

**Chunghwa Telecom Co., Ltd.**

**Financial Statements for the  
Years Ended December 31, 2012 and 2011 and  
Independent Auditors' Report**

## INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders  
Chunghwa Telecom Co., Ltd.

We have audited the accompanying balance sheets of Chunghwa Telecom Co., Ltd. as of December 31, 2012 and 2011, and the related statements of income, changes in stockholders' equity and cash flows for the years then ended. 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 the Rules Governing the Audit of Financial Statements by Certified Public Accountants and auditing standards generally accepted in the Republic of China. Those rules and standards required that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. 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, the financial statements referred to first paragraph present fairly, in all material respects, the financial position of the Company as of December 31, 2012 and 2011, and the results of its operations and its cash flows for the years then ended in conformity with the Securities and Exchange Act, the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, requirements of the Business Accounting Law and Guidelines Governing Business Accounting relevant to financial accounting standards, and accounting principles generally accepted in the Republic of China.

We have also audited the consolidated financial statements of the Company and its subsidiaries as of and for the years ended December 31, 2012 and 2011, and have expressed an unqualified opinion on those consolidated financial statements.

March 26, 2013

### Notice to Readers

*The accompanying financial statements are intended only to present the financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in the Republic of China and not those of any other jurisdictions. The standards, procedures and practices to audit such financial statements are those generally accepted and applied in the Republic of China.*

*For the convenience of readers, the auditors' report and the accompanying financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language auditors' report and financial statements shall prevail.*

# CHUNGHWA TELECOM CO., LTD.

## BALANCE SHEETS

DECEMBER 31, 2012 AND 2011

(Amounts in Thousands of New Taiwan Dollars, Except Par Value Data)

| ASSETS   | 2012                  |            | 2011                  |            | LIABILITIES AND STOCKHOLDERS' EQUITY                                       | 2012                  |            | 2011                  |            |
|--|-----------------------|------------|-----------------------|------------|--|-----------------------|------------|-----------------------|------------|
|  | Amount                | %          | Amount                | %          |  | Amount                | %          | Amount                | %          |
| <b>CURRENT ASSETS</b>  |                       |            |                       |            | <b>CURRENT LIABILITIES</b>   |                       |            |                       |            |
| Cash and cash equivalents (Notes 2 and 4)  | \$ 48,319,111         | 11         | \$ 61,283,240         | 14         | Financial liabilities at fair value through profit or loss (Notes 2 and 5) | \$ 1,935              | -          | \$ 3,665              | -          |
| Financial assets at fair value through profit or loss (Notes 2 and 5)  | 2,702                 | -          | 6,094                 | -          | Trade notes and accounts payable   | 10,512,771            | 2          | 11,425,662            | 3          |
| Available-for-sale financial assets (Notes 2 and 6)  | 2,190,392             | 1          | 1,974,606             | 1          | Payables to related parties (Note 23)                                      | 3,780,563             | 1          | 3,456,719             | 1          |
| Held-to-maturity financial assets (Notes 2 and 7)  | 4,250,146             | 1          | 1,201,301             | -          | Income tax payable (Notes 2 and 20)  | 3,096,706             | 1          | 3,336,087             | 1          |
| Trade notes and accounts receivable, net of allowance for doubtful accounts of \$779,611 thousand in 2012 and \$2,398,470 thousand in 2011 (Notes 2 and 8) | 22,789,253            | 5          | 20,526,988            | 5          | Accrued expenses (Note 16)   | 16,607,732            | 4          | 17,165,393            | 4          |
| Receivables from related parties (Note 23)   | 1,668,584             | -          | 867,782               | -          | Other current liabilities (Note 17)  | 18,995,912            | 4          | 19,242,436            | 4          |
| Other monetary assets (Note 9)   | 1,996,341             | 1          | 1,913,684             | 1          | Total current liabilities  | 52,995,619            | 12         | 54,629,962            | 13         |
| Inventories, net (Notes 2 and 10)  | 1,905,698             | 1          | 1,451,778             | -          | DEFERRED INCOME  | 2,666,053             | 1          | 2,577,462             | -          |
| Deferred income tax assets (Notes 2 and 20)  | 79,758                | -          | 51,846                | -          | RESERVE FOR LAND VALUE INCREMENTAL TAX (Note 15)                           | 94,986                | -          | 94,986                | -          |
| Other current assets (Notes 11 and 23)   | 5,970,232             | 1          | 4,342,301             | 1          | OTHER LIABILITIES  |                       |            |                       |            |
| Total current assets   | 89,172,217            | 21         | 93,619,620            | 22         | Accrued pension liabilities (Notes 2 and 22)                               | 2,518,879             | 1          | 1,437,136             | 1          |
| <b>LONG-TERM INVESTMENTS</b>   |                       |            |                       |            | Customers' deposits (Note 23)  | 4,910,221             | 1          | 4,967,605             | 1          |
| Investments accounted for using equity method (Notes 2 and 12)   | 11,210,921            | 3          | 12,756,948            | 3          | Deferred credits - profit on intercompany transactions (Note 23)           | 149,067               | -          | 539,243               | -          |
| Financial assets carried at cost (Notes 2 and 13)  | 2,242,665             | -          | 2,244,593             | 1          | Others   | 406,397               | -          | 320,450               | -          |
| Available-for-sale financial assets (Notes 2 and 6)  | 3,163,465             | 1          | -                     | -          | Total other liabilities  | 7,984,564             | 2          | 7,264,434             | 2          |
| Held-to-maturity financial assets (Notes 2 and 7)  | 11,796,144            | 3          | 13,494,891            | 3          | Total liabilities  | 63,741,222            | 15         | 64,566,844            | 15         |
| Other monetary assets (Notes 14 and 24)  | 1,000,000             | -          | 1,000,000             | -          | STOCKHOLDERS' EQUITY (Notes 2, 6, 15 and 18)                               |                       |            |                       |            |
| Total long-term investments  | 29,413,195            | 7          | 29,496,432            | 7          | Common stock - \$10 par value;   |                       |            |                       |            |
| <b>PROPERTY, PLANT AND EQUIPMENT (Notes 2, 15 and 23)</b>  |                       |            |                       |            | Authorized: 12,000,000 thousand shares                                     |                       |            |                       |            |
| Cost   |                       |            |                       |            | Issued: 7,757,447 thousand shares  | 77,574,465            | 18         | 77,574,465            | 18         |
| Land   | 101,463,788           | 24         | 101,386,926           | 23         | Additional paid-in capital   |                       |            |                       |            |
| Land improvements  | 1,579,607             | -          | 1,552,549             | -          | Capital surplus  | 169,496,289           | 40         | 169,496,289           | 39         |
| Buildings  | 66,109,355            | 15         | 65,954,833            | 15         | Donated capital  | 13,170                | -          | 13,170                | -          |
| Computer equipment   | 14,928,409            | 3          | 14,435,797            | 3          | Equity in additional paid-in capital reported by equity-method investees   | 34,599                | -          | 26,830                | -          |
| Telecommunications equipment   | 667,483,018           | 156        | 653,730,240           | 151        | Total additional paid-in capital   | 169,544,058           | 40         | 169,536,289           | 39         |
| Transportation equipment   | 3,311,548             | 1          | 2,524,245             | 1          | Retained earnings  |                       |            |                       |            |
| Miscellaneous equipment  | 6,878,831             | 2          | 6,584,655             | 2          | Legal reserve  | 70,828,983            | 16         | 66,122,145            | 15         |
| Total cost   | 861,754,556           | 201        | 846,169,245           | 195        | Special reserve  | 2,675,894             | 1          | 2,675,894             | 1          |
| Revaluation increment on land  | 5,762,184             | 1          | 5,762,535             | 2          | Unappropriated earnings  | 39,904,102            | 9          | 47,068,830            | 11         |
|  | 867,516,740           | 202        | 851,931,780           | 197        | Total retained earnings  | 113,408,979           | 26         | 115,866,869           | 27         |
| Less: Accumulated depreciation   | 585,913,870           | 137        | 568,061,502           | 131        | Other adjustments  |                       |            |                       |            |
| Less: Accumulated impairment   | 1,506,820             | -          | -                     | -          | Cumulative translation adjustments   | (96,929)              | -          | (38,918)              | -          |
|  | 280,096,050           | 65         | 283,870,278           | 66         | Unrecognized net loss of pension   | (1,006,518)           | -          | (38,106)              | -          |
| Construction in progress and advances related to acquisition of equipment  | 17,751,259            | 4          | 13,459,107            | 3          | Unrealized gain on financial instruments                                   | 257,990               | -          | 67,674                | -          |
| Property, plant and equipment, net   | 297,847,309           | 69         | 297,329,385           | 69         | Unrealized revaluation increment   | 5,760,349             | 1          | 5,762,753             | 1          |
| <b>INTANGIBLE ASSETS (Note 2)</b>  |                       |            |                       |            | Total other adjustments  | 4,914,892             | 1          | 5,753,403             | 1          |
| 3G concession  | 4,491,653             | 1          | 5,240,262             | 1          | Total stockholders' equity   | 365,442,394           | 85         | 368,731,026           | 85         |
| Others   | 977,456               | -          | 722,749               | -          |  |                       |            |                       |            |
| Total intangible assets  | 5,469,109             | 1          | 5,963,011             | 1          |  |                       |            |                       |            |
| <b>OTHER ASSETS</b>  |                       |            |                       |            |  |                       |            |                       |            |
| Idle assets (Notes 2 and 15)   | 874,581               | -          | 878,896               | -          |  |                       |            |                       |            |
| Refundable deposits  | 1,954,737             | 1          | 1,656,096             | -          |  |                       |            |                       |            |
| Deferred income tax assets (Notes 2 and 20)  | 325,328               | -          | 254,934               | -          |  |                       |            |                       |            |
| Others (Note 23)   | 4,127,140             | 1          | 4,099,496             | 1          |  |                       |            |                       |            |
| Total other assets   | 7,281,786             | 2          | 6,889,422             | 1          |  |                       |            |                       |            |
| <b>TOTAL</b>   | <b>\$ 429,183,616</b> | <b>100</b> | <b>\$ 433,297,870</b> | <b>100</b> | <b>TOTAL</b>   | <b>\$ 429,183,616</b> | <b>100</b> | <b>\$ 433,297,870</b> | <b>100</b> |

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

# CHUNGHWA TELECOM CO., LTD.

## STATEMENTS OF INCOME

FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

(Amounts in Thousands of New Taiwan Dollars, Except Earnings Per Share Data)

|   | 2012                 |           | 2011                 |           |
|---|----------------------|-----------|----------------------|-----------|
|   | Amount               | %         | Amount               | %         |
| NET REVENUES (Note 23)  | \$ 190,950,795       | 100       | \$ 192,462,104       | 100       |
| OPERATING COSTS (Note 23)                                       | <u>109,293,971</u>   | <u>57</u> | <u>106,887,392</u>   | <u>55</u> |
| GROSS PROFIT  | <u>81,656,824</u>    | <u>43</u> | <u>85,574,712</u>    | <u>45</u> |
| OPERATING EXPENSES (Note 23)                                    |                      |           |                      |           |
| Marketing   | 28,604,241           | 15        | 27,472,129           | 14        |
| General and administrative                                      | 3,366,979            | 2         | 3,449,054            | 2         |
| Research and development  | <u>3,585,239</u>     | <u>2</u>  | <u>3,413,032</u>     | <u>2</u>  |
| Total operating expenses  | <u>35,556,459</u>    | <u>19</u> | <u>34,334,215</u>    | <u>18</u> |
| INCOME FROM OPERATIONS  | <u>46,100,365</u>    | <u>24</u> | <u>51,240,497</u>    | <u>27</u> |
| NON-OPERATING INCOME AND GAINS                                  |                      |           |                      |           |
| Equity in earnings of equity method investees, net<br>(Note 12) | 1,532,183            | 1         | 2,097,064            | 1         |
| Interest income   | 707,771              | 1         | 655,080              | -         |
| Gain on disposal of property, plant and equipment,<br>net       | 222,714              | -         | 1,207,582            | 1         |
| Gain on disposal of financial instruments, net                  | 79,713               | -         | -                    | -         |
| Foreign exchange gain, net                                      | 36,995               | -         | 63,033               | -         |
| Dividend income   | 7,217                | -         | 15,378               | -         |
| Others  | <u>296,617</u>       | <u>-</u>  | <u>312,433</u>       | <u>-</u>  |
| Total non-operating income and gains                            | <u>2,883,210</u>     | <u>2</u>  | <u>4,350,570</u>     | <u>2</u>  |
| NON-OPERATING EXPENSES AND LOSSES                               |                      |           |                      |           |
| Impairment loss (Notes 13 and 15)                               | 1,566,054            | 1         | 98,500               | -         |
| Valuation loss on financial instruments, net                    | 1,662                | -         | 31,849               | -         |
| Interest expense  | 230                  | -         | 222                  | -         |
| Loss on disposal of financial instruments, net                  | -                    | -         | 56,016               | -         |
| Others  | <u>40,706</u>        | <u>-</u>  | <u>25,842</u>        | <u>-</u>  |
| Total non-operating expenses and losses                         | <u>1,608,652</u>     | <u>1</u>  | <u>212,429</u>       | <u>-</u>  |
| INCOME BEFORE INCOME TAX  | 47,374,923           | 25        | 55,378,638           | 29        |
| INCOME TAX EXPENSE (Notes 2 and 20)                             | <u>7,470,949</u>     | <u>4</u>  | <u>8,310,263</u>     | <u>5</u>  |
| NET INCOME  | <u>\$ 39,903,974</u> | <u>21</u> | <u>\$ 47,068,375</u> | <u>24</u> |

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# CHUNGHWA TELECOM CO., LTD.

## STATEMENTS OF INCOME

FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

(Amounts in Thousands of New Taiwan Dollars, Except Earnings Per Share Data)

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|                              | 2012                              |                | 2011                              |                |
|------------------------------|-----------------------------------|----------------|-----------------------------------|----------------|
|                              | Income<br>Before<br>Income<br>Tax | Net<br>Income  | Income<br>Before<br>Income<br>Tax | Net<br>Income  |
| EARNINGS PER SHARE (Note 21) |                                   |                |                                   |                |
| Basic earnings per share     | <u>\$ 6.11</u>                    | <u>\$ 5.14</u> | <u>\$ 7.11</u>                    | <u>\$ 6.04</u> |
| Diluted earnings per share   | <u>\$ 6.09</u>                    | <u>\$ 5.13</u> | <u>\$ 7.09</u>                    | <u>\$ 6.03</u> |

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

(Concluded)

**CHUNGHWA TELECOM CO., LTD.**

**STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY  
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011  
(Amounts in Thousands of New Taiwan Dollars)**

|  | Common Stock          |               | Additional<br>Paid-in Capital | Retained Earnings |                 |                            | Other Adjustments                        |  |  |  | Total<br>Stockholders'<br>Equity |
|--|-----------------------|---------------|-------------------------------|-------------------|-----------------|----------------------------|--|--|--|--|----------------------------------|
|  | Shares<br>(Thousands) | Amount        |                               | Legal Reserve     | Special Reserve | Unappropriated<br>Earnings | Cumulative<br>Translation<br>Adjustments | Unrecognized<br>Net Loss of<br>Pension | Unrealized<br>Gain (Loss) on<br>Financial<br>Instruments | Unrealized<br>Revaluation<br>Increment |                                  |
| BALANCE, JANUARY 1, 2011   | 7,757,447             | \$ 77,574,465 | \$ 169,515,102                | \$ 61,361,255     | \$ 2,675,894    | \$ 47,615,807              | \$ (102,885)                             | \$ (40,182)                            | \$ 176,048   | \$ 5,803,238                           | \$ 364,578,742                   |
| Transfer of unrealized revaluation increment to income upon disposal of revalued assets                  | -                     | -             | -                             | -                 | -               | -                          | -  | -                                      | -  | (40,485)                               | (40,485)                         |
| Appropriation of 2010 earnings   |                       |               |                               |                   |                 |                            |  |  |  |  |                                  |
| Legal reserve  | -                     | -             | -                             | 4,760,890         | -               | (4,760,890)                | -  | -                                      | -  | -                                      | -                                |
| Cash dividends - NT\$5.52 per share  | -                     | -             | -                             | -                 | -               | (42,854,462)               | -  | -                                      | -  | -                                      | (42,854,462)                     |
| Net income in 2011   | -                     | -             | -                             | -                 | -               | 47,068,375                 | -  | -                                      | -  | -                                      | 47,068,375                       |
| Unrealized loss on financial instruments held by investees   | -                     | -             | -                             | -                 | -               | -                          | -  | -                                      | (204,555)  | -                                      | (204,555)                        |
| Equity adjustments in investees  | -                     | -             | 21,187                        | -                 | -               | -                          | -  | -                                      | -  | -                                      | 21,187                           |
| Cumulative translation adjustment for foreign-currency investments held by investees                     | -                     | -             | -                             | -                 | -               | -                          | 63,967                                   | -                                      | -  | -                                      | 63,967                           |
| Defined benefit pension plan adjustments of investees  | -                     | -             | -                             | -                 | -               | -                          | -  | 2,076                                  | -  | -                                      | 2,076                            |
| Unrealized gain on financial instruments   | -                     | -             | -                             | -                 | -               | -                          | -  | -                                      | 96,181   | -                                      | 96,181                           |
| BALANCE, DECEMBER 31, 2011   | 7,757,447             | 77,574,465    | 169,536,289                   | 66,122,145        | 2,675,894       | 47,068,830                 | (38,918)                                 | (38,106)                               | 67,674   | 5,762,753                              | 368,731,026                      |
| Transfer of unrealized revaluation increment to income upon disposal of revalued assets                  | -                     | -             | -                             | -                 | -               | -                          | -  | -                                      | -  | (350)                                  | (350)                            |
| Decrease in unrealized revaluation increment on property, plant and equipment due to property impairment | -                     | -             | -                             | -                 | -               | -                          | -  | -                                      | -  | (2,054)                                | (2,054)                          |
| Appropriation of 2011 earnings   |                       |               |                               |                   |                 |                            |  |  |  |  |                                  |
| Legal reserve  | -                     | -             | -                             | 4,706,838         | -               | (4,706,838)                | -  | -                                      | -  | -                                      | -                                |
| Cash dividends - NT\$5.46 per share  | -                     | -             | -                             | -                 | -               | (42,361,864)               | -  | -                                      | -  | -                                      | (42,361,864)                     |
| Net income in 2012   | -                     | -             | -                             | -                 | -               | 39,903,974                 | -  | -                                      | -  | -                                      | 39,903,974                       |
| Unrealized gain on financial instruments held by investees   | -                     | -             | -                             | -                 | -               | -                          | -  | -                                      | 19,353   | -                                      | 19,353                           |
| Equity adjustments in investees  | -                     | -             | 7,769                         | -                 | -               | -                          | -  | -                                      | -  | -                                      | 7,769                            |
| Cumulative translation adjustment for foreign-currency investments held by investees                     | -                     | -             | -                             | -                 | -               | -                          | (58,011)                                 | -                                      | -  | -                                      | (58,011)                         |
| Defined benefit pension plan adjustments of investees  | -                     | -             | -                             | -                 | -               | -                          | -  | (21,028)                               | -  | -                                      | (21,028)                         |
| Defined benefit pension plan adjustments   | -                     | -             | -                             | -                 | -               | -                          | -  | (947,384)                              | -  | -                                      | (947,384)                        |
| Unrealized gain on financial instruments   | -                     | -             | -                             | -                 | -               | -                          | -  | -                                      | 170,963  | -                                      | 170,963                          |
| BALANCE, DECEMBER 31, 2012   | 7,757,447             | \$ 77,574,465 | \$ 169,544,058                | \$ 70,828,983     | \$ 2,675,894    | \$ 39,904,102              | \$ (96,929)                              | \$ (1,006,518)                         | \$ 257,990   | \$ 5,760,349                           | \$ 365,442,394                   |

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

# CHUNGHWA TELECOM CO., LTD.

## STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011 (Amounts in Thousands of New Taiwan Dollars)

|  | 2012              | 2011              |
|--|-------------------|-------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                                      |                   |                   |
| Net income   | \$ 39,903,974     | \$ 47,068,375     |
| Provision for (reversal of) doubtful accounts                                    | (1,459,039)       | 109,292           |
| Depreciation and amortization  | 32,095,191        | 31,914,060        |
| Amortization of premium of financial assets                                      | 64,179            | 60,047            |
| Loss (gain) on disposal of financial instruments, net                            | (79,713)          | 56,016            |
| Valuation loss on financial instruments, net                                     | 1,662             | 31,849            |
| Gain on disposal of property, plant and equipment, net                           | (222,714)         | (1,207,582)       |
| Loss arising from natural calamities   | 7,442             | 985               |
| Impairment loss  | 1,566,054         | 98,500            |
| Equity in earnings of equity method investees, net                               | (1,532,183)       | (2,097,064)       |
| Dividends received from equity investees   | 2,348,693         | 532,857           |
| Deferred income taxes  | (98,306)          | 145,108           |
| Changes in operating assets and liabilities:                                     |                   |                   |
| Decrease (increase) in:  |                   |                   |
| Financial assets held for trading  | 73,711            | (52,997)          |
| Trade notes and accounts receivable  | (780,600)         | (7,677,485)       |
| Receivables from related parties   | (800,802)         | (401,360)         |
| Other monetary assets  | (100,041)         | 170,419           |
| Inventories  | (453,920)         | (331,754)         |
| Other current assets   | (2,363,505)       | (279,830)         |
| Increase (decrease) in:  |                   |                   |
| Trade notes and accounts payable   | (177,318)         | 2,302,505         |
| Payables to related parties  | 384,400           | 1,052,073         |
| Income tax payable   | (239,381)         | (1,075,454)       |
| Accrued expenses   | (557,661)         | (98,177)          |
| Other current liabilities  | (887,546)         | 1,829,477         |
| Deferred income  | 88,591            | (11,448)          |
| Accrued pension liabilities  | 134,359           | 154,114           |
| Net cash provided by operating activities  | <u>66,915,527</u> | <u>72,292,526</u> |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                                      |                   |                   |
| Acquisition of available-for-sale financial assets                               | (3,864,812)       | (3,113,994)       |
| Proceeds from disposal of available-for-sale financial assets                    | 662,527           | 2,263,889         |
| Acquisition of held-to-maturity financial assets                                 | (3,865,173)       | (6,543,575)       |
| Proceeds from disposal of held-to-maturity financial assets                      | 2,450,896         | 2,159,034         |
| Acquisition of financial assets carried at cost                                  | (35,322)          | (45,239)          |
| Capital reduction of financial assets carried at cost                            | 31,250            | 7,500             |
| Acquisition of investments accounted for using equity method                     | (365,900)         | (1,060,192)       |
| Proceeds from capital reduction of investments accounted for using equity method | 1,043,500         | 815,827           |
| Acquisition of property, plant and equipment                                     | (32,374,650)      | (26,484,469)      |
| Proceeds from disposal of property, plant and equipment                          | 32,187            | 648,629           |

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# CHUNGHWA TELECOM CO., LTD.

## STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011 (Amounts in Thousands of New Taiwan Dollars)

|   | 2012                 | 2011                 |
|---|----------------------|----------------------|
| Increase in intangible assets                 | \$ (588,106)         | \$ (538,599)         |
| Increase in other assets                      | <u>(796,924)</u>     | <u>(736,345)</u>     |
| Net cash used in investing activities         | <u>(37,670,527)</u>  | <u>(32,627,534)</u>  |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>   |                      |                      |
| Increase (decrease) in customers' deposits    | 66,788               | (887,839)            |
| Increase in other liabilities                 | 85,947               | 53,641               |
| Cash dividends paid                           | (42,361,864)         | (42,854,462)         |
| Capital reduction                             | <u>-</u>             | <u>(19,393,617)</u>  |
| Net cash used in financing activities         | <u>(42,209,129)</u>  | <u>(63,082,277)</u>  |
| NET DECREASE IN CASH AND CASH EQUIVALENTS     | (12,964,129)         | (23,417,285)         |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR  | <u>61,283,240</u>    | <u>84,700,525</u>    |
| CASH AND CASH EQUIVALENTS, END OF YEAR        | <u>\$ 48,319,111</u> | <u>\$ 61,283,240</u> |
| <b>SUPPLEMENTAL INFORMATION</b>               |                      |                      |
| Interest paid                                 | <u>\$ 7,066</u>      | <u>\$ 222</u>        |
| Income tax paid                               | <u>\$ 7,808,636</u>  | <u>\$ 9,240,609</u>  |
| <b>CASH AND NON-CASH INVESTING ACTIVITIES</b> |                      |                      |
| Increase in property, plant and equipment     | \$ 32,830,944        | \$ 27,846,188        |
| Payables to suppliers                         | <u>(456,294)</u>     | <u>(1,361,719)</u>   |
|   | <u>\$ 32,374,650</u> | <u>\$ 26,484,469</u> |

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

(Concluded)

# CHUNGHWA TELECOM CO., LTD.

## NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

(Amounts in Thousands of New Taiwan Dollars, Unless Stated Otherwise)

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### 1. GENERAL

Chunghwa Telecom Co., Ltd. (the “Company” or “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 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 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.

As of December 31, 2012 and 2011, the Company had 24,351 and 24,664 employees, respectively.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements were prepared in conformity with the Securities and Exchange Act, the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, requirements of the Business Accounting Law, Guidelines Governing Business Accounting relevant to financial accounting standards, and accounting principles generally accepted in the ROC (“ROC GAAP”). The significant accounting policies are summarized as follows:

#### 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 guidelines, laws and 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, income tax, etc. Actual results may differ from these estimates.

### **Classification of 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.

### **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 loses 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. A 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: Swap contracts are estimated by valuation techniques.

### **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 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.

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 to 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**

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.

## **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 the Company exercises significant influence over these equity 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 Chungghwa are deferred in proportion to the Chungghwa'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 is 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 - 2 to 30 years; buildings - 5 to 60 years; computer equipment - 2 to 10 years; telecommunications equipment - 2 to 15 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 period of sale or disposal.

### **Intangible Assets**

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

The 3G Concession is valid through December 31, 2018. The 3G Concession 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 2-20 years.

When an indication of impairment is identified for intangible assets, 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.

### **Idle Assets**

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

### **Pension Costs**

Pension cost under a defined benefit plan is determined by actuarial valuations. Contributions made under a defined contribution plan are recognized as pension cost during the year in which employees render services.

### **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, research and development 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.

### **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 seconds or 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 are recognized as incurred.

## **3. EFFECT OF CHANGES IN ACCOUNTING PRINCIPLE**

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.

#### 4. CASH AND CASH EQUIVALENTS

|   | <u>December 31</u>   |                      |
|---|----------------------|----------------------|
|   | <u>2012</u>          | <u>2011</u>          |
| Cash  |                      |                      |
| Cash on hand  | \$ 123,272           | \$ 83,922            |
| Bank deposits   | 4,027,827            | 2,224,474            |
| Negotiable certificate of deposit, annual yield rate - ranging from 0.83%-0.96% and 0.80%-1.05% for 2012 and 2011, respectively | <u>26,550,000</u>    | <u>41,450,000</u>    |
|   | <u>30,701,099</u>    | <u>43,758,396</u>    |
| Cash equivalents  |                      |                      |
| Commercial paper, annual yield rate - 0.74% and 0.70% for 2012 and 2011, respectively   | 17,618,012           | 17,225,365           |
| Treasury bills, annual yield rate - 0.70%   | <u>-</u>             | <u>299,479</u>       |
|   | <u>17,618,012</u>    | <u>17,524,844</u>    |
|   | <u>\$ 48,319,111</u> | <u>\$ 61,283,240</u> |

As of December 31, 2012 and 2011, foreign deposits in bank were as following:

|   | <u>December 31</u> |                  |
|---|--------------------|------------------|
|   | <u>2012</u>        | <u>2011</u>      |
| United States of America - New York (US\$1,002 thousand and US\$2,467 thousand for 2012 and 2011, respectively) | <u>\$ 29,090</u>   | <u>\$ 74,693</u> |

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

|                                     | <u>December 31</u> |                 |
|-------------------------------------|--------------------|-----------------|
|                                     | <u>2012</u>        | <u>2011</u>     |
| Derivatives - financial assets      |                    |                 |
| Currency swap contracts             | <u>\$ 2,702</u>    | <u>\$ 6,094</u> |
| Derivatives - financial liabilities |                    |                 |
| Currency swap contracts             | <u>\$ 1,935</u>    | <u>\$ 3,665</u> |

Chunghwa entered into currency swap contracts to reduce its exposure to foreign currency risk and variability in operating results due to fluctuations in exchange rates. However, these 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 as of December 31, 2012 and 2011 were as follows:

|                          | Currency | Maturity Period | Contract Amount<br>(In Thousands) |
|--------------------------|----------|-----------------|-----------------------------------|
| <u>December 31, 2012</u> |          |                 |                                   |
| Currency swap contracts  | USD/NTD  | 2013.01-03      | USD34,000/NTD991,188              |
|                          | USD/NTD  | 2013.01-03      | USD32,000/NTD929,280              |
| <u>December 31, 2011</u> |          |                 |                                   |
| Currency swap contracts  | USD/NTD  | 2012.01-03      | USD43,000/NTD1,306,834            |
|                          | USD/NTD  | 2012.01-02      | USD19,000/NTD571,280              |

Net gain (loss) arising from financial assets and liabilities at fair value through profit or loss for the years ended December 31, 2012 and 2011 were \$72,049 thousand (including realized settlement gain of \$73,711 thousand and valuation loss of \$1,662 thousand) and (\$84,847) thousand (including realized settlement loss of \$52,998 thousand and valuation loss of \$31,849 thousand), respectively.

## 6. AVAILABLE-FOR-SALE FINANCIAL ASSETS

|                        | <u>December 31</u>  |                  |
|------------------------|---------------------|------------------|
|                        | <u>2012</u>         | <u>2011</u>      |
| Domestic listed stocks | \$ 3,163,465        | \$ -             |
| Open-end mutual funds  | <u>2,190,392</u>    | <u>1,974,606</u> |
|                        | 5,353,857           | 1,974,606        |
| Less: Current portion  | <u>2,190,392</u>    | <u>1,974,606</u> |
|                        | <u>\$ 3,163,465</u> | <u>\$ -</u>      |

The board of directors resolved to acquire 263,622 thousand common shares of China Airline Ltd. ("CAL") at \$11.73 per share for the three months ended March 31, 2012. Chunghwa expected to hold it as long-term investment and classified it as available-for-sale financial assets - noncurrent. CAL engages mainly in air transportation services.

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

|                                    | <u>Year Ended December 31</u> |                  |
|------------------------------------|-------------------------------|------------------|
|                                    | <u>2012</u>                   | <u>2011</u>      |
| Balance, beginning of year         | \$ 75,639                     | \$ (20,542)      |
| Recognized in stockholders' equity | 176,965                       | 94,003           |
| Transferred to profit or loss      | <u>(6,002)</u>                | <u>2,178</u>     |
| Balance, end of year               | <u>\$ 246,602</u>             | <u>\$ 75,639</u> |

## 7. HELD-TO-MATURITY FINANCIAL ASSETS

|   | <u>December 31</u>   |                      |
|---|----------------------|----------------------|
|   | <u>2012</u>          | <u>2011</u>          |
| Corporate bonds, nominal interest rate ranging from 1.15%-2.90% and 1.20%-2.98% for 2012 and 2011, respectively; effective interest rate ranging from 1.00%-2.89% and 0.83%-2.89% for 2012 and 2011, respectively | \$ 14,791,151        | \$ 13,790,447        |
| Bank debentures, nominal interest rate ranging from 1.25%-1.60% and 1.37%-1.60% for 2012 and 2011, respectively; effective interest rate ranging from 1.15%-1.40% and 1.25%-1.40% for 2012 and 2011, respectively | <u>1,255,139</u>     | <u>905,745</u>       |
|   | 16,046,290           | 14,696,192           |
| Less: Current portion   | <u>4,250,146</u>     | <u>1,201,301</u>     |
|   | <u>\$ 11,796,144</u> | <u>\$ 13,494,891</u> |

## 8. ALLOWANCE FOR DOUBTFUL ACCOUNTS

|   | <u>Year Ended December 31</u> |                     |
|---|-------------------------------|---------------------|
|   | <u>2012</u>                   | <u>2011</u>         |
| Balance, beginning of year                    | \$ 2,398,470                  | \$ 2,528,044        |
| Provision for (reversal of) doubtful accounts | (1,481,665)                   | 98,680              |
| Accounts receivable written off               | <u>(137,194)</u>              | <u>(228,254)</u>    |
| Balance, end of year                          | <u>\$ 779,611</u>             | <u>\$ 2,398,470</u> |

Chunghwa evaluated the results of procedures implemented to enhance the collection of account receivable as well as the experience of decreases in uncollected receivables, and decided to refine the allowance calculation policy which led to the reversal of allowance for doubtful accounts for the year ended December 31, 2012.

## 9. OTHER MONETARY ASSETS - CURRENT

|   | <u>December 31</u>  |                     |
|---|---------------------|---------------------|
|   | <u>2012</u>         | <u>2011</u>         |
| Accrued custodial receipts from other carriers                      | \$ 187,736          | \$ 104,785          |
| Accrued custodial receipts of<br>Multimedia on Demand (MOD) service | 182,455             | 119,295             |
| Other   | <u>1,626,150</u>    | <u>1,689,604</u>    |
|   | <u>\$ 1,996,341</u> | <u>\$ 1,913,684</u> |

## 10. INVENTORIES

|                 | <u>December 31</u>  |                     |
|-----------------|---------------------|---------------------|
|                 | <u>2012</u>         | <u>2011</u>         |
| Work in process | \$ 816,835          | \$ 808,957          |
| Merchandise     | <u>1,088,863</u>    | <u>642,821</u>      |
|                 | <u>\$ 1,905,698</u> | <u>\$ 1,451,778</u> |

The operating costs related to inventories were \$12,146,343 thousand (including the valuation loss on inventories of \$31,903 thousand) and \$10,852,608 thousand (including the valuation loss on inventories of \$175,913 thousand) for the years ended December 31, 2012 and 2011, respectively.

## 11. OTHER CURRENT ASSETS

|                  | <u>December 31</u>  |                     |
|------------------|---------------------|---------------------|
|                  | <u>2012</u>         | <u>2011</u>         |
| Spare parts      | \$ 4,046,050        | \$ 2,305,655        |
| Prepaid rents    | 890,404             | 933,796             |
| Prepaid expenses | 827,799             | 734,461             |
| Miscellaneous    | <u>205,979</u>      | <u>368,389</u>      |
|                  | <u>\$ 5,970,232</u> | <u>\$ 4,342,301</u> |

## 12. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

|  | December 31          |                |                      |                |
|--|----------------------|----------------|----------------------|----------------|
|  | 2012                 |                | 2011                 |                |
|  | Carrying Value       | % of Ownership | Carrying Value       | % of Ownership |
| Listed   |                      |                |                      |                |
| Senao International Co., Ltd. (“SENAO”)                          | \$ 1,623,305         | 28             | \$ 1,542,361         | 28             |
| Non-listed   |                      |                |                      |                |
| Light Era Development Co., Ltd. (“LED”)                          | 3,785,310            | 100            | 4,222,858            | 100            |
| Donghwa Telecom Co., Ltd. (“DHT”)                                | 1,168,032            | 100            | 891,526              | 100            |
| Chunghwa Telecom Singapore Pte., Ltd. (“CHTS”)                   | 746,122              | 100            | 659,128              | 100            |
| Chunghwa System Integration Co., Ltd. (“CHSI”)                   | 707,250              | 100            | 708,745              | 100            |
| Chunghwa Investment Co., Ltd. (“CHI”)                            | 614,217              | 89             | 1,742,779            | 89             |
| CHIEF Telecom Inc. (“CHIEF”)                                     | 591,706              | 69             | 574,283              | 69             |
| International Integrated System, Inc. (“IISI”)                   | 277,592              | 33             | 257,371              | 33             |
| Viettel-CHT Co., Ltd. (“Viettel-CHT”)                            | 265,052              | 30             | 255,121              | 30             |
| Huada Digital Corporation (“HDD”)                                | 241,309              | 50             | 250,689              | 50             |
| Taiwan International Standard Electronics Co., Ltd. (“TISE”)     | 224,099              | 40             | 608,933              | 40             |
| Chunghwa International Yellow Pages Co., Ltd. (“CIYP”)           | 188,738              | 100            | 194,344              | 100            |
| Prime Asia Investments Group Ltd. (B.V.I.) (“Prime Asia”)        | 155,357              | 100            | 187,755              | 100            |
| Skysoft Co., Ltd. (“SKYSOFT”)                                    | 127,686              | 30             | 113,304              | 30             |
| Spring House Entertainment Inc. (“SHE”)                          | 125,929              | 56             | 101,142              | 56             |
| Chunghwa Telecom Global, Inc. (“CHTG”)                           | 96,614               | 100            | 86,433               | 100            |
| KingWaytek Technology Co., Ltd. (“KWT”)                          | 77,449               | 33             | 75,369               | 33             |
| Chunghwa Telecom Vietnam Co., Ltd. (“CHTV”)                      | 55,448               | 100            | 37,564               | 100            |
| Smartfun Digital Co., Ltd. (“SFD”)                               | 44,549               | 65             | 60,125               | 65             |
| So-net Entertainment Taiwan Co., Ltd. (“So-net”)                 | 31,152               | 30             | 34,545               | 30             |
| Chunghwa Telecom Japan Co., Ltd. (“CHTJ”)                        | 25,689               | 100            | 22,439               | 100            |
| Dian Zuan Integrating Marketing Co., Ltd. (“DZIM”)               | 20,902               | 33             | 109,783              | 40             |
| Chunghwa Sochamp Technology Inc. (“CHST”)                        | 17,414               | 51             | 20,351               | 51             |
| New Prospect Investments Holdings Ltd. (B.V.I.) (“New Prospect”) | -                    | 100            | -                    | 100            |
|  | <u>9,587,616</u>     |                | <u>11,214,587</u>    |                |
|  | <u>\$ 11,210,921</u> |                | <u>\$ 12,756,948</u> |                |

Chunghwa increased its investment in DHT for \$360,216 thousand and \$313,299 thousand in November 2011 and August 2012. DHT engages mainly in international telecommunications, IP fictitious internet and internet transfer services.

Chunghwa Telecom Singapore Pte., Ltd. reduced its capital by \$815,827 thousand in March 2011. The reduction amount was received by Chunghwa.

CHI reduced its capital by \$1,100,000 thousand in August 2012. Chunghwa received \$979,000 thousand from capital reduction.

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 following the stockholders’ meeting of IISI on June 24, 2011, Chunghwa lost control of the board of directors.

Chunghwa invested in HDD in September 2011 at \$250,000 thousand cash to acquire 50% of its shares and the rest of 50% ownership interest was held by HTC Corporation (“HTC”). After the stockholders’ meeting of HDD held on March 2, 2012, Chunghwa and HTC each obtained half of director seats. Thus, neither entities obtained control over HDD. HDD engages mainly in providing software service.

Chunghwa increased its investment in Prime Asia by \$177,176 thousand, \$28,913 thousand and \$8,931 thousand in March 2011, December 2011, and November 2012, respectively. Prime Asia is operating as an investment company.

Chunghwa, President Chain Store Corporation and EasyCard Corporation established a joint venture, DZIM, in May 2011. Chunghwa invested \$114,640 thousand in cash and held 40% ownership of DZIM in May 2011. Chunghwa invested \$14,360 thousand in May 2012, and the ownership interest decreased from 40% to 33% after the capital increase of DZIM. DZIM reduced its capital by \$193,490 thousand in December 2012. Chunghwa received \$64,500 thousand from capital reduction. DZIM engages mainly in information technology service and general advertisement service.

Chunghwa and United Daily News established a joint venture, SFD, in August 2011. Chunghwa invested \$65,000 thousand cash and hold a 65% ownership of SFD. SFD mainly engages in sales of software.

Chunghwa established Chunghwa Telecom Vietnam Co., Ltd. (“CHTV”) in May 2011 by investing \$43,847 thousand cash and further increased its investment for \$29,310 thousand cash in October 2012. CHTV engages mainly in providing information and communications technology, and intelligent energy network service.

Chunghwa invested in CHST for \$20,400 thousand in June 2011. The ownership of CHST is 51%. CHST mainly engages in license plate recognition system.

Chunghwa established New Prospect Investments Holdings Ltd. (B.V.I.) (“New Prospect”) in March 2006, but not on operation stage yet. The holding company is operating as investment company and Chunghwa has 100% ownership right in an amount of US\$1 in the holding company as of December 31, 2012.

Chunghwa established 100% owned subsidiary of Honghwa Human Resources Co., Ltd. (“HHR”) by prepaying \$180,000 thousand in January 2013. HHR engages mainly in providing human resources service.

Market value of the listed investment accounted for using equity method calculated at its closing prices as of December 31, 2012 and 2011 was \$6,825,627 thousand and \$6,660,549 thousand, respectively.

The details of equity in earnings and losses of equity method investees were as follows:

|  | <b>Year Ended December 31</b> |                     |
|--|-------------------------------|---------------------|
|  | <b>2012</b>                   | <b>2011</b>         |
| Light Era Development Co., Ltd. (“LED”)                      | \$ 664,064                    | \$ 1,251,383        |
| Senao International Co., Ltd. (“SENAO”)                      | 410,617                       | 389,424             |
| Taiwan International Standard Electronics Co., Ltd. (“TISE”) | 301,024                       | 158,205             |
| CHIEF Telecom Inc. (“CHIEF”)                                 | 113,354                       | 106,974             |
| Others   | <u>43,124</u>                 | <u>191,078</u>      |
|  | <u>\$ 1,532,183</u>           | <u>\$ 2,097,064</u> |

The equity in earnings and losses for the years ended December 31, 2012 and 2011 were based on the audited financial statements.

All accounts of Chunghwa’s subsidiaries were included in Chunghwa’s consolidated financial statements.

### 13. FINANCIAL ASSETS CARRIED AT COST

|   | <b>December 31</b>    |                       |                       |                       |
|---|-----------------------|-----------------------|-----------------------|-----------------------|
|   | <b>2012</b>           |                       | <b>2011</b>           |                       |
|   | <b>Carrying Value</b> | <b>% of Ownership</b> | <b>Carrying Value</b> | <b>% of Ownership</b> |
| Non-listed  |                       |                       |                       |                       |
| Taipei Financial Center Corp. (“TFC”)                             | \$ 1,789,530          | 12                    | \$ 1,789,530          | 12                    |
| Industrial Bank of Taiwan II Venture Capital Co., Ltd. (“IBT II”) | 180,000               | 17                    | 200,000               | 17                    |
| Innovation Works Development Fund, L.P. (“IWDF”)                  | 108,476               | 4                     | 73,154                | 4                     |
| Global Mobile Corp. (“GMC”)                                       | 77,018                | 3                     | 77,018                | 8                     |
| iD Branding Ventures (“iDBV”)                                     | 56,250                | 8                     | 67,500                | 8                     |
| Innovation Works Limited (“IW”)                                   | 31,391                | 2                     | 31,391                | 2                     |
| CQi Energy Infocom Inc. (“CQi”)                                   | -                     | 18                    | 6,000                 | 18                    |
| RPTI International (“RPTI”)                                       | -                     | 10                    | -                     | 10                    |
| Essence Technology Solution, Inc. (“ETS”)                         | <u>-</u>              | 7                     | <u>-</u>              | 7                     |
|   | <u>\$ 2,242,665</u>   |                       | <u>\$ 2,244,593</u>   |                       |

IBT II completed a capital reduction in June 2012. The Company has received \$20,000 thousand from the capital reduction.

Chunghwa made additional investment in IWDF for \$35,119 thousand and \$35,322 thousand in October 2011 and June 2012, respectively. IWDF invests mainly in start-up companies of E-commerce, mobile internet and cloud computing, etc.

iDBV reduced its capital for \$7,500 thousand and \$11,250 thousand in December 2011 and October 2012. The amounts from the aforementioned capital reductions were received by Chunghwa.

Chunghwa made additional investment in IW for \$10,120 thousand in January 2011. IW invests mainly in start-up companies and mentors such companies in the E-commerce, mobile internet and cloud computing fields, etc.

After evaluating the financial assets carried at cost, Chunghwa determined the investment in GMC, CQi and RPTI were impaired and recognized an impairment loss of \$50,000 thousand, \$14,000 thousand and \$34,500 thousand in 2011, respectively.

After evaluating the financial assets carried at cost, Chunghwa determined the investment in CQi was impaired and recognized an impairment loss of \$6,000 thousand in 2012.

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

#### 14. OTHER MONETARY ASSETS - NONCURRENT

|             | <u>December 31</u>  |                     |
|-------------|---------------------|---------------------|
|             | <u>2012</u>         | <u>2011</u>         |
| Piping Fund | <u>\$ 1,000,000</u> | <u>\$ 1,000,000</u> |

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 \$1,000,000 thousand to a Piping Fund administered by the Taipei City Government. This fund was used to finance various telecommunications infrastructure projects.

#### 15. PROPERTY, PLANT AND EQUIPMENT

|   | <u>December 31</u>    |                       |
|---|-----------------------|-----------------------|
|   | <u>2012</u>           | <u>2011</u>           |
| Cost  |                       |                       |
| Land  | \$ 101,463,788        | \$ 101,386,926        |
| Land improvements   | 1,579,607             | 1,552,549             |
| Buildings   | 66,109,355            | 65,954,833            |
| Computer equipment  | 14,928,409            | 14,435,797            |
| Telecommunications equipment  | 667,483,018           | 653,730,240           |
| Transportation equipment  | 3,311,548             | 2,524,245             |
| Miscellaneous equipment   | <u>6,878,831</u>      | <u>6,584,655</u>      |
| Total cost  | 861,754,556           | 846,169,245           |
| Revaluation increment on land   | <u>5,762,184</u>      | <u>5,762,535</u>      |
|   | <u>867,516,740</u>    | <u>851,931,780</u>    |
| Accumulated depreciation  |                       |                       |
| Land improvements   | 1,092,703             | 1,040,885             |
| Buildings   | 20,654,817            | 19,533,607            |
| Computer equipment  | 11,051,088            | 10,619,313            |
| Telecommunications equipment  | 546,514,782           | 530,368,705           |
| Transportation equipment  | 1,268,224             | 1,252,360             |
| Miscellaneous equipment   | <u>5,332,256</u>      | <u>5,246,632</u>      |
|   | <u>585,913,870</u>    | <u>568,061,502</u>    |
| Accumulated impairment  | <u>1,506,820</u>      | <u>-</u>              |
| Construction in progress and advances related to acquisition of equipment | <u>17,751,259</u>     | <u>13,459,107</u>     |
| Property, plant and equipment, net  | <u>\$ 297,847,309</u> | <u>\$ 297,329,385</u> |

Pursuant to the related regulation, Chunghwa revalued its land owned as of April 30, 2000 based on the publicly announced value as of 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 \$5,986,074 thousand, liabilities for land value incremental tax of \$211,182 thousand, and stockholder's equity - other adjustments of \$5,774,892 thousand.

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 \$116,196 thousand to stockholders' equity - other adjustments. As of December 31, 2011, the unrealized revaluation increment was decreased to \$5,760,349 thousand by disposal of the revalued assets and recognition of impairment loss.

Chunghwa determined that partial land and telecommunication equipments were impaired and recognized an impairment loss of \$1,504,766 thousand for the year ended December 31, 2012. Due to the impairment, the unrealized revaluation increment was decreased by \$2,054 thousand. Idle asset and other asset - other were recognized impairment losses of \$34,894 thousand and \$20,394 thousand, respectively.

Depreciation on property, plant and equipment for the years ended December 31, 2012 and 2011 amounted to \$30,738,787 thousand and \$30,610,803 thousand, respectively. No interest expense was capitalized for the years ended December 31, 2012 and 2011.

## 16. ACCRUED EXPENSES

|  | <b>December 31</b>   |                      |
|--|----------------------|----------------------|
|  | <b>2012</b>          | <b>2011</b>          |
| Accrued salary and compensation  | \$ 9,051,769         | \$ 9,762,480         |
| Accrued franchise fees   | 2,164,220            | 2,246,265            |
| Accrued employees' bonuses and remuneration to directors and supervisors | 1,570,566            | 2,084,632            |
| Accrued maintenance fees   | 988,240              | 898,016              |
| Other accrued expenses   | <u>2,832,937</u>     | <u>2,174,000</u>     |
|  | <u>\$ 16,607,732</u> | <u>\$ 17,165,393</u> |

## 17. OTHER CURRENT LIABILITIES

|                                 | <b>December 31</b>   |                      |
|---------------------------------|----------------------|----------------------|
|                                 | <b>2012</b>          | <b>2011</b>          |
| Advances receipts               | \$ 9,603,502         | \$ 10,538,171        |
| Payables to contractors         | 2,379,833            | 1,834,254            |
| Payables to equipment suppliers | 1,883,303            | 1,854,051            |
| Amounts collected for others    | 1,295,802            | 1,187,743            |
| Refundable customers' deposits  | 1,219,355            | 1,095,183            |
| Others                          | <u>2,614,117</u>     | <u>2,733,034</u>     |
|                                 | <u>\$ 18,995,912</u> | <u>\$ 19,242,436</u> |

## 18. STOCKHOLDERS' EQUITY

Under Chunghwa's Articles of Incorporation, Chunghwa's authorized capital is \$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 shares are issued and outstanding as of December 31, 2012.

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, 2012, the outstanding ADSs representing 309,211 thousand common shares, which equaled approximately 30,921 thousand units and represented 3.99% 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 or reverse special reserves. 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 dividend to be distributed is less than \$0.10 per share, such cash dividend shall be distributed in the form of common shares.

For the years ended December 31, 2012 and 2011, the accrual amounts for bonuses to employees and remuneration to directors and supervisors were accrued based on past experiences and 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 2011 and 2010 earnings of Chunghwa have been approved by the stockholders on June 22, 2012 and June 24, 2011 as follows:

|                | <u>Appropriation of Earnings</u> |                             | <u>Dividends Per Share</u>  |                             |
|----------------|----------------------------------|-----------------------------|-----------------------------|-----------------------------|
|                | <u>For Fiscal Year 2011</u>      | <u>For Fiscal Year 2010</u> | <u>For Fiscal Year 2011</u> | <u>For Fiscal Year 2010</u> |
| Legal reserve  | \$ 4,706,838                     | \$ 4,760,890                |                             |                             |
| Cash dividends | 42,361,864                       | 42,854,462                  | \$5.46                      | \$5.52                      |

The amounts for bonuses to employees and remuneration to directors and supervisors approved in the stockholders' meeting on June 22, 2011, were \$2,040,090 thousand and \$44,446 thousand, 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 amounts for bonuses to employees and remuneration to directors and supervisors approved in the stockholders' meeting on June 24, 2011, were \$2,144,074 thousand and \$45,044 thousand, 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 2012 earnings of Chunghwa has not been resolved by the board of directors as the report date. Information on the appropriation of Chunghwa's earnings, employees bonuses and remuneration to directors and supervisors resolved by the board of directors and approved by the stockholders is available at the Market Observation Post System website.

The stockholders, at the stockholders' meeting held on June 18, 2010, resolved to reduce the amount of \$19,393,617 thousand 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 \$19,393,617 thousand and such cash payment to stockholders was made in January 2011.

## 19. COMPENSATION, DEPRECIATION AND AMORTIZATION EXPENSES

|                      | <u>Year Ended December 31, 2012</u> |                           |               |
|----------------------|-------------------------------------|---------------------------|---------------|
|                      | <u>Operating Costs</u>              | <u>Operating Expenses</u> | <u>Total</u>  |
| Compensation expense |                                     |                           |               |
| Salaries             | \$ 12,528,782                       | \$ 8,873,040              | \$ 21,401,822 |
| Insurance            | 1,194,419                           | 865,595                   | 2,060,014     |

(Continued)

|                      | <b>Year Ended December 31, 2012</b> |                               |                      |
|----------------------|-------------------------------------|-------------------------------|----------------------|
|                      | <b>Operating<br/>Costs</b>          | <b>Operating<br/>Expenses</b> | <b>Total</b>         |
| Pension              | \$ 1,786,779                        | \$ 1,206,898                  | \$ 2,993,677         |
| Other compensation   | <u>8,553,857</u>                    | <u>5,947,608</u>              | <u>14,501,465</u>    |
|                      | <u>\$ 24,063,837</u>                | <u>\$ 16,893,141</u>          | <u>\$ 40,956,978</u> |
| Depreciation expense | <u>\$ 28,868,547</u>                | <u>\$ 1,870,240</u>           | <u>\$ 30,738,787</u> |
| Amortization expense | <u>\$ 1,202,980</u>                 | <u>\$ 152,841</u>             | <u>\$ 1,355,821</u>  |

(Concluded)

|                      | <b>Year Ended December 31, 2011</b> |                               |                      |
|----------------------|-------------------------------------|-------------------------------|----------------------|
|                      | <b>Operating<br/>Costs</b>          | <b>Operating<br/>Expenses</b> | <b>Total</b>         |
| Compensation expense |                                     |                               |                      |
| Salaries             | \$ 12,151,863                       | \$ 8,622,719                  | \$ 20,774,582        |
| Insurance            | 1,041,203                           | 746,781                       | 1,787,984            |
| Pension              | 1,710,046                           | 1,163,277                     | 2,873,323            |
| Other compensation   | <u>9,443,816</u>                    | <u>6,565,281</u>              | <u>16,009,097</u>    |
|                      | <u>\$ 24,346,928</u>                | <u>\$ 17,098,058</u>          | <u>\$ 41,444,986</u> |
| Depreciation expense | <u>\$ 28,921,464</u>                | <u>\$ 1,689,339</u>           | <u>\$ 30,610,803</u> |
| Amortization expense | <u>\$ 1,171,397</u>                 | <u>\$ 131,585</u>             | <u>\$ 1,302,982</u>  |

## 20. INCOME TAX

- a. A reconciliation between income tax expense computed by applying the statutory income tax rate to income before income tax and income tax payable is as follows:

|  | <b>Year Ended December 31</b> |                     |
|--|-------------------------------|---------------------|
|  | <b>2012</b>                   | <b>2011</b>         |
| Income tax expense computed at statutory income tax rate | \$ 8,053,737                  | \$ 9,414,368        |
| Add (deduct) tax effects of:                             |                               |                     |
| Permanent differences                                    | (62,689)                      | (543,776)           |
| Temporary differences                                    | (75,566)                      | (122,783)           |
| 10% undistributed earning tax                            | -                             | 45                  |
| Investment tax credits                                   | <u>(396,166)</u>              | <u>(641,932)</u>    |
| Income tax payable                                       | <u>\$ 7,519,316</u>           | <u>\$ 8,105,922</u> |

The balance of income tax payable as of December 31, 2012 and 2011 was shown net of prepaid income tax.

b. Income tax expense consisted of the following:

|  | <b>Year Ended December 31</b> |                     |
|--|-------------------------------|---------------------|
|  | <b>2012</b>                   | <b>2011</b>         |
| Income tax payable                     | \$ 7,519,316                  | \$ 8,105,922        |
| Foreign income tax                     | 24,304                        | 27,372              |
| Income tax - deferred                  | (98,306)                      | 145,108             |
| Adjustments of prior years' income tax | <u>25,635</u>                 | <u>31,861</u>       |
| Income tax                             | <u>\$ 7,470,949</u>           | <u>\$ 8,310,263</u> |

c. Net deferred income tax assets (liabilities) consisted of the following:

|  | <b>December 31</b> |                   |
|--|--------------------|-------------------|
|  | <b>2012</b>        | <b>2011</b>       |
| <b>Current</b>   |                    |                   |
| Unrealized accrued expense   | \$ 32,578          | \$ 25,786         |
| Estimated warranty liabilities                                       | 19,081             | -                 |
| Unrealized foreign exchange (loss) gain                              | 18,110             | (12,659)          |
| Valuation loss on inventory  | 10,119             | 39,132            |
| Valuation gain on financial instruments, net                         | (130)              | (413)             |
| Provision for doubtful accounts                                      | <u>-</u>           | <u>176,844</u>    |
|  | 79,758             | 228,690           |
| Valuation allowance  | <u>-</u>           | <u>(176,844)</u>  |
| Net deferred income tax assets - current                             | <u>\$ 79,758</u>   | <u>\$ 51,486</u>  |
| <b>Noncurrent</b>  |                    |                   |
| Accrued pension cost   | \$ 267,154         | \$ 244,313        |
| Impairment loss  | 58,174             | 10,514            |
| Abandonment of equipment not approved by National Tax Administration | <u>-</u>           | <u>107</u>        |
| Net deferred income tax assets - noncurrent                          | <u>\$ 325,328</u>  | <u>\$ 254,934</u> |

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

|  | <b>December 31</b>  |                     |
|--|---------------------|---------------------|
|  | <b>2012</b>         | <b>2011</b>         |
| Balance of Imputation Credit Account ("ICA") | <u>\$ 4,459,457</u> | <u>\$ 4,899,036</u> |

The actual creditable ratios distribution of Chunghwa's 2012 and 2011 for earnings were 19.05% and 17.63%, 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.

e. Undistributed earnings information

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

Income tax returns through the year ended December 31, 2007 have been examined by the ROC tax authorities.

## 21. EARNINGS PER SHARE

EPS was calculated as follows:

|   | <u>Amount (Numerator)</u>               |                      | <u>Weighted-average<br/>Number of<br/>Common Shares<br/>Outstanding<br/>(Thousand)<br/>(Denominator)</u> | <u>Earnings Per Share<br/>(Dollars)</u> |                   |
|---|---|----------------------|--|---|-------------------|
|   | <u>Income<br/>Before<br/>Income Tax</u> | <u>Net Income</u>    |  | <u>Income<br/>Before<br/>Income Tax</u> | <u>Net Income</u> |
| <u>Year ended December 31, 2012</u>   |   |                      |  |   |                   |
| Basic EPS:  |   |                      |  |   |                   |
| Income attributable to stockholders   | \$ 47,374,923                           | \$ 39,903,974        | 7,757,447  | <u>\$ 6.11</u>                          | <u>\$ 5.14</u>    |
| Effect of dilutive potential common stock   |   |                      |  |   |                   |
| SENAO's stock options   | (4,005)                                 | (4,005)              | -  |   |                   |
| Employee bonus  | <u>-</u>                                | <u>-</u>             | <u>19,791</u>  |   |                   |
| Diluted EPS   |   |                      |  |   |                   |
| Income attributable to stockholders (including effect of dilutive potential common stock) | <u>\$ 47,370,918</u>                    | <u>\$ 39,899,969</u> | <u>7,777,238</u>   | <u>\$ 6.09</u>                          | <u>\$ 5.13</u>    |
| <u>Year ended December 31, 2011</u>   |   |                      |  |   |                   |
| Basic EPS:  |   |                      |  |   |                   |
| Income attributable to stockholders   | \$ 55,378,638                           | \$ 47,068,375        | 7,789,326  | <u>\$ 7.11</u>                          | <u>\$ 6.04</u>    |
| Effect of dilutive potential common stock   |   |                      |  |   |                   |
| SENAO's stock options   | (8,928)                                 | (8,928)              | -  |   |                   |
| Employee bonus  | <u>-</u>                                | <u>-</u>             | <u>21,279</u>  |   |                   |
| Diluted EPS   |   |                      |  |   |                   |
| Income attributable to stockholders (including effect of dilutive potential common stock) | <u>\$ 55,369,710</u>                    | <u>\$ 47,059,447</u> | <u>7,810,605</u>   | <u>\$ 7.09</u>                          | <u>\$ 6.03</u>    |

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, 2012 and 2011. The number of shares is calculated by dividing the amount of bonuses by the closing price of the Chunghwa's shares 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, 2012 and 2011 were due to the effect of potential common stock of stock options by SENAO.

## 22. PENSION PLAN

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. 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 makes monthly contributions to employees’ individual pension accounts at 6% of monthly salaries and wages.

Chunghwa’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 contributes 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 Chunghwa were \$3,069,753 thousand (\$2,895,771 thousand subject to defined benefit plan and \$173,982 thousand subject to defined contribution plan) and \$2,954,112 thousand (\$2,803,589 thousand subject to defined benefit plan and \$150,523 thousand subject to defined contribution plan) for the years ended December 31, 2012 and 2011, respectively.

Pension information of the defined benefit plan was summarized as follows:

a. Components of net periodic pension cost

|                                   | <b>Year Ended December 31</b> |                     |
|-----------------------------------|-------------------------------|---------------------|
|                                   | <b>2012</b>                   | <b>2011</b>         |
| Service cost                      | \$ 2,834,621                  | \$ 2,759,070        |
| Interest cost                     | 317,817                       | 261,522             |
| Expected return on plan assets    | (252,645)                     | (212,981)           |
| Amortization of unrecognized loss | <u>(4,022)</u>                | <u>(4,022)</u>      |
|                                   | <u>\$ 2,895,771</u>           | <u>\$ 2,803,589</u> |

b. Reconciliation between the fund status and accrued pension cost is summarized as follows:

|  | <b>December 31</b>    |                       |
|--|-----------------------|-----------------------|
|  | <b>2012</b>           | <b>2011</b>           |
| Benefit obligation                           |                       |                       |
| Vested benefit obligation                    | \$ (15,807,582)       | \$ (12,527,833)       |
| Non-vested benefit obligation                | <u>(4,068,647)</u>    | <u>(4,234,319)</u>    |
| Accumulated benefit obligation               | (19,876,229)          | (16,762,152)          |
| Additional benefit obligation                | <u>(1,981,949)</u>    | <u>(1,724,407)</u>    |
| Projected benefit obligation                 | (21,858,178)          | (18,486,559)          |
| Fair values of plan assets                   | <u>17,357,350</u>     | <u>15,593,472</u>     |
| Funded status                                | (4,500,828)           | (2,893,087)           |
| Unrecognized prior service cost effect       | (33,655)              | (37,677)              |
| Amortization of unrecognized net loss (gain) | 2,962,988             | 1,493,628             |
| Adjustment of accrued pension cost           | <u>(947,384)</u>      | <u>-</u>              |
| Accrued pension liabilities                  | <u>\$ (2,518,879)</u> | <u>\$ (1,437,136)</u> |

|   | <b>December 31</b>            |                      |
|---|-------------------------------|----------------------|
|   | <b>2012</b>                   | <b>2011</b>          |
| c. Vested benefit                               | <u>\$ 18,440,277</u>          | <u>\$ 16,164,494</u> |
| d. Actuarial assumptions                        |                               |                      |
| Discount rate used in determining present value | 1.60%                         | 1.75%                |
| Rate of compensation increase                   | 1.00%                         | 1.00%                |
| Rate of return on plan assets                   | 1.60%                         | 1.50%                |
| e. Contributions and payments of the Fund       |                               |                      |
|   | <b>Year Ended December 31</b> |                      |
|   | <b>2012</b>                   | <b>2011</b>          |
| Contributions                                   | <u>\$ 2,628,441</u>           | <u>\$ 2,593,658</u>  |
| Payments  | <u>\$ 1,159,518</u>           | <u>\$ 321,925</u>    |

### 23. 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 costs of doing business are reflected in the financial statements.

- a. Chunghwa engages in business transactions with the following related parties:

| <b>Company</b>   | <b>Relationship</b> |
|--|---------------------|
| Senao International Co., Ltd. ("SENAO")                          | Subsidiary          |
| Light Era Development Co., Ltd. ("LED")                          | Subsidiary          |
| Chunghwa Telecom Singapore Pte., Ltd. ("CHTS")                   | Subsidiary          |
| CHIEF Telecom, Inc. ("CHIEF")                                    | Subsidiary          |
| Chunghwa Telecom Japan Co., Ltd. ("CHTJ")                        | Subsidiary          |
| Chunghwa International Yellow Pages Co., Ltd. ("CIYP")           | Subsidiary          |
| Chunghwa System Integration Co., Ltd. ("CHSI")                   | Subsidiary          |
| Spring House Entertainment Inc. ("SHE")                          | Subsidiary          |
| Chunghwa Telecom Global, Inc. ("CHTG")                           | Subsidiary          |
| Donghwa Telecom Co., Ltd. ("DHT")                                | Subsidiary          |
| New Prospect Investments Holdings Ltd. (B.V.I.) ("New Prospect") | Subsidiary          |
| Prime Asia Investments Group Ltd. (B.V.I.) ("Prime Asia")        | Subsidiary          |
| Chunghwa Investment Co., Ltd. ("CHI")                            | Subsidiary          |
| Chunghwa Telecom Vietnam Co., Ltd. ("CHTV")                      | Subsidiary          |
| Chunghwa Sochamp Technology Inc. ("CHST")                        | Subsidiary          |
| Smartfun Digital Co., Ltd. ("SFD")                               | Subsidiary          |

(Continued)

| <b>Company</b>  | <b>Relationship</b>  |
|---|--|
| Chunghwa Investment Holding Co., Ltd. (“CIHC”)                | Subsidiary of CHI  |
| Chunghwa Precision Test Tech. Co., Ltd. (“CHPT”)              | Subsidiary of CHI  |
| Unigate Telecom Inc. (“Unigate”)                              | Subsidiary of CHIEF  |
| Chief International Corp. (“CIC”)                             | Subsidiary of CHIEF  |
| Concord Technology Co., Ltd. (“Concord”)                      | Subsidiary of CHSI   |
| Glory Network System Service (Shanghai) Co., Ltd. (“Glory”)   | Subsidiary of Concord  |
| Senao International (Samoa) Holding Ltd. (SIS)                | Subsidiary of SENAO  |
| Senao International HK Limited (SIHK)                         | Subsidiary of SIS  |
| CHI One Investment Co., Ltd. (“COI”)                          | Subsidiary of CIHC   |
| Yao Yong Real Property Co., Ltd. (“YYRP”)                     | Subsidiary of LED  |
| Chunghwa Precision Test Tech. USA Corporation (“CHPT (US)”)   | Subsidiary of CHPT   |
| Chunghwa Hsingta Company Ltd. (“CHC”)                         | Subsidiary of Prime Asia   |
| Jiangsu Zhenhua Information Technology Company, LLC. (“JZIT”) | Subsidiary of CHC  |
| Chunghwa Telecom (China) Co., Ltd. (“CTC”)                    | Subsidiary of CHC  |
| Hua-Xiong Information Technology Co., Ltd. (“HXIT”)           | Subsidiary of CHC  |
| Senao Trading (Fujian) Co., Ltd. (“STF”)                      | Subsidiary of SENAO  |
| Senao International Trading (Shanghai) Co., Ltd. (“SITS”)     | Subsidiary of SENAO  |
| Senao International Trading (Jiangsu) Co., Ltd. (“SITJ”)      | Subsidiary of SENAO  |
| Senao International Trading (Shanghai) Co., Ltd. (“SEITS”)    | Subsidiary of SENAO  |
| Ceylon Innovation Co., Ltd. (“CEI”)                           | Subsidiary of SHE  |
| Taiwan International Standard Electronics Co., Ltd. (“TISE”)  | Equity-method investee   |
| Huada Digital Corporation (“HDD”)                             | Equity-method investee   |
| So-net Entertainment Taiwan Co., Ltd. (“So-net”)              | Equity-method investee   |
| Skysoft Co., Ltd. (“SKYSOFT”)                                 | Equity-method investee   |
| KingWaytek Technology Co., Ltd. (“KWT”)                       | Equity-method investee   |
| Dian Zuan Integrating Marketing Co., Ltd. (“DZIM”)            | Equity-method investee   |
| Viettel-CHT Co., Ltd. (“Viettel-CHT”)                         | Equity-method investee   |
| International Integrated System, Inc. (“IISI”)                | Equity-method investee, which was a subsidiary of Chunghwa before Chunghwa lost control over IISI on June 24, 2011 |
| Senao Networks, Inc. (“SNI”)                                  | Equity-method investee of SENAO  |
| Xiamen Sertec Business Technology Co., Ltd. (“Sertec”)        | Equity-method investee of COI  |
| ST-2 Satellite Ventures Pte., Ltd. (“STS”)                    | Equity-method investee of CHTS   |
| Chunghwa Telecom Foundation (“CTF”)                           | A nonprofit organization of which the funds donated by Chunghwa exceeds one third of its total funds               |

(Concluded)

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

|  | <b>December 31</b>  |            |                     |            |
|--|---------------------|------------|---------------------|------------|
|  | <b>2012</b>         |            | <b>2011</b>         |            |
|  | <b>Amount</b>       | <b>%</b>   | <b>Amount</b>       | <b>%</b>   |
| 1) Receivables   |                     |            |                     |            |
| Trade notes, accounts receivable and other receivables     |                     |            |                     |            |
| SENAO  | \$ 1,443,395        | 87         | \$ 726,051          | 84         |
| DHT  | 39,865              | 2          | 32,472              | 4          |
| So-net   | 38,023              | 2          | 11,263              | 1          |
| CHST   | 35,238              | 2          | -                   | -          |
| CHIEF  | 27,952              | 2          | 30,852              | 4          |
| CHSI   | 27,915              | 2          | 13,377              | 1          |
| CHTG   | 15,249              | 1          | 19,817              | 2          |
| CIYP   | 13,897              | 1          | 13,982              | 2          |
| Others   | <u>27,050</u>       | <u>1</u>   | <u>19,968</u>       | <u>2</u>   |
|  | <u>\$ 1,668,584</u> | <u>100</u> | <u>\$ 867,782</u>   | <u>100</u> |
| 2) Payables  |                     |            |                     |            |
| Trade notes payable, accounts payable and accrued expenses |                     |            |                     |            |
| SENAO  | \$ 1,305,378        | 35         | \$ 1,222,386        | 35         |
| TISE   | 594,340             | 16         | 519,612             | 15         |
| CHSI   | 525,183             | 14         | 704,538             | 20         |
| CHST   | 173,206             | 5          | 1,840               | -          |
| IISI   | 112,161             | 3          | 120,165             | 3          |
| DHT  | 81,964              | 2          | 78,845              | 2          |
| CHTG   | 69,735              | 2          | 74,240              | 2          |
| CHIEF  | 60,209              | 2          | 46,849              | 1          |
| CIYP   | 55,296              | 1          | 21,323              | 1          |
| SKYSOFT  | 32,951              | -          | 10,041              | -          |
| STS  | 19,041              | -          | 82,437              | 3          |
| LED  | 16,996              | -          | 249                 | -          |
| Others   | <u>34,088</u>       | <u>1</u>   | <u>20,913</u>       | <u>1</u>   |
|  | <u>3,080,548</u>    | <u>81</u>  | <u>2,903,438</u>    | <u>83</u>  |
| Payables to contractors                                    |                     |            |                     |            |
| CHSI   | <u>26,650</u>       | <u>1</u>   | <u>-</u>            | <u>-</u>   |
| Amounts collected for others                               |                     |            |                     |            |
| SENAO  | 474,581             | 13         | 366,211             | 11         |
| CIYP   | 98,591              | 3          | 104,363             | 3          |
| SHE  | 46,251              | 1          | 31,867              | 1          |
| So-net   | 32,388              | 1          | 20,383              | 1          |
| SKYSOFT  | 16,215              | -          | 9,618               | -          |
| LED  | 1,869               | -          | 17,070              | 1          |
| Others   | <u>3,470</u>        | <u>-</u>   | <u>3,769</u>        | <u>-</u>   |
|  | <u>673,365</u>      | <u>18</u>  | <u>553,281</u>      | <u>17</u>  |
|  | <u>\$ 3,780,563</u> | <u>100</u> | <u>\$ 3,456,719</u> | <u>100</u> |

|                                 | <b>December 31</b>   |          |                     |          |
|---------------------------------|----------------------|----------|---------------------|----------|
|                                 | <b>2012</b>          |          | <b>2011</b>         |          |
|                                 | <b>Amount</b>        | <b>%</b> | <b>Amount</b>       | <b>%</b> |
| 3) Customers' deposits          |                      |          |                     |          |
| CHSI                            | \$ 64,465            | 2        | \$ 21,474           | 1        |
| CHTG                            | 14,257               | -        | 14,846              | -        |
| Others                          | <u>4,249</u>         | <u>-</u> | <u>3,680</u>        | <u>-</u> |
|                                 | <u>\$ 82,971</u>     | <u>2</u> | <u>\$ 40,000</u>    | <u>1</u> |
| <b>Year Ended December 31</b>   |                      |          |                     |          |
|                                 | <b>2012</b>          |          | <b>2011</b>         |          |
|                                 | <b>Amount</b>        | <b>%</b> | <b>Amount</b>       | <b>%</b> |
| 4) Revenues                     |                      |          |                     |          |
| SENAO                           | \$ 713,394           | 1        | \$ 831,109          | 1        |
| So-net                          | 336,470              | -        | 289,335             | -        |
| CHIEF                           | 260,808              | -        | 272,276             | -        |
| DHT                             | 123,151              | -        | 112,821             | -        |
| CHTG                            | 55,425               | -        | 96,404              | -        |
| CHTS                            | 48,395               | -        | 45,163              | -        |
| SKYSOFT                         | 39,360               | -        | 41,156              | -        |
| CHTJ                            | 31,803               | -        | 38,544              | -        |
| SHE                             | 27,938               | -        | 10,775              | -        |
| CIYP                            | 23,025               | -        | 15,570              | -        |
| LED                             | 10,904               | -        | 107,343             | -        |
| CHSI                            | 8,853                | -        | 10,141              | -        |
| Others                          | <u>24,636</u>        | <u>-</u> | <u>15,030</u>       | <u>-</u> |
|                                 | <u>\$ 1,704,162</u>  | <u>1</u> | <u>\$ 1,885,667</u> | <u>1</u> |
| 5) Operating costs and expenses |                      |          |                     |          |
| SENAO                           | \$ 9,832,009         | 7        | \$ 7,385,083        | 5        |
| CHSI                            | 803,102              | 1        | 499,937             | 1        |
| TISE                            | 572,878              | 1        | 493,875             | 1        |
| STS                             | 405,680              | -        | 167,651             | -        |
| CHIEF                           | 334,152              | -        | 307,458             | -        |
| IISI                            | 274,008              | -        | 175,660             | -        |
| CHTG                            | 270,069              | -        | 243,584             | -        |
| DHT                             | 109,516              | -        | 106,327             | -        |
| SKYSOFT                         | 108,182              | -        | 49,146              | -        |
| CHST                            | 94,212               | -        | 1,249               | -        |
| CIYP                            | 70,209               | -        | 45,732              | -        |
| CHTJ                            | 66,220               | -        | 65,501              | -        |
| CHTS                            | 50,182               | -        | 36,479              | -        |
| CTF                             | 47,250               | -        | 49,553              | -        |
| KWT                             | 35,503               | -        | 44,516              | -        |
| SHE                             | 32,292               | -        | 36,641              | -        |
| Others                          | <u>20,569</u>        | <u>-</u> | <u>17,296</u>       | <u>-</u> |
|                                 | <u>\$ 13,126,033</u> | <u>9</u> | <u>\$ 9,725,688</u> | <u>7</u> |

|   | <b>Year Ended December 31</b> |          |                     |           |
|---|-------------------------------|----------|---------------------|-----------|
|   | <b>2012</b>                   |          | <b>2011</b>         |           |
|   | <b>Amount</b>                 | <b>%</b> | <b>Amount</b>       | <b>%</b>  |
| 6) Acquisition of property, plant and equipment |                               |          |                     |           |
| CHSI  | \$ 1,161,098                  | 4        | \$ 1,209,201        | 5         |
| TISE  | 731,498                       | 2        | 1,332,495           | 5         |
| DHT   | 188,697                       | 1        | -                   | -         |
| SENAO   | 25,779                        | -        | 15,223              | -         |
| CHTG  | 23,815                        | -        | 49,418              | -         |
| CHIEF   | 17,333                        | -        | -                   | -         |
| SKYSOFT   | 14,238                        | -        | 14,238              | -         |
| LED   | 10,571                        | -        | -                   | -         |
| IISI  | -                             | -        | 151,644             | 1         |
| CHTS  | -                             | -        | 53,588              | -         |
| Others  | <u>1,192</u>                  | <u>-</u> | <u>37,590</u>       | <u>-</u>  |
|   | <u>\$ 2,174,221</u>           | <u>7</u> | <u>\$ 2,863,397</u> | <u>11</u> |

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 \$6,000,000 thousand (SG\$260,723 thousand), which included a prepayment of \$3,067,711 thousand, 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, 2012 was \$204,514 thousand, which consisted of a reduction of the prepayment of \$201,166 thousand and an additional accrual of \$405,680 thousand. The prepayment was \$2,777,983 thousand (classified as other current assets \$204,514 thousand, and other assets - others \$2,573,469 thousand) as of December 31, 2012.

Chunghwa has leased property to LED since April 2010. The lease term is 15 years and the rent is charged monthly. Based on the agreement of both parties, the lease contract was terminated on April 1, 2011.

Chunghwa sold the land with a carrying value of \$936,016 thousand to LED at the price of \$2,421,932 thousand in 2008. However, since the gain on disposal of land amounting to \$1,485,916 thousand is unrealized, the gain was recognized as deferred credit - profit on intercompany transactions. Gain on disposal of land \$390,176 thousand and \$900,764 thousand were recognized in 2012 and 2011, respectively. The unrealized gain on disposal of land amounted to \$149,067 thousand (classified as deferred credit - profit on intercompany transactions) as of December 31, 2012.

Chunghwa sold the land with a carrying value of \$378,927 thousand to LED at price of \$207,030 thousand in 2008 and resulted in a disposal loss amounting to \$171,897 thousand. Chunghwa recognized realized loss on disposal of land in December 31, 2012.

The transaction terms with the related parties were determined in accordance with mutual agreements when there were no similar transactions with third parties. Other transactions with related parties were not significantly different from those with third parties.

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

|               | <b>Year Ended December 31</b> |                   |
|---------------|-------------------------------|-------------------|
|               | <b>2012</b>                   | <b>2011</b>       |
| Salaries      | \$ 44,832                     | \$ 45,736         |
| Compensations | 35,996                        | 38,841            |
| Bonus         | <u>46,220</u>                 | <u>51,712</u>     |
|               | <u>\$ 127,048</u>             | <u>\$ 136,289</u> |

## 24. SIGNIFICANT COMMITMENTS AND CONTINGENCIES

As of December 31, 2012, in addition to those disclosed in other notes, Chunghwa's remaining commitments under non-cancelable contracts with various parties were as follows:

- a. Acquisition of land and buildings of \$30,921 thousand.
- b. Acquisition of telecommunications equipment of \$26,941,474 thousand.
- c. Contract to print billing, envelopes and marketing gifts of \$17,798 thousand.
- d. Chunghwa also has non-cancelable operating leases covering certain buildings, computers, computer peripheral equipment and operating system software under contracts that expire in various years. Future lease payments were as follows:

|                     | <b>Rental Amount</b> |
|---------------------|----------------------|
| 2013                | \$ 2,146,756         |
| 2014                | 1,455,328            |
| 2015                | 1,254,086            |
| 2016                | 897,986              |
| 2017 and thereafter | 625,307              |

- e. A commitment to contribute \$2,000,000 thousand to a Piping Fund administered by the Taipei City Government, of which \$1,000,000 thousand 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 \$1,000,000 thousand 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. Chunghwa does not know when its contribution to the Piping Fund will be returned; therefore, Chunghwa did not discount the face amount of its contribution on the Piping Fund.

## 25. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

|   | December 31        |               |                    |               |
|---|--------------------|---------------|--------------------|---------------|
|   | 2012               |               | 2011               |               |
|   | Carrying<br>Amount | Fair Value    | Carrying<br>Amount | Fair Value    |
| <b>Assets</b>   |                    |               |                    |               |
| Cash and cash equivalents   | \$ 48,319,111      | \$ 48,319,111 | \$ 61,283,240      | \$ 61,283,240 |
| Financial assets at fair value through profit or loss                     | 2,702              | 2,702         | 6,094              | 6,094         |
| Available-for-sale financial assets - current                             | 2,190,392          | 2,190,392     | 1,974,606          | 1,974,606     |
| Held-to-maturity financial assets - current                               | 4,250,146          | 4,250,146     | 1,201,301          | 1,201,301     |
| Trade notes and accounts receivable, net                                  | 22,789,253         | 22,789,253    | 20,526,988         | 20,526,988    |
| Receivables from related parties  | 1,668,584          | 1,668,584     | 867,782            | 867,782       |
| Other current monetary assets   | 1,996,341          | 1,996,341     | 1,913,684          | 1,913,684     |
| Financial assets carried at cost  | 2,242,665          | -             | 2,244,593          | -             |
| Available-for-sale financial assets - noncurrent                          | 3,163,465          | 3,163,465     | -                  | -             |
| Held-to-maturity financial assets - noncurrent                            | 11,796,144         | 11,796,144    | 13,494,891         | 13,494,891    |
| Other noncurrent monetary assets  | 1,000,000          | 1,000,000     | 1,000,000          | 1,000,000     |
| Refundable deposits   | 1,954,737          | 1,954,737     | 1,656,096          | 1,656,096     |
| <b>Liabilities</b>  |                    |               |                    |               |
| Financial liabilities at fair value through profit or loss                | 1,935              | 1,935         | 3,665              | 3,665         |
| Trade notes and accounts payable  | 10,512,771         | 10,512,771    | 11,425,662         | 11,425,662    |
| Payables to related parties   | 3,780,563          | 3,780,563     | 3,456,719          | 3,456,719     |
| Accrued expenses  | 16,607,732         | 16,607,732    | 17,165,393         | 17,165,393    |
| Payables to contractors (included in "other current liabilities")         | 2,379,833          | 2,379,833     | 1,834,254          | 1,834,254     |
| Payables to equipment suppliers (included in "other current liabilities") | 1,883,303          | 1,883,303     | 1,854,051          | 1,854,051     |
| Amounts collected for others (included in "other current liabilities")    | 1,295,802          | 1,295,802     | 1,187,743          | 1,187,743     |
| Refundable customers' deposits (included in "other current liabilities")  | 1,219,355          | 1,219,355     | 1,095,183          | 1,095,183     |
| Customers' deposits   | 4,910,221          | 4,910,221     | 4,967,605          | 4,967,605     |

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 and 3 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 prices of the available-for-sale financial assets 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.

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

|  | Amount Based on Quoted<br>Market Price |           | Amount Determined Using<br>Valuation Techniques |          |
|--|--|-----------|---|----------|
|  | December 31                            |           | December 31                                     |          |
|  | 2012                                   | 2011      | 2012  | 2011     |
| Assets   |  |           |   |          |
| Financial assets at fair value through profit or loss      | \$ -                                   | \$ -      | \$ 2,702  | \$ 6,094 |
| Available-for-sale financial assets                        | 5,353,857                              | 1,974,606 | -   | -        |
| Liabilities  |  |           |   |          |
| Financial liabilities at fair value through profit or loss | -                                      | -         | 1,935   | 3,665    |

- d. Information about financial risks

1) Market risk

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

The financial instruments categorized as available-for-sale financial assets are mainly listed stocks and open-end mutual funds. Therefore, the market risk is the fluctuations of market price. In order to manage this risk, Chunghwa 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 breach 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 Company held a variety of financial instruments, the maximum credit exposed amount is the same as their carrying amounts.

3) Liquidation risk

Chunghwa has sufficient operating capital to meet cash needs upon settlement of derivative financial instruments. Therefore, the liquidation 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 liquidation risk is 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 liquidation risk is anticipated.

4) Cash flow interest rate risk

Chunghwa 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.

According to the regulations of Securities and Futures Bureau, Chunghwa should disclose the derivative transactions of Chunghwa's investees, SENA0 and CHI, which was as follows:

a. Holding period and contract amounts

SENA0 and CHI entered into forward exchange contracts and index future contracts to reduce the exposure to foreign currency risk and price risk. The financial risk management objective of SENA0 and CHI are to minimize risks due to market risk.

The outstanding forward exchange contracts of SENA0 as of December 31, 2012 and 2011 were as follows:

|                                  | <b>Currency</b> | <b>Maturity Date</b> | <b>Contract Amount<br/>(In Thousands)</b> |
|----------------------------------|-----------------|----------------------|---|
| <u>December 31, 2012</u>         |                 |                      |   |
| Forward exchange contracts - buy | NTD/USD         | 2013.01              | NTD154,304/USD5,310                       |
| <u>December 31, 2011</u>         |                 |                      |   |
| Forward exchange contracts - buy | NTD/USD         | 2012.01              | NTD59,638/USD1,967                        |

There was no outstanding index future contracts of CHI as of December 31, 2012.

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

|                          | <b>Maturity Period</b> | <b>Units</b> | <b>Contract<br/>Amount<br/>(In Thousands)</b> |
|--------------------------|------------------------|--------------|---|
| <u>December 31, 2011</u> |                        |              |   |
| TAIFEX futures           |                        |              |   |
| TX                       | 2012.01                | 2            | NT\$ 2,952                                    |
| TX                       | 2012.02                | 4            | 5,558   |
| TX                       | 2012.03                | 37           | 51,614  |
| TE                       | 2012.03                | 19           | 11,370  |
| TF                       | 2012.01                | 8            | 6,401   |
| TF                       | 2012.02                | 5            | 3,877   |
| TF                       | 2012.03                | 15           | 11,658  |

Net gain (loss) of SANA0 arising from derivative financial products for the years ended December 31, 2012 and 2011 were \$(3,464) thousand and \$12,043 thousand, respectively.

Net gain (loss) of CHI arising from derivative financial products for the years ended December 31, 2012 and 2011 were \$(12,961) thousand and \$6,406 thousand, respectively.

b. Market risk

The foreign exchange rate fluctuations would result in SENA0's foreign-currency-dominated assets and liabilities and open forward exchange contracts exposed to rate risk.

The fluctuations of market price would result in CHI's index future contracts exposed to price risk.

c. Credit risk

Credit risk represents the potential loss that would be incurred by SENAO and CHI 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 to the aforementioned financial instruments are reputable financial institutions. Management does not expect SENAO's and CHI's exposure to default by those parties to be material. The largest amount of exposure to default by those parties of the financial instruments of SENAO and CHI is the same as carrying value.

d. Liquidation risk

SENAO and CHI have sufficient operating capital to meet cash needs upon settlement of derivative financial instruments. Therefore, the liquidation risk is low.

## 26. ADDITIONAL DISCLOSURES

Following are the additional disclosures required by the SFB for Chunghwa and its investees:

- a. Financings provided: None.
- b. Endorsements/guarantees provided: Please see Table 1.
- c. Marketable securities held: Please see Table 2.
- d. Marketable securities acquired and disposed of at costs or prices at least \$100 million or 20% of the paid-in capital: Please see Table 3.
- e. Acquisition of individual real estate at costs of at least \$100 million or 20% of the paid-in capital: Please see Table 4.
- f. Disposal of individual real estate at prices of at least \$100 million or 20% of the paid-in capital: None.
- g. Total purchase from or sale to related parties amounting to at least \$100 million or 20% of the paid-in capital: Please see Table 5.
- h. Receivables from related parties amounting to \$100 million or 20% of the paid-in capital: Please see Table 6.
- i. Names, locations, and other information of investees on which the Company exercises significant influence: Please see Table 7.
- j. Financial transactions: Please see Notes 5 and 25.
- k. Investment in Mainland China: Please see Table 8.

## 27. SEGMENT FINANCIAL INFORMATION

- a. Segment information: Please see Table 9.
- b. Products and service revenues from external customer information: Please see Table 10.

c. Geographic information

The users of Chunghwa'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:

|             | <b>Year Ended December 31</b> |                       |
|-------------|-------------------------------|-----------------------|
|             | <b>2012</b>                   | <b>2011</b>           |
| Taiwan, ROC | \$ 185,004,523                | \$ 187,554,728        |
| Overseas    | <u>5,946,272</u>              | <u>4,907,376</u>      |
|             | <u>\$ 190,950,795</u>         | <u>\$ 192,462,104</u> |

The Company does not have material non-current assets in foreign operations for the year ended December 31, 2012.

d. Major customers' information

For the years ended December 31, 2012 and 2011, the Company did not have any single customer whose net revenue exceeded 10% of the total net revenues.

## 28. OTHERS

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

|   | <b>December 31</b>        |                      |                           |                           |                      |                           |
|---|---------------------------|----------------------|---------------------------|---------------------------|----------------------|---------------------------|
|   | <b>2012</b>               |                      |                           | <b>2011</b>               |                      |                           |
|   | <b>Foreign Currencies</b> | <b>Exchange Rate</b> | <b>New Taiwan Dollars</b> | <b>Foreign Currencies</b> | <b>Exchange Rate</b> | <b>New Taiwan Dollars</b> |
| <u>Financial assets</u>                       |                           |                      |                           |                           |                      |                           |
| Monetary items                                |                           |                      |                           |                           |                      |                           |
| Cash  |                           |                      |                           |                           |                      |                           |
| USD   | \$ 3,812                  | 29.04                | \$ 110,703                | \$ 5,963                  | 30.28                | \$ 180,557                |
| Available-for-sale financial assets           |                           |                      |                           |                           |                      |                           |
| USD   | 75,427                    | 29.04                | 2,190,392                 | 65,222                    | 30.28                | 1,974,606                 |
| Accounts receivable                           |                           |                      |                           |                           |                      |                           |
| USD   | 135,251                   | 29.04                | 3,927,684                 | 161,682                   | 30.28                | 4,894,927                 |
| Investments accounted for using equity method |                           |                      |                           |                           |                      |                           |
| USD   | 3,327                     | 29.04                | 96,614                    | 2,854                     | 30.28                | 86,433                    |
| HKD   | 311,725                   | 3.75                 | 1,168,032                 | 228,596                   | 3.90                 | 891,526                   |
| SGD   | 31,402                    | 23.76                | 746,122                   | 28,277                    | 23.31                | 659,128                   |
| JPY   | 76,364                    | 0.34                 | 25,689                    | 57,536                    | 0.39                 | 22,439                    |
| VND   | 237,407,407               | 0.00135              | 320,500                   | 210,564,304               | 0.00139              | 292,685                   |
| RMB   | 33,338                    | 4.66                 | 155,357                   | 39,088                    | 4.81                 | 187,755                   |
| <u>Financial liabilities</u>                  |                           |                      |                           |                           |                      |                           |
| Monetary items                                |                           |                      |                           |                           |                      |                           |
| Accounts payable                              |                           |                      |                           |                           |                      |                           |
| USD   | 114,377                   | 29.04                | 3,321,498                 | 114,654                   | 30.28                | 3,471,726                 |
| EUR   | 34,058                    | 38.49                | 1,310,892                 | 28,037                    | 39.18                | 1,098,504                 |
| SGD   | 871                       | 23.76                | 20,703                    | 3,579                     | 23.31                | 83,416                    |

## **29. 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-disclosed the information on the adoption of International Financial Reporting Standards (IFRSs) and assessed the material differences between the existing accounting policies and the accounting policies to be adopted under IFRSs in the consolidated financial statements as of and for the years ended December 31, 2012.

## CHUNGHWA TELECOM CO., LTD.

ENDORSEMENTS/GUARANTEES PROVIDED  
FOR THE YEAR ENDED DECEMBER 31, 2012

(In Thousands of New Taiwan Dollars, Unless Specified Otherwise)

| No. | Endorsement/Guarantee Provider   | Guaranteed Party                |                                 | Limits on Endorsement/Guarantee Amount Provided to Each Guaranteed Party | Maximum Balance for the Year | Ending Balance         | Amount of Endorsement/Guarantee Collateralized by Properties | Ratio of Accumulated Endorsement/Guarantee to Net Equity Per Latest Financial Statements | Maximum Endorsement/Guarantee Amount Allowable |
|-----|----------------------------------|---------------------------------|---------------------------------|--|------------------------------|------------------------|--|--|--|
|     |                                  | Name                            | Nature of Relationship (Note 2) |  |                              |                        |  |  |  |
| 0   | Chunghwa Telecom Co., Ltd.       | Donghwa Telecom Co., Ltd.       | b                               | \$ 3,654,424<br>(Note 3)   | \$ 1,031,923                 | \$ 315,680<br>(Note 4) | \$ -   | 0.09%  | \$ 14,617,696<br>(Note 6)                      |
| 25  | Yao Yong Real Property Co., Ltd. | Light Era Development Co., Ltd. | d                               | 3,665,887<br>(Note 7)  | 2,150,000                    | 1,650,000<br>(Note 5)  | 1,650,000<br>(Note 5)  | 0.5%   | 3,665,887<br>(Note 7)                          |

Note 1: Significant transactions between the Company and its subsidiaries or among subsidiaries are numbered as follows:

- "0" for the Company.
- Subsidiaries are numbered from "1".

Note 2: Relationships between the endorsement/guarantee provider and the guaranteed party:

- Trading partner.
- Majority owned subsidiary.
- The Company and subsidiary owns over 50% ownership of the investee company.
- A subsidiary jointly owned by the Company and the Company's directly-owned subsidiary.
- Guaranteed by the Company according to the construction contract.
- An investee company. The guarantees were provided based on the Company's proportionate share in the investee company.

Note 3: The maximum amount of endorsement or guarantee is up to 1% of the total stockholders' equity of the latest financial statements of the Company.

Note 4: The actual amount used by guaranteed party is \$315,680 thousand.

Note 5: The actual amount used by guaranteed party is \$1,650,000 thousand.

Note 6: The maximum amount of endorsement or guarantee is up to 4% of the total stockholders' equity of the latest financial statements of the Company.

Note 7: The maximum amount of endorsement or guarantee is up to 200% of the asset value of the latest financial statements of Yao Yong Real Property Co., Ltd.

## CHUNGHWA TELECOM CO., LTD.

## MARKETABLE SECURITIES HELD

FOR THE YEAR ENDED DECEMBER 31, 2012

(Amounts in Thousands of New Taiwan Dollars, Unless Otherwise Specified)

| No. | Held Company Name          | Marketable Securities Type and Name                             | Relationship with the Company | Financial Statement Account                   | December 31, 2012                 |                         |                         |                                 | Note   |
|-----|----------------------------|---|-------------------------------|---|-----------------------------------|-------------------------|-------------------------|---------------------------------|--------|
|     |                            |   |                               |   | Shares (Thousands/Thousand Units) | Carrying Value (Note 5) | Percentage of Ownership | Market Value or Net Asset Value |        |
| 0   | Chunghwa Telecom Co., Ltd. | <u>Stocks</u>   |                               |   |                                   |                         |                         |                                 |        |
|     |                            | Senao International Co., Ltd.                                   | Subsidiary                    | Investments accounted for using equity method | 71,773                            | \$ 1,623,305            | 28                      | \$ 6,825,627                    | Note 4 |
|     |                            | Light Era Development Co., Ltd.                                 | Subsidiary                    | Investments accounted for using equity method | 300,000                           | 3,785,310               | 100                     | 3,790,828                       | Note 1 |
|     |                            | Donghwa Telecom Co., Ltd.                                       | Subsidiary                    | Investments accounted for using equity method | 305,090                           | 1,168,032               | 100                     | 1,168,032                       | Note 1 |
|     |                            | Chunghwa Telecom Singapore Pte., Ltd.                           | Subsidiary                    | Investments accounted for using equity method | 26,383                            | 746,122                 | 100                     | 746,122                         | Note 1 |
|     |                            | Chunghwa System Integration Co., Ltd.                           | Subsidiary                    | Investments accounted for using equity method | 60,000                            | 707,250                 | 100                     | 690,341                         | Note 1 |
|     |                            | Chunghwa Investment Co., Ltd.                                   | Subsidiary                    | Investments accounted for using equity method | 80,100                            | 614,217                 | 89                      | 672,509                         | Note 1 |
|     |                            | CHIEF Telecom Inc.  | Subsidiary                    | Investments accounted for using equity method | 37,942                            | 591,706                 | 69                      | 534,053                         | Note 1 |
|     |                            | International Integrated System, Inc.                           | Equity-method investee        | Investments accounted for using equity method | 22,498                            | 277,592                 | 33                      | 253,259                         | Note 1 |
|     |                            | Viettel-CHT Co., Ltd.   | Equity-method investee        | Investments accounted for using equity method | -                                 | 265,052                 | 30                      | 265,052                         | Note 1 |
|     |                            | Huada Digital Corporation                                       | Equity-method investee        | Investments accounted for using equity method | 25,000                            | 241,309                 | 50                      | 241,309                         | Note 1 |
|     |                            | Taiwan International Standard Electronics Co., Ltd.             | Equity-method investee        | Investments accounted for using equity method | 1,760                             | 224,099                 | 40                      | 523,348                         | Note 1 |
|     |                            | Chunghwa International Yellow Pages Co., Ltd.                   | Subsidiary                    | Investments accounted for using equity method | 15,000                            | 188,738                 | 100                     | 188,738                         | Note 1 |
|     |                            | Prime Asia Investments Group Ltd. (B.V.I.)                      | Subsidiary                    | Investments accounted for using equity method | 7,270                             | 155,357                 | 100                     | 155,479                         | Note 1 |
|     |                            | Skysoft Co., Ltd.   | Equity-method investee        | Investments accounted for using equity method | 4,438                             | 127,686                 | 30                      | 91,144                          | Note 1 |
|     |                            | Spring House Entertainment Tech. Inc.                           | Subsidiary                    | Investments accounted for using equity method | 7,015                             | 125,929                 | 56                      | 112,642                         | Note 1 |
|     |                            | Chunghwa Telecom Global, Inc.                                   | Subsidiary                    | Investments accounted for using equity method | 6,000                             | 96,614                  | 100                     | 109,643                         | Note 1 |
|     |                            | Kingwaytek Technology Co., Ltd.                                 | Equity-method investee        | Investments accounted for using equity method | 2,214                             | 77,449                  | 33                      | 43,691                          | Note 1 |
|     |                            | Chunghwa Telecom Vietnam Co., Ltd.                              | Subsidiary                    | Investments accounted for using equity method | -                                 | 55,448                  | 100                     | 55,448                          | Note 1 |
|     |                            | Smartfun Digital Co., Ltd.                                      | Subsidiary                    | Investments accounted for using equity method | 6,500                             | 44,549                  | 65                      | 44,657                          | Note 1 |
|     |                            | So-net Entertainment Taiwan Co., Ltd.                           | Equity-method investee        | Investments accounted for using equity method | 3,429                             | 31,152                  | 30                      | 13,670                          | Note 1 |
|     |                            | Chunghwa Telecom Japan Co., Ltd.                                | Subsidiary                    | Investments accounted for using equity method | 1                                 | 25,689                  | 100                     | 25,689                          | Note 1 |
|     |                            | Dian Zuan Integrating Marketing Co., Ltd.                       | Equity-method investee        | Investments accounted for using equity method | 6,450                             | 20,902                  | 33                      | 20,902                          | Note 1 |
|     |                            | Chunghwa Sochamp Technology Inc.                                | Subsidiary                    | Investments accounted for using equity method | 2,040                             | 17,414                  | 51                      | 21,076                          | Note 1 |
|     |                            | New Prospect Investments Holdings Ltd. (B.V.I.)                 | Subsidiary                    | Investments accounted for using equity method | -                                 | -                       | 100                     | -                               | Note 8 |
|     |                            |   |                               |   |                                   | (US\$ 1 dollar)         |                         | (US\$ 1 dollar)                 |        |
|     |                            | Taipei Financial Center Corp.                                   | -                             | Financial assets carried at cost - noncurrent | 172,927                           | 1,789,530               | 12                      | 1,679,386                       | Note 2 |
|     |                            | Industrial Bank of Taiwan II Venture Capital Co., Ltd. (IBT II) | -                             | Financial assets carried at cost - noncurrent | 18,000                            | 180,000                 | 17                      | 164,111                         | Note 2 |
|     |                            | Innovation Works Development Fund, L.P.                         | -                             | Financial assets carried at cost - noncurrent | -                                 | 108,476                 | 4                       | 105,242                         | Note 2 |
|     |                            | Global Mobile Corp.   | -                             | Financial assets carried at cost - noncurrent | 7,617                             | 77,018                  | 3                       | 48,555                          | Note 2 |
|     |                            | iD Branding Ventures  | -                             | Financial assets carried at cost - noncurrent | 5,625                             | 56,250                  | 8                       | 49,067                          | Note 2 |
|     |                            | Innovation Works Limited  | -                             | Financial assets carried at cost - noncurrent | 1,000                             | 31,391                  | 2                       | 36,403                          | Note 2 |
|     |                            | CQi Energy Infocom Inc.   | -                             | Financial assets carried at cost - noncurrent | 2,000                             | -                       | 18                      | -                               | Note 2 |
|     |                            | RPTI Intergroup International Ltd.                              | -                             | Financial assets carried at cost - noncurrent | 4,765                             | -                       | 10                      | -                               | Note 2 |
|     |                            | Essence Technology Solution, Inc.                               | -                             | Financial assets carried at cost - noncurrent | 200                               | -                       | 7                       | 450                             | Note 2 |

(Continued)

| No. | Held Company Name | Marketable Securities Type and Name  | Relationship with the Company | Financial Statement Account                      | December 31, 2012                 |                         |                         |                                 | Note   |
|-----|-------------------|--|-------------------------------|--|-----------------------------------|-------------------------|-------------------------|---------------------------------|--------|
|     |                   |  |                               |  | Shares (Thousands/Thousand Units) | Carrying Value (Note 5) | Percentage of Ownership | Market Value or Net Asset Value |        |
|     |                   | <u>Beneficiary certificates (mutual fund)</u>                              |                               |  |                                   |                         |                         |                                 |        |
|     |                   | PIMCO GIS Total Return Bond Fund - H Institutional Class (Acc)             | -                             | Available-for-sale financial assets              | 770                               | \$ 534,453              | -                       | \$ 581,193                      | Note 3 |
|     |                   | PIMCO Global Investment Grade Credit - Ins H Acc                           | -                             | Available-for-sale financial assets              | 1,071                             | 456,118                 | -                       | 507,266                         | Note 3 |
|     |                   | PIMCO GIS Diversified Bond Fund - H Institutional Class (Acc)              | -                             | Available-for-sale financial assets              | 984                               | 347,452                 | -                       | 406,507                         | Note 3 |
|     |                   | Fidelity Funds - US Dollar Bond Fund Y-ACC-USD                             | -                             | Available-for-sale financial assets              | 778                               | 297,283                 | -                       | 302,047                         | Note 3 |
|     |                   | Janus Flexible Income Bond Fund  | -                             | Available-for-sale financial assets              | 671                               | 230,472                 | -                       | 245,103                         | Note 3 |
|     |                   | Eastpring Investments - US Corporation Bond Fund                           | -                             | Available-for-sale financial assets              | 433                               | 149,190                 | -                       | 148,276                         | Note 3 |
|     |                   | <u>Stocks</u>  |                               |  |                                   |                         |                         |                                 |        |
|     |                   | China Airlines Ltd.  | -                             | Available-for-sale financial assets - noncurrent | 263,622                           | 3,092,287               | 5                       | 3,163,465                       | Note 4 |
|     |                   | <u>Bond</u>  |                               |  |                                   |                         |                         |                                 |        |
|     |                   | Taiwan Power Co. 2nd Unsecured Bond-EB Issue in 2005                       | -                             | Held-to-maturity financial assets                | -                                 | 305,673                 | -                       | 305,673                         | Note 6 |
|     |                   | Taiwan Power Co. 2nd Unsecured Bond-EB Issue in 2005                       | -                             | Held-to-maturity financial assets                | -                                 | 203,455                 | -                       | 203,455                         | Note 6 |
|     |                   | Chinese Petroleum Corporation 1st Unsecured Corporate Bond-B Issue in 2006 | -                             | Held-to-maturity financial assets                | -                                 | 151,457                 | -                       | 151,457                         | Note 6 |
|     |                   | Chinese Petroleum Corporation 1st Unsecured Corporate Bond-B Issue in 2006 | -                             | Held-to-maturity financial assets                | -                                 | 201,943                 | -                       | 201,943                         | Note 6 |
|     |                   | Chinese Petroleum Corporation 1st Unsecured Corporate Bond-C Issue in 2006 | -                             | Held-to-maturity financial assets                | -                                 | 103,417                 | -                       | 103,417                         | Note 6 |
|     |                   | Chinese Petroleum Corporation 1st Unsecured Corporate Bond-C Issue in 2006 | -                             | Held-to-maturity financial assets                | -                                 | 206,970                 | -                       | 206,970                         | Note 6 |
|     |                   | Taiwan Power Co. 2nd Unsecured Corporate Bond-C Issue in 2006              | -                             | Held-to-maturity financial assets                | -                                 | 208,143                 | -                       | 208,143                         | Note 6 |
|     |                   | Taiwan Power Co. 3rd Unsecured Corporate Bond-C Issue in 2006              | -                             | Held-to-maturity financial assets                | -                                 | 209,091                 | -                       | 209,091                         | Note 6 |
|     |                   | Chinese Petroleum Corporation 1st Unsecured Corporate Bond-A Issue in 2008 | -                             | Held-to-maturity financial assets                | -                                 | 100,953                 | -                       | 100,953                         | Note 6 |
|     |                   | China Steel Corporation 1st Unsecured Corporate Bonds Issue in 2008        | -                             | Held-to-maturity financial assets                | -                                 | 50,512                  | -                       | 50,512                          | Note 6 |
|     |                   | China Steel Corporation 2nd Unsecured Corporate Bonds-A Issue in 2008      | -                             | Held-to-maturity financial assets                | -                                 | 50,005                  | -                       | 50,005                          | Note 6 |
|     |                   | China Steel Corporation 2nd Unsecured Corporate Bonds-A Issue in 2008      | -                             | Held-to-maturity financial assets                | -                                 | 50,502                  | -                       | 50,502                          | Note 6 |
|     |                   | China Steel Corporation 2nd Unsecured Corporate Bonds-B Issue in 2008      | -                             | Held-to-maturity financial assets                | -                                 | 204,379                 | -                       | 204,379                         | Note 6 |
|     |                   | China Steel Corporation 2nd Unsecured Corporate Bonds-B Issue in 2008      | -                             | Held-to-maturity financial assets                | -                                 | 307,722                 | -                       | 307,722                         | Note 6 |
|     |                   | Taiwan Power Co. 2nd Unsecured Corporate Bonds-B Issue in 2008             | -                             | Held-to-maturity financial assets                | -                                 | 151,002                 | -                       | 151,002                         | Note 6 |
|     |                   | Taiwan Power Co. 3rd Unsecured Corporate Bond-B Issue in 2008              | -                             | Held-to-maturity financial assets                | -                                 | 25,179                  | -                       | 25,179                          | Note 6 |

(Continued)

| No. | Held Company Name | Marketable Securities Type and Name   | Relationship with the Company | Financial Statement Account       | December 31, 2012                  |                         |                         |                                 | Note   |
|-----|-------------------|---|-------------------------------|-----------------------------------|------------------------------------|-------------------------|-------------------------|---------------------------------|--------|
|     |                   |   |                               |                                   | Shares (Thousands/ Thousand Units) | Carrying Value (Note 5) | Percentage of Ownership | Market Value or Net Asset Value |        |
|     |                   | Taiwan Power Co. 4th Unsecured Corporate Bond-B Issue in 2008                                 | -                             | Held-to-maturity financial assets | -                                  | \$ 202,005              | -                       | \$ 202,005                      | Note 6 |
|     |                   | Taiwan Power Co. 7th Unsecured Corporate Bond-A Issue in 2008                                 | -                             | Held-to-maturity financial assets | -                                  | 151,636                 | -                       | 151,636                         | Note 6 |
|     |                   | NAN YA Company 2nd Unsecured Corporate Bonds Issue in 2008                                    | -                             | Held-to-maturity financial assets | -                                  | 200,990                 | -                       | 200,990                         | Note 6 |
|     |                   | NAN YA Company 3rd Unsecured Corporate Bonds Issue in 2008                                    | -                             | Held-to-maturity financial assets | -                                  | 100,654                 | -                       | 100,654                         | Note 6 |
|     |                   | China Development Financial Holding Corporation 1st Unsecured Corporate Bonds-A Issue in 2008 | -                             | Held-to-maturity financial assets | -                                  | 100,496                 | -                       | 100,496                         | Note 6 |
|     |                   | Formosa Petrochemical Corporation 1st Unsecured Corporate Bonds Issue in 2008                 | -                             | Held-to-maturity financial assets | -                                  | 49,985                  | -                       | 49,985                          | Note 6 |
|     |                   | Formosa Petrochemical Corporation 2nd Unsecured Corporate Bonds Issue in 2008                 | -                             | Held-to-maturity financial assets | -                                  | 50,335                  | -                       | 50,335                          | Note 6 |
|     |                   | Formosa Petrochemical Corporation 2nd Unsecured Corporate Bonds Issue in 2008                 | -                             | Held-to-maturity financial assets | -                                  | 201,740                 | -                       | 201,740                         | Note 6 |
|     |                   | Formosa Petrochemical Corporation 3rd Unsecured Corporate Bonds Issue in 2008                 | -                             | Held-to-maturity financial assets | -                                  | 24,991                  | -                       | 24,991                          | Note 6 |
|     |                   | Formosa Petrochemical Corporation 3rd Unsecured Corporate Bonds Issue in 2008                 | -                             | Held-to-maturity financial assets | -                                  | 101,100                 | -                       | 101,100                         | Note 6 |
|     |                   | Chinese Petroleum Corporation 1st Unsecured Corporate Bonds-A Issue in 2009                   | -                             | Held-to-maturity financial assets | -                                  | 200,415                 | -                       | 200,415                         | Note 6 |
|     |                   | FCFC 1st Unsecured Corporate Bonds Issue in 2009  | -                             | Held-to-maturity financial assets | -                                  | 250,789                 | -                       | 250,789                         | Note 6 |
|     |                   | Taiwan Power Co. 1st Secured Corporate Bond-A Issue in 2009                                   | -                             | Held-to-maturity financial assets | -                                  | 200,434                 | -                       | 200,434                         | Note 6 |
|     |                   | Taiwan Power Co. 1st Secured Corporate Bond-A Issue in 2009                                   | -                             | Held-to-maturity financial assets | -                                  | 40,198                  | -                       | 40,198                          | Note 6 |
|     |                   | Taiwan Power Co. 2nd Secured Corporate Bond-B Issue in 2009                                   | -                             | Held-to-maturity financial assets | -                                  | 100,170                 | -                       | 100,170                         | Note 6 |
|     |                   | Taiwan Power Company 4th Secured Corporate Bond-B Issue in 2009                               | -                             | Held-to-maturity financial assets | -                                  | 349,472                 | -                       | 349,472                         | Note 6 |
|     |                   | Taiwan Power Company 5th Secured Corporate Bond-B Issue in 2009                               | -                             | Held-to-maturity financial assets | -                                  | 100,324                 | -                       | 100,324                         | Note 6 |
|     |                   | NAN YA Company 1st Unsecured Corporate Bond-A Issue in 2009                                   | -                             | Held-to-maturity financial assets | -                                  | 99,978                  | -                       | 99,978                          | Note 6 |
|     |                   | NAN YA Company 1st Unsecured Corporate Bond-A Issue in 2009                                   | -                             | Held-to-maturity financial assets | -                                  | 201,009                 | -                       | 201,009                         | Note 6 |
|     |                   | NAN YA Company 1st Unsecured Corporate Bond-A Issue in 2009                                   | -                             | Held-to-maturity financial assets | -                                  | 301,415                 | -                       | 301,415                         | Note 6 |
|     |                   | NAN YA Company 3rd Unsecured Corporate Bond-A Issue in 2009                                   | -                             | Held-to-maturity financial assets | -                                  | 200,275                 | -                       | 200,275                         | Note 6 |
|     |                   | NAN YA Company 3rd Unsecured Corporate Bond-A Issue in 2009                                   | -                             | Held-to-maturity financial assets | -                                  | 50,157                  | -                       | 50,157                          | Note 6 |
|     |                   | NAN YA Company 4th Unsecured Corporate Bond-A Issue in 2009                                   | -                             | Held-to-maturity financial assets | -                                  | 199,846                 | -                       | 199,846                         | Note 6 |

(Continued)

| No. | Held Company Name | Marketable Securities Type and Name   | Relationship with the Company | Financial Statement Account       | December 31, 2012                 |                         |                         |                                 | Note   |
|-----|-------------------|---|-------------------------------|-----------------------------------|-----------------------------------|-------------------------|-------------------------|---------------------------------|--------|
|     |                   |   |                               |                                   | Shares (Thousands/Thousand Units) | Carrying Value (Note 5) | Percentage of Ownership | Market Value or Net Asset Value |        |
|     |                   | NAN YA Company 4th Unsecured Corporate Bond-A Issue in 2009                   | -                             | Held-to-maturity financial assets | -                                 | \$ 301,462              | -                       | \$ 301,462                      | Note 6 |
|     |                   | MLPC 1st Unsecured Corporate Bond Issue in 2008                               | -                             | Held-to-maturity financial assets | -                                 | 99,965                  | -                       | 99,965                          | Note 6 |
|     |                   | MLPC 1st Unsecured Corporate Bond Issue in 2008                               | -                             | Held-to-maturity financial assets | -                                 | 99,965                  | -                       | 99,965                          | Note 6 |
|     |                   | MLPC 1st Unsecured Corporate Bond Issue in 2009                               | -                             | Held-to-maturity financial assets | -                                 | 301,780                 | -                       | 301,780                         | Note 6 |
|     |                   | Formosa Petrochemical Corporation 1st Unsecured Corporate Bonds Issue in 2008 | -                             | Held-to-maturity financial assets | -                                 | 200,188                 | -                       | 200,188                         | Note 6 |
|     |                   | Formosa Petrochemical Corporation 1st Unsecured Corporate Bonds Issue in 2008 | -                             | Held-to-maturity financial assets | -                                 | 200,673                 | -                       | 200,673                         | Note 6 |
|     |                   | Formosa Petrochemical Corporation 1st Unsecured Corporate Bonds Issue in 2008 | -                             | Held-to-maturity financial assets | -                                 | 301,389                 | -                       | 301,389                         | Note 6 |
|     |                   | Hon Hai Precision Industry Co., Ltd. First Debenture Issuing of 2009          | -                             | Held-to-maturity financial assets | -                                 | 175,911                 | -                       | 175,911                         | Note 6 |
|     |                   | Hon Hai Precision Industry Co., Ltd. First Debenture Issuing of 2009          | -                             | Held-to-maturity financial assets | -                                 | 100,458                 | -                       | 100,458                         | Note 6 |
|     |                   | Hon Hai Precision Industry Co., Ltd. First Debenture Issuing of 2009          | -                             | Held-to-maturity financial assets | -                                 | 100,546                 | -                       | 100,546                         | Note 6 |
|     |                   | FCFC 2nd Unsecured Corporate Bonds Issue in 2010                              | -                             | Held-to-maturity financial assets | -                                 | 200,686                 | -                       | 200,686                         | Note 6 |
|     |                   | FCFC 2nd Unsecured Corporate Bonds Issue in 2010                              | -                             | Held-to-maturity financial assets | -                                 | 100,241                 | -                       | 100,241                         | Note 6 |
|     |                   | TaipeiFubon Bank 5th Financial Debenturees-A Issue in 2010                    | -                             | Held-to-maturity financial assets | -                                 | 302,444                 | -                       | 302,444                         | Note 6 |
|     |                   | TaipeiFubon Bank 5th Financial Debenturees-A Issue in 2010                    | -                             | Held-to-maturity financial assets | -                                 | 201,160                 | -                       | 201,160                         | Note 6 |
|     |                   | TaipeiFubon Bank 5th Financial Debenturees-A Issue in 2010                    | -                             | Held-to-maturity financial assets | -                                 | 100,463                 | -                       | 100,463                         | Note 6 |
|     |                   | Formosa Petrochemical Corporation 1st Unsecured Corporate Bonds Issue in 2010 | -                             | Held-to-maturity financial assets | -                                 | 301,704                 | -                       | 301,704                         | Note 6 |
|     |                   | Formosa Petrochemical Corporation 1st Unsecured Corporate Bonds Issue in 2010 | -                             | Held-to-maturity financial assets | -                                 | 100,287                 | -                       | 100,287                         | Note 6 |
|     |                   | Taiwan Power Company 2nd Secured Corporate Bond-A Issue in 2010               | -                             | Held-to-maturity financial assets | -                                 | 100,148                 | -                       | 100,148                         | Note 6 |
|     |                   | Taiwan Power Co 3rd Secured Corporate Bond-A Issue in 2010                    | -                             | Held-to-maturity financial assets | -                                 | 200,964                 | -                       | 200,964                         | Note 6 |
|     |                   | Taiwan Power Co. 4th Secured Corporate Bond-A Issue in 2010                   | -                             | Held-to-maturity financial assets | -                                 | 199,912                 | -                       | 199,912                         | Note 6 |
|     |                   | Taiwan Power Co. 4th Secured Corporate Bond-A Issue in 2010                   | -                             | Held-to-maturity financial assets | -                                 | 99,956                  | -                       | 99,956                          | Note 6 |
|     |                   | Taiwan Power Co. 4th Secured Corporate Bond-A Issue in 2010                   | -                             | Held-to-maturity financial assets | -                                 | 300,433                 | -                       | 300,433                         | Note 6 |
|     |                   | Mega Securities Co., Ltd. 1st Unsecured Corporate Bond Issue in 2009          | -                             | Held-to-maturity financial assets | -                                 | 300,000                 | -                       | 300,000                         | Note 6 |
|     |                   | NAN YA Company 2nd Unsecured Corporate Bonds Issue in 2010                    | -                             | Held-to-maturity financial assets | -                                 | 50,327                  | -                       | 50,327                          | Note 6 |

(Continued)

| No. | Held Company Name | Marketable Securities Type and Name  | Relationship with the Company | Financial Statement Account       | December 31, 2012                  |                         |                         |                                 | Note   |
|-----|-------------------|--|-------------------------------|-----------------------------------|------------------------------------|-------------------------|-------------------------|---------------------------------|--------|
|     |                   |  |                               |                                   | Shares (Thousands/ Thousand Units) | Carrying Value (Note 5) | Percentage of Ownership | Market Value or Net Asset Value |        |
|     |                   | China Development Holding Corporation 1st Unsecured Corporate Bond-A Issue in 2009 | -                             | Held-to-maturity financial assets | -                                  | \$ 201,904              | -                       | \$ 201,904                      | Note 6 |
|     |                   | Formosa Petrochemical Corporation 3rd Unsecured Corporate Bonds Issue in 2010      | -                             | Held-to-maturity financial assets | -                                  | 299,752                 | -                       | 299,752                         | Note 6 |
|     |                   | Yuanta FHC 1st Unsecured Corporate Bonds-A Issue in 2011                           | -                             | Held-to-maturity financial assets | -                                  | 300,000                 | -                       | 300,000                         | Note 6 |
|     |                   | China Steel Corporation 1st Unsecured Corporate Bonds Issue in 2011                | -                             | Held-to-maturity financial assets | -                                  | 100,352                 | -                       | 100,352                         | Note 6 |
|     |                   | China Steel Corporation 1st Unsecured Corporate Bonds Issue in 2011                | -                             | Held-to-maturity financial assets | -                                  | 302,024                 | -                       | 302,024                         | Note 6 |
|     |                   | FCFC 1st Unsecured Corporate Bonds Issue in 2011                                   | -                             | Held-to-maturity financial assets | -                                  | 299,564                 | -                       | 299,564                         | Note 6 |
|     |                   | TSMC 1st Unsecured Corporate Bond-A Issue in 2011                                  | -                             | Held-to-maturity financial assets | -                                  | 299,777                 | -                       | 299,777                         | Note 6 |
|     |                   | TSMC 1st Unsecured Corporate Bond-A Issue in 2011                                  | -                             | Held-to-maturity financial assets | -                                  | 100,726                 | -                       | 100,726                         | Note 6 |
|     |                   | Fubon Financial Holding Co., Ltd. 1st Unsecured Corporate Bond issued in 2011      | -                             | Held-to-maturity financial assets | -                                  | 301,689                 | -                       | 301,689                         | Note 6 |
|     |                   | Fubon Financial Holding Co., Ltd. 1st Unsecured Corporate Bond issued in 2011      | -                             | Held-to-maturity financial assets | -                                  | 100,525                 | -                       | 100,525                         | Note 6 |
|     |                   | HSBC Bank (Taiwan) Limited 1st Financial Debenture-C Issue in 2011                 | -                             | Held-to-maturity financial assets | -                                  | 201,072                 | -                       | 201,072                         | Note 6 |
|     |                   | HSBC Bank (Taiwan) Limited 1st Financial Debenture-D Issue in 2011                 | -                             | Held-to-maturity financial assets | -                                  | 300,000                 | -                       | 300,000                         | Note 6 |
|     |                   | Formosa Petrochemical Corporation 1st Unsecured Corporate Bonds Issue in 2011      | -                             | Held-to-maturity financial assets | -                                  | 149,792                 | -                       | 149,792                         | Note 6 |
|     |                   | Formosa Petrochemical Corporation 3rd Unsecured Corporate Bonds Issue in 2011      | -                             | Held-to-maturity financial assets | -                                  | 199,697                 | -                       | 199,697                         | Note 6 |
|     |                   | Chinese Petroleum Corporation 2nd Unsecured Corporate Bond-A Issue in 2012         | -                             | Held-to-maturity financial assets | -                                  | 199,815                 | -                       | 199,815                         | Note 6 |
|     |                   | Taiwan Power Co. 1st Unsecured Corporate Bond-A Issue in 2012                      | -                             | Held-to-maturity financial assets | -                                  | 99,915                  | -                       | 99,915                          | Note 6 |
|     |                   | Taiwan Power Co. 1st Unsecured Corporate Bond-A Issue in 2012                      | -                             | Held-to-maturity financial assets | -                                  | 39,966                  | -                       | 39,966                          | Note 6 |
|     |                   | Taiwan Power Co. 1st Unsecured Corporate Bond-2A Issue in 2012                     | -                             | Held-to-maturity financial assets | -                                  | 99,912                  | -                       | 99,912                          | Note 6 |
|     |                   | TSMC 1st Unsecured Corporate Bond-A Issue in 2012                                  | -                             | Held-to-maturity financial assets | -                                  | 99,922                  | -                       | 99,922                          | Note 6 |
|     |                   | TSMC 1st Unsecured Corporate Bond-A Issue in 2012                                  | -                             | Held-to-maturity financial assets | -                                  | 199,843                 | -                       | 199,843                         | Note 6 |
|     |                   | TSMC 1st Unsecured Corporate Bond-A Issue in 2012                                  | -                             | Held-to-maturity financial assets | -                                  | 200,312                 | -                       | 200,312                         | Note 6 |
|     |                   | TSMC 2nd Unsecured Corporate Bond-A Issue in 2012                                  | -                             | Held-to-maturity financial assets | -                                  | 199,819                 | -                       | 199,819                         | Note 6 |
|     |                   | TSMC 3rd Unsecured Corporate Bond-A Issue in 2012                                  | -                             | Held-to-maturity financial assets | -                                  | 199,814                 | -                       | 199,814                         | Note 6 |
|     |                   | KGI Securities Co., Ltd. 1st Unsecured Corporate Bonds in 2012                     | -                             | Held-to-maturity financial assets | -                                  | 300,000                 | -                       | 300,000                         | Note 6 |

(Continued)

| No. | Held Company Name                     | Marketable Securities Type and Name   | Relationship with the Company   | Financial Statement Account   | December 31, 2012                                     |  |                                     |  | Note   |
|-----|---------------------------------------|---|---|---|---|--|-------------------------------------|--|--|
|     |                                       |   |   |   | Shares (Thousands/Thousand Units)                     | Carrying Value (Note 5)  | Percentage of Ownership             | Market Value or Net Asset Value                                    |  |
|     |                                       | Fubon Financial Holding Co., Ltd. 1st Unsecured Corporate Bond-A Issue in 2012  | -   | Held-to-maturity financial assets   | -   | \$ 300,000   | -                                   | \$ 300,000   | Note 6   |
|     |                                       | China Development Holding Corporation 1st Unsecured Corporate Bond-A Issue in 2012  | -   | Held-to-maturity financial assets   | -   | 150,059  | -                                   | 150,059  | Note 6   |
|     |                                       | China Development Holding Corporation 1st Unsecured Corporate Bond-A Issue in 2012  | -   | Held-to-maturity financial assets   | -   | 100,080  | -                                   | 100,080  | Note 6   |
|     |                                       | China Development Holding Corporation 1st Unsecured Corporate Bond-A Issue in 2012  | -   | Held-to-maturity financial assets   | -   | 100,080  | -                                   | 100,080  | Note 6   |
|     |                                       | Eximbank 19-2nd Unsecured Financial Debentures  | -   | Held-to-maturity financial assets   | -   | 150,000  | -                                   | 150,000  | Note 6   |
| 1   | Senao International Co., Ltd.         | <u>Stocks</u><br>Senao Networks, Inc.<br>Senao International (Samoa) Holding Ltd.<br><br>N.T.U. Innovation Incubation Corporation   | Equity-method investee<br>Subsidiary<br><br>-   | Investments accounted for using equity method<br>Investments accounted for using equity method<br><br>Financial assets carried at cost  | 16,824<br>33,475<br><br>1,200                         | 412,666<br>544,489<br>(US\$ 18,688)<br>12,000                      | 40<br>100<br><br>9                  | 412,666<br>545,062<br>(US\$ 18,708)<br>12,000                      | Note 1<br>Note 1<br><br>Note 2                               |
| 2   | CHIEF Telecom Inc.                    | <u>Stocks</u><br>Unigate Telecom Inc.<br>Chief International Corp.<br><br>3 Link Information Service Co., Ltd.<br>21Vianet Group. Inc.  | Subsidiary<br>Subsidiary<br><br>-<br>-  | Investments accounted for using equity method<br>Investments accounted for using equity method<br><br>Financial assets carried at cost<br>Available-for-sale financial assets   | 200<br>200<br><br>374<br>208                          | 1,669<br>14,234<br>(US\$ 490)<br>3,450<br>9,661<br>(US\$ 333)      | 100<br>100<br><br>10<br>-           | 1,669<br>14,234<br>(US\$ 490)<br>6,734<br>9,661<br>(US\$ 333)      | Note 1<br>Note 1<br><br>Note 2<br>Note 4                     |
| 3   | Chunghwa System Integration Co., Ltd. | <u>Stocks</u><br>Concord Technology Co., Ltd.   | Subsidiary  | Investments accounted for using equity method   | 1,500   | 19,041<br>(RMB 4,124)  | 100                                 | 19,041<br>(RMB 4,124)  | Note 1   |
| 7   | Spring House Entertainment Tech. Inc. | <u>Stocks</u><br>Ceylon Innovation Co., Ltd.  | Subsidiary  | Investments accounted for using equity method   | 100   | 913  | 100                                 | 913  | Note 1   |
| 8   | Light Era Development Co., Ltd.       | <u>Stocks</u><br>Yao Yong Real Property Co., Ltd.   | Subsidiary  | Investments accounted for using equity method   | 83,290  | 2,719,688  | 100                                 | 1,826,292  | Note 1   |
| 9   | Chunghwa Telecom Singapore Pte., Ltd. | <u>Stocks</u><br>ST-2 Satellite Ventures Pte., Ltd.   | Equity-method investee  | Investments accounted for using equity method   | 18,102  | 541,672<br>(SG\$ 22,798)   | 38                                  | 541,672<br>(SG\$ 22,798)   | Note 1   |
| 14  | Chunghwa Investment Co., Ltd.         | <u>Stocks</u><br>Chunghwa Precision Test Tech. Co., Ltd.<br>Chunghwa Investment Holding Co., Ltd. (CIHC)<br><br>PandaMonium Company Ltd.<br>CHIEF Telecom Inc.<br>Senao International Co., Ltd.<br>Tatung Technology Inc. | Subsidiary<br>Subsidiary<br><br>Equity-method investee<br>Equity-method investee<br>Equity-method investee<br>- | Investments accounted for using equity method<br>Investments accounted for using equity method<br><br>Investments accounted for using equity method<br>Investments accounted for using equity method<br>Investments accounted for using equity method<br>Financial assets carried at cost | 10,317<br>1,432<br><br>602<br>2,000<br>1,001<br>4,571 | 138,060<br>18,835<br>(US\$ 649)<br>-<br>28,181<br>47,016<br>73,964 | 53<br>100<br><br>43<br>4<br>-<br>11 | 138,060<br>18,835<br>(US\$ 649)<br>-<br>28,181<br>95,195<br>73,180 | Note 1<br>Note 1<br><br>Note 1<br>Note 1<br>Note 4<br>Note 2 |

(Continued)

| No. | Held Company Name                        | Marketable Securities Type and Name  | Relationship with the Company                        | Financial Statement Account  | December 31, 2012                  |   |                          |   | Note   |
|-----|--|--|--|--|------------------------------------|---|--------------------------|---|--|
|     |  |  |  |  | Shares (Thousands/ Thousand Units) | Carrying Value (Note 5)   | Percentage of Ownership  | Market Value or Net Asset Value   |  |
|     |  | Digimax Inc.   | -  | Financial assets carried at cost   | 2,000                              | \$ 10,928   | 3                        | \$ 17,980   | Note 2                                       |
|     |  | iD Branding Ventures   | -  | Financial assets carried at cost   | 1,875                              | 18,750  | 3                        | 16,350  | Note 2                                       |
|     |  | Uni Display Inc.   | -  | Financial assets carried at cost   | 2,269                              | 21,974  | 1                        | 12,659  | Note 2                                       |
|     |  | A2peak Power Co., Ltd.   | -  | Financial assets carried at cost   | 990                                | -   | 3                        | -   | Note 2                                       |
|     |  | CoaTronics Inc.  | -  | Financial assets carried at cost   | 840                                | 1,168   | 6                        | 3,083   | Note 2                                       |
|     |  | VisEra Technologies Company Ltd.   | -  | Financial assets carried at cost   | 649                                | 29,371  | -                        | 12,889  | Note 2                                       |
|     |  | Ultra Fine Optical Technology Co., Ltd.  | -  | Financial assets carried at cost   | 1,800                              | 18,000  | 8                        | 14,418  | Note 2                                       |
|     |  | Procrystal Technology Co., Ltd.  | -  | Financial assets carried at cost   | 1,350                              | 16,200  | 2                        | 16,268  | Note 2                                       |
|     |  | Tons Lightology Inc.   | -  | Financial assets carried at cost   | 1,113                              | 66,150  | 4                        | 34,080  | Note 7                                       |
|     |  | Alder Optomechanical Corp.   | -  | Financial assets carried at cost   | 666                                | 23,310  | 2                        | 11,139  | Note 2                                       |
|     |  | Aide Energy (Cayman) Holding Co., Ltd.   | -  | Financial assets carried at cost   | 800                                | 2,550   | 1                        | 6,149   | Note 2                                       |
|     |  | Mediapro Technology Ltd.   | -  | Financial assets carried at cost   | 55                                 | 8,177   | -                        | 5,816   | Note 2                                       |
|     |  | Fashion Guide Co., Ltd.  | -  | Financial assets carried at cost   | 200                                | 2,000   | 2                        | 638   | Note 2                                       |
|     |  | PChome Store Inc.  | -  | Available-for-sale financial assets - noncurrent   | 325                                | 14,073  | 2                        | 32,500  | Note 4                                       |
|     |  | <u>Bond</u><br>Hua Nan Financial Holdings Company 1st Unsecured Subordinate Corporate Bonds Issue in 2006  | -  | Available-for-sale financial assets  | 50,000                             | 50,203  | -                        | 50,471  | Note 9                                       |
| 18  | Concord Technology Co., Ltd.             | <u>Stocks</u><br>Glory Network System Service (Shanghai) Co., Ltd.   | Subsidiary   | Investments accounted for using equity method  | 1,500                              | 19,041<br>(RMB 4,124)   | 100                      | 19,041<br>(RMB 4,124)   | Note 1                                       |
| 20  | Chunghwa Precision Test Tech. Co., Ltd.  | <u>Stocks</u><br>Chunghwa Precision Test Tech. USA Corporation   | Subsidiary   | Investments accounted for using equity method  | 400                                | 10,513<br>(US\$ 362)  | 100                      | 10,513<br>(US\$ 362)  | Note 1                                       |
| 22  | Senao International (Samoa) Holding Ltd. | <u>Stocks</u><br>Senao International HK Limited<br>HopeTech Technologies Limited   | Subsidiary<br>Equity-method investee                 | Investments accounted for using equity method<br>Investments accounted for using equity method   | 32,760<br>5,240                    | 521,718<br>(US\$ 17,906)<br>22,315<br>(US\$ 766)  | 100<br>45                | 521,718<br>(US\$ 17,906)<br>22,315<br>(US\$ 766)  | Note 1<br>Note 1                             |
| 23  | Senao International HK Limited           | <u>Stocks</u><br>Senao Trading (Fujian) Co., Ltd.<br>Senao International Trading (Shanghai) Co., Ltd.<br>Senao International Trading (Shanghai) Co., Ltd.<br>Senao International Trading (Jiangsu) Co., Ltd. | Subsidiary<br>Subsidiary<br>Subsidiary<br>Subsidiary | Investments accounted for using equity method<br>Investments accounted for using equity method<br>Investments accounted for using equity method<br>Investments accounted for using equity method | -<br>-<br>-<br>-                   | 184,251<br>(US\$ 6,324)<br>125,656<br>(US\$ 4,313)<br>52,704<br>(US\$ 1,809)<br>156,241<br>(US\$ 5,362) | 100<br>100<br>100<br>100 | 184,251<br>(US\$ 6,324)<br>125,656<br>(US\$ 4,313)<br>52,704<br>(US\$ 1,809)<br>156,241<br>(US\$ 5,362) | Note 1<br>Note 1<br>Notes 1 and 10<br>Note 1 |
| 24  | Chunghwa Investment Holding Co., Ltd.    | <u>Stocks</u><br>CHI One Investment Co., Limited   | Subsidiary   | Investments accounted for using equity method  | 6,520                              | 9,101<br>(HK\$ 2,429)   | 100                      | 9,101<br>(HK\$ 2,429)   | Note 1                                       |

(Continued)

| No. | Held Company Name                           | Marketable Securities Type and Name                          | Relationship with the Company | Financial Statement Account                   | December 31, 2012                 |                         |                         |                                 | Note   |
|-----|---|--|-------------------------------|---|-----------------------------------|-------------------------|-------------------------|---------------------------------|--------|
|     |   |  |                               |   | Shares (Thousands/Thousand Units) | Carrying Value (Note 5) | Percentage of Ownership | Market Value or Net Asset Value |        |
| 26  | CHI One Investment Co., Limited             | <u>Stocks</u><br>Xiamen Sertec Business Technology Co., Ltd. | Equity-method investee        | Investments accounted for using equity method | -                                 | \$ 8,634<br>(RMB 1,853) | 49                      | \$ 8,634<br>(RMB 1,853)         | Note 1 |
| 27  | Prime Asia Investments Group, Ltd. (B.V.I.) | <u>Stocks</u><br>Chunghwa Hsingta Company Ltd.               | Subsidiary                    | Investments accounted for using equity method | -                                 | 155,476<br>(RMB 33,360) | 100                     | 155,476<br>(RMB 33,360)         | Note 1 |
| 29  | Chunghwa Hsingta Company Ltd.               | <u>Stocks</u><br>Chunghwa Telecom (China) Co., Ltd.          | Subsidiary                    | Investments accounted for using equity method | -                                 | 122,628<br>(RMB 26,315) | 100                     | 122,628<br>(RMB 26,315)         | Note 1 |
|     |   | Jiangsu Zhenhua Information Technology Company, LLC          | Subsidiary                    | Investments accounted for using equity method | -                                 | 24,218<br>(RMB 5,197)   | 75                      | 24,218<br>(RMB 5,197)           | Note 1 |
|     |   | Hua-Xiong Information Technology Co., Ltd.                   | Subsidiary                    | Investments accounted for using equity method | -                                 | 8,630<br>(RMB 1,852)    | 51                      | 8,630<br>(RMB 1,852)            | Note 1 |

Note 1: The net asset values of investees were based on audited financial statements.

Note 2: The net asset values of investees were based on unaudited financial statements.

Note 3: The net asset values of beneficiary certificates (mutual fund) were based on the net asset values on December 31, 2012.

Note 4: Market value was based on the closing price of December 31, 2012.

Note 5: Showing at their original carrying amounts without adjustments for fair values, except for held-to-maturity financial assets.

Note 6: The net asset values of investees were based on amortized cost.

Note 7: Market value of emerging stock was based on the average trading price on December 31, 2012.

Note 8: New Prospect Investments Holdings Ltd. (B.V.I.) was incorporated in March 2006, but not yet begun operation as of December 31, 2012.

Note 9: The market value is determined by the hundred price of transaction market on December 31, 2012.

Note 10: The English name is the same as the above entity; however, the Chinese names included in the respective Articles of Incorporations are different.

(Concluded)

## CHUNGHWA TELECOM CO., LTD.

MARKETABLE SECURITIES ACQUIRED AND DISPOSED OF AT COSTS OR PRICES OF AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL  
 YEAR ENDED DECEMBER 31, 2012  
 (Amounts in Thousands of New Taiwan Dollars)

| No. | Company Name               | Marketable Securities Type and Name   | Financial Statement Account                      | Counter-party | Nature of Relationship | Beginning Balance                 |                     | Acquisition                       |                          | Disposal                          |         |                         |                         | Ending Balance                    |                       |
|-----|----------------------------|---|--|---------------|------------------------|-----------------------------------|---------------------|-----------------------------------|--------------------------|-----------------------------------|---------|-------------------------|-------------------------|-----------------------------------|-----------------------|
|     |                            |   |  |               |                        | Shares (Thousands/Thousand Units) | Amount (Note 1)     | Shares (Thousands/Thousand Units) | Amount                   | Shares (Thousands/Thousand Units) | Amount  | Carrying Value (Note 1) | Gain (Loss) on Disposal | Shares (Thousands/Thousand Units) | Amount (Note 1)       |
| 0   | Chunghwa Telecom Co., Ltd. | <u>Stocks</u>   |  |               |                        |                                   |                     |                                   |                          |                                   |         |                         |                         |                                   |                       |
|     |                            | Donghua Telecom Co., Ltd.   | Investments accounted for using equity method    | -             | Subsidiary             | 223,190                           | \$ 891,526 (Note 3) | 81,900                            | \$ 313,299 (HK\$ 81,900) | -                                 | \$ -    | \$ -                    | \$ -                    | 305,090                           | \$ 1,168,032 (Note 3) |
|     |                            | Chunghwa Investment Co., Ltd.   | Investments accounted for using equity method    | -             | Subsidiary             | 178,000                           | 1,742,779 (Note 3)  | -                                 | -                        | 97,900                            | 979,000 | 979,000 (Note 4)        | -                       | 80,100                            | 614,217 (Note 3)      |
|     |                            | China Airlines Ltd.   | Available-for-sale financial assets - noncurrent | -             | -                      | -                                 | -                   | 263,622                           | 3,092,287                | -                                 | -       | -                       | -                       | 263,622                           | 3,092,287             |
|     |                            | <u>Beneficiary certificates (mutual fund)</u>                                 |  |               |                        |                                   |                     |                                   |                          |                                   |         |                         |                         |                                   |                       |
|     |                            | HSBC Gbl Emerging Markets Bol A Inc.  | Available-for-sale financial assets              | -             | -                      | 304                               | 172,231             | -                                 | -                        | 304                               | 181,011 | 172,231                 | 8,780                   | -                                 | -                     |
|     |                            | Templeton Global Bond A (ACC)   | Available-for-sale financial assets              | -             | -                      | 418                               | 307,114             | -                                 | -                        | 418                               | 308,560 | 307,114                 | 1,446                   | -                                 | -                     |
|     |                            | PIMCO Global Investment Grade Credit - Ins H Acc                              | Available-for-sale financial assets              | -             | -                      | 751                               | 307,245             | 320                               | 148,873                  | -                                 | -       | -                       | -                       | 1,071                             | 456,118               |
|     |                            | Fidelity Funds - US Dollar Bond Fund Y-ACC-USD                                | Available-for-sale financial assets              | -             | -                      | -                                 | -                   | 778                               | 297,283                  | -                                 | -       | -                       | -                       | 778                               | 297,283               |
|     |                            | HSBC Global Investment Funds - Global Emerging Markets Bond ID                | Available-for-sale financial assets              | -             | -                      | -                                 | -                   | 273                               | 177,180                  | 273                               | 172,956 | 177,180                 | (4,224)                 | -                                 | -                     |
|     |                            | Eastpring Investment - US Corporate Bond Fund                                 | Available-for-sale financial assets              | -             | -                      | -                                 | -                   | 433                               | 149,190                  | -                                 | -       | -                       | -                       | 433                               | 149,190               |
|     |                            | <u>Bonds</u>  |  |               |                        |                                   |                     |                                   |                          |                                   |         |                         |                         |                                   |                       |
|     |                            | NAN YA Company 2nd Unsecured Corporate Bonds Issue in 2008                    | Held-to-maturity financial assets                | -             | -                      | -                                 | 400,000 (Note 2)    | -                                 | -                        | -                                 | -       | 200,000 (Note 2)        | -                       | -                                 | 200,000 (Note 2)      |
|     |                            | NAN YA Company 3rd Unsecured Corporate Bonds Issue in 2008                    | Held-to-maturity financial assets                | -             | -                      | -                                 | 200,000 (Note 2)    | -                                 | -                        | -                                 | -       | 100,000 (Note 2)        | -                       | -                                 | 100,000 (Note 2)      |
|     |                            | TSMC 1st Unsecured Corporate Bond-C Issue in 2002                             | Held-to-maturity financial assets                | -             | -                      | -                                 | 300,000 (Note 2)    | -                                 | -                        | -                                 | -       | 300,000 (Note 2)        | -                       | -                                 | -                     |
|     |                            | TSMC 1st Unsecured Corporate Bond-C Issue in 2002                             | Held-to-maturity financial assets                | -             | -                      | -                                 | 300,000 (Note 2)    | -                                 | -                        | -                                 | -       | 300,000 (Note 2)        | -                       | -                                 | -                     |
|     |                            | TSMC 1st Unsecured Corporate Bond-A Issue in 2011                             | Held-to-maturity financial assets                | -             | -                      | -                                 | 300,000 (Note 2)    | -                                 | 100,000 (Note 2)         | -                                 | -       | -                       | -                       | -                                 | 400,000 (Note 2)      |
|     |                            | TSMC 1st Unsecured Corporate Bond-A Issue in 2012                             | Held-to-maturity financial assets                | -             | -                      | -                                 | -                   | -                                 | 500,000 (Note 2)         | -                                 | -       | -                       | -                       | -                                 | 500,000 (Note 2)      |
|     |                            | TSMC 2nd Unsecured Corporate Bond-A Issue in 2012                             | Held-to-maturity financial assets                | -             | -                      | -                                 | -                   | -                                 | 200,000 (Note 2)         | -                                 | -       | -                       | -                       | -                                 | 200,000 (Note 2)      |
|     |                            | TSMC 3rd Unsecured Corporate Bond-A Issue in 2012                             | Held-to-maturity financial assets                | -             | -                      | -                                 | -                   | -                                 | 200,000 (Note 2)         | -                                 | -       | -                       | -                       | -                                 | 200,000 (Note 2)      |
|     |                            | Formosa Petrochemical Corporation 2nd Unsecured Corporate Bonds Issue in 2008 | Held-to-maturity financial assets                | -             | -                      | -                                 | 500,000 (Note 2)    | -                                 | -                        | -                                 | -       | 250,000 (Note 2)        | -                       | -                                 | 250,000 (Note 2)      |
|     |                            | Formosa Petrochemical Corporation 3rd Unsecured Corporate Bonds Issue in 2008 | Held-to-maturity financial assets                | -             | -                      | -                                 | 250,000 (Note 2)    | -                                 | -                        | -                                 | -       | 125,000 (Note 2)        | -                       | -                                 | 125,000 (Note 2)      |

(Continued)

| No. | Company Name                             | Marketable Securities Type and Name   | Financial Statement Account                   | Counter-party | Nature of Relationship | Beginning Balance                 |                       | Acquisition                       |                       | Disposal                          |        |                         |                         | Ending Balance                    |                                |
|-----|--|---|---|---------------|------------------------|-----------------------------------|-----------------------|-----------------------------------|-----------------------|-----------------------------------|--------|-------------------------|-------------------------|-----------------------------------|--------------------------------|
|     |  |   |   |               |                        | Shares (Thousands/Thousand Units) | Amount (Note 1)       | Shares (Thousands/Thousand Units) | Amount                | Shares (Thousands/Thousand Units) | Amount | Carrying Value (Note 1) | Gain (Loss) on Disposal | Shares (Thousands/Thousand Units) | Amount (Note 1)                |
|     |  | Chinese Petroleum Corporation 1st Unsecured Corporate Bonds-B Issue in 2006         | Held-to-maturity financial assets             | -             | -                      | -                                 | \$ 700,000 (Note 2)   | -                                 | \$ -                  | -                                 | \$ -   | \$ 350,000 (Note 2)     | \$ -                    | -                                 | \$ 350,000 (Note 2)            |
|     |  | Chinese Petroleum Corporation 1st Unsecured Corporate Bonds-C Issue in 2006         | Held-to-maturity financial assets             | -             | -                      | -                                 | 100,000 (Note 2)      | -                                 | 200,000 (Note 2)      | -                                 | -      | -                       | -                       | -                                 | 300,000 (Note 2)               |
|     |  | Chinese Petroleum Corporation 2st Unsecured Corporate Bonds-A Issue in 2012         | Held-to-maturity financial assets             | -             | -                      | -                                 | -                     | -                                 | 200,000 (Note 2)      | -                                 | -      | -                       | -                       | -                                 | 200,000 (Note 2)               |
|     |  | China Steel Corporation 2nd Unsecured Corporate Bonds-A Issue in 2008               | Held-to-maturity financial assets             | -             | -                      | -                                 | 200,000 (Note 2)      | -                                 | -                     | -                                 | -      | 100,000 (Note 2)        | -                       | -                                 | 100,000 (Note 2)               |
|     |  | China Steel Corporation 1nd Unsecured Corporate Bonds-A Issue in 2011               | Held-to-maturity financial assets             | -             | -                      | -                                 | 100,000 (Note 2)      | -                                 | 300,000 (Note 2)      | -                                 | -      | -                       | -                       | -                                 | 400,000 (Note 2)               |
|     |  | Taiwan Power Co. 3rd Unsecured Corporate Bond-C Issue in 2006                       | Held-to-maturity financial assets             | -             | -                      | -                                 | -                     | -                                 | 200,000 (Note 2)      | -                                 | -      | -                       | -                       | -                                 | 200,000 (Note 2)               |
|     |  | Taiwan Power Co. 1st Unsecured Corporate Bond-A Issue in 2012                       | Held-to-maturity financial assets             | -             | -                      | -                                 | -                     | -                                 | 140,000 (Note 2)      | -                                 | -      | -                       | -                       | -                                 | 140,000 (Note 2)               |
|     |  | Taiwan Power Co. 2nd Unsecured Corporate Bond-A Issue in 2012                       | Held-to-maturity financial assets             | -             | -                      | -                                 | -                     | -                                 | 100,000 (Note 2)      | -                                 | -      | -                       | -                       | -                                 | 100,000 (Note 2)               |
|     |  | Yuanta Securities Co., Ltd. 1st Unsecured Corporate Bonds-B Issue in 2007           | Held-to-maturity financial assets             | -             | -                      | -                                 | 200,000 (Note 2)      | -                                 | -                     | -                                 | -      | 200,000 (Note 2)        | -                       | -                                 | -                              |
|     |  | KGI Securities Co., Ltd. 1st Unsecured Corporate Bonds in 2011                      | Held-to-maturity financial assets             | -             | -                      | -                                 | -                     | -                                 | 300,000 (Note 2)      | -                                 | -      | -                       | -                       | -                                 | 300,000 (Note 2)               |
|     |  | China Development Holding Corporation 1st Unsecured Corporate Bonds Issue in 2007   | Held-to-maturity financial assets             | -             | -                      | -                                 | 400,000 (Note 2)      | -                                 | -                     | -                                 | -      | 400,000 (Note 2)        | -                       | -                                 | -                              |
|     |  | China Development Holding Corporation 1st Unsecured Corporate Bonds-A Issue in 2011 | Held-to-maturity financial assets             | -             | -                      | -                                 | -                     | -                                 | 350,000 (Note 2)      | -                                 | -      | -                       | -                       | -                                 | 350,000 (Note 2)               |
|     |  | Fubon Financial Holding Co., Ltd. 1st Unsecured Corporate Bonds Issue in 2011       | Held-to-maturity financial assets             | -             | -                      | -                                 | -                     | -                                 | 400,000 (Note 2)      | -                                 | -      | -                       | -                       | -                                 | 400,000 (Note 2)               |
|     |  | Fubon Financial Holding Co., Ltd. 1st Unsecured Corporate Bonds-A Issue in 2012     | Held-to-maturity financial assets             | -             | -                      | -                                 | -                     | -                                 | 300,000 (Note 2)      | -                                 | -      | -                       | -                       | -                                 | 300,000 (Note 2)               |
|     |  | HSBC Bank (Taiwan) Limited 1st Financial Debenture - C Issue in 2011                | Held-to-maturity financial assets             | -             | -                      | -                                 | -                     | -                                 | 200,000 (Note 2)      | -                                 | -      | -                       | -                       | -                                 | 200,000 (Note 2)               |
|     |  | Eximoank 19-2nd Unsecured Financial Debenture                                       | Held-to-maturity financial assets             | -             | -                      | -                                 | -                     | -                                 | 150,000 (Note 2)      | -                                 | -      | -                       | -                       | -                                 | 150,000 (Note 2)               |
| 1   | Senao International Co., Ltd.            | <u>Stocks</u><br>Senao International (Samoa) Holding Ltd.                           | Investments accounted for using equity method | -             | Subsidiary             | 15,875                            | 466,517 (US\$ 15,875) | 17,600                            | 522,080 (US\$ 17,600) | -                                 | -      | -                       | -                       | 33,475                            | 988,597 (US\$ 33,475) (Note 3) |
| 22  | Senao International (Samoa) Holding Ltd. | <u>Stocks</u><br>Senao International HK Limited                                     | Investments accounted for using equity method | -             | Subsidiary             | 15,180                            | 444,712 (US\$ 15,180) | 17,580                            | 521,474 (US\$ 17,580) | -                                 | -      | -                       | -                       | 32,760                            | 966,186 (US\$ 32,760) (Note 3) |

(Continued)

| No. | Company Name                   | Marketable Securities Type and Name              | Financial Statement Account                   | Counter-party | Nature of Relationship | Beginning Balance                 |                            | Acquisition                       |                            | Disposal                          |        |                         | Ending Balance          |                                   |  |
|-----|--------------------------------|--|---|---------------|------------------------|-----------------------------------|----------------------------|-----------------------------------|----------------------------|-----------------------------------|--------|-------------------------|-------------------------|-----------------------------------|--|
|     |                                |  |   |               |                        | Shares (Thousands/Thousand Units) | Amount (Note 1)            | Shares (Thousands/Thousand Units) | Amount                     | Shares (Thousands/Thousand Units) | Amount | Carrying Value (Note 1) | Gain (Loss) on Disposal | Shares (Thousands/Thousand Units) | Amount (Note 1)                        |
| 23  | Senao International HK Limited | Stocks   |   |               |                        |                                   |                            |                                   |                            |                                   |        |                         |                         |                                   |  |
|     |                                | Senao International Trading (Jiangsu) Co., Ltd.  | Investments accounted for using equity method | -             | Subsidiary             | -                                 | \$ 115,971<br>(US\$ 4,000) | -                                 | \$ 147,765<br>(US\$ 5,000) | -                                 | \$ -   | \$ -                    | \$ -                    | -                                 | \$ 263,736<br>(US\$ 9,000)<br>(Note 3) |
|     |                                | Senao International Trading (Fujian) Co., Ltd.   | Investments accounted for using equity method | -             | Subsidiary             | -                                 | 116,821<br>(US\$ 4,000)    | -                                 | 221,972<br>(US\$ 7,500)    | -                                 | -      | -                       | -                       | -                                 | 338,793<br>(US\$ 11,500)<br>(Note 3)   |
|     |                                | Senao International Trading (Shanghai) Co., Ltd. | Investments accounted for using equity method | -             | Subsidiary             | -                                 | 148,413<br>(US\$ 5,000)    | -                                 | 149,313<br>(US\$ 5,000)    | -                                 | -      | -                       | -                       | -                                 | 297,726<br>(US\$ 10,000)<br>(Note 3)   |

Note 1: Showing at their original carrying amounts without adjustments for fair values.

Note 2: Stated at its nominal amounts.

Note 3: The ending balance includes equity in earnings or losses of equity method investees and cumulative transaction adjustments.

Note 4: The amount decrease was because of capital reduction.

(Concluded)

**CHUNGHWA TELECOM CO., LTD.**

**ACQUISITION OF REAL ESTATE AMOUNTING AT COST OF AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL  
FOR THE YEAR ENDED DECEMBER 31, 2012  
(Amounts in Thousands of New Taiwan Dollars)**

| Company Name                    | Type of Property | Transactions Date | Transaction Amount | Payment Term | Counter-party             | Nature of Relationship | Prior Transaction made by Related Counter-party |              |               |        | Price Reference   | Purpose of Acquisition     | Other Terms |
|---------------------------------|------------------|-------------------|--------------------|--------------|---------------------------|------------------------|---|--------------|---------------|--------|---|----------------------------|-------------|
|                                 |                  |                   |                    |              |                           |                        | Owner   | Relationship | Transfer Date | Amount |   |                            |             |
| Light Era Development Co., Ltd. | Land             | 2012.10.04        | \$1,977,932        | Paid         | 5 people (Mr. Shen, etc.) | None                   | -   | -            | -             | \$ -   | In accordance with land appraisal report and mutual agreement | Investment and development | None        |

## CHUNGHWA TELECOM CO., LTD.

TOTAL PURCHASES FROM OR SALES TO RELATED PARTIES AMOUNTING TO AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL  
YEAR ENDED DECEMBER 31, 2012

(Amounts in Thousands of New Taiwan Dollars)

| No.                             | Company Name                          | Related Party                                       | Nature of Relationship | Transaction Details |                 |            |               | Abnormal Transaction (Note 3) |               | Notes/Accounts Payable or Receivable |            |
|---------------------------------|---------------------------------------|---|------------------------|---------------------|-----------------|------------|---------------|-------------------------------|---------------|--------------------------------------|------------|
|                                 |                                       |   |                        | Purchase/Sale       | Amount (Note 1) | % to Total | Payment Terms | Units Price                   | Payment Terms | Ending Balance (Note 2)              | % to Total |
| 0                               | Chunghwa Telecom Co., Ltd.            | Senao International Co., Ltd.                       | Subsidiary             | Purchase            | \$ 9,832,009    | 7          | 30-90 days    | \$ -                          | -             | \$ (1,305,378)                       | (9)        |
|                                 |                                       |   |                        | Sales               | 713,394         | 1          | 30 days       | -                             | -             | 534,789                              | 6          |
|                                 |                                       | Chunghwa System Integration Co., Ltd.               | Subsidiary             | Purchase            | 803,102         | 1          | 30 days       | -                             | -             | (525,183)                            | (4)        |
|                                 |                                       | CHIEF Telecom Inc.                                  | Subsidiary             | Purchase            | 334,152         | -          | 30 days       | -                             | -             | (60,209)                             | -          |
|                                 |                                       |   |                        | Sales               | 260,808         | -          | 60 days       | -                             | -             | 27,952                               | -          |
|                                 |                                       | Taiwan International Standard Electronics Co., Ltd. | Equity-method investee | Purchase            | 572,878         | -          | 30-90 days    | -                             | -             | (594,340)                            | (4)        |
|                                 |                                       | Chunghwa Telecom Global Inc.                        | Subsidiary             | Purchase            | 270,069         | -          | 90 days       | -                             | -             | (69,735)                             | -          |
|                                 |                                       | Skysoft Co., Ltd.                                   | Equity-method investee | Purchase            | 108,182         | -          | 30 days       | -                             | -             | (32,951)                             | -          |
|                                 |                                       | So-net Entertainment Taiwan                         | Equity-method investee | Sales               | 336,470         | -          | 60 days       | -                             | -             | 20,606                               | -          |
|                                 |                                       | Donghwa Telecom Co., Ltd.                           | Subsidiary             | Purchase            | 109,516         | -          | 30 days       | -                             | -             | (81,964)                             | (1)        |
|                                 |                                       |   |                        | Sales               | 123,151         | -          | 30 days       | -                             | -             | 39,865                               | -          |
|                                 |                                       | InforExplorer Co., Ltd.                             | Equity-method investee | Purchase            | 274,008         | -          | 90 days       | -                             | -             | (112,161)                            | (1)        |
| ST-Satellite Ventures Pte. Ltd. | Equity-method investee                | Purchase  | 405,680                | -                   | 30 days         | -          | -             | (19,041)                      | -             |                                      |            |
| 1                               | Senao International Co., Ltd.         | Chunghwa Telecom Co., Ltd.                          | Parent company         | Purchase            | 639,532         | 2          | 30 days       | -                             | -             | (531,018)                            | (21)       |
|                                 |                                       |   |                        | Sales               | 9,865,446       | 28         | 30-90 days    | -                             | -             | 1,327,409                            | 55         |
| 2                               | CHIEF Telecom Inc.                    | Chunghwa Telecom Co., Ltd.                          | Parent company         | Purchase            | 260,379         | 26         | 60 days       | -                             | -             | (27,324)                             | (34)       |
|                                 |                                       |   |                        | Sales               | 334,152         | 24         | 30 days       | -                             | -             | 62,392                               | 40         |
| 3                               | Chunghwa System Integration Co., Ltd. | Chunghwa Telecom Co., Ltd.                          | Parent company         | Sales               | 2,517,203       | 90         | 30 days       | -                             | -             | 549,584                              | 90         |
| 5                               | Chunghwa Telecom Global Inc.          | Chunghwa Telecom Co., Ltd.                          | Parent company         | Sales               | 270,069         | 57         | 90 days       | -                             | -             | 69,735                               | 82         |
| 6                               | Donghwa Telecom Co., Ltd.             | Chunghwa Telecom Co., Ltd.                          | Parent company         | Purchase            | 123,151         | 31         | 30 days       | -                             | -             | (39,865)                             | 49         |
|                                 |                                       |   |                        | Sales               | 109,516         | 24         | 30 days       | -                             | -             | 81,964                               | 83         |

(Continued)

Note 1: The differences were because Chunghwa Telecom Co., Ltd. and subsidiaries classified the amount as inventories, property, plant and equipment, intangible assets, and operating expenses.

Note 2: Notes and accounts receivable did not include the amount as amounts collected for others and other receivables.

Note 3: Transaction terms with the related parties were determined in accordance with mutual agreements when there were no similar transactions with third parties. Other transactions with related parties were not significantly different from those with third parties.

(Concluded)

**CHUNGHWA TELECOM CO., LTD.****RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL****DECEMBER 31, 2012****(Amounts in Thousands of New Taiwan Dollars)**

| No. | Company Name                                  | Related Party                 | Nature of Relationship | Ending Balance | Turnover Rate<br>(Note 1) | Overdue |              | Amounts Received<br>in Subsequent<br>Period | Allowance for<br>Bad Debts |
|-----|---|-------------------------------|------------------------|----------------|---------------------------|---------|--------------|---|----------------------------|
|     |   |                               |                        |                |                           | Amounts | Action Taken |   |                            |
| 0   | Chunghwa Telecom Co., Ltd.                    | Senao International Co., Ltd. | Subsidiary             | \$ 1,443,395   | 12.44                     | \$ -    | -            | \$ 1,443,395                                | \$ -                       |
| 1   | Senao International Co., Ltd.                 | Chunghwa Telecom Co., Ltd.    | Parent company         | 1,779,706      | 7.64                      | -       | -            | 1,558,720                                   | -                          |
| 3   | Chunghwa System Integration Co., Ltd.         | Chunghwa Telecom Co., Ltd.    | Parent company         | 549,584        | 4.27                      | -       | -            | 536,890                                     | -                          |
| 4   | Chunghwa International Yellow Pages Co., Ltd. | Chunghwa Telecom Co., Ltd.    | Parent company         | 153,887        | 7.40                      | -       | -            | 136,247                                     | -                          |

Note 1: Payments and receipts collected for others are excluded from the accounts receivable for calculating the turnover rate.

## CHUNGHWA TELECOM CO., LTD.

NAMES, LOCATIONS, AND OTHER INFORMATION OF INVESTEEs IN WHICH THE COMPANY EXERCISES SIGNIFICANT INFLUENCE  
FOR THE YEAR ENDED DECEMBER 31, 2012  
(Amounts in Thousands of New Taiwan Dollars, Unless Otherwise Specified)

| No.   | Investor Company              | Investee Company   | Location               | Main Businesses and Products   | Original Investment Amount |                          | Balance as of December 31, 2012 |                                |                          | Net Income (Loss)<br>of the Investee | Recognized Gain<br>(Loss)<br>(Notes 1 and 2) | Note                   |
|---|-------------------------------|--|------------------------|--|----------------------------|--------------------------|---------------------------------|--------------------------------|--------------------------|--------------------------------------|--|------------------------|
|   |                               |  |                        |  | December 31, 2012          | December 31, 2011        | Shares (Thousands)              | Percentage of<br>Ownership (%) | Carrying Value           |                                      |  |                        |
| 0   | Chunghwa Telecom Co., Ltd.    | Senao International Co., Ltd.  | Taiwan                 | Selling and maintaining mobile phones and its peripheral products  | \$ 1,065,813               | \$ 1,065,813             | 71,773                          | 28                             | \$ 1,623,305             | \$ 1,492,099                         | \$ 410,617                                   | Subsidiary             |
|   |                               | Light Era Development Co., Ltd.  | Taiwan                 | Housing, office building development, rent and sale services   | 3,000,000                  | 3,000,000                | 300,000                         | 100                            | 3,785,310                | 667,951                              | 664,064                                      | Subsidiary             |
|   |                               | Donghwa Telecom Co., Ltd.  | Hong Kong              | International telecommunications IP fictitious internet and internet transfer services                                   | 1,195,518                  | 882,219                  | 305,090                         | 100                            | 1,168,032                | 4,007                                | 4,007  | Subsidiary             |
|   |                               | Chunghwa Telecom Singapore Pte., Ltd.  | Singapore              | Telecommunication wholesale, internet transfer services international data and long distance call wholesales to carriers | 574,112                    | 574,112                  | 26,383                          | 100                            | 746,122                  | 73,988                               | 73,988                                       | Subsidiary             |
|   |                               | Chunghwa System Integration Co., Ltd.  | Taiwan                 | Providing communication and information aggregative services   | 838,506                    | 838,506                  | 60,000                          | 100                            | 707,250                  | 61,507                               | 46,084                                       | Subsidiary             |
|   |                               | Chunghwa Investment Co., Ltd.  | Taiwan                 | Telecommunications, telecommunications value-added services and other related professional investment                    | 759,709                    | 1,738,709                | 80,100                          | 89                             | 614,217                  | (165,530)                            | (148,528)                                    | Subsidiary             |
|   |                               | CHIEF Telecom Inc.   | Taiwan                 | Internet communication and internet data center ("IDC") service  | 482,165                    | 482,165                  | 37,942                          | 69                             | 591,706                  | 161,291                              | 113,354                                      | Subsidiary             |
|   |                               | InfoExplorer Co., Ltd.   | Taiwan                 | IT solution provider, IT application consultation, system integration and package solution                               | 283,500                    | 283,500                  | 22,498                          | 33                             | 277,592                  | 48,242                               | 20,605                                       | Equity-method investee |
|   |                               | Viettel-CHT Co., Ltd.  | Vietnam                | IDC services   | 288,327                    | 288,327                  | -                               | 30                             | 265,052                  | 64,217                               | 19,274                                       | Equity-method investee |
|   |                               | Huada Digital Corporation  | Taiwan                 | Providing software service   | 250,000                    | 250,000                  | 25,000                          | 50                             | 241,309                  | (18,761)                             | (9,380)                                      | Equity-method investee |
|   |                               | Taiwan International Standard Electronics Co., Ltd.  | Taiwan                 | Manufacturing, selling, designing, and maintaining of telecommunications systems and equipment                           | 164,000                    | 164,000                  | 1,760                           | 40                             | 224,099                  | 775,038                              | 301,024                                      | Equity-method investee |
|   |                               | Chunghwa International Yellow Pages Co., Ltd.  | Taiwan                 | Yellow pages sales and advertisement services  | 150,000                    | 150,000                  | 15,000                          | 100                            | 188,738                  | 29,151                               | 29,151                                       | Subsidiary             |
|   |                               | Prime Asia Investments Group Ltd. (B.V.I.)   | British Virgin Islands | Investment   | 215,020                    | 206,089                  | 7,270                           | 100                            | 155,357                  | (35,832)                             | (35,813)                                     | Subsidiary             |
|   |                               | Skysoft Co., Ltd.  | Taiwan                 | Providing of music on-line, software, electronic information, and advertisement services                                 | 67,025                     | 67,025                   | 4,438                           | 30                             | 127,686                  | 139,988                              | 41,031                                       | Equity-method investee |
|   |                               | Spring House Entertainment Tech. Inc.  | Taiwan                 | Network services, producing digital entertainment contents and broadband visual sound terrace development                | 62,209                     | 62,209                   | 7,015                           | 56                             | 125,929                  | 69,532                               | 39,922                                       | Subsidiary             |
|   |                               | Chunghwa Telecom Global, Inc.  | United States          | International data and internet services and long distance call wholesales to carriers                                   | 70,429                     | 70,429                   | 6,000                           | 100                            | 96,614                   | 12,257                               | 14,510                                       | Subsidiary             |
|   |                               | KingWay Technology Co., Ltd.   | Taiwan                 | Publishing books, data processing and software services  | 71,770                     | 71,770                   | 2,214                           | 33                             | 77,449                   | 54,879                               | 12,300                                       | Equity-method investee |
|   |                               | Chunghwa Telecom Vietnam Co., Ltd.   | Vietnam                | Information and communications technology, international circuit, and intelligent energy network service                 | 73,157                     | 43,847                   | -                               | 100                            | 55,448                   | (9,287)                              | (9,287)                                      | Subsidiary             |
|   |                               | Smartfun Digital Co., Ltd.   | Taiwan                 | Software retail  | 65,000                     | 65,000                   | 6,500                           | 65                             | 44,549                   | (23,870)                             | (15,576)                                     | Subsidiary             |
|   |                               | So-net Entertainment Taiwan  | Taiwan                 | Online service and sale of computer hardware   | 60,008                     | 60,008                   | 3,429                           | 30                             | 31,152                   | (11,517)                             | (3,393)                                      | Equity-method investee |
| Chunghwa Telecom Japan Co., Ltd.                | Japan                         | Telecom business, information process and information provide service, development and sale of software and consulting services in telecommunication | 17,291                 | 17,291   | 1                          | 100                      | 25,689                          | 7,020                          | 7,020                    | Subsidiary                           |  |                        |
| Dian Zuan Integrating Marketing Co., Ltd.       | Taiwan                        | Information technology service and general advertisement service   | 64,500                 | 114,640  | 6,450                      | 33                       | 20,902                          | (118,646)                      | (39,854)                 | Equity-method investee               |  |                        |
| Chunghwa Sochamp Technology Inc.                | Taiwan                        | License plate recognition system   | 20,400                 | 20,400   | 2,040                      | 51                       | 17,414                          | 1,107                          | (2,937)                  | Subsidiary                           |  |                        |
| New Prospect Investments Holdings Ltd. (B.V.I.) | British Virgin Islands        | Investment   | -                      | -  | -                          | 100                      | -                               | -                              | -                        | -                                    | Subsidiary                                   |                        |
|   |                               |  |                        |  | (Note 3)                   | (Note 3)                 |                                 | (Note 3)                       |                          | (Note 3)                             |  |                        |
| 1   | Senao International Co., Ltd. | Senao Networks, Inc.   | Taiwan                 | Telecommunication facilities manufactures and sales.   | 206,190                    | 206,190                  | 16,824                          | 40                             | 412,666                  | 293,650                              | 118,946                                      | Equity-method investee |
|   |                               | Senao International (Samoa) Holding Ltd.   | Samoa Islands          | International investment.  | 988,597<br>(US\$ 33,475)   | 466,517<br>(US\$ 15,875) | 33,475                          | 100                            | 544,489<br>(US\$ 18,688) | (280,990)<br>(US\$ (9,494))          | (281,022)<br>(US\$ (9,495))                  | Subsidiary             |

(Continued)

| No. | Investor Company                            | Investee Company  | Location                                       | Main Businesses and Products  | Original Investment Amount  |   | Balance as of December 31, 2012          |                             |   | Net Income (Loss) of the Investee   | Recognized Gain (Loss) (Notes 1 and 2)  | Note   |
|-----|---|---|--|---|---|---|--|-----------------------------|---|---|---|--|
|     |   |   |  |   | December 31, 2012   | December 31, 2011   | Shares (Thousands)                       | Percentage of Ownership (%) | Carrying Value  |   |   |  |
| 2   | CHIEF Telecom Inc.                          | Unigate Telecom Inc.<br>Chief International Corp.   | Taiwan<br>Samoa Islands                        | Telecommunication and internet service.<br>Network communication and engine room hiring   | \$ 2,000<br>6,068<br>(US\$ 200)   | \$ 2,000<br>6,068<br>(US\$ 200)   | 200<br>200                               | 100<br>100                  | \$ 1,669<br>14,234<br>(US\$ 490)  | \$ (135)<br>4,521<br>(US\$ 153)   | \$ (135)<br>4,521<br>(US\$ 153)   | Subsidiary<br>Subsidiary   |
| 3   | Chunghwa System Integrated Co., Ltd.        | Concord Technology Co., Ltd.  | Brunei   | Providing advanced business solutions to telecommunications   | 47,321<br>(US\$ 1,500)  | 31,973<br>(US\$ 1,010)  | 1,500                                    | 100                         | 19,041<br>(RMB 4,124)   | (1,799)<br>(RMB (384))  | (1,799)<br>(RMB (384))  | Subsidiary   |
| 7   | Spring House Entertainment Tech. Inc.       | Ceylon Innovation Co., Ltd.   | Taiwan   | International trading, general advertisement and book publication service   | 1,000   | 1,000   | 100                                      | 100                         | 913   | (41)  | (41)  | Subsidiary   |
| 8   | Light Era Development Co., Ltd.             | Yao Yong Real Property Co., Ltd.  | Taiwan   | Real estate leasing business  | 2,793,667   | 2,793,667   | 83,290                                   | 100                         | 2,719,688   | 51,958  | 35,718  | Subsidiary   |
| 9   | Chunghwa Telecom Singapore Pte., Ltd.       | ST-2 Satellite Ventures Pte., Ltd.  | Singapore                                      | Operation of ST-2 telecommunication satellite   | 409,061<br>(SG\$ 18,102)  | 409,061<br>(SG\$ 18,102)  | 18,102                                   | 38                          | 541,672<br>(SG\$ 22,798)  | 184,427<br>(SG\$ 7,792)   | 70,324<br>(SG\$ 2,971)  | Equity-method investee   |
| 14  | Chunghwa Investment Co., Ltd.               | Chunghwa Precision Test Tech Co., Ltd.<br>Chunghwa Investment Holding Co., Ltd.<br>Panda Monium Company Ltd.<br>CHIEF Telecom Inc.<br>Senao International Co., Ltd.                         | Taiwan<br>Brunei<br>Cayman<br>Taiwan<br>Taiwan | Semiconductor testing components and printed circuit board industry production and marketing of electronic products<br>General investment<br>The production of animation<br>Telecommunication and internet service<br>Selling and maintaining mobile phones and its peripheral products | 91,875<br>46,035<br>(US\$ 1,432)<br>20,000<br>(US\$ 602)<br>20,000<br>49,731                              | 91,875<br>34,483<br>(US\$ 1,043)<br>20,000<br>(US\$ 602)<br>20,000<br>49,731                            | 10,317<br>1,432<br>602<br>2,000<br>1,001 | 53<br>100<br>43<br>4<br>-   | 138,060<br>18,835<br>(US\$ 649)<br>-<br>28,181<br>47,016  | 39,940<br>(3,530)<br>(US\$ (119))<br>-<br>161,291<br>1,493,099  | 21,306<br>(3,530)<br>(US\$ (119))<br>-<br>6,272<br>2,895  | Subsidiary<br>Subsidiary<br>Equity-method investee<br>Equity-method investee<br>Equity-method investee |
| 18  | Concord Technology Co., Ltd.                | Glory Network System Service (Shanghai) Co., Ltd.   | China  | Providing advanced business solutions to telecommunications   | 47,321<br>(US\$ 1,500)  | 31,973<br>(US\$ 1,010)  | 1,500                                    | 100                         | 19,041<br>(RMB 4,124)   | (1,799)<br>(RMB (384))  | (1,799)<br>(RMB (384))  | Subsidiary   |
| 20  | Chunghwa Precision Test Tech. Co., Ltd.     | Chunghwa Precision Test Tech. USA Corporation   | United States                                  | Semiconductor testing components and printed circuit board industry production and marketing of electronic products   | 12,504<br>(US\$ 400)  | 12,504<br>(US\$ 400)  | 400                                      | 100                         | 10,513<br>(US\$ 362)  | 2,552<br>(US\$ 86)  | 2,552<br>(US\$ 86)  | Subsidiary   |
| 22  | Senao International (Samoa) Holding Ltd.    | Senao International HK Limited.<br>HopeTech Technologies Limited  | Hong Kong<br>Hong Kong                         | International investment.<br>Information technology and telecommunication products sales.   | 966,186<br>(US\$ 32,760)<br>21,177<br>(US\$ 675)  | 444,712<br>(US\$ 15,180)<br>21,177<br>(US\$ 675)  | 32,760<br>5,240                          | 100<br>45                   | 521,718<br>(US\$ 17,906)<br>22,315<br>(US\$ 766)  | (282,550)<br>(US\$ (9,547))<br>3,556<br>(US\$ 120)  | (282,550)<br>(US\$ (9,547))<br>1,600<br>(US\$ 54)   | Subsidiary<br>Equity-method investee   |
| 24  | Chunghwa Investment Holding Co., Ltd.       | CHI One Investment Co., Limited   | Hong Kong                                      | General investment  | 26,035<br>(HK\$ 6,520)  | 14,483<br>(HK\$ 3,924)  | 6,520                                    | 100                         | 9,101<br>(HK\$ 2,429)   | (3,499)<br>(HK\$ 918)   | (3,499)<br>(HK\$ 918)   | Subsidiary   |
| 26  | CHI One Investment Co., Limited             | Xiamen Sertec Business Technology Co., Ltd.   | China  | Customer Services and platform rental activities  | 25,414<br>(RMB 5,390)   | 13,862<br>(RMB 2,963)   | -  | 49                          | 8,634<br>(RMB 1,853)  | (7,092)<br>(RMB (1,514))  | (3,475)<br>(RMB (742))  | Equity-method investee   |
| 23  | Senao International HK Limited              | Senao Trading (Fujian) Co., Ltd.<br>Senao International Trading (Shanghai) Co., Ltd.<br>Senao International Trading (Shanghai) Co., Ltd.<br>Senao International Trading (Jiangsu) Co., Ltd. | China<br>China<br>China<br>China               | Information technology services and sale of communication products<br>Information technology services and sale of communication products<br>Information technology services and sale of communication products<br>Information technology services and sale of communication products    | 338,793<br>(US\$ 11,500)<br>297,726<br>(US\$ 10,000)<br>57,860<br>(US\$ 2,000)<br>263,736<br>(US\$ 9,000) | 116,821<br>(US\$ 4,000)<br>148,413<br>(US\$ 5,000)<br>57,860<br>(US\$ 2,000)<br>115,971<br>(US\$ 4,000) | -<br>-<br>-<br>-                         | 100<br>100<br>100<br>100    | 184,251<br>(US\$ 6,324)<br>125,656<br>(US\$ 4,313)<br>52,704<br>(US\$ 1,809)<br>156,241<br>(US\$ 5,362) | (109,697)<br>(US\$ (3,706))<br>(100,209)<br>(US\$ (3,386))<br>(5,127)<br>(US\$ (173))<br>(67,454)<br>(US\$ (2,279)) | (109,697)<br>(US\$ (3,706))<br>(100,209)<br>(US\$ (3,386))<br>(5,127)<br>(US\$ (173))<br>(67,454)<br>(US\$ (2,279)) | Subsidiary<br>Subsidiary<br>Subsidiary (Note 4)<br>Subsidiary  |
| 27  | Prime Asia Investments Group, Ltd. (B.V.I.) | Chunghwa Hsingta Co., Ltd.  | Hong Kong                                      | Investment  | 215,019<br>(RMB 47,373)   | 206,089<br>(RMB 45,448)   | -  | 100                         | 155,476<br>(RMB 33,364)   | (35,835)<br>(RMB (7,649))   | (35,835)<br>(RMB (7,649))   | Subsidiary   |
| 29  | Chunghwa Hsingta Company Ltd.               | Chunghwa Telecom (China) Co., Ltd.<br>Jiangsu Zhenhua Information Technology Company, LLC<br>Hua-Xiong Information Technology Co., Ltd.   | China<br>China<br>China                        | Planning and design of energy conservation and software and hardware system services, and integration of information system<br>Intelligent energy conserving and intelligent building services<br>Intelligent system and energy saving system services                                  | 177,176<br>(RMB 39,376)<br>28,912<br>(RMB 6,072)<br>8,931<br>(RMB 1,925)                                  | 177,176<br>(RMB 39,376)<br>-<br>-<br>-  | -<br>-<br>-                              | 100<br>75<br>51             | 122,628<br>(RMB 26,315)<br>24,218<br>(RMB 5,197)<br>8,630<br>(RMB 1,852)                                | (31,394)<br>(RMB (6,701))<br>(5,463)<br>(RMB (1,166))<br>(665)<br>(RMB (142))                                       | (31,394)<br>(RMB (6,701))<br>(4,097)<br>(RMB (875))<br>(342)<br>(RMB (73))  | Subsidiary<br>Subsidiary<br>Subsidiary   |

(Continued)

Note 1: The equity in net income (loss) of investees was based on audited financial statements.

Note 2: The equity in net income (loss) of investees includes amortization of differences between the investment cost and net value and elimination of unrealized transactions.

Note 3: New Prospect Investments Holdings Ltd. (B.V.I.) was incorporated in March 2006, but has not yet begun operation as of December 31, 2012.

Note 4: The English name is the same as the above entity; however, the Chinese names included in the respective Articles of Incorporations are different.

(Concluded)

TABLE 8

## CHUNGHWA TELECOM CO., LTD.

INVESTMENT IN MAINLAND CHINA  
FOR THE YEAR ENDED DECEMBER 31, 2012

(Amounts in Thousands of New Taiwan Dollars, in Thousands of U.S. Dollars)

| Investee  | Main Businesses and Products  | Total Amount of Paid-in Capital | Investment Type | Accumulated Outflow of Investment from Taiwan as of January 1, 2012 | Investment Flows |        | Accumulated Outflow of Investment from Taiwan as of December 31, 2012 | % Ownership of Direct or Indirect Investment | Investment Gain (Loss) (Note 2) | Carrying Value as of December 31, 2012 | Accumulated Inward Remittance of Earnings as of December 31, 2012 |
|---|---|---------------------------------|-----------------|---|------------------|--------|---|--|---------------------------------|--|---|
|   |   |                                 |                 |   | Outflow          | Inflow |   |  |                                 |  |   |
| Glory Network System Service (Shanghai) Co., Ltd.         | Providing advanced business solutions to telecommunications                   | \$ 47,321                       | Note 1          | \$ 31,973   | \$ 15,348        | \$ -   | \$ 47,321   | 100  | \$ (1,799)                      | \$ 19,041                              | \$ -  |
| Xiamen Sertec Business Technology Co., Ltd.               | Customer services and platform rental activities                              | 51,552                          | Note 1          | 13,862  | 11,552           | -      | 25,414  | 49   | (3,475)                         | 8,634                                  | -   |
| Senao Trading (Fujian) Co., Ltd.                          | Information technology services and sale of communication products            | 338,793                         | Note 1          | 116,821   | 221,972          | -      | 338,793   | 100  | (109,697)                       | 184,251                                | -   |
| Senao International Trading (Shanghai) Co., Ltd.          | Information technology services and sale of communication products            | 297,726                         | Note 1          | 148,413   | 149,313          | -      | 297,726   | 100  | (100,209)                       | 125,656                                | -   |
| Senao International Trading (Shanghai) Co., Ltd. (Note 7) | Information technology services and sale of communication products            | 57,860                          | Note 1          | 57,860  | -                | -      | 57,860  | 100  | (5,127)                         | 52,704                                 | -   |
| Senao International Trading (Jiangsu) Co., Ltd.           | Information technology services and sale of communication products            | 263,736                         | Note 1          | 115,971   | 147,765          | -      | 263,736   | 100  | (67,454)                        | 156,241                                | -   |
| Chunghwa Telecom (China) Co., Ltd.                        | Energy conserving and providing installation, design and maintenance services | 177,176                         | Note 1          | 177,176   | -                | -      | 177,176   | 100  | (31,394)                        | 122,628                                | -   |
| Jiangsu Zhenghua Information Technology Company, LLC      | Intelligent energy serving and intelligent building services                  | 38,549                          | Note 1          | 28,912  | -                | -      | 28,912  | 75   | (4,099)                         | 24,218                                 | -   |
| Hua-Xiong Information Technology Co., Ltd.                | Intelligent system and energy saving system services                          | 17,511                          | Note 1          | -   | 8,931            | -      | 8,931   | 51   | (342)                           | 8,630                                  | -   |

(Continued)

| Accumulated Investment in Mainland China as of December 31, 2012 | Investment Amounts Authorized by Investment Commission, MOEA | Upper Limit on Investment Stipulated by Investment Commission, MOEA |
|--|--|---|
| \$ 47,321  | \$ 47,321  | \$ 414,205  |
| (US\$ 1,500)   | (US\$ 1,500)   | (Note 3)  |
| 25,414   | 79,882   | 526,247   |
| (US\$ 820)   | (US\$ 2,500)   | (Note 4)  |
| 958,115  | 958,115  | 3,293,687   |
| (US\$ 32,500)  | (US\$ 32,500)  | (Note 5)  |
| 177,176  | 177,176  | 221,946,128   |
| (US\$ 6,000)   | (US\$ 6,000)   | (Note 6)  |
| 28,912   | 141,077  | 221,946,128   |
| (US\$ 960)   | (US\$ 4,800)   | (Note 6)  |
| 8,931  | 44,653   | 221,946,128   |
| (US\$ 306)   | (US\$ 1,530)   | (Note 6)  |

Note 1: Investments were through an holding company registered in a third region.

Note 2: Recognition of investment gains (losses) was calculated based on the investee's audited financial statements.

Note 3: The amount was calculated based on the net assets value of Chunghwa System Integration Co., Ltd.

Note 4: The amount was calculated based on the consolidated net assets value of Chunghwa Investment Co., Ltd.

Note 5: The amount was calculated based on the consolidated net assets value of Senao International Co., Ltd.

Note 6: The amount was calculated based on the consolidated net assets value of Chunghwa Telecom Co., Ltd.

Note 7: The English name is the same as the above entity; however, the Chinese names included in the respective Articles of Incorporations are different.

(Concluded)

**TABLE 9****CHUNGHWA TELECOM CO., LTD.****SEGMENT INFORMATION  
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011  
(Amount in Thousands of New Taiwan Dollars)**

|   | <b>Domestic Fixed<br/>Communications<br/>Business</b> | <b>Mobile<br/>Communications<br/>Business</b> | <b>Internet Business</b> | <b>International<br/>Fixed<br/>Communications<br/>Business</b> | <b>Others</b>       | <b>Adjustment</b>      | <b>Total</b>          |
|---|---|---|--------------------------|--|---------------------|------------------------|-----------------------|
| <u>Year ended December 31, 2012</u>     |   |   |                          |  |                     |                        |                       |
| Revenues from external customers        | \$ 75,716,720   | \$ 76,328,304                                 | \$ 23,770,027            | \$ 14,872,244  | \$ 263,500          | \$ -                   | \$ 190,950,795        |
| Intersegment revenues (Note 2)          | 16,823,795  | 6,506,388                                     | 2,711,492                | 1,769,160  | 12,604              | (27,823,439)           | -                     |
| Interest income                         | 6,045   | 103   | 1,550                    | 1,726  | 698,347             | -                      | 707,771               |
| Other income                            | 85,529  | 71,835  | 981                      | 267,624  | 1,749,470           | -                      | 2,175,439             |
|   | <u>\$ 92,632,089</u>                                  | <u>\$ 82,906,630</u>                          | <u>\$ 26,484,050</u>     | <u>\$ 16,910,754</u>   | <u>\$ 2,723,921</u> | <u>\$ (27,823,439)</u> | <u>\$ 193,834,005</u> |
| Interest expense                        | \$ -  | \$ -  | \$ -                     | \$ -   | \$ 230              | \$ -                   | \$ 230                |
| Depreciation and amortization           | \$ 19,394,985   | \$ 8,498,580                                  | \$ 2,544,681             | \$ 1,414,305   | \$ 242,640          | \$ -                   | \$ 32,095,191         |
| Other expense                           | \$ 1,312,035  | \$ 272,606                                    | \$ 3,138                 | \$ 2,883   | \$ 17,177           | \$ -                   | \$ 1,607,839          |
| Segment income before tax               | \$ 15,023,200   | \$ 24,175,749                                 | \$ 8,385,937             | \$ 1,282,023   | \$ (1,491,986)      | \$ -                   | \$ 47,374,923         |
| Total assets                            | \$ 229,403,028  | \$ 59,860,808                                 | \$ 22,928,126            | \$ 21,970,962  | \$ 95,020,692       | \$ -                   | \$ 429,183,616        |
| Capital expenditures for segment assets | \$ 19,550,852   | \$ 7,172,841                                  | \$ 3,407,510             | \$ 1,635,022   | \$ 608,425          | \$ -                   | \$ 32,374,650         |
| <u>Year ended December 31, 2011</u>     |   |   |                          |  |                     |                        |                       |
| Revenues from external customers        | \$ 79,596,975   | \$ 73,670,839                                 | \$ 23,907,744            | \$ 15,048,946  | \$ 237,600          | \$ -                   | \$ 192,462,104        |
| Intersegment revenues (Note 2)          | 15,058,063  | 6,917,665                                     | 1,786,850                | 1,611,001  | 668                 | (25,374,247)           | -                     |
| Interest income                         | 4,401   | 97  | 644                      | 1,079  | 648,859             | -                      | 655,080               |
| Other income                            | 515,470   | 36,359  | 840                      | 899,669  | 2,243,152           | -                      | 3,695,490             |
|   | <u>\$ 95,174,909</u>                                  | <u>\$ 80,624,960</u>                          | <u>\$ 25,696,078</u>     | <u>\$ 17,560,695</u>   | <u>\$ 3,130,279</u> | <u>\$ (25,374,247)</u> | <u>\$ 196,812,674</u> |
| Interest expense                        | \$ 169  | \$ 11   | \$ 3                     | \$ 1   | \$ 38               | \$ -                   | \$ 222                |
| Depreciation and amortization           | \$ 20,138,758   | \$ 8,157,650                                  | \$ 2,138,366             | \$ 1,259,428   | \$ 219,858          | \$ -                   | \$ 31,914,060         |
| Other expense                           | \$ 14,863   | \$ 4,710                                      | \$ 979                   | \$ 2,321   | \$ 189,059          | \$ -                   | \$ 211,932            |
| Segment income before tax               | \$ 18,481,679   | \$ 26,248,914                                 | \$ 9,404,326             | \$ 2,018,612   | \$ (774,893)        | \$ -                   | \$ 55,378,638         |
| Total assets                            | \$ 227,866,308  | \$ 58,024,956                                 | \$ 19,137,318            | \$ 22,848,593  | \$ 105,420,695      | \$ -                   | \$ 433,297,870        |
| Capital expenditures for segment assets | \$ 16,569,480   | \$ 4,258,614                                  | \$ 3,637,400             | \$ 1,409,548   | \$ 609,427          | \$ -                   | \$ 26,484,469         |

Note 1: 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.

- o Domestic fixed communications business - the provision of local telephone services, domestic long distance telephone services, broadband access, and related services;
- o Mobile communications business - the provision of mobile services, sales of mobile handsets and data cards, and related services;
- o Internet business - the provision of HiNet services and related services;
- o International fixed communications business - the provision of international long distance telephone services and related services;
- o Others - the provision of non-Telecom Services, and the corporate related items not allocated to reportable segments.

Note 2: Represents intersegment revenues from goods and services.

**TABLE 10****CHUNGHWA TELECOM CO., LTD.****PRODUCTS AND SERVICE REVENUES  
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011  
(Amount in Thousands of New Taiwan Dollars)**

|  | <b>Year Ended December 31</b> |                       |
|--|-------------------------------|-----------------------|
|  | <b>2012</b>                   | <b>2011</b>           |
| Mobile services revenue                                | \$ 72,361,210                 | \$ 70,779,411         |
| Local telephone services revenue                       | 41,825,693                    | 42,956,117            |
| Leased line services revenue                           | 25,682,456                    | 27,036,649            |
| Internet services revenue                              | 20,492,587                    | 21,152,593            |
| International long distance telephone services revenue | 11,700,591                    | 12,214,117            |
| Domestic long distance telephone services revenue      | 3,773,441                     | 5,796,342             |
| Others   | <u>15,114,817</u>             | <u>12,526,875</u>     |
|  | <u>\$ 190,950,795</u>         | <u>\$ 192,462,104</u> |