561	$ 5,214

The operating costs related to inventories were NT$23,116 million (including the valuation loss on inventories of NT$56 million), NT$27,046 million (including valuation loss on inventories of NT$17 million) and NT$32,826 million (including the valuation loss on inventories of NT$187 million) for the years ended December 31, 2009, 2010 and 2011, respectively.

Land held for sale on December 31, 2011 was for Wan-Xi and Covent projects.

Land held under development and construction in progress on December 31, 2010 was for Guang-Diang, Wan-Xi, Covent, Li-Shui (A), and Li-Shui (B) projects.

Land held under development and construction in progress on December 31, 2011 was for Guang-Diang and Li-Shui (A) projects. Guang-Diang and Li-Shui (A) projects are expected to be completed in 2012.

LED recognizes the relevant revenues of Guang-Diang Project by percentage of completion method. The related information were as follows (in millions):

	December 31	
	2010	2011
	NT$	NT$
	(In Millions)	
Percentage of completion method		
Guang-Diang project		
Contract price	$ 983	$ 983
Estimated construction cost	$ 425	$ 430
Land held under development	$ 65	$ 65
Construction in progress		
Construction cost	$ 174	$ 290
Recognized cumulative gain	199	392
	$ 373	$ 682
Deferred marketing expenses (classified as other current assets)	$ 38	$ 17
Advance from land and building (classified as other current liabilities)	$ 155	$ 179
Percentage of completion	43%	79%
Expected year of completion	2012	2012

12. OTHER CURRENT ASSETS

	December 31	
	2010	2011
	NT$	NT$
	(In Millions)	
Spare parts	$ 1,797	$ 2,306
Prepaid expenses	1,009	1,584
Prepaid rents	789	994
Others	526	635
	$ 4,121	$ 5,519

13. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

	December 31			
	2010		2011	
	Carrying Amount	% of Owner-ship	Carrying Amount	% of Owner-ship
	NT$ (In Millions)		NT$ (In Millions)	
Non-listed				
Taiwan International Standard Electronics Co., Ltd. ("TISE")	$ 556	40	$ 609	40
ST-2 Satellite Ventures Pte., Ltd. ("STS")	398	38	462	38
Senao Networks, Inc. ("SNI")	308	41	346	41
International Integrated System, Inc. (IISI)	-	-	257	33
Viettel-CHT Co., Ltd. ("Viettel-CHT")	246	30	255	30
Huada Digital Corporation ("HDD")	-	-	251	50
Skysoft Co., Ltd. ("SKYSOFT")	95	30	113	30
Dian Zuan Integrating Marketing Co., Ltd. ("DZIM")	-	-	110	40
Kingwaytek Technology Co., Ltd. ("KWT")	66	33	75	33
So-net Entertainment Taiwan Limited ("So-net")	25	30	34	30
HopeTech Technologies Limited ("HopeTech")	19	45	21	45
Xiamen Sertec Business Technology Co., Ltd. ("Sertec")	8	49	1	49
Tatung Technology Inc. ("Tatung")	4	28	-	-
Panda Monium Company Ltd.	-	43	-	43
	1,725		2,534	
Prepayments for long-term investments in stocks				
Jiangsu Zhenhua Information Technology Company, LLC	-	-	29	-
	$ 1,725		$ 2,563	

InfoExplorer Co., Ltd. (“IFE”) issued new shares as the consideration to merge with International Integrated System, Inc. and e-ToYou International, Inc. on April 1, 2011. After the merger, IFE became the surviving entity and was renamed as International Integrated System, Inc. (“IISI”). International Integrated System, Inc. and e-ToYou International, Inc. were dissolved. As a result of the additional shares being issued by IFE in connection with this transaction, Chunghwa’s ownership interest in IISI decreased from 49% to 33% after the merger, and after the stockholders’ meeting of IISI on June 24, 2011, Chunghwa lost control of the board of directors. Due to this loss of control, IISI was deconsolidated and going forward the investment is accounted for as an equity method investment.

Chunghwa invested in HDD in September 2011 by investing NT$250 million cash and holds a 50% ownership of HDD. HDD engages mainly in providing software service.

Chunghwa, President Chain Store Corporation and EasyCard Corporation established a joint venture, DZIM, in May 2011. Chunghwa invested NT$115 million cash and holds a 40% ownership of DZIM. DZIM engages mainly in information technology service and general advertisement service.

SIS invested in HopeTech on September 2010 by investing NT$21 million cash to acquire 45% of its shares. HopeTech engages mainly in information technology services and sale of communication products.

COI established Sertec with Xiamen Information Investment Co., Ltd. in 2010, by investing NT$14 million cash and held 49% ownership of Sertec. Sertec engages mainly in customer service and platform rental activities.

Tatung, the former equity method investee of CHI, completed a capital reduction and a capital increase plan in July 2011, however, CHI did not invested in the capital increase plan of Tatung as the percentage it held; therefore, CHI lost significant influence over Tatung. CHI reclassified Tatung from investments accounted for using equity method to financial assets carried at cost.

14. FINANCIAL ASSETS CARRIED AT COST

	December 31			
	2010		2011	
	Carrying Amount NT$ (In Millions)	% of Owner-ship	Carrying Amount NT$ (In Millions)	% of Owner-ship
Non-listed				
Taipei Financial Center Corp. (“TFC”)	$ 1,790	12	$ 1,790	12
Industrial Bank of Taiwan II Venture Capital Co., Ltd. (“IBT II”)	200	17	200	17
iD Branding Ventures (“iDBV”)	100	11	90	11
Global Mobile Corp. (“GMC”)	127	8	77	8
Innovation Works Development Fund, L.P. (“IWDF”)	38	13	73	4
Procrystal Technology Co., Ltd. (“Procrystal”)	30	1	68	2
Tons Lightology Inc.	-	-	66	4
Tatung Technology Inc.	-	-	60	11
UniDisplay Inc.	55	3	55	3
Innovation Works Limited (“IW”)	21	7	31	2
VisEra Technologies Company Ltd.	-	-	30	1
Alder Optomechanical Corp.	29	1	29	1
Ultra Fine Optical Technology Co., Ltd.	27	12	27	8

(Continued)

	December 31			
	2010		2011	
	Carrying Amount	% of Owner-ship	Carrying Amount	% of Owner-ship
	NT$ (In Millions)		NT$ (In Millions)	
Hiroca Holdings Ltd.	$ -	-	$ 18	-
Digimax Inc. (“DIG”)	15	4	15	4
N.T.U. Innovation Incubation	12	9	12	9
CoaTronics Inc.	12	9	12	9
Aide Energy (“Cayman”) Holding Co., Ltd. (“Aide”)	-	-	9	1
SuperAlloy Industrial Co., Ltd.	7	-	7	-
DelSolar Co.	6	-	6	-
CQi Energy Infocom Inc. (“CQi”)	20	18	6	18
OptiVision Technology Inc. (“OptiVision”)	10	1	5	1
Cando Corporation	5	-	5	-
Tatung Fine Chemicals Co., Ltd. (“TFChemicals”)	9	-	5	-
Subtron Technology Co.	5	-	4	-
3 Link Information Service Co.	4	10	4	10
XinTec Inc.	1	-	1	-
RPTI Intergroup International Ltd. (“RPTI”)	34	10	-	10
Lextar Electronics Corp.	15	-	-	-
PChome Store Inc.	14	3	-	-
Taimide Technology, Ltd.	14	1	-	-
Huga Optotech Inc.	13	-	-	-
A2peak Power Co., Ltd. (“A2P”)	11	3	-	3
Win Semiconductors Corp.	11	-	-	-
Chia Chang Co., Ltd.	9	-	-	-
ChipSip Technology Co., Ltd. (“ChipSip”)	8	2	-	-
Champion Microelectronic Corp.	7	-	-	-
Crystal Media Inc. (“CMI”)	6	5	-	-
eMemory Technology Inc.	3	-	-	-
Essence Technology Solution, Inc. (“ETS”)	-	7	-	-
eASPNet Inc.	-	2	-	-
	2,668		2,705	
Prepayments for long-term investments in stocks				
MEDIAPRO TECHNOLOGY LTD.	-	-	45	-
Fashion Guide Co., Ltd.	-	-	10	-
Tons Lightology Inc.	66	-	-	-
	66		55	
	$ 2,734		$ 2,760	

(Concluded)

After evaluating the financial assets carried at cost, Chunghwa and its subsidiaries determined the following investments were impaired and recognized impairment losses for the years ended December 31, 2010 and 2011:

	Year Ended December 31	
	2010	2011
	NT$	NT$
	(In Millions)	
GMC	$ -	$ 50
RPTI	-	34
Aide	-	21
CQi	-	14
A2P	16	10
Procrystal	-	10
OptiVision	-	5
TFChemicals	-	4
DIG	21	-
ChipSip	13	-
CMI	9	-
	$ 59	$ 148

The above investments do not have quoted market prices in an active market and the fair values cannot be reliably measured; therefore, these investments are carried at original cost.

15. OTHER MONETARY ASSETS - NONCURRENT

	December 31	
	2010	2011
	NT$	NT$
	(In Millions)	
Piping Fund	$ 1,000	$ 1,000

As part of the government's effort to upgrade the existing telecommunications infrastructure, Chunghwa and other public utility companies were required by the ROC government to contribute a total of NT$1,000 million to a Piping Fund administered by the Taipei City Government. This fund was used to finance various telecommunications infrastructure projects.

16. PROPERTY, PLANT AND EQUIPMENT, NET

	December 31	
	2010	2011
	NT$	NT$
	(In Millions)	
Cost		
Land	$ 104,136	$ 103,814
Land improvements	1,555	1,553
Buildings	67,457	67,692
Computer equipment	16,086	14,951
Telecommunications equipment	656,301	655,287

(Continued)

	December 31	
	2010	2011
	NT$	NT$
	(In Millions)	
Transportation equipment	$ 2,373	$ 2,527
Miscellaneous equipment	7,154	6,974
Total cost	855,062	852,798
Revaluation increment on land	5,801	5,762
	860,863	858,560
Accumulated depreciation		
Land improvements	1,004	1,041
Buildings	18,603	19,755
Computer equipment	12,232	10,946
Telecommunications equipment	527,819	531,124
Transportation equipment	1,637	1,254
Miscellaneous equipment	5,897	5,517
	567,192	569,637
Construction in progress and advances payments related to acquisition of equipment	12,059	13,689
Property, plant and equipment, net	$ 305,730	$ 302,612

Pursuant to the related regulation, Chunghwa revalued its land owned as of April 30, 2000 based on the publicly announced value on July 1, 1999. These revaluations which were approved by the Ministry of Auditing resulted in increases in the carrying values of property, plant and equipment of NT$5,986 million, liabilities for land value incremental tax of NT$211 million, and stockholders' equity - other adjustments of NT$5,775 million.

The amendment to the Land Tax Act, relating to the article to permanently lower land value incremental tax, went effective from February 1, 2005. In accordance with the lowered tax rates, Chunghwa recomputed its land value incremental tax, and reclassified the reserve for land value incremental tax of NT$116 million to stockholders' equity - other adjustments. As of December 31, 2011, the unrealized revaluation increment was decreased to NT$5,763 million by disposal of revaluation assets.

Depreciation expense on property, plant and equipment was NT$35,114 million, NT$32,737 million and NT$30,889 million for the years ended December 31, 2009, 2010 and 2011, respectively. Interest expense capitalized for the years ended December 31, 2009, 2010 and 2011 were NT$1 million, NT$0.01 million, and NT$0.08 million, respectively. The capitalized interest rates were 1.165%-1.604%, 1.1% and 1.10%-1.25%, respectively, for the years ended December 31, 2009, 2010 and 2011.

Chunghwa reclassified the unused property, plant and equipment amounting to NT$61 million to idle assets and recognized the impairment loss of NT$61 million on those assets for the year ended December 31, 2010.

Losses on property, plant and equipment arising from natural calamities such as earthquakes and typhoons were recorded in non-operating expenses.

17. SHORT-TERM LOANS

	December 31	
	2010	2011
	NT$	NT$
	(In Millions)	
Unsecured loans - annual rate - 1.10%-1.33% and 1.25%-1.53% for 2010 and 2011, respectively	$ 115	$ 75

18. SHORT-TERM BILLS PAYABLE

	December 31	
	2010	2011
	NT$	NT$
	(In Millions)	
Commercial paper - annual rate 0.74%-0.79%	$ 230	$ -

19. ACCRUED EXPENSES

	December 31	
	2010	2011
	NT$	NT$
	(In Millions)	
Accrued salary and compensation	$ 10,716	$ 10,506
Accrued employees' bonuses and remuneration to directors and supervisors	2,358	2,343
Accrued franchise fees	2,191	2,246
Other accrued expenses	3,139	3,476
	$ 18,404	$ 18,571

20. OTHER CURRENT LIABILITIES

	December 31	
	2010	2011
	NT$	NT$
	(In Millions)	
Advances from subscribers	$ 9,220	$ 12,070
Payables to equipment suppliers	1,106	1,870
Payables to contractors	1,262	1,834
Amounts collected in trust for others	2,356	1,201
Refundable customers' deposits	1,097	1,095
Others	2,585	3,266
	$ 17,626	$ 21,336

21. LONG-TERM LOANS (INCLUDING LONG-TERM LOANS - CURRENT PORTION)

	December 31	
	2010	2011
	NT$	NT$
	(In Millions)	
Secured loans - annual rate 0.80%-1.60% and 1.10%-1.83% for 2010 and 2011, respectively	$ 3,248	$ 1,651
Unsecured loans - annual rate 2.01%-2.04% for both 2010 and 2011	209	109
	3,457	1,760
Less: Current portion of long-term loans	309	702
	$ 3,148	$ 1,058

LED obtained a secured loan from Chang Hwa Bank in September 2010. Interest is paid monthly and the principal is paid yearly from December 2011 and due in September 2015. The loan from Chang Hwa bank was NT$2,750 million and the interest rate at December 31, 2011 was 1.10%. LED renegotiated the loan repayment schedule with Chang Hwa bank in September 2011. LED early repaid NT$1,100 million in 2011, and will repay NT$600 million and NT$1,050 million in December 2012 and September 2015, respectively.

LED obtained a secured loan from First Commercial Bank in September 2010. Interest is paid monthly and the principal is paid yearly from September 2014 and due in September 2017. The loan was repaid early in June 2011.

CHIEF obtained an unsecured loan from Bank of Taiwan in January 2009. Interest and principal amount are paid monthly from January 2009 and due in January 2013. The loan from Bank of Taiwan in January 2009 was NT$209 million and range of interest rate at December 31, 2011 was 2.01%-2.04%.

SHE requested a loan from the Industrial Development Bureau, Ministry of Economic Affairs and obtained a secured loan from Taiwan Business Bank. Interest is paid monthly and the principal is paid every three months from January 2009 and due in April 2013. The loan was repaid early in April 2010.

CHPT obtained a secured loan from the E. Sun Commercial Bank in February 2009. Interest and the principal are paid monthly from March 2009 and due in February 2012. The loan from E. Sun Commercial Bank in February 2009 was NT$10 million and the interest rate at December 31, 2011 was 1.83%.

The scheduled maturities of our long-term debt are as follows:

	Amount
	NT$
	(In Millions)
For the year ending December 31	
2012	$ 702
2013	8
2014	-
2015	1,050
Total long-term debt	$ 1,760

22. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The Company classified LED's assets and liabilities of its construction operation as current and noncurrent according to the length of the operating cycle of the construction operations. Maturity analysis of LED's related current assets and liabilities was as follows:

	December 31, 2010		
	With in One Year	Over One Year	Total
	NT$	NT$ (In Millions)	NT$
Assets			
Inventories	$ -	$ 1,649	$ 1,649
Deferred expenses (classified as other current assets)	-	120	120
Restricted assets	-	169	169
	$ -	$ 1,938	$ 1,938
Liabilities			
Payable to contractor (classified as other current liabilities)	$ -	$ 14	$ 14
Advance from land and building (classified as other current liabilities)	-	507	507
	$ -	$ 521	$ 521

	December 31, 2011		
	With in One Year	Over One Year	Total
	NT$	NT$ (In Millions)	NT$
Assets			
Accounts receivable	$ 4	$ -	$ 4
Inventories	-	1,408	1,408
Deferred expenses (classified as other current assets)	-	20	20
Restricted assets	56	-	56
	$ 60	$ 1,428	$ 1,488
Liabilities			
Trade notes and accounts payable (classified as other current liabilities)	$ 11	$ -	$ 11
Accrued expenses	21	7	28
Payables to contractors (classified as other current liabilities)	-	25	25
Advance from land and building (classified as other current liabilities)	-	283	283
	$ 32	$ 315	$ 347

23. STOCKHOLDERS' EQUITY

Under Chunghwa's Articles of Incorporation, Chunghwa's authorized capital is NT$120,000,000 thousand, which is divided into 12,000,000 thousand common shares (at $10 par value per share), among which 7,757,447 thousand common shares are issued and outstanding as of December 31, 2011.

For the purpose of privatizing Chunghwa, the MOTC sold 1,109,750 thousand common shares of Chunghwa in an international offering of securities in the form of American Depositary Shares ("ADS") amounting to 110,975 thousand units (one ADS represents ten common shares) on the New York Stock Exchange on July 17, 2003. Afterwards, the MOTC sold 1,350,682 thousand common shares in the form of ADS amounting to 135,068 thousand units on August 10, 2005. Subsequently, the MOTC and Taiwan Mobile Co., Ltd. sold 505,389 thousand and 58,959 thousand common shares of Chunghwa, respectively, in the form of ADS totally amounting to 56,435 thousand units on September 29, 2006. The MOTC and Taiwan Mobile Co., Ltd. have sold 3,024,780 thousand common shares in the form of ADS amounting to 302,478 thousand units. As of December 31, 2011, the outstanding ADSs representing 556,463 thousand common shares, which equaled approximately 55,646 thousand units and represented 7.17% of Chunghwa's total outstanding common shares.

The ADS holders generally have the same rights and obligations as other common stockholders, subject to the provision of relevant laws. The exercise of such rights and obligations shall comply with the related regulations and deposit agreement, which stipulate, among other things, that ADS holders can, through deposit agents:

a. Exercise their voting rights,
b. Sell their ADSs, and
c. Receive dividends declared and subscribe to the issuance of new shares.

Under the ROC Company Law, additional paid-in capital may only be utilized to offset deficits. However, the additional paid-in capital from shares issued in excess of par and donations may be capitalized, which however is limited to a certain percentage of Chunghwa's paid-in capital. However, where a company undergoes an organizational change (such as a merger, acquisition, or reorganization) that results in the capitalization of undistributed earnings after the organizational change, the above restriction does not apply. Under the revised Company Law issued on January 4, 2012, the aforementioned additional paid-in capital also may be distributed in cash. The additional paid-in capital from long-term investments may not be used for any purpose.

In addition, before distributing a dividend or making any other distribution to stockholders, Chunghwa must pay all outstanding taxes, recover any past losses and set aside a legal reserve equal to 10% of its net income, and depending on its business needs or requirements, may also set aside a special reserve. In accordance with the Articles of Incorporation, no less than 50% of the remaining earnings comprising remaining balance of net income, if any, plus cumulative undistributed earnings shall be distributed in the following order: (a) from 2% to 5% of distributable earnings shall be distributed to employees as employee bonus; (b) no more than 0.2% of distributable earnings shall be distributed to board of directors and supervisors as remuneration; and (c) cash dividends to be distributed shall not be less than 50% of the total amount of dividends to be distributed. If cash dividends to be distributed is less than NT$0.10 per share, such cash dividend shall be distributed in the form of common shares.

For the years ended December 31, 2010 and 2011, the accrual amounts for bonuses to employees and remuneration to directors and supervisors were accrued based on past experiences and the probable amount to be paid in accordance with Chunghwa's Articles of Incorporation and Implementation Guidance for the Employee's Bonus Distribution of Chunghwa Telecom Co., Ltd.

If the initial accrual amounts of the aforementioned bonus are significantly different from the amounts proposed by the board of directors, the difference is charged to the earnings of the year making the initial estimate. Otherwise, the difference between initial accrual amount and the amount resolved in the shareholders' meeting is charged to the earnings of the following year as a result of change in accounting estimate.

Under the ROC Company Law, the appropriation for legal reserve shall be made until the accumulated reserve equals the aggregate par value of the outstanding capital stock of Chunghwa. This reserve can only be used to offset a deficit, or, under the revised Company Law issued on January 4, 2012, when the legal reserve has exceeded 25% of the Company's paid-in capital, the excess may be transferred to capital or distributed in cash.

The appropriations and distributions of the 2009 and 2010 earnings of Chunghwa have been approved and resolved by the stockholders on June 18, 2010 and June 24, 2011 as follows:

	Appropriation of Earnings		**Dividends Per Share**	
	For Fiscal Year 2009	**For Fiscal Year 2010**	**For Fiscal Year 2009**	**For Fiscal Year 2010**
	NT$ (In Millions)	**NT$ (In Millions)**	**NT$**	**NT$**
Legal reserve	$ 4,374	$ 4,761		
Cash dividends	39,369	42,855	$ 4.06	$ 5.52

The amounts for bonuses to employees and remuneration to directors and supervisors approved in the shareholders' meeting on June 24, 2011, were $2,144 million and $45 million, respectively. There was no difference between the initial accrual amounts and the amounts resolved in shareholders' meeting of the aforementioned bonuses to employees and the remuneration to directors and supervisors.

The amounts for bonuses to employees and remuneration to directors and supervisors approved in the stockholders' meeting on June 18, 2010, were NT$1,801 million and NT$41 million paid by cash, respectively. There was no difference between the initial accrual amounts and the amounts resolved in stockholders' meeting of the aforementioned bonuses to employees and the remuneration to directors and supervisors.

The appropriation and distribution of the 2011 earnings of Chunghwa has been approved and resolved by the board of directors on March 27, 2012 as follows:

	Appropriation of Earnings	**Dividends Per Share**
	NT$ (In Millions)	**NT$**
Legal reserve	$ 4,707	
Cash dividends	42,362	$ 5.46

The appropriation and distribution of the 2011 earnings, and the amounts for bonuses to employees and remuneration to directors and supervisors is subject to the approval in the stockholders' meeting on June 22, 2012.

The stockholders, at the stockholders' meeting held on June 18, 2010, resolved to reduce the amount of NT$19,394 million in capital of Chunghwa by a cash distribution to its stockholders. The abovementioned 2010 capital reduction proposal was effectively approved by FSC. The board of directors of Chunghwa was authorized to designate the record date of capital reduction as of October 26, 2010. Subsequently, the stock transfer record date of capital reduction was designated as January 15, 2011. The amount due to stockholders for capital reduction was NT$19,394 million and such cash payment to stockholders was made in January 2011.

The stockholders, at a meeting held on June 19, 2009, resolved to transfer capital surplus in the amount of NT$9,697 million to common capital stock. The abovementioned 2009 capital increase proposal was effectively registered with FSC. The board of directors authorized the chairman of directors to decide the ex-dividend date of the aforementioned proposal and the chairman decided the ex-dividend date as August 9, 2009.

The stockholders, at the stockholders' meeting held on June 19, 2009, also resolved to reduce the amount of capital in Chunghwa by a cash distribution to its stockholders in order to improve the financial condition of Chunghwa and better utilize its excess funds. The abovementioned 2009 capital reduction proposal was effectively registered with FSC. The board of directors of Chunghwa further authorized the chairman of board of directors of Chunghwa to designate the record date of capital reduction as of October 26, 2009. Subsequently, common capital stock was reduced by NT$9,697 million and the stock transfer date of capital reduction was January 28, 2010. The amount due to stockholders for capital reduction was paid in February 2010.

24. SHARE-BASED COMPENSATION PLANS

SENAO's share-based compensation plans ("SENAO Plans") described as follows:

Effective Date	Grant Date	Stock Options Units (Thousands)	Exercise Price
2003.09.03	2003.10.17	3,981	$ 14.7 (Original price $20.2)
2003.09.03	2004.03.04	385	17.6 (Original price $23.9)
2004.12.01	2004.12.28	6,500	10.0 (Original price $11.6)
2004.12.01	2005.11.28	1,500	13.5 (Original price $18.3)
2005.09.30	2006.05.05	10,000	12.1 (Original price $16.9)
2007.10.16	2007.10.31	6,181	42.6 (Original price $44.2)
		28,547	

Each option is eligible to subscribe for one common share when exercisable. Under the terms of the Plans, the options are granted at an exercise price equal to the closing price of the SENAO's common shares listed on the TSE on the higher of closing price or par value. The SENAO Plans have exercise price adjustment formula upon the issuance of new common shares, capitalization of retained earnings and/or capital reserves, stock split as well as distribution of cash dividend (except for 2007 Plan), except (i) in the case of issuance of new shares in connection with mergers and in the case of cancellation of outstanding shares in connection with capital reduction (2007 Plan is out of this exception), and (ii) except if the exercise price after adjustment exceeds the exercise price before adjustment. The options of all the Plans are valid for six years and the graded vesting schedule for which 50% of option granted will vest two years after the grant date and another two tranches of 25% will vest three and four years after the grant date respectively.

Information about SENAO's outstanding stock options for the years ended December 31, 2010 and 2011 was as follows:

	Stock Options Outstanding			
	2010		2011	
	Number of Options (Thousands)	Weighted Average Exercise Price NT$	Number of Options (Thousands)	Weighted Average Exercise Price (NT$)
Options outstanding, beginning of year	9,323	$30.92	5,103	$36.15
Options exercised	(4,075)	23.40	(2,780)	33.76
Options expired	(145)	37.60	(45)	40.07
Options outstanding, end of year	5,103	36.15	2,278	38.85
Options exercisable, end of year	3,719		2,278	

As of December 31, 2010, information about SENAO's outstanding and exercisable options was as follows:

Options Outstanding				Options Exercisable	
Range of Exercise Price (NT$)	Number of Options (Thousand)	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price (NT$)	Number of Options (Thousand)	Weighted Average Exercise Price (NT$)
$12.4	1,061	1.33	$12.40	1,061	$12.40
$13.5	30	0.92	13.50	30	13.50
$42.6	4,012	2.92	42.60	2,628	42.60
	5,103	2.58	36.15	3,719	33.75

As of December 31, 2011, information about SENAO's outstanding and exercisable options was as follows:

Options Outstanding				Options Exercisable	
Range of Exercise Price (NT$)	Number of Options (Thousand)	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price (NT$)	Number of Options (Thousand)	Weighted Average Exercise Price (NT$)
$12.1	280	0.32	$12.10	280	$12.10
$42.6	1,998	1.92	42.60	1,998	42.60
	2,278	1.72	38.85	2,278	38.85

No compensation cost was recognized under the intrinsic value method for the years ended December 31, 2009, 2010 and 2011. Had SENAO used the fair value method to recognize the compensation cost, there were no significant impact on the consolidated net income and earnings per share.

Had SENAO used the fair value method to evaluate the options using the Black-Scholes model, the assumptions of SENAO for the year ended December 31, 2011 would have been as follows:

	December 28, 2004	November 28, 2005	May 5, 2006	October 31, 2007
Expected dividend yield	-	-	-	1.49%
Risk free interest rate	1.88%	2.00%	1.75%	2.00%
Expected life	4.375 years	4.375 years	4.375 years	4.375 years
Expected volatility	49.88%	43.40%	39.63%	39.82%
Weighted-average fair value of grants	$4.91	$6.93	$5.88	$13.69

25. COMPENSATION, DEPRECIATION AND AMORTIZATION EXPENSES

	Year Ended December 31, 2009		
	Operating Costs	Operating Expenses	Total
	NT$	NT$ (In Millions)	NT$
Compensation expense			
Salaries	$ 12,544	$ 9,901	$ 22,445
Insurance	999	771	1,770
Pension	1,517	1,138	2,655
Other compensation	8,807	6,031	14,838
	$ 23,867	$ 17,841	$ 41,708
Depreciation expense	$ 33,169	$ 1,945	$ 35,114
Amortization expense	$ 957	$ 232	$ 1,189

	Year Ended December 31, 2010		
	Operating Costs	Operating Expenses	Total
	NT$	NT$ (In Millions)	NT$
Compensation expense			
Salaries	$ 12,616	$ 10,313	$ 22,929
Insurance	1,053	828	1,881
Pension	1,705	1,203	2,908
Other compensation	9,652	6,705	16,357
	$ 25,026	$ 19,049	$ 44,075
Depreciation expense	$ 30,972	$ 1,765	$ 32,737
Amortization expense	$ 1,087	$ 222	$ 1,309

	Year Ended December 31, 2011		
	Operating Costs	Operating Expenses	Total
	NT$	NT$ (In Millions)	NT$
Compensation expense			
Salaries	$ 12,741	$ 10,895	$ 23,636
Insurance	1,088	897	1,985
Pension	1,740	1,254	2,994
Other compensation	9,537	6,697	16,234
	$ 25,106	$ 19,743	$ 44,849
Depreciation expense	$ 29,123	$ 1,766	$ 30,889
Amortization expense	$ 1,185	$ 215	$ 1,400

26. INCOME TAX

a. The components of income taxes are as follows:

	Year Ended December 31		
	2009	2010	2011
	NT$	NT$ (In Millions)	NT$
Current	$ 11,644	$ 9,102	$ 8,547
Deferred	1,099	27	57
	$ 12,743	$ 9,129	$ 8,604

b. A reconciliation between income tax expense computed by applying the statutory income tax rate of 25% for 2009, and 17% for 2010 and 2011 to income before income tax and income tax expense shown in the statements of income and comprehensive income is as follows:

	Year Ended December 31		
	2009	2010	2011
	NT$	NT$ (In Millions)	NT$
Income tax expense computed at statutory tax rate	$ 14,404	$ 9,912	$ 9,991
Permanent differences	(188)	(188)	(773)
Investment tax credits	(1,425)	(602)	(644)
10% undistributed earning tax	7	5	10
Prior year adjustment	(196)	(2)	52
Other	141	4	(32)
Income tax expense	$ 12,743	$ 9,129	$ 8,604

The balances of income tax payable as of December 31, 2009, 2010 and 2011 were shown net of prepaid income tax.

c. Income tax expense consisted of following:

	Year Ended December 31		
	2009	2010	2011
	NT$	NT$ (In Millions)	NT$
Income tax payable	$ 11,777	$ 9,100	$ 8,467
Income tax - separated	63	4	-
Income tax - deferred	1,099	27	57
Adjustments of prior years' income tax	(196)	(2)	52
Foreign income tax	-	-	28
	$ 12,743	$ 9,129	$ 8,604

In May 2010, the Legislative Yuan passed the amendment of Article 5 of the Income Tax Law, which reduced the income tax rate of profit-seeking enterprises to 17%, effective from January 1, 2010. The Company recalculated its deferred income tax assets and liabilities in accordance with the amended Article and recorded the resulting difference as an income tax expense or benefit.

Under Article 10 of the Statute for Industrial Innovation (SII) passed by the Legislative Yuan in April 2010, a profit-seeking enterprise may deduct up to 15% of its research and development expenditures from its income tax payable for the fiscal year in which these expenditures are incurred, but this deduction should not exceed 30% of the income tax payable for that fiscal year. This incentive took effect from January 1, 2010 and is effective until December 31, 2019.

d. Deferred income taxes arise due to temporary differences in the book and tax bases of certain assets and liabilities. Significant components of deferred income tax assets are shown in the following table:

	December 31	
	2010	2011
	NT$ (In Millions)	NT$
Current		
Deferred income tax assets (liabilities):		
Provision for doubtful accounts	$ 241	$ 178
Valuation loss on inventory	17	62
Loss carryforward	-	27
Unrealized accrued expense	51	26
Estimated warranty liabilities	23	8
Investment tax credit	2	2
Valuation gain on financial instruments, net	(6)	-
Unrealized foreign exchange loss (gain), net	1	(13)
Others	3	2
	332	292
Valuation allowance	(241)	(177)
Net deferred income tax assets - current	$ 91	$ 115

The decrease of valuation allowance as of December 31, 2011 was attributed to the change of provision for doubtful accounts.

	December 31	
	2010	2011
	NT$	NT$
	(In Millions)	
Noncurrent		
Deferred income tax assets (liabilities):		
Accrued pension cost	$ 296	$ 241
Loss carryforward	78	47
Equity in losses of equity method investees, net	6	41
Impairment loss	64	12
Investment tax credit	14	5
Abandonment of equipment not approved by National Tax Administration	38	-
Others	3	(1)
	499	345
Valuation allowance	(27)	(5)
Net deferred income tax assets - noncurrent	$ 472	$ 340

As of December 31, 2011, details for investment tax credit of CHPT are as follows:

Law/Statue	Items	Remaining Creditable Amount	Expiry Year
		NT$ (In Millions)	
Statute for Upgrading Industries	Personnel training expenditures	$ 2	2012
	Personnel training expenditures	3	2013
	Purchase of machinery and equipment	2	2012
	Purchase of machinery and equipment	-	2013
		$ 7	

e. As of December 31, 2011, loss carryforward of CHIEF, Unigate, CEI, LED, CHI and SFD are as follows:

Company	Total Amounts	Unused Amounts	Expiry Year
	NT$ (In Millions)	NT$ (In Millions)	
CHIEF	$ 17	$ 12	2015
	15	15	2016
	9	9	2017
	1	1	2018
Unigate	-	-	2017
	-	-	2018
	-	-	2020
	-	-	2021
CEI	-	-	2021

(Continued)

Company	Total Amounts NT$ (In Millions)	Unused Amounts NT$ (In Millions)	Expiry Year
LED	$ 5	$ 5	2018
	8	8	2019
	8	8	2020
	15	15	2021
CHI	3	1	2020
SFD	1	1	2021
	$ 82	$ 75	

(Concluded)

f. The related information under the Integrated Income Tax System is as follows:

	December 31	
	2010 NT$	2011 NT$
	(In Millions)	
Balance of Imputation Credit Account ("ICA")		
Chunghwa	$ 4,502	$ 4,830

The actual and the estimated creditable ratios distribution of Chunghwa's 2010 and 2011 for earnings were 18.76% and 17.46%, respectively. The imputation credit allocated to stockholders is based on its balance as of the date of dividend distribution. The estimated ratio may change when the actual distribution of imputation credit is made.

g. Undistributed earnings information

All Chunghwa's earnings generated prior to June 30, 1998 have been appropriated.

Chunghwa's income tax returns have been examined by tax authorities through 2007. YYRP's income tax returns have been examined by tax authorities through 2008. The following subsidiaries income tax returns have been examined by authorities through 2009: SENAO, CHIEF, Unigate, CHI, CHPT, CHSI, CIYP, SHE and LED.

27. EARNINGS PER SHARE

EPS was calculated as follows:

	Amount (Numerator)		Weighted-average Number of Common Shares (Thousand) (Denominator)	Earnings Per Share (NT$)	
	Income Before Income Tax NT$ (In Millions)	Net Income NT$ (In Millions)		Income Before Income Tax	Net Income
Year ended December 31, 2009					
Basic EPS					
Income attributable to stockholders of the parent	$ 56,163	$ 43,757	9,696,808	$ 5.79	$ 4.51
Effect of dilutive potential common stock					
SENAO's stock options	(7)	(7)	-		
Employee bonus	-	-	28,806		
Diluted EPS					
Income attributable to stockholders of the parent (including effect of dilutive potential common stock)	$ 56,156	$ 43,750	9,725,614	$ 5.77	$ 4.50
Year ended December 31, 2010					
Basic EPS					
Income attributable to stockholders of the parent	$ 56,438	$ 47,609	9,696,808	$ 5.82	$ 4.91
Effect of dilutive potential common stock					
SENAO's stock options	(7)	(7)	-		
Employee bonus	-	-	28,653		
Diluted EPS					
Income attributable to stockholders of the parent (including effect of dilutive potential common stock)	$ 56,431	$ 47,602	9,725,461	$ 5.80	$ 4.89
Year ended December 31, 2011					
Basic EPS					
Income attributable to stockholders of the parent	$ 55,379	$ 47,068	7,789,326	$ 7.11	$ 6.04
Effect of dilutive potential common stock					
SENAO's stock options	(9)	(9)	-		
Employee bonus	-	-	21,279		
Diluted EPS					
Income attributable to stockholders of the parent (including effect of dilutive potential common stock)	$ 55,370	$ 47,059	7,810,605	$ 7.09	$ 6.03

According to the Interpretation 97-169 issued by ARDF in May 2008, Chunghwa presumed that the employees bonuses to be paid will be settled in shares and takes those shares into consideration when calculating the weighted average number of outstanding shares used in the calculation of diluted EPS if the shares have a dilutive effect for the years ended December 31, 2009, 2010 and 2011. The number of shares is calculated by dividing the amount of bonuses by the closing price of the Chunghwa's shares as of the balance sheet date. The dilutive effect of the shares needs to be considered until the stockholders resolve the number of shares to be distributed to employees in their meeting in the following year.

The diluted earnings per share for the years ended December 31, 2009, 2010 and 2011 were also due to the effect of potential common stock of stock options issued by SENAO.

28. PENSION PLANS

Chunghwa completed privatization plans on August 12, 2005. Chunghwa is required to pay all accrued pension obligations including service clearance payment, lump sum payment under civil service plan, additional separation payments, etc. upon the completion of the privatization in accordance with the Statute Governing Privatization of Stated-owned Enterprises. After paying all pension obligations for privatization, the plan assets of Chunghwa should be transferred to the Fund for Privatization of Government-owned Enterprises (the "Privatization Fund") under the Executive Yuan. On August 7, 2006, Chunghwa transferred the remaining balance of fund to the Privatization Fund. However, according to the instructions of MOTC, Chunghwa is requested to pay all accrued pension obligations including service clearance payment, lump sum payment under civil service plan, additional separation payments, etc. on behalf of MOTC upon the completion of the privatization.

The pension plan under the Labor Pension Act of ROC (the "LPA") is considered as a defined contribution plan. Based on the LPA, Chunghwa and its subsidiaries make monthly contributions to employees' individual pension accounts at 6% of monthly salaries and wages.

The Company's pension plan is considered as a defined benefit plan under the Labor Standards Law that provide benefits based on an employee's length of service and average six-month salary prior to retirement. Chunghwa and its subsidiaries contribute an amount no more than 15% of salaries paid each month to their respective pension funds (the Funds), which are administered by the Labor Pension Fund Supervisory Committee (the Committee) and deposited in the names of the Committees in the Bank of Taiwan.

The Company used December 31 as the measurement date for their pension plans.

Pension costs of the Company were NT$2,948 million (NT$2,737 million subject to defined benefit plan and NT$211 million subject to defined contributed plan), NT$2,982 million (NT$2,752 million subject to defined benefit plan and NT$230 million subject to defined contribution plan) and NT$3,057 million (NT$2,810 million subject to defined benefit plan and NT$247 million subject to defined contributed plan) for the years ended December 31, 2009, 2010 and 2011, respectively.

Pension information of the Company of the defined benefit plan is summarized as follows:

a. Components of net periodic pension cost

	Year Ended December 31		
	2009	2010	2011
	NT$	NT$ (In Millions)	NT$
Service cost	$ 2,695	$ 2,694	$ 2,760
Interest cost	189	242	266
Expected return on plan assets	(144)	(183)	(215)
Amortizations	(3)	(1)	(1)
Net periodic benefit pension cost	$ 2,737	$ 2,752	$ 2,810

b. The changes in benefits obligation and plan assets and the reconciliation of funded status for the pension plans of subsidiaries are as follows:

	Year Ended December 31		
	2009	2010	2011
	NT$	NT$ (In Millions)	NT$
Change in benefits obligation:			
Projected benefits obligation, beginning of year	$ (9,565)	$ (12,155)	$ (15,367)
Services cost	(2,695)	(2,694)	(2,760)
Interest cost	(187)	(242)	(266)
Actuarial (loss) gain	71	(768)	(618)
Benefits paid	221	492	322
Projected benefits obligation, end of year	$ (12,155)	$ (15,367)	$ (18,689)
Change in plan assets:			
Fair value of plan assets, beginning of year	$ 4,407	$ 10,919	$ 13,247
Actual return on plan assets	142	187	215
Actuarial (loss) gain	(104)	(46)	(48)
Employer contributions	6,652	2,611	2,603
Benefits paid	(178)	(424)	(266)
Fair value of plan assets, end of year	$ 10,919	$ 13,247	$ 15,751

c. Reconciliation between the funded status and accrued pension liabilities, vested benefit, actuarial assumptions and contributions and payments of the fund is summarized as follows:

1) Reconciliation between the fund status and accrued pension cost is summarized as follows:

	Year Ended December 31	
	2010	2011
	NT$ (In Millions)	NT$
Benefit obligation		
Vested benefit obligation	$ (10,089)	$ (12,554)
Non-vested benefit obligation	(3,733)	(4,354)
Accumulated benefit obligation	(13,822)	(16,908)
Additional benefit obligation	(1,545)	(1,781)
Projected benefit obligation	(15,367)	(18,689)
Fair values of plan assets	13,247	15,751
Funded status	(2,120)	(2,938)
Unrecognized net loss (gain)	888	1,557
Unrecognized net transition	6	-
Unrecognized prior service cost effect	(49)	(45)
Net amount recognized	$ (1,275)	$ (1,426)

The amounts recognized in the accompanying balance sheets at December 31, 2010 and 2011 are as follows:

	Year Ended December 31	
	2010	2011
	NT$	NT$
	(In Millions)	
Amounts recognized		
Prepaid pension (included in other assets)	$ 16	$ 18
Accrued pension liability	(1,291)	(1,444)
Net amount recognized	$ (1,275)	$ (1,426)

2) Vested benefit

	Year Ended December 31	
	2010	2011
	NT$	NT$
	(In Millions)	
Vested benefit	$ 13,197	$ 16,197

3) Actuarial assumptions

	Year Ended December 31		
	2009	2010	2011
Discount rate used in determining present value	2.00%	1.75%	1.75%
Rate of compensation increase	1.00%	1.00%	1.00%
Expected long-term rate of return on plan assets	1.50%	1.50%	1.50%

d. Contributions and payments for defined benefit plan

	Year Ended December 31	
	2010	2011
	NT$	NT$
	(In Millions)	
Contributions	$ 2,611	$ 2,603
Payments	$ 492	$ 322

e. Expected benefit payments

Year	Amount
	NT$ (In Millions)
2012	$ 684
2013	926
2014	1,247
2015	1,477
2016	1,888
2017 and thereafter	11,481

f. Plan assets allocation

Under the Labor Standards Law, the government is responsible for the administration of the Funds and determination of the investment strategies and policies. As of December 31, 2010 and 2011, the asset allocation was primarily in cash, equity securities and debt securities. Furthermore, under the Labor Standards Law, the rate of return on assets shall not be less than the average interest rate on a two-year time deposit published by the local banks. The government is responsible for any shortfall in the event that the rate of return is less than the required rate of return.

29. TRANSACTIONS WITH RELATED PARTIES

The ROC Government, one of Chunghwa's customers held significant equity interest in Chunghwa. Chunghwa provides fixed-line services, wireless services, Internet and data and other services to the various departments and institutions of the ROC Government and other state-owned enterprises in the normal course of business and at arm's-length prices. The information on service revenues from government bodies and related organizations have not been provided because details of the type of transactions were not summarized by Chunghwa. Chunghwa believes that all revenues and costs of doing business are reflected in the financial statements.

a. The Company engages in business transactions with the following related parties:

Company	Relationship
Taiwan International Standard Electronics Co., Ltd. ("TISE")	Equity-method investee
Kingwaytek Technology Co., Ltd. Co., Ltd. ("KWT")	Equity-method investee
Skysoft Co., Ltd. ("SKYSOFT")	Equity-method investee
Dian Zuan Integrating Marketing Co., Ltd. ("DZIM")	Equity-method investee
So-net Entertainment Taiwan Limited ("So-net")	Equity-method investee
Viettel-CHT Co., Ltd. ("Viettel")	Equity-method investee
Senao Networks, Inc. ("SNI")	Equity-method investee of SENAO
HopeTech Technologies Limited ("HopeTech")	Equity-method investee of SIS
Senao Technical and Cultural Foundation ("STCF")	A nonprofit organization of which the funds donated by SENAO exceeds one third of its total funds
Institute for Information Industry ("III")	Investor with significant influence over IISI
International Integrated System, Inc. ("IISI")	Equity-method investee, which was a subsidiary of Chunghwa before Chunghwa lost control over IISI on June 24, 2011
ST-2 Satellite Ventures Pte., Ltd. ("STS")	Equity-method investee of CHTS
Sochamp Tech Co., Ltd. ("Sochamp")	Investor with significant influence over CHST
United Daily News Co., Ltd. ("UDN")	Investor with significant influence over SFD
udnDigital Co., Ltd. ("udnD")	Investor with significant influence over SFD

b. Significant transactions with the above related parties are summarized as follows:

	December 31	
	2010	2011
	NT$	NT$
	(In Millions)	
1) Receivables		
Trade notes and accounts receivable		
HopeTech	$ -	$ 18
So-net	32	11
III	32	-
Others	-	5
	$ 64	$ 34
2) Payables		
Trade notes payable, accounts payable, and accrued expenses		
TISE	$ 111	$ 520
IISI	-	120
STS	-	82
HopeTech	1	12
SKYSOFT	5	10
So-net	12	4
Others	11	10
	140	758
Amounts collected in trust for others		
So-net	-	20
Others	-	10
	-	30
	$ 140	$ 788
3) Advances from customers (included in other current liabilities)		
SNI	$ 3	$ 3
4) Customer's deposits		
Others	$ -	$ 2

	Year Ended December 31		
	2009	2010	2011
		NT$	NT$
		(In Millions)	
5) Revenues			
So-net	$ 61	$ 329	$ 289
HopeTech	-	25	82
SKYSOFT	34	38	41
IISI	-	-	19
III	127	28	-
Others	15	7	6
	$ 237	$ 427	$ 437
6) Operating costs and expenses			
TISE	$ 482	$ 684	$ 494
STS	-	-	168
IISI	-	-	105
SKYSOFT	22	25	49
KWT	6	23	45
HopeTech	-	3	35
STCF	-	10	18
Others	51	22	10
	$ 561	$ 767	$ 924
7) Non-operating income and gains			
SNI	$ 26	$ 30	$ 31
Others	-	2	1
	$ 26	$ 32	$ 32
8) Acquisition of property, plant and equipment			
TISE	$ 1,337	$ 332	$ 1,332
IISI	-	-	152
Others	19	-	15
	$ 1,356	$ 332	$ 1,499
9) Acquisition of intangible assets			
udnD	$ -	$ -	$ 10

10) Financing to related parties

The Company did not have any financing to related parties for the year ended December 31, 2011.

Financing to related parties (include in other assets - others) for the year ended December 31, 2010 was as follows:

	Year Ended December 31, 2010			
Related Party	**Ending Balance (In Millions)**	**Maximum Balance (In Millions)**	**Interest Rate**	**Interest Income (In Millions)**
STS	$ -	$ 546	6.38%	$ 8

Chunghwa has entered into a contract with ST-2 Satellite Ventures Pte., Ltd. on March 12, 2010 to lease capacity on the ST-2 satellite. This lease term is 15 years which will start from the commercial operation of ST-2 satellite and the total contract value is approximately NT$6,000 million (SG$261 million), which included a prepayment of NT$3,068 million, and the rest of amount will be paid annually when ST-2 satellite starts its commercial operation. ST-2 satellite was launched in May 2011, and began its commercial operation in August 2011. The total rental expense for the year ended December 31, 2011 was NT$168 million, which consisted of a reduction of the prepayment of NT$85 million and an additional accrual of NT$83 million. The prepayment was NT$2,983 million (classified as other current assets NT$205 million, and other assets - others NT$2,778 million) as of December 31, 2011.

SENAO rents out part of its plant to SNI, and the rent is collected monthly.

The foregoing transactions with related parties were determined in accordance with mutual agreements.

c. The compensation of directors, supervisors and managements is showed as follows:

	Year Ended December 31		
	2009	**2010**	**2011**
	NT$	**NT$ (In Millions)**	**NT$**
Salaries	$ 144	$ 156	$ 157
Compensations	64	58	70
Bonus and remunerations	60	63	84
Amortizations			
	$ 268	$ 277	$ 311

30. PLEDGED ASSETS

The following assets are pledged as collateral for short-term and long-term bank loans and contract deposits by LED, CHPT and CHTS for the year ended December 31 2011, and by CHIEF, LED, SHE, CHPT, IISI and CHTS for the year ended December 31, 2010.

	December 31	
	2010	**2011**
	NT$ (In Millions)	**NT$**
Property, plant and equipment, net	$ 4,318	$ 2,736
Restricted assets	70	9
	$ 4,388	$ 2,745

31. SIGNIFICANT COMMITMENTS AND CONTINGENCIES

As of December 31, 2011, in addition to those disclosed in other notes, the Company's remaining commitments under non-cancelable contracts with various parties were as follows:

a. Acquisition of land and buildings of NT$52 million.

b. Acquisition of telecommunications equipment of NT$19,993 million.

c. Unused letters of credit of NT$300 million.

d. Contract to print billing, envelopes and marketing gifts of NT$35 million.

e. LED has already contracted to advance sale of lands and buildings for NT$1,111 million, and collected NT$239 million in advance according to the contracts.

f. For the purpose of completing the construction, acquisition of the building construction license and registration ownerships of all buildings for LightEra Covent Garden Project, LED signed the trust deeds with Land Bank and China Real Estate Management Co., Ltd. for the fund management, property rights and related development to the extent of authority they are given.

Trust assets are as follow:

	December 31, 2011 NT$ (In Millions)
Restricted assets bank deposits	$ 56
Land held under development	211
	$ 267

g. The Company also has non-cancelable operating leases covering certain buildings, computers, computer peripheral equipment and operation system software under contracts that expire in various years. Future lease payments are as follows:

Year	Amount NT$ (In Millions)
2012	$ 1,891
2013	1,505
2014	1,222
2015	898
2016 and thereafter	682

h. A commitment to contribute NT$2,000 million to a Piping Fund administered by the Taipei City Government, of which NT$1,000 million was contributed by Chunghwa on August 15, 1996 (classified as long-term investment - other monetary assets). If the fund is not sufficient, Chunghwa will contribute the remaining NT$1,000 million upon notification from the Taipei City Government. Based on Chunghwa's understanding of the Piping Fund terms, if the project is considered to be no longer necessary by the ROC government, Chunghwa will receive back its proportionate share of the net equity of the Piping Fund upon its dissolution. The Company does not know when its contribution to the Piping Fund will be returned; therefore, the Company did not discount the face amount of its contribution to the Piping Fund.

32. DISCLOSURES FOR FINANCIAL INSTRUMENTS

a. Carrying amounts and fair values of financial instruments were as follows:

	December 31			
	2010		2011	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	NT$	NT$	NT$	NT$
	(In Millions)			
Assets				
Cash and cash equivalents	$ 90,875	$ 90,875	$ 67,390	$ 67,390
Financial assets at fair value through profit or loss	77	77	46	46
Available-for-sale financial assets - current	2,191	2,191	2,499	2,499
Held-to-maturity financial assets - current	1,964	1,964	1,201	1,201
Trade notes and accounts receivable, net	14,503	14,503	22,396	22,396
Receivables from related parties	64	64	34	34
Other current monetary assets	2,139	2,139	2,068	2,068
Restricted assets - current	205	205	57	57
Financial assets carried at cost	2,734	-	2,760	-
Available-for-sale financial assets - noncurrent	-	-	58	58
Held-to-maturity financial assets - noncurrent	8,408	8,408	13,495	13,495
Other noncurrent monetary assets	1,000	1,000	1,000	1,000
Refundable deposits	1,462	1,462	1,760	1,760
Restricted assets - noncurrent (included in "other assets - others")	34	34	8	8
Liabilities				
Short-term loans	115	115	75	75
Commercial paper	230	230	-	-
Financial liabilities at fair value through profit or loss	-	-	4	4
Trade notes and accounts payable	11,555	11,555	14,265	14,265
Payables to related parties	140	140	788	788
Accrued expenses	18,404	18,404	18,571	18,571
Due to stockholder for capital reduction	19,394	19,394	-	-
Payables to equipment suppliers (included in "other current liabilities")	1,106	1,106	1,870	1,870
Payables to contractors (included in "other current liabilities")	1,262	1,262	1,834	1,834
Amounts collected in trust for others (included in "other current liabilities")	2,356	2,356	1,201	1,201
Refundable customers' deposits (included in "other current liabilities")	1,097	1,097	1,095	1,095
Current portion of long-term loans	309	309	702	702
Long-term loans	3,148	3,148	1,058	1,058
Customers' deposits	5,781	5,781	5,014	5,014

b. Methods and assumptions used in the estimation of fair values of financial instruments:

1) The fair values of certain financial instruments recognized in the balance sheet generally correspond to the market prices of the financial assets. Because of the short maturities of these instruments, the carrying value represents a reasonable basis to estimate fair values. This method does not apply to the financial instruments discussed in Notes 2, 3, and 4 below.

2) If the financial instruments have quoted market prices in an active market, the quoted market prices are viewed as fair values. If the market price of the other financial instruments are not readily available, valuation techniques are used incorporating estimates and assumptions that are consistent with prevailing market conditions.

3) Financial assets carried at cost are investments in nonlisted shares, which have no quoted prices in an active market and entail an unreasonably high cost to obtain verifiable fair values. Therefore, no fair value is presented.

4) The fair value of long-term loans (including current portion) is discounted based on projected cash flow which approximate their carrying amounts. The projected cash flows were discounted using the interest rate of similar long-term loans.

c. Fair values of financial assets and liabilities using quoted market prices or valuation techniques were as follows:

	Amount Based on Quoted Market Price		**Amount Determined Using Valuation Techniques**	
	December 31		**December 31**	
	2010	**2011**	**2010**	**2011**
	NT$	**NT$**	**NT$**	**NT$**
	(In Millions)			
<u>Assets</u>				
Financial assets at fair value through profit or loss	$ 43	$ 40	$ 34	$ 6
Available-for-sale financial assets	2,089	2,480	102	77
<u>Liabilities</u>				
Financial liabilities at fair value through profit or loss	-	-	-	4

d. Information about financial risks

1) Market risk

The foreign exchange rate fluctuations would result in the Company's foreign-currency-dominated assets and liabilities, outstanding currency swap contracts, forward exchange contracts exposed to rate risk.

The fluctuations of market price would result in the index future contracts exposed to price risk.

The financial instruments categorized as available-for-sale financial assets are mainly listed stocks, open-end mutual funds and corporate bonds. Therefore, the market risk is the fluctuations of market price. In order to manage this risk, the Company would assess the risk before investing; therefore, no material market risk is anticipated.

2) Credit risk

Credit risk represents the potential loss that would be incurred by the Company if the counter-parties or third-parties breached contracts. Financial instruments with positive fair values at the balance sheet date are evaluated for credit risk. The counter-parties or third-parties of the aforementioned financial instruments are reputable financial institutions and corporations. Management does not expect the Company's exposure to default by those parties to be material.

The maximum amount of credit risk of the financial instruments held by counter-parties or third parties is equal to the carrying amount.

3) Liquidity risk

The Company has sufficient operating capital to meet cash needs upon settlement of derivative financial instruments. Therefore, the liquidity risk is low.

The financial instruments of the Company categorized as available-for-sale financial assets are publicly-traded, easily converted to cash. Therefore, no material liquidity risks are anticipated. The financial instruments categorized as financial assets carried at cost are investments that do not have a quoted market price in an active market. Therefore, material liquidity risk is anticipated.

4) Cash flow interest rate risk

The Company engages in investments in fixed-interest-rate debt securities. Therefore, cash flows from such securities are not expected to fluctuate significantly due to changes in market interest rates.

e. Fair value hedge

Chunghwa entered into currency swap contracts to hedge the fluctuation in exchange rates of beneficiary certificates denominated in foreign currency, which is fair value hedge. No transaction met the criteria for hedge accounting for the years ended December 31, 2010 and 2011. The transaction was assessed as highly effective for the year ended December 31, 2009. There were no outstanding hedge currency or forward exchange contracts existed as of December 31, 2009.

33. SEGMENT FINANCIAL INFORMATION

Beginning from September 1, 2009, the Company redefined its financial reporting operating segments into five operating segments: (a) domestic fixed communications business, (b) mobile communications business, (c) internet business, (d) international fixed communications business and (e) others. Prior to September 1, 2009, Chunghwa Telecom had seven operating segments: (a) local operations, (b) domestic long distance operations, (c) international long distance operations, (d) cellular service operations, (e) internet and data operations, (f) cellular phone sales and (g) all others. The redefinition of the Company's operating segments is expected to facilitate the management's ability to assess the performance of each operating segment by conforming the Company's operating segments to the international trends of other telecommunications companies in general. The Company also early adopted the Statement of Financial accounting Standards No. 41 "Operating Segments" ("SFAS No. 41") starting from September 1, 2009.

Operating segments are defined as components of an enterprise regarding which separate financial information is available for regular evaluation by the chief operating decision maker in deciding how to allocate resources and in assessing performance.

The Company organizes its reporting segments based on types of organizational business. The five reporting segments are segregated as below: Domestic fixed communications business, mobile communications business, internet business, international fixed communications business and others.

- Domestic fixed communications business - the provision of local telephone services, domestic long distance telephone services, broadband access, and related services;

- Mobile communications business - the provision of mobile services, sales of mobile handsets and data cards, and related services;

- Internet business - the provision of HiNet services and related services;

- International fixed communications business - the provision of international long distance telephone services and related services;

- Others - the provision of non-telecom services and the corporate related items not allocated to reportable segments.

The operating segments are managed separately because each operating segment represents a strategic business unit that serves different markets. The Company's measure of segment performance is mainly based on revenues and income before tax.

a. Segment information

	Domestic Fixed Communications Business	Mobile Communications Business	Internet Business	International Fixed Communications Business	Others	Adjustment	Total
	NT$ (In Millions)	NT$ (In Millions)	NT$ (In Millions)	NT$ (In Millions)	NT$ (In Millions)	NT$ (In Millions)	NT$ (In Millions)
Year ended December 31, 2009							
Revenues from external customers	$ 71,467	$ 86,524	$ 23,653	$ 15,244	$ 1,473	$ -	$ 198,361
Intersegment service revenues	13,650	1,915	717	1,523	3	(17,808)	-
Interest income	3	8	4	11	453	-	479
Other income	77	104	74	10	678	-	943
	$ 85,197	$ 88,551	$ 24,448	$ 16,788	$ 2,607	$ (17,808)	$ 199,783
Interest expense	$ 3	$ 1	$ 10	$ -	$ 1	$ -	$ 15
Depreciation and amortization	$ 23,984	$ 8,373	$ 2,327	$ 1,404	$ 232	$ -	$ 36,320
Other expense	$ 156	$ 98	$ 11	$ 2	$ 279	$ -	$ 546
Segment income before tax	$ 17,452	$ 30,184	$ 9,356	$ 2,550	$ (2,304)	$ -	$ 57,238
Total assets	$ 231,177	$ 63,537	$ 17,154	$ 18,700	$ 118,429	$ -	$ 448,997
Capital expenditures for segment assets	$ 15,877	$ 5,028	$ 2,097	$ 1,299	$ 1,177	$ -	$ 25,478
Year ended December 31, 2010							
Revenues from external customers	$ 70,688	$ 89,044	$ 24,483	$ 15,534	$ 2,681	$ -	$ 202,430
Intersegment service revenues	14,662	2,117	1,104	1,720	750	(20,353)	-
Interest income	1	9	2	9	454	-	475
Other income	31	263	24	96	313	(170)	557
	$ 85,382	$ 91,433	$ 25,613	$ 17,359	$ 4,198	$ (20,523)	$ 203,462
Interest expense	$ 75	$ 1	$ 7	$ -	$ 24	$ -	$ 107
Depreciation and amortization	$ 21,948	$ 8,205	$ 2,206	$ 1,383	$ 322	$ -	$ 34,064
Other expense	$ 283	$ 7	$ 14	$ 198	$ 255	$ (170)	$ 587
Segment income before tax	$ 18,048	$ 29,328	$ 9,835	$ 2,652	$ (2,176)	$ -	$ 57,687
Total assets	$ 227,376	$ 63,330	$ 17,663	$ 23,535	$ 122,407	$ -	$ 454,311
Capital expenditures for segment assets	$ 14,260	$ 5,261	$ 1,889	$ 1,787	$ 1,420	$ -	$ 24,617
Year ended December 31, 2011							
Revenues from external customers	$ 79,351	$ 92,998	$ 24,834	$ 15,218	$ 5,092	$ -	$ 217,493
Intersegment service revenues	15,355	6,994	1,917	2,620	725	(27,611)	-
Interest income	4	8	1	3	666	-	682
Other income	465	130	10	41	562	(9)	1,199
	$ 95,175	$ 100,130	$ 26,762	$ 17,882	$ 7,045	$ (27,620)	$ 219,374
Interest expense	$ -	$ -	$ 4	$ -	$ 27	$ -	$ 31
Depreciation and amortization	$ 20,139	$ 8,288	$ 2,278	$ 1,282	$ 319	$ -	$ 32,306
Other expense	$ 15	$ 7	$ 6	$ 3	$ 197	$ (9)	$ 219
Segment income before tax	$ 18,482	$ 27,839	$ 9,562	$ 2,041	$ (1,225)	$ -	$ 56,699
Total assets	$ 227,822	$ 64,742	$ 20,323	$ 24,770	$ 105,263	$ -	$ 442,920
Capital expenditures for segment assets	$ 16,569	$ 4,334	$ 3,746	$ 1,529	$ 698	$ -	$ 26,876

b. Products and service revenues from external customer information

	Year Ended December 31		
	2009	2010	2011
	NT$	NT$ (In Millions)	NT$
Mobile services revenue	$ 71,295	$ 72,955	$ 70,773
Local telephone services revenue	34,116	33,243	42,951
Leased line services revenue	27,477	27,412	27,068
Sales of products	15,058	15,989	22,066
Internet services revenue	21,511	22,016	21,949
International long distance telephone services revenue	12,922	12,863	12,422
Domestic long distance telephone services revenue	7,407	6,650	5,793
Others	8,575	11,302	14,471
	$ 198,361	$ 202,430	$ 217,493

c. Geographic information

The users of the Company's services are mainly from Taiwan, ROC. The revenues it derived outside Taiwan are mainly revenues from international long distance telephone and leased line services. The geographic information for revenues is as follows:

	Year Ended December 31		
	2009	2010	2011
	NT$	NT$ (In Millions)	NT$
Taiwan, ROC	$ 193,003	$ 196,830	$ 211,826
Overseas	5,358	5,600	5,667
	$ 198,361	$ 202,430	$ 217,493

The Company has long-lived assets in U.S., Singapore, Hong Kong, China, Vietnam, Thailand, and Japan amounting to NT$175 million and NT$219 million at December 31, 2009 and 2010, respectively.

The Company has long-lived assets in U.S., Singapore, Hong Kong, China, Vietnam, and Japan amounting to NT$736 million at December 31, 2011.

Except for the long-lived assets located in the aforementioned areas, the other long-lived assets are located in Taiwan, ROC.

d. Major customers

For the years ended December 31, 2009, 2010 and 2011, the Company did not have any single customer whose net revenue exceeded 10% of the total net revenues.

34. OTHERS

The significant information of foreign-currency financial assets and liabilities as below:

	December 31					
	2010			2011		
	Foreign Currencies (In Millions)	Exchange Rate	New Taiwan Dollars (In Millions)	Foreign Currencies (In Millions)	Exchange Rate	New Taiwan Dollars (In Millions)
Financial assets						
Monetary items						
Cash						
US Dollar	$ 15	29.13	$ 443	$ 8	30.28	$ 254
HK Dollar	92	3.75	344	122	3.90	475
JP Yen	45	0.36	16	78	0.39	31
SG Dollar	40	22.73	910	35	23.31	826
Accounts receivable						
US Dollar	157	29.13	4,566	154	30.28	4,670
HK Dollar	18	3.75	68	1	3.90	2
SG Dollar	1	22.73	17	-	23.31	-
Available-for-sale financial assets						
US Dollar	35	29.13	1,010	68	30.28	2,066
Investments accounted for using equity method						
US Dollar	1	29.13	27	1	30.28	22
VND Dollar	170,986	0.00144	246	183,540	0.00139	255
SG Dollar	18	22.73	398	20	23.31	462
Financial liabilities						
Monetary items						
Accounts payable						
US Dollar	113	29.13	3,298	116	30.28	3,505
Euro Dollar	22	38.92	842	28	39.18	1,098
HK Dollar	32	3.75	119	1	3.90	3
SG Dollar	-	22.73	8	4	23.31	83
RMB	-	-	-	16	4.81	75

35. PRE-DISCLOSURE FOR ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

Under Rule No. 0990004943 issued by the Financial Supervisory Commission (FSC) on February 2, 2010, the Company pre-discloses the following information on the adoption of International Financial Reporting Standards (IFRSs) as follows:

a. On May 14, 2009, the FSC announced the "Framework for Adoption of International Financial Reporting Standards by Companies in the ROC." In this framework, starting 2013, companies with shares listed on the TSE or traded on the Taiwan GreTai Securities Market or Emerging Stock Market should prepare their financial statements in accordance with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers and the International Financial Reporting Standards, International Accounting Standards, and the Interpretations as well as related guidance translated by the ARDF and issued by the FSC. To comply with this framework, the Company has set up a project team and made a plan to adopt the IFRSs. Leading the implementation of this plan is the President, Mr. Chang. The main contents of the plan, anticipated schedule and status of execution as of December 31, 2011 were as follows:

Contents of Plan	Responsible Department	Status of Execution
1) Evaluation Phase: August 1 2009 - March 31, 2010		
• Make IFRSs adoption plan and set up a IFRSs project team	Accounting department	Completed
• Compare and analyze the differences between current accounting policies and IFRSs	Accounting department	Completed
• Evaluate the modification of current accounting policies for IFRSs adoption	Accounting department	Completed
• Evaluate the adoption of IFRS 1, “First-time Adoption of International Financial Reporting Standards”	Accounting department	Completed
• Conduct the first stage of internal employee training	Accounting department	Completed
2) Preparation Phase: April 1, 2010 - December 31, 2011		
• Determine accounting policies in accordance with IFRSs	Accounting department	Completed
• Choose the optional exemptions under IFRS 1, “First-time Adoption of International Financial Reporting Standards”	Accounting department	Completed
• Modify related information system	Information technology department	Completed
• Amend internal control and related policies	Accounting department, related departments	Completed
• Conduct the second stage of internal employee training	Accounting department	Completed
3) Application Phase: January 1, 2012 - December 31, 2013		
• Prepare opening IFRSs balance sheet and comparatives financial statements	Accounting department	In progress
• Prepare financial statements in accordance with IFRSs	Accounting department	In progress

b. As of December 31, 2011, the Company had assessed the material differences, shown below, between the existing accounting policies and the accounting policies to be adopted under IFRSs:

Accounting Issues	Description of Differences
The definition and reclassification of cash and cash equivalents	Under ROC GAAP, cash and cash equivalents includes time deposits that are cancellable but without any loss of principal. Under IFRSs, cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Therefore, an investment normally qualifies as a cash equivalent only when it has a short maturity of three months or less from the date of acquisition.
The classification of real estate	1) Under ROC GAAP, there's no related guidance about investment property. Under IFRSs, real estate should be classified as "property, plant and equipment" or "investment property" in accordance with IAS 16 and IAS 40.
	2) Under IFRSs, "property, plant and equipment" and "investment property" are recognized at costs or the deemed costs using the revalued amounts which were determined under ROC GAAP. The Company chooses cost model as its accounting policy for subsequent recognition of aforementioned items.
The classification of leased assets and idle assets	Under IFRSs, assets, which are classified as leased assets and idle assets under ROC GAAP, are classified as "property, plant and equipment" or "investment property" according to their nature.
The recognition and classification of deferred income tax asset and liability	1) Under ROC GAAP, a deferred income tax asset and liability should be classified as current and noncurrent in accordance with the classification of its related asset or liability. When a deferred income tax asset and liability does not relate to an asset or liability, then it is classified as either current or noncurrent based on the expected length of time before it is realized or settled. However, under IFRSs, a deferred income tax asset and liability should be classified as noncurrent.
	2) Under ROC GAAP, if it is more likely than not that deferred income tax assets will not be realized, the valuation allowances are provided to the extent. However, under IFRSs, deferred income tax assets are only recognized when it is more likely than not to be realized, and the valuation allowance is not used under IFRSs.

(Continued)

Accounting Issues	Description of Differences
The recognition of pension gains (losses)	Under ROC GAAP, pension gains (losses) are recognized based on the corridor approach and the amounts are amortized over the average remaining service life of active plan participants. However, under IFRSs, pension gains (losses) resulting from defined benefit plans should be recognized as other comprehensive income immediately and subsequent reclassification to earnings is not permitted.
The settlement of pension at the time of privatization	Since the effective date of IAS 19 "Employee Benefits" in 1999 to when the Company underwent privatization in 2005, the settlement impact upon privatization calculated according to the actuarial report under IAS19 shall be recorded as donation capital under additional paid-in capital.
The recognition of revenue from providing fixed line connection service	Prior to privatization, according to the laws and regulations applicable to state-owned enterprises in Taiwan, the Company recorded revenue from providing fixed line connection service at the time the service was performed. Under IFRSs, following the revenue recognition guidance, the above service revenue should be treated as deferred income and recognized over the time when the service is continuously provided. Therefore, the Company shall retrospectively adjust the deferred income.
The recognition of house and land revenue of the construction corporation	Under ROC GAAP, when the construction contracts meet several specific conditions, the Company could use percentage of completion method to recognize related revenues. Under IFRSs, when construction projects do not meet the criteria in IFRIC15.11, IAS11 does not apply. The Company could only recognize the revenues when the projects are completed and sold out based on IAS 18.

Since the Company may choose some exemptions in IFRS 1, some material differences showed above may not cause significant impact at the time of transition from ROC GAAP to IFRSs.

c. The Company has prepared the above assessments in compliance with (a) the 2010 version of the IFRSs translated by the ARDF and issued by the FSC and (b) the Guidelines Governing the Preparation of Financial Reports by Securities Issuers amended and issued by the FSC on December 22, 2011. These assessments may be changed as the FSC may issue new rules governing the adoption of IFRSs, and as other laws and regulations may be amended to comply with the adoption of IFRSs. Actual results may differ from these assessments.

36. SUMMARY OF SIGNIFICANT DIFFERENCES BETWEEN ACCOUNTING PRINCIPLES FOLLOWED BY THE COMPANY AND GENERALLY ACCEPTED ACCOUNTING PRINCIPLES IN THE UNITED STATES OF AMERICA

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the Republic of China (ROC GAAP), which differ in the following respects from accounting principles generally accepted in the United States of America (US GAAP):

a. Property, plant and equipment

Under ROC GAAP, property, plant and equipment, excluding land, may be revalued when the price fluctuation is greater than 25% and upon approval from the tax authority. Similarly, land may be revalued if there is any appreciation of land based on the present value of land announced by the government. This revaluation component is recorded as a special reserve in equity at the time of revaluation and is subsequently depreciated. Upon sale or disposal of property, plant and equipment, the cost and any related revaluation increment less accumulated depreciation calculated after the revaluation are removed from the accounts, and any gain or loss is credited or charged to income. This revaluation adjustment also created differences in the opening balances of additional paid-in capital upon incorporation of the Company on July 1, 1996.

Under US GAAP, no revaluation of property, plant and equipment is permitted.

b. 10% tax on unappropriated earnings

In ROC, a 10% tax is imposed on unappropriated earnings (excluding earnings from foreign consolidated subsidiaries). Under ROC GAAP, the Company records the 10% tax on unappropriated earnings in the year of stockholders' approval.

Under US GAAP, the 10% tax on unappropriated earnings is accrued during the period the earnings arise and adjusted to the extent that distributions are approved by the stockholders in the following year.

c. Deferred income from prepaid phone cards

Prior to incorporation and privatization, the Company was subject to the laws and regulations applicable to state-owned enterprises in Taiwan which differed from ROC GAAP as applicable to commercial companies. As such, revenue from selling prepaid phone cards was recognized at the time of sale by the Company. Upon incorporation, net assets greater than capital stock was credited as additional paid-in capital. Part of additional paid-in capital was from unearned revenues generated from prepaid cards as of that day. Upon privatization, unearned revenue generated from prepaid cards was deferred at the time of sale and recognized as revenue as consumed in accordance with ROC GAAP.

Under US GAAP, revenue from prepaid cards is deferred at the time of sale and recognized as revenue as consumed.

The GAAP adjustments related to prepaid cards subsequent to privatization are: (1) adjustments for prepaid cards transaction before incorporation from additional paid-in capital and (2) adjustments for such transactions occurred between incorporation and privatization from retained earnings which still have remaining expected customer service periods.

d. One-time connection fees income

Similar to prepaid phone cards, according to the laws and regulations applicable to state-owned enterprises in Taiwan, the Company recorded revenue from providing fixed line connection service at the time the service was performed. Upon incorporation, net assets greater than capital stock was credited as additional paid-in capital. Part of additional paid-in capital was from unearned revenues from connection fees as of that date. Upon privatization, unearned revenue generated from one-time connection fees was deferred at the time of service performed and recognized as revenue over time as the service is continuously performed in accordance with ROC GAAP.

Under US GAAP, following the revenue recognition guidance, the above service revenue should be treated as deferred income at the time of service rendered and the recognition of revenue should occur over time as the service is continuously performed.

The GAAP adjustments related to one-time connection fees income subsequent to privatization are: (1) adjustments for one time connection fees before incorporation from additional paid-in capital, and (2) adjustments for such transactions occurred between incorporation and privatization from retained earnings which still have remaining expected customer service periods.

e. Share-based compensation

1) The Company's major stockholder, the MOTC made an offer to the Company's employees to purchase shares of common stock of the Company at a discount from the quoted market price in 2006.

   Under ROC GAAP, such an offer was regarded as a transaction between stockholders and no entry was recorded on the Company's books and records.

   Under US GAAP, the offer was deemed as compensation expense to employees and measured as the difference between the fair value of common stock offered and the amount of the discounted price at the grant date in 2006.

2) One of the Company's subsidiaries, SENAO, granted options to employees.

   Under ROC GAAP, employee stock option plans were accounted for using the intrinsic value method and no stock-based compensation expense was recognized for the employee stock options granted by its subsidiary under ROC GAAP prior to January 1, 2008. In August 2007, the ARDF issued ROC SFAS No. 39, "Accounting for Share-based Payment", which required companies to record share-based payment transactions granted on or after January 1, 2008 using the fair value method. There is no impact of the adoption of this statement since the Company did not grant options on or after January 1, 2008.

   Under US GAAP, the Company recognized compensation expense for such employee stock options granted by its subsidiary using the fair value method in accordance with the share-based payment guidance.

f. Defined benefit pension plan

Pension accounting under ROC GAAP is similar in many respects to US GAAP. However, under ROC GAAP, companies are not required to recognize the overfunded or underfunded positions of their defined benefit pension plans as an asset or liability on the balance sheet.

Under US GAAP, employers are required to recognize the overfunded or underfunded status of a defined benefit pension plan as an asset or liability on its balance sheet and to recognize changes in that funded status in the year in which the changes occur through comprehensive income. US GAAP defines the funded status of a benefit plan as the difference between the fair value of the plan assets and the projected benefit obligation ("PBO"). Previously unrecognized items such as unrealized actuarial loss are recognized in other comprehensive income and are subsequently recognized through net periodic benefit cost.

Furthermore, the accounting treatment of settlements and curtailments are different under ROC GAAP and US GAAP. Under ROC GAAP, settlement/curtailment gains or losses are equal to the changes of underfunded status plus a pro rata portion of the unrecognized prior service cost, unrecognized net gains (losses), and unrecognized transition obligations/assets, before the settlement/curtailment event multiplied by the percentage reduction in PBO.

Under US GAAP, settlement gain (loss) is the total unrecognized net gain or losses including any gain or loss that arose from the measurement at the settlement date and unrecognized transition assets before settlement multiplied by the percentage reduction in PBO. Curtailment gain (loss) includes the following items: (1) total unrecognized prior service cost and net transition obligation before curtailment multiplied by the curtailment ratio (the ratio of reduction in future service over such future service before curtailment) and (2) decrease in PBO to the extent that such gain exceeds the net unrecognized loss (sum of unrecognized net gain or loss and net unrecognized transition asset before curtailment) or the entire gain if a net unrecognized gain exists or increase in PBO to the extent that such loss exceeds unrecognized gain (sum of unrecognized net gain or loss and net unrecognized transition asset before curtailment) or the entire loss if net unrecognized loss exists.

g. Pension plan upon privatization

In order to increase operational efficiency, the Company approved several special retirement incentive programs during the process of privatization.

Under ROC GAAP, the obligation related to annuity payments due after the date of privatization for civil service eligible employees who retire prior to that date would be born by the MOTC. The Company completed its privatization plan on August 12, 2005. On the date of privatization, the MOTC settled all employees' past service costs. The portion of the pension obligations that was settled by the MOTC, represented by the difference between the accrued pension liabilities and the deferred pension cost as an adjustment for the pension cost of that year.

Under US GAAP, the MOTC settled related pension obligations on the privatization date and recorded the difference between accrued pension liabilities, deferred pension cost and related deferred income tax assets, as contributed capital in stockholders' equity.

h. Income tax

This line item includes the tax effects of the pre-tax ROC GAAP to US GAAP adjustments described above.

i. Noncontrolling interests of acquired subsidiaries

The adjustment to net income for the years ended December 31, 2009 and 2010 and to stockholders' equity as of December 31, 2009 and 2010 represents a difference between ROC GAAP and US GAAP for the accounting for business combinations.

Under ROC GAAP, the noncontrolling interest in the acquiree is measured at historical cost whereas under US GAAP, the noncontrolling interest in the acquiree is measured at fair value at acquisition date upon the adoption of the new accounting standard beginning from January 1, 2009. Such adjustment for the years ended December 31, 2009 and 2010 was caused by the Company's acquisition of IFE in January 2009 and of CHI in September 2009. The adjustment to ROC GAAP net income represents additional depreciation and amortization expenses recognized under US GAAP due to the difference between the measurement of noncontrolling interests at historical cost and fair value. The adjustment to stockholders' equity represents the difference for the measurement of noncontrolling interests at historical cost and fair value after the aforementioned net income adjustment.

The following is a reconciliation of consolidated net income and stockholders' equity under ROC GAAP as reported in the consolidated financial statements to the consolidated net income and equity determined under US GAAP, giving effect to the differences listed above.

	Year Ended December 31			
	2009	2010	2011	
	NT$	NT$	NT$	US$ (Note 3)
	(In Millions)			
Net income				
Consolidated net income under ROC GAAP	$ 44,495	$ 48,558	$ 48,095	$ 1,589
Adjustments:				
a. Property, plant and equipment				
1. Adjustments of gains and losses on disposal of property, plant and equipment	24	25	725	24
2. Adjustments for depreciation expenses	158	122	112	4
b. 10% tax on unappropriated earnings	110	(380)	(125)	(4)
c. Revenues recognized from deferred income of prepaid phone cards	615	258	-	-
d. Revenues recognized from deferred one-time connection fees	1,426	1,118	861	28
e. Share-based compensation	(17)	(5)	(2)	-
f. Defined benefit pension plan	1	-	1	-
h. Income tax effect of US GAAP adjustments	(982)	(462)	(226)	(8)
i. Noncontrolling interests of acquired subsidiaries	(8)	(9)	-	-
Other minor GAAP differences not listed above	(7)	(34)	(3)	-
Net adjustment	1,320	633	1,343	44
Consolidated net income based on US GAAP	$ 45,815	$ 49,191	$ 49,438	$ 1,633
Attributable to				
Stockholders of the parent	$ 45,096	$ 48,274	$ 48,426	$ 1,600
Noncontrolling interests	719	917	1,012	33
	$ 45,815	$ 49,191	$ 49,438	$ 1,633

	December 31			
	2009	2010	2011	
	NT$	NT$	NT$	US$ (Note 3)
	(In Millions)			
Stockholders' equity				
Total stockholders' equity based on ROC GAAP	$ 378,964	$ 368,603	$ 373,043	$ 12,324
Adjustments:				
a. Property, plant and equipment				
1. Capital surplus reduction	(60,168)	(60,168)	(60,168)	(1,988)
2. Adjustment on depreciation expenses, and disposal gains and losses	4,141	4,288	5,125	169
3. Adjustments of revaluation of land	(5,803)	(5,803)	(5,763)	(190)
b. 10% tax on unappropriated earnings	(4,037)	(4,417)	(4,542)	(150)
c. Deferred income of prepaid phone cards				
1. Capital surplus reduction	(2,798)	(2,798)	(2,798)	(92)
2. Adjustment on deferred income recognition	2,540	2,798	2,798	92
d. Revenues recognized from deferred one-time connection fees				
1. Capital surplus reduction	(18,487)	(18,487)	(18,487)	(611)
2. Adjustment on deferred income recognition	14,582	15,700	16,561	547
e. Share-based compensation				
1. Adjustment on capital surplus	15,700	15,705	15,707	519
2. Adjustment on retained earnings	(15,700)	(15,705)	(15,707)	(519)
f. 1. Accrual for accumulative other comprehensive income under pension guidance	(1)	(608)	(1,114)	(37)
2. Accrual for pension cost	(28)	(28)	(27)	(1)
g. Adjustment for pension plan upon privatization				
1. Adjustment on capital surplus	1,782	1,782	1,782	59
2. Adjustment on retained earnings	(9,665)	(9,665)	(9,665)	(319)
h. Income tax effect of US GAAP adjustments	5,238	4,776	4,550	150
i. Noncontrolling interests of acquired subsidiaries	28	19	(29)	(1)
Other GAAP differences not listed above	184	150	146	5
Net adjustment	(72,492)	(72,461)	(71,631)	(2,367)
Total equity based on US GAAP	$ 306,472	$ 296,142	$ 301,412	$ 9,957
Attributable to				
Stockholders of the parent	$ 302,799	$ 292,232	$ 297,285	$ 9,821
Noncontrolling interests	3,673	3,910	4,127	136
	$ 306,472	$ 296,142	$ 301,412	$ 9,957

	Year Ended December 31			
	2009	2010	2011	
	NT$	NT$	NT$	US$ (Note 3)
	(In Millions)			
Changes in equity based on US GAAP				
Balance, beginning of year	$ 305,849	$ 306,472	$ 296,142	$ 9,783
Consolidated net income	45,815	49,191	49,438	1,633
Unrealized gain (loss) on available-for-sale securities	1,833	649	(139)	(5)
Cumulative translation adjustment for foreign-currency investments held by investees	(22)	(119)	82	3
Increase in interest on issuance of stock by investees	(10)	7	22	1
Cash dividends	(37,139)	(39,369)	(42,855)	(1,416)
Capital reduction	(9,697)	(19,394)	-	-
Defined benefit pension plan adjustment	(68)	(605)	(509)	(17)
Decrease in noncontrolling interests	(89)	(690)	(769)	(25)
Balance, end of year	$ 306,472	$ 296,142	$ 301,412	$ 9,957
Attributable to				
Stockholders of the parent	$ 302,799	$ 292,232	$ 297,285	$ 9,821
Noncontrolling interests	3,673	3,910	4,127	136
	$ 306,472	$ 296,142	$ 301,412	$ 9,957

The following US GAAP condensed balance sheets as of December 31, 2010 and 2011, and statements of income for the years ended December 31, 2009, 2010 and 2011 have been derived from the audited consolidated financial statements and reflected the adjustments presented above.

	December 31		
	2010	2011	
	NT$	NT$	US$ (Note 3)
	(In Millions)		
Assets			
Current assets	$ 121,233	$ 106,763	$ 3,527
Long-term investments	12,847	18,856	623
Property, plant and equipment, net	241,689	238,954	7,894
Intangible assets	6,913	6,339	209
Other assets	7,822	8,479	280
Total assets	$ 390,504	$ 379,391	$ 12,533
Liabilities and equities			
Liabilities			
Current liabilities	$ 83,235	$ 69,278	$ 2,289
Long-term liabilities	11,127	8,701	287
Total liabilities	94,362	77,979	2,576

(Continued)

	December 31		
	2010	2011	
	NT$	NT$	US$ (Note 3)
		(In Millions)	
Equity attributable to stockholders of the parent			
Capital stock - NT$10 (US$0.3) par value	$ 77,574	$ 77,574	$ 2,563
Capital surplus	132,919	135,734	4,484
Retained earnings	82,289	85,068	2,810
Accumulated other comprehensive income	(550)	(1,091)	(36)
Total equity attributable to stockholders of the parent	292,232	297,285	9,821
Noncontrolling interests	3,910	4,127	136
Total equity	296,142	301,412	9,957
Total liabilities and equity	$ 390,504	$ 379,391	$ 12,533

(Concluded)

Certain accounts have been reclassified to conform to the US GAAP presentation requirements. Under US GAAP, gains and losses on disposal of property, plant and equipment and other assets and impairment loss on property, plant and equipment and other assets and loss arising from natural calamities are included in operating expenses whereas under ROC GAAP, such accounts are included in non-operating expenses.

	Year Ended December 31			
	2009	2010	2011	
	NT$	NT$	NT$	US$ (Note 3)
	(In Millions Except Per Share Amounts)			
Net revenues	$ 200,369	$ 203,773	$ 218,321	$ 7,212
Operating costs and expenses	141,817	145,166	161,245	5,327
Income from operations	58,552	58,607	57,076	1,885
Non-operating income, net	877	555	1,316	44
Income before income tax	59,429	59,162	58,392	1,929
Income tax expense	(13,614)	(9,971)	(8,954)	(296)
Consolidated net income	$ 45,815	$ 49,191	$ 49,438	$ 1,633
Attributable to				
Stockholders of the parent	$ 45,096	$ 48,274	$ 48,426	$ 1,600
Noncontrolling interests	719	917	1,012	33
	$ 45,815	$ 49,191	$ 49,438	$ 1,633
Basic earnings per share	$ 4.65	$ 4.98	$ 6.22	$ 0.21
Diluted earnings per share	$ 4.64	$ 4.96	$ 6.20	$ 0.20
Weighted-average number of common shares outstanding (in 1,000 shares)				
Basic	9,696,808	9,696,808	7,789,326	
Diluted	9,725,614	9,725,461	7,810,605	

(Continued)

	Year Ended December 31			
	2009	2010	2011	
	NT$	NT$	NT$	US$ (Note 3)
	(In Millions Except Per Share Amounts)			
Net income per pro forma equivalent ADSs				
Basic	$ 46.51	$ 49.78	$ 62.17	$ 2.05
Diluted	$ 46.36	$ 49.64	$ 62.00	$ 2.05
Weighted-average number of pro forma equivalent ADSs (in 1,000 shares)				
Basic	969,681	969,681	778,933	
Diluted	972,561	972,546	781,061	

(Concluded)

The Company reports comprehensive income in accordance with related guidance. The guidance requires that in addition to net income (loss), a company should report other comprehensive income consisting of the changes in equity of the Company during the year from transactions and other events and circumstance from nonowner sources. It includes all changes in equity during the year except those resulting from investments by stockholders and distribution to stockholders. The components of other comprehensive income for the Company consist of unrealized gains and losses relating to the translation of financial statements maintained in foreign currencies, unrealized gains and losses on available-for-sale securities held by the Company and its investees and changes in the funded status of the defined benefit pension plan.

Statements of comprehensive income for the years ended December 31, 2009, 2010 and 2011 are as follows:

	Year Ended December 31			
	2009	2010	2011	
	NT$	NT$	NT$	US$ (Note 3)
	(In Millions)			
Comprehensive income				
Consolidated net income	$ 45,815	$ 49,191	$ 49,438	$ 1,633
Other comprehensive income:				
Cumulative translation adjustments for foreign-currency investments held by investees	(22)	(119)	82	3
Unrealized gain (loss) on available-for-sale securities	1,833	649	(139)	(5)
Defined benefit pension plan adjustment	(68)	(605)	(509)	(17)
	1,743	(75)	(566)	(19)
	$ 47,558	$ 49,116	$ 48,872	$ 1,614
Attributable to				
Stockholders of the parent	$ 46,843	$ 48,189	$ 47,885	$ 1,582
Noncontrolling interests	715	927	987	32
	$ 47,558	$ 49,116	$ 48,872	$ 1,614

The components of accumulated other comprehensive income (loss) attributable to stockholders of the parent were as follows:

	December 31		
	2010	2011	
	NT$	NT$	US$ (Note 3)
	(In Millions)		
Cumulative translation adjustments for foreign-currency investments held by investees	$ (102)	$ (38)	$ (1)
Unrealized gain on available-for-sale securities	176	68	2
Defined benefit pension plan adjustment	(624)	(1,121)	(37)
	$ (550)	$ (1,091)	$ (36)

Disclosures about defined benefit plan adjustment recognized in other comprehensive income were as follows:

	Year Ended December 31			
	2009	2010	2011	
	NT$	NT$	NT$	US$ (Note 3)
	(In Millions)			
Amounts recognized in other comprehensive income				
Net prior service cost, pretax	$ 6	$ 4	$ 4	$ -
Net actuarial loss, pretax	73	804	673	22
Deferred tax asset	(11)	(203)	(168)	(5)
Net impact in other comprehensive loss	$ 68	$ 605	$ 509	$ 17

The Company applies ROC SFAS No. 17, "Statement of Cash Flows". Its objectives and principles are similar to those set out in U.S. standards. The principal differences between the two standards relate to classification. Cash flows from investing activities for changes in other assets, and cash flows from financing activities for changes in customers' deposits, other liabilities are reclassified to operating activities under U.S. standards. In addition, the effect of change on consolidated subsidiaries, which was shown as a separate item under ROC standards, is reclassified to investing activities under U.S. standards. Summarized cash flow data by operating, investing and financing activities in accordance with U.S. standards are as follows:

	Year Ended December 31			
	2009	2010	2011	
	NT$	NT$	NT$	US$ (Note 3)
	(In Millions)			
Net cash flows (outflows) from:				
Operating activities	$ 77,246	$ 84,840	$ 74,652	$ 2,466
Investing activities	(28,755)	(20,127)	(32,909)	(1,087)
Financing activities	(56,513)	(47,034)	(65,337)	(2,158)
Effects of exchange rate change on cash and cash equivalents	(7)	(63)	109	3
Net increase in cash and cash equivalents	(8,029)	17,616	(23,485)	(776)
Cash and cash equivalents, beginning of year	81,288	73,259	90,875	3,002
Cash and cash equivalents, end of year	$ 73,259	$ 90,875	$ 67,390	$ 2,226

37. ADDITIONAL DISCLOSURES REQUIRED BY US GAAP

a. Recent accounting pronouncements

In September 2009, the FASB issued an accounting standard update which provides guidance on how to separate consideration in multiple-deliverable arrangements and significantly expands disclosure requirements. The standard establishes a hierarchy for determining the selling price of a deliverable, eliminates the residual method of allocation and requires that arrangement consideration be allocated at the inception of the arrangement to all deliverables using the relative selling price method. The update is effective for annual reporting periods beginning on or after June 15, 2010. The adoption of the guidance did not have a material effect on the Company's results of operations, financial position and cash flows.

In September 2009, the FASB issued an accounting standard update on arrangements that include software elements. Tangible products that have software components that are essential to the functionality of the tangible product will no longer be within the scope of the software revenue recognition guidance, and software-enabled products will now be subject to other relevant revenue recognition guidance. The update is effective for annual reporting periods beginning on or after June 15, 2010. The adoption of the guidance did not have a material effect on the Company's results of operations, financial position and cash flows.

In January 2010, the FASB issued an accounting update that amended guidance and clarified the disclosure requirements about fair market value measurement. These amended standards require new disclosures for significant transfers of assets or liabilities between Level 1 and Level 2 in the fair value hierarchy; separate disclosures for purchases, sales, issuance and settlements of Level 3 fair value items on a gross, rather than net basis; and more robust disclosure of the valuation techniques and inputs used to measure Level 2 and Level 3 assets and liabilities. Except for the detailed disclosures of changes in Level 3 items, which are effective for the Company as of January 1, 2011, the remaining new disclosure requirements were effective for the Company as of January 1, 2010.

In April 2010, the FASB issued an accounting update that provides guidance on defining a milestone and determining when it may be appropriate to apply the milestone method of revenue recognition for certain research and development transactions. Under this new standard, a company can recognize as revenue consideration that is contingent upon achievement of a milestone in the period in which it is achieved, only if the milestone meets all criteria to be considered substantive. This standard is effective for the Company on a prospective basis as of January 1, 2011. The adoption of the guidance did not have a material effect on the Company's results of operations, financial position and cash flows.

In April 2010, the FASB issued an accounting update to clarify that a share-based payment award with an exercise price denominated in the currency of a market in which a substantial portion of the entity's equity securities trades must not be considered to contain a market, performance, or service condition. Therefore, an entity should not classify such an award as a liability if it otherwise qualifies for classification in equity. This guidance is effective for annual periods beginning on or after December 15, 2010, and will be applied prospectively. Affected entities will be required to record a cumulative catch-up adjustment to the opening balance of retained earnings for all awards outstanding as of the beginning of the annual period in which the guidance is adopted. Earlier application is permitted. The adoption of the guidance did not have a material effect on the Company's results of operations, financial position and cash flows.

In December 2010, the FASB issued an accounting update to require that supplemental pro forma information disclosures pertaining to acquisitions should be presented as if the business combination(s) occurred as of the beginning of the prior annual period when comparative financial statements are presented. This guidance also expands the supplemental pro forma disclosures to include a description of the nature and amount of material, nonrecurring pro forma adjustments directly attributable to the business combination included in the reported pro forma revenue and earnings. This guidance is effective for business combinations consummated in periods beginning after December 15, 2010. Early adoption is permitted. The Company will make the required disclosures prospectively as of the date of the adoption for any material business combinations or series of immaterial business combinations that are material in the aggregate. The adoption of the accounting standard did not have a material effect on the Company's consolidated financial statements.

In December 2010, the FASB issued an accounting update to modify Step 1 of the goodwill impairment test for reporting units with zero or negative carrying amounts. For those reporting units, an entity is required to perform Step 2 of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. In determining whether it is more likely than not that a goodwill impairment exists, an entity should consider whether there are any adverse qualitative factors indicating that an impairment may exist. For public entities, this guidance is effective for impairment tests performed during entities' fiscal years that begin after December 15, 2010. Early application will not be permitted. The adoption of the accounting standard did not have a material effect on the Company's consolidated financial statements.

In May 2011, the FASB issued an accounting update to amend the fair value measurement guidance and include some enhanced disclosure requirements. The most significant change in disclosures is an expansion of the information required for Level 3 measurements based on unobservable inputs. The standard is effective for fiscal years beginning after December 15, 2011. Early adoption is not permitted. Since this standard impacts disclosure requirements only, its adoption is not expected to have a material impact on the Company's results of operations, financial condition or cash flows.

In June and December 2011, the FASB issued accounting updates to eliminate the current option to report other comprehensive income and its components in the statement of stockholders' equity. Instead, an entity will be required to present items of net income and other comprehensive income in one continuous statement or in two separate, but consecutive, statements. The new requirements do not change which components of comprehensive income are recognized in net income or other comprehensive income, or when an item of other comprehensive income must be reclassified to net income. This guidance must be applied retroactively and is effective for fiscal years beginning after December 15, 2011. Earlier application is permitted. Based on the Company's analysis, the Company currently does not anticipate that the new guidance will have a material effect on the Company's consolidated financial statements.

In September 2011, the FASB issued an accounting update, which is intended to reduce the cost and complexity of the annual goodwill impairment test by providing entities an option to perform a "qualitative" assessment to determine whether further impairment testing is necessary. Specifically, an entity has the option to first assess qualitative factors to determine whether it is necessary to perform the current two-step test. If an entity believes, as a result of its qualitative assessment, that it is more-likely-than-not that the fair value of a reporting unit is less than its carrying amount, the quantitative impairment test is required. Otherwise, no further testing is required. This standard is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Earlier adoption is permitted. The Company is currently evaluating the impact on the adoption of the update.

In December 2011, the FASB issued an accounting update, which creates new disclosure requirements regarding the nature of an entity's rights of setoff and related arrangements associated with its financial instruments and derivative instruments. Certain disclosures of the amounts of certain instruments subject to enforceable master netting arrangements or similar agreements would be required, irrespective of whether the entity has elected to offset those instruments in the statement of financial position. The disclosure requirements are effective for annual reporting periods beginning on or after January 1, 2013 with retrospective application required. Since this standard impacts disclosure requirements only, its adoption is not expected to have a material impact on the Company's results of operations, financial condition or cash flows.

b. Share-based compensation

The Company adopted share-based compensation guidance to recognize compensation cost of options granted by SENAO. The guidance requires companies to estimate the fair value of share-based payment awards on the date of grant using an option-pricing model. The value of the portion of the award that is ultimately expected to vest is recognized as expense ratably over the requisite service period. The Company has estimated the fair value of stock options as of the date of grant using the Black-Scholes option pricing model.

The Compensation expenses related to stock options were NT$17 million, NT$5 million and NT$2 million for 2009, 2010 and 2011, respectively. There is no income tax benefit effect related to share-based compensation arrangements.

The weighted average remaining contractual term and aggregate intrinsic value of options under the foregoing plans as of December 31, 2011 were as follows:

	Weighted Average Remaining Contractual Term	**Aggregate Intrinsic Value**
	(In Years)	**NT$ (In Millions)**
Options outstanding	1.72	123
Options exercisable	1.72	123

The aggregate intrinsic value in the above table represents the total intrinsic value (the difference between the Company's closing stock price on the last trading day of fiscal year 2011 and the exercise price, multiplied by the number of in-the-money options) that would have been received by the option holders had all option holders exercised their options on December 31, 2011. Intrinsic value will change in future periods based on the fair market value of the Company' s stock and the number of shares outstanding.

SENAO did not grant any options in 2009, 2010 and 2011.

Total intrinsic values of options exercised for the years ended December 31, 2009, 2010 and 2011 were NT$113 million, NT$110 million and NT$193 million, respectively. Total fair values of shares vested during the years ended December 31, 2009, 2010 and 2011 were NT$252 million, NT$164 million and NT$204 million, respectively.

As of December 31, 2011, there was no unrecognized compensation expense related to share-based compensation plan.

The compensation expenses were determined by calculating the fair value of each option grant using the Black-Scholes option-pricing model. SENAO used the following weighted-average assumptions in calculating the fair value of the options granted:

	Year Ended December 31, 2011
Expected dividend yield	0%-1.49%
Expected volatility	39.63%-49.88%
Risk free interest rate	1.75%-2.00%
Expected life	4.375 years

Risk-free interest rate is based on the rate of the Taiwan government bonds in effect at the time of grant. Expected volatilities are based on historical volatilities of stock prices of the similar company in the same industry and SENAO. Expected life represents the period that SENAO's share-based awards are expected to be outstanding and was determined based on historical experience regarding similar awards, giving consideration to the contractual term of the share-based awards. The dividend yield is zero as there are dividend protection rights in SENAO's option plans with the exception of the options granted in 2007. The expected dividend yield for SENAO's 2007 Plan is based on anticipated future cash dividends yield at the time of grant.

c. Marketable securities

	December 31, 2010		
	Carrying Amount NT$	Unrealized Gain NT$ (In Millions)	Unrealized Loss NT$
Available-for-sale securities			
Open-end mutual funds	$ 1,562	$ 14	$ 23
Domestic listed stocks	527	236	19
Corporate bonds	102	1	-
	2,191	251	42
Held-to-maturity securities			
Corporate bond	9,868	326	96
Bank debentures	504	1	5
	10,372	327	101
	$ 12,563	$ 578	$ 143

	December 31, 2011		
	Carrying Amount NT$	Unrealized Gain NT$ (In Millions)	Unrealized Loss NT$
Available-for-sale securities			
Open-end mutual funds	$ 2,137	$ 77	$ 9
Domestic listed stocks	343	55	54
Corporate bonds	77	1	-
	2,557	133	63

(Continued)

	December 31, 2011		
	Carrying Amount	Unrealized Gain	Unrealized Loss
	NT$	NT$ (In Millions)	NT$
Held-to-maturity securities	$ 13,790	$ 129	$ 4
Corporate bond	906	6	-
Bank debentures	14,696	135	4
	$ 17,253	$ 268	$ 67

(Concluded)

The Company's gross realized gains on the sale of investments for the years ended December 31, 2009, 2010 and 2011 were NT$553 million, NT$476 million and NT$137 million, respectively. The Company's gross realized losses on the sale of investments for the years ended December 31, 2009, 2010 and 2011 were NT$695 million, NT$654 million and NT$84 million, respectively.

The carrying amounts at December 31, 2011 for debt securities classified as available-for-sale securities and held-to-maturity by contractual maturity are shown below.

	December 31, 2011
	NT$ (In Millions)
Due within one year or less	$ 1,226
Due after one year through four years	13,547
	$ 14,773

The following table shows the gross unrealized losses and fair value of the investments with unrealized losses that are not deemed to be other-than-temporary impaired, aggregated by investment category and length of time that have been in a continuous unrealized loss position as of December 31, 2011:

	Less than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	NT$	NT$	NT$ (In Millions)	NT$	NT$	NT$
Open-end-mutual funds	$ 80	$ (7)	$ 5	$ (2)	$ 85	$ (9)
Domestic listed stocks	160	(29)	36	(25)	196	(54)
Corporate bond	2,546	(4)	-	-	2,546	(4)
	$ 2,786	$ (40)	$ 41	$ (27)	$ 2,827	$ (67)

The gross unrealized losses related to mutual funds, stocks and corporate bonds were due to fair value fluctuations. The Company reviewed its investment portfolio to identify and evaluate investments that have indications of possible impairment. Factors that were considered in determining whether a loss is other-than-temporary included but were not limited to, the length of time and extent to which fair value has been less than the cost basis, credit quality and the Company's ability and intent to hold the investment for a period of time sufficient to allow for any anticipated recovery in market value. As a result, the Company determined that aforementioned investments with unrealized losses were not deemed to be other-than-temporarily impaired as of December 31, 2011.

d. Fair value measurements

The fair value guidance requires disclosure that establishes a framework for measuring fair value and expands disclosure about fair value measurements. The standard describes a fair value hierarchy based on three levels of inputs that may be used to measure fair value. The level in the fair value hierarchy within which the fair value measurement in its entirely falls shall be determined based on the lowest level input that is significant to the fair value measurement in its entirety. These levels are:

Level 1: Quoted prices in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date;

Level 2: Quoted prices in markets that are not active, or inputs which are observable, either directly or indirectly, for substantially the full term of the asset or liability; or

Level 3: Prices or valuation techniques that require inputs that are both significant to the fair value measurement and are unobservable.

Assets and liabilities measured at fair value on a recurring basis

The following table presents our assets and liabilities measured at fair value on a recurring basis at December 31, 2010 and 2011:

	December 31, 2010			
	Level 1	**Level 2**	**Level 3**	**Total**
	NT$	**NT$**	**NT$**	**NT$**
		(In Millions)		
Assets				
Derivatives - currency swap contracts	$ -	$ 34	$ -	$ 34
Convertible bonds	43	-	-	43
Available-for-sale securities				
Open-end mutual funds	1,562	-	-	1,562
Domestic listed stocks	527	-	-	527
Corporate bonds	-	102	-	102
	$ 2,132	$ 136	$ -	$ 2,268

	December 31, 2011			
	Level 1	**Level 2**	**Level 3**	**Total**
	NT$	**NT$**	**NT$**	**NT$**
		(In Millions)		
Assets				
Derivatives - currency swap contracts	$ -	$ 6	$ -	$ 6
Convertible bonds	40	-	-	40
Available-for-sale securities				
Open-end mutual funds	2,137	-	-	2,137
Domestic listed stocks	343	-	-	343
Corporate bonds	-	77	-	77
	$ 2,520	$ 83	$ -	$ 2,603
Liabilities				
Derivative - currency swap contracts	$ -	$ 4	$ -	$ 4

Convertible bonds are actively traded or have quoted prices. For forward exchange and currency swap contracts, fair values are estimated using industry standard valuation models. These models use market-based observable inputs including interest rate curves, foreign exchange rates, and forward and spot prices for currencies to project fair value.

Available-for-sale financial assets include open-end mutual funds and domestic listed stocks that are actively traded or have quoted prices.

Corporate bonds are valued using market-based observable inputs including duration, yield rate and credit rating.

Assets measured at fair value on a nonrecurring basis

The tables below set out the balances for those assets required to be measured at fair value on a nonrecurring basis and the associated losses recognized during the years ended December 31, 2010 and 2011:

	For the Year Ended December 31, 2010			
	Level 1	Level 2	Level 3	Total Losses
	NT$	NT$	NT$	NT$
		(In Millions)		
Assets				
Cost method investees - DIG, A2P, ChipSip and CMI	$ -	$ -	$ 40	$ 59
Other assets	$ -	$ -	$ 28	$ 66

	For the Year Ended December 31, 2011			
	Level 1	Level 2	Level 3	Total Losses
	NT$	NT$	NT$	NT$
		(In Millions)		
Assets				
Cost method investees - GMC, RPTI, Aide, CQi, A2P, Procrystal, OptiVision and TFChemicals	$ -	$ -	$ 170	$ 148

The Company evaluated its cost method investees for impairment by using valuation models based on discounted future cash flows because there are no quoted fair value for such investments. Cost method investees held with a carrying amount of NT$99 million were written down to their fair value of NT$40 million, resulting in an impairment charge of NT$59 million, which was included in earnings for the year ended December 31, 2010 and cost method investees held with a carrying amount of NT$318 million were written down to their fair value of NT$170 million, resulting in an impairment charge of NT$148 million, which was included in earnings for year ended December 31, 2011.

Certain non-financial assets and non-financial liabilities measured at fair value on a recurring basis include reporting units measured at fair value in the first step of a goodwill impairment test, other non-financial long-lived assets and idle assets measured at fair value for impairment assessment. The Company calculates these fair values using the market approach which includes recent market condition and other economic factors as their fair value inputs. Other assets held with a carrying amount of NT$94 million were written down to their fair value of NT$28 million, resulting in an impairment charge of NT$66 million, which was included in earnings for year ended December 31, 2010.

e. Advertising and promotion expenses

Advertising and promotional expenses are charged to income as incurred. These expenses were NT$3,413 million, NT$3,227 million and NT$3,177 million for the years ended December 31, 2009, 2010 and 2011, respectively.

f. Income tax

Effective from January 1, 2007, the Company adopted the guidance of income taxes uncertainties. The guidance prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The guidance also provides guidance on derecognition, classification, interest and penalties, disclosure and transition. The evaluation of a tax position in accordance with the guidance is a two step process. The first step is recognition, where we evaluate whether an individual tax position has a likelihood of greater than 50% of being sustained upon examination based on the technical merits of the position, including resolution of any related appeals or litigation processes. For tax positions that are currently estimated to have a less than 50% likelihood of being sustained, zero tax benefit is recorded. For tax positions that have met the recognition threshold in the first step, we perform the second step of measuring the benefit to be recorded. The actual benefits ultimately realized may differ from the Company's estimates. The adoption of the guidance did not have a material impact on the Company.

The Company did not identify significant unrecognized tax benefits for the year ended December 31, 2009, 2010 and 2011. The Company did not incur any interest or penalties related to potential underpaid income tax expenses.

g. Estimated aggregate amortization expense of intangible assets

As of December 31, 2011, the Company's estimated aggregate amortization expense for each of the five succeeding fiscal years is as follows:

Year	Amount NT$ (In Millions)
2012	$ 1,042
2013	980
2014	896
2015	824
2016	796
2017 and thereafter	1,547

h. Litigation

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A portion of the land used by Chunghwa during the period July 1, 1996 to December 31, 2004 was co-owned by Chunghwa and Taiwan Post Co., Ltd. (the former Chunghwa Post Co., Ltd. directorate General of Postal Service). In accordance with the claims process in Taiwan, on July 12, 2005, the Taiwan Taipei District Court sent a claim notice to Chunghwa to reimburse Chunghwa Post Co., Ltd. in the amount of NT$768 million for land usage compensation due to the portion of land usage area in excess of Chunghwa's ownership and along with interest calculated at 5% interest rate from June 30, 2005 to the payment date. Chunghwa stated that both parties have the right to use co-management land without consideration. Chunghwa Post Co., Ltd. can't request payment for land compensation. Furthermore, Chunghwa believes that the computation used to derive the land usage compensation amount is inaccurate because most of the compensation amount has expired as result of the expiration clause. Therefore, Chunghwa filed an appeal at the Taiwan Taipei District Court. On March 30, 2009, the Taiwan Taipei District Court rendered its judgment that Chunghwa only need to pay NT$17 million along with interest calculated at 5% per annum from July 23, 2005 and 4% of the court fees as the court judgment compensation. However, Chunghwa Post Co., Ltd. did not accept the judgment and filed an appeal at Taiwan High Court. Chunghwa also filed an appeal at the Taiwan High Court within the statutory period. On April 7, 2010, the Taiwan High Court rendered its judgment, ruling that Chunghwa was required to pay NT$23 million as compensation in addition to the NT$17 million from the Taiwan Taipei District Court judgment, along with interest calculated at 5% per annum from July 23, 2005 to the payment date and 12.5% of Chunghwa Post Co., Ltd.'s court fees from its original suit and subsequent appeal as compensation. Chunghwa has filed an appeal to the Supreme Court of the Republic of China within the statutory period. On June 22, 2011, the Supreme Court of the Republic of China remanded the aforementioned judgment from Taiwan High Court and the case was remanded back to the Taiwan High Court. On January 6, 2012, the Taiwan High Court rendered its judgment, ruling that Chunghwa was required to pay additional land compensation NT$4 million along with related interest. Chunghwa withdrew the claim after evaluation.

The Company is involved in various legal proceedings of a nature considered normal to its business. It is the Company's policy to accrue for amounts related to these legal matters when it is probable that a liability has been incurred and the amount is reasonably estimable.

The Company believes that the various asserted claims and litigation in which it is involved will not materially affect its financial position, future operating results or cash flows, although no assurance can be given with respect to the ultimate outcome of any such claim or litigation.