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Chunghwa Telecom Co., Ltd.

2011 Annual General Meeting Minutes

I. Time: June 24, 2011, at 9:00 a.m.

II. Venue: No. 168, Minzu Road, Banchiao District, New Taipei City, Taiwan, R.O.C.
(Chunghwa Telecom Training Institute)

III. Number of shares represented by shareholders present: Shares represented by shareholders present and proxies totaled 5,782,773,311, accounting for 74.54% of the total shares issued by this Company, i.e. 7,757,446,545 shares.

IV. Chairman: Shyue-Ching Lu, Chairman and CEO Minute taker: Hsiun-Chuan Lee
Ping-Chuan Huang
Yu-Ching Cho

Attendees: Stacey Lee, Attorney, Baker & McKenzie

Chien-Hsin Hsieh, CPA, Deloitte & Touche Taiwan

V. Chairman's address: (omitted)

VI. Reports:

1. The Company's 2010 Business Report (Please refer to Appendix 1 of the Minutes).
2. Supervisors' audit report concerning the Company's 2010 financial statements (Please refer to Appendix 2 of the Minutes for the supervisors' audit report and Appendix 3 for the independent auditors' report).
3. Report on the enactment of Ethical Corporate Management Best Practice Principles for the Company (Please refer to page 6 of the meeting handbook)
4. Report on amendment of Code of Ethics of the Company (Please refer to page 7 of the meeting handbook)

Chairman: Each shareholder is hereby informed of the said report.

Summary of Shareholders' Statements:

Statements by shareholders, including Ting-Chang Chu (Account No.89386),

Hwei-Zu Chen (Account No. A0000004), Gin-Long Young (Account No. A0000014), Long-Sheng Sung (Account No. 47640), Wen-Ming Young (Account No. 54185), Ching-Kuo Chen (Account No. A0000010), Kuen-Shi Chen (Account No. 14572), Chia-Hua You (Account No.36977): concerns over the dispute relating to New Tang Dynasty Television's rental of ST2 bandwidth, and over Chunghwa's investment in Mainland China; suggestions that the Company sets up related penalty rules when enacting Code of Ethics and Ethical Corporate Management Best Practice Principles, and that the Business Report should include management discussion on the profit and loss of re-investment and securities transactions; questions on the 2011 target for MOD subscribers, how capex on cloud computing projects and the tariff reduction will impact revenues, the operating plan for overseas subsidiaries and offices, if the NT\$100 billion capex for infrastructure over the coming three years will have any impact on the dividend payout ratio, and on the change in the Company's net value before and after privatization.

The President responded to the above statements made by the said shareholders.

VII. Issues to be approved by shareholders

1. Ratification of 2010 business report and financial statements (Proposed by the Board of Directors)

Explanation:

- 1) The Company's 2010 financial statements (including balance sheets, statements of income, statements of changes in stockholders' equity, and statements of cash flows (please refer to Pages 11-18 and Pages 20-27 of this Handbook, or Pages 2-9 of the Company's financial reports (English version) and Pages 2-9 of the Company and subsidiaries' consolidated financial statements (English version)) have been audited and attested by Hsien Chien-Hsin and Chang Jr-Yen of Deloitte & Touche, who have issued a modified unqualified opinion in their audit report (please refer to Pages 10 and 19 of this Handbook). At the 7th meeting of the Company's 6th Board of Directors held on March 29, 2011, the Company's 2010 financial statements together with the Company's business report (please refer to Page 2-4 of this Handbook) were passed, and the financial statements and business report were forwarded to the supervisors for audit. The supervisors found no unconformities, and their audit report (please refer to Page 5 of this Handbook) is submitted for examination.
- 2) The aforementioned statements and report are submitted to the annual general meeting for ratification.

Resolution: The Proposal for ratification made by the Board of Directors was approved upon voting (upon positive votes of 4,780,921,774 shares representing 82.68% of the present voting rights at the time of voting; please refer to Appendix 1 and Appendix 4 ~ 11 of the minutes for details)

[As for the question raised by Shareholder Chia-Hua You (Account No.36977) on the voting procedures, the attorney gave an immediate explanation of the related regulations.]

2. Ratification of the proposal for the distribution of 2010 earnings (Proposed by the Board of Directors)

Explanation:

- 1) The Company's 2010 financial statements have been finalized, and earnings shall be distributed as specified in the proposed statement of retained earnings. It is proposed that directors and supervisors be issued cash remuneration of NT\$45,043,580, employees be issued cash bonuses of NT\$2,144,074,405, and common stock shareholders receive cash dividends of NT\$5.5243 per share; shareholders shall receive a total of NT\$42,854,461,949 as cash dividends.
- 2) Each shareholder's cash dividends shall be issued to the rounded-down full NT dollar, and the Chairman shall be authorized to dispose of the remainder; after approval at the 2011 annual general meeting, the Board shall additionally be authorized to set a record date to distribute cash dividends.
- 3) This proposal has been approved by resolution of the 7th meeting of the Company's 6th Board of Directors, and is hereby submitted to the shareholders at the annual general meeting for ratification.

Resolution: The Proposal for ratification made by the Board of Directors was approved upon voting (upon positive votes of 4,781,039,395 shares representing 82.68% of the present voting rights at the time of voting; please refer to Appendix 12 of the Minutes for details)

X. Other business and special motions

(Shareholders' questions, suggestions, statements and the Company's explanations are omitted.)

After questioning the shareholders present and in the knowledge that no shareholders would raise any special motions, the Chairman declared the meeting adjourned.

XI. The meeting was adjourned at 11:00 a.m. of the same day.

Appendix

I. The Company's 2010 Business Report

(I) Report on Operations

The Company's 2010 (from January 1, 2010 to December 31, 2010) financial statements have been prepared in accordance with applicable regulations, and have been audited by independent auditors. The results of operations were as follows:

- Analysis of profit and loss and profitability (currency unit: NTD million)

Account title		Year	2010	2009
Profit and loss	Net revenues		202,430	198,361
	Operating costs		115,332	112,736
	Gross profit		87,098	85,625
	Operating expenses		29,731	29,231
	Income from operations		57,367	56,394
	Non-operating income and gains		1,032	1,422
	Non-operating expenses and losses		712	578
	Income before income tax		57,687	57,238
	Income tax expenses		9,129	12,743
	Consolidated net income		48,558	44,495
	Net income attributable to parent company's shareholders		47,609	43,757
Profitability	ROA (%)		10.77	9.75
	ROE (%)		12.87	11.64
	Income from operations to common stock (%)		73.95	58.16
	Income before income tax to common stock (%)		74.36	59.03
	Net income ratio (%)		23.99	22.43
	Earnings per share (in NTD)		4.91	4.51

Note: The above figures are taken from the consolidated financial statements of the Company and its subsidiaries.

- (1) Consolidated revenues for 2010 increased by NT\$4.07 billion compared to 2009, primarily due to growth in revenue generated from mobile value added

service (VAS), handset sales, internet services and internet VAS, broadband access, international leased line and data services, and domestic ICT services.

- (2) Consolidated operating costs and expenses for 2010 increased by NT\$3.10 billion compared to 2009, primarily due to the higher cost of handsets sold and higher performance-based bonuses resulting from the growth in net income.
- (3) Consolidated non-operating income and gains for 2010 decreased by NT\$390 million compared to 2009, primarily due to a decrease in foreign exchange gains resulting from the depreciation of the US dollar, a lower valuation gain on financial instruments, and a decrease in other income.
- (4) Consolidated non-operating expenses and losses for 2010 increased by NT\$134 million compared to 2009, primarily due to a higher loss on disposal of assets. In 2010, the Company reclassified unused property, plant and equipment as idle assets and recognized an impairment loss amounting to NT\$61 million. The subsidiaries also recognized an impairment loss amounting to NT\$5 million, as the recoverable amount of idle assets is estimated to be less than the carrying amount. In addition, the subsidiaries recognized an impairment loss amounting to NT\$59 million from financial assets carried at cost due to poor operating performance or adverse changes in the market. The Company and its subsidiaries recognized impairment losses totaling NT\$125 million.

(II) Prospects

Although consumer spending was boosted by the economic recovery during the past year, the National Communications Commission (NCC) implemented a new wave of tariff reductions involving larger and wider adjustments than previously. As a result, the telecommunications industry is facing increasing challenges as well as more severe competition. CHT is firmly committed to focusing on its core business and maintaining the highest levels of professionalism to improve service quality and customer service, develop its Information and Communication Technology (ICT) and cloud computing business, as well as to increase shareholder value by exploring business opportunities in emerging industries. In 2010, the Company achieved consolidated revenue of NT\$202.43 billion, which was an increase of NT\$4.07 billion, or 2.1%, from 2009. Revenues from mobile VAS, handset sales, broadband access, and ICT services sustained growth, demonstrating that the Company has successfully transformed the nature of its operations to encompass mobile internet, broadband, and ICT services.

In terms of market competition, the Company has maintained its market leadership in each of its business lines. As of the end of 2010, CHT had 9.68 million

mobile subscribers, of which 2G accounted for 4.25 million and 3G accounted for 5.43 million, making the Company the leader in the mobile market. The Company had over 4.37 million broadband subscribers as of the end of 2010, of which 2.04 million were fiber solution customers, making the Company a leader in the broadband market. CHT's Local and Domestic Long Distance (DLD) business declined due to mobile and broadband substitution, in line with global trends. In its international fixed business, the Company achieved growth in calling card sales and in its wholesale business, which stimulated international traffic. Moreover, in 2010, the Company was able to maintain its leadership position in the local market, with 96.9% market share in terms of subscribers, 87.6% market share as measured by local call traffic, 76.1% market share for DLD call traffic, and 58.4% market share for international call traffic. To cater to user preferences for high quality video, the Company continues to introduce high definition and quality content for its MOD service, with a diverse range of programs and choices for users. These include interactive services for TV shopping, the World Game, as well as numerous other high quality video services. As of the end of 2010, the Company had 16 high definition channels and 110 standard definition channels, and 810,000 users of MOD service.

The Company has prepared itself for greater competition in Taiwan's mature telecommunications services market by launching innovative services, reinforcing service quality, offering fashioning devices, and bidding for ICT projects in order to sustain its growth and leading market position. In 2011, the Company aims to boost its growth momentum by focusing on Fiber to the x (FTTx) access services, mobile internet services, Multimedia on Demand(MOD), VAS and corporate solutions, as well as continuing to win ICT projects. The Company is focusing on expanding its network capacity, promoting mobile internet service, deploying value-added services, upgrading broadband services, enriching MOD high definition content, and enhancing customer relationship management. CHT will continue to package promotions from a user perspective in order to attract more customers to its new, convenient and affordable telecommunication services.

The Company's continued commitment to corporate social responsibility (CSR) throughout 2010 has been recognized by a variety of awards. Examples include "Common Wealth 2010 Prestigious Benchmark Enterprise of Taiwan" presented by *Common Wealth Magazine*, the "Trusted Brand" in Telecommunications Services Award from Reader's Digest in 2010 (for the seventh consecutive year), the "Excellence for Financial Disclosure Procedures" award in Asia Pacific from IR Global Rankings, an A+ rating (for the fifth consecutive year) by the Securities and Futures Development Foundation, the 6th "Corporate Social Responsibility Award" in 2010 from the Global View Magazine, and the "Appreciation for Constructing High-resilience Communication Platform in Na-Ma-Sha Township Kaohsiung County from the NCC." In 2011, CHT

continues to focus on its core competencies and commitment to its business operations, corporate governance, social concerns, and environmental protection.

In the year ahead, the Company will continue to deliver high-quality services to customers, maintain positive interactions with the NCC and strong relationships with related industries, in order to create value for shareholders, provide value to customers and contribute to the economic development and the prosperity of the telecommunications industry.

Shyue-Ching Lu, Chairman and CEO

Shaio-Tung Chang, President

Shui-Yi Kuo, Accounting Officer

March 29, 2011

II. 2010 Supervisors' Audit Report

The Board of Directors has compiled and submitted the Company's 2010 financial statements, and independent auditors Hsieh Chien-hsin and Chang Jih-yen of Deloitte & Touche have issued an audit report. The financial statements and audit report, together with the business report and proposed distribution of earnings, have been audited by the supervisors, who found no unconformities. We have accordingly issued this report as prescribed in Article 219 of the Company Act. Please examine.

Chunghwa Telecom Co., Ltd. 2011 Annual General Meeting

Supervisors : Su-Ghen Huang

Shwu-Fen Chao

I-Hwa Wu

March 29, 2011

III. 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, 2010 and 2009, 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, 2010 and 2009, 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.

As discussed in Note 3 to the financial statements, the Company early adopted the new Statements of Financial Accounting Standards No. 41, "Operating Segments" ("SFAS No. 41") beginning from September 1, 2009.

We have also audited the consolidated financial statements of the Company and its subsidiaries as of and for the years ended December 31, 2010 and 2009, and have expressed a modified unqualified opinion on those consolidated financial statements.

March 13, 2011

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.

IV. Balance Sheets
CHUNGHWA TELECOM CO., LTD.

BALANCE SHEETS
DECEMBER 31, 2010 AND 2009
(Amounts in Thousands of New Taiwan Dollars, Except Par Value Data)

ASSETS	2010		2009		LIABILITIES AND STOCKHOLDERS' EQUITY	2010		2009	
	Amount	%	Amount	%		Amount	%	Amount	%
CURRENT ASSETS					CURRENT LIABILITIES				
Cash and cash equivalents (Notes 2 and 4)	\$ 84,700,525	19	\$ 68,393,379	15	Trade notes and accounts payable	\$ 8,754,445	2	\$ 8,346,932	2
Financial assets at fair value through profit or loss (Notes 2 and 5)	34,278	-	6,677	-	Payables to related parties (Note 23)	2,407,985	-	1,875,717	-
Available-for-sale financial assets (Notes 2 and 6)	1,030,500	-	16,684,380	4	Income tax payable (Notes 2 and 20)	4,411,541	1	4,157,986	1
Held-to-maturity financial assets (Notes 2 and 7)	1,963,608	-	1,099,595	-	Accrued expenses (Note 16)	17,262,155	4	16,500,060	4
Trade notes and accounts receivable, net of allowance for doubtful accounts of \$2,528,044 thousand in 2010 and \$2,774,868 thousand in 2009 (Notes 2 and 8)	12,948,183	3	11,065,325	3	Due to stockholders for capital reduction (Note 18)	19,393,617	4	9,696,808	2
Receivables from related parties (Note 23)	466,422	-	383,218	-	Other current liabilities (Note 17)	16,051,057	4	15,933,025	4
Other monetary assets (Note 9)	2,094,714	1	1,771,949	-	Total current liabilities	68,280,800	15	56,510,528	13
Inventories, net (Notes 2, 3 and 10)	1,120,024	-	1,186,522	-	DEFERRED INCOME	2,588,910	1	2,483,764	-
Deferred income tax assets (Notes 2 and 20)	53,838	-	60,700	-	RESERVE FOR LAND VALUE INCREMENTAL TAX (Note 15)	94,986	-	94,986	-
Other current assets (Note 11)	3,489,243	1	3,916,850	1	OTHER LIABILITIES				
Total current assets	107,901,335	24	104,568,595	23	Accrued pension liabilities (Notes 2 and 22)	1,283,022	-	1,207,957	-
LONG-TERM INVESTMENTS					Customers' deposits (Note 23)	5,853,704	1	5,940,403	2
Investments accounted for using equity method (Notes 2 and 12)	11,066,543	2	10,170,504	2	Deferred credits - profit on intercompany transactions (Note 23)	1,440,007	1	1,485,916	-
Financial assets carried at cost (Notes 2 and 13)	2,305,354	1	2,226,048	1	Others	266,808	-	225,114	-
Held-to-maturity financial assets (Notes 2 and 7)	8,408,090	2	3,929,662	1	Total other liabilities	8,843,541	2	8,859,390	2
Other monetary assets (Notes 14 and 24)	1,000,000	-	1,000,000	-	Total liabilities	79,808,237	18	67,948,668	15
Total long-term investments	22,779,987	5	17,326,214	4	STOCKHOLDERS' EQUITY (Notes 2, 6, 15 and 18)				
PROPERTY, PLANT AND EQUIPMENT (Notes 2, 15 and 23)					Common stock - \$10 par value;				
Cost					Authorized: 12,000,000 thousand shares				
Land	101,709,013	23	101,266,026	23	Issued: 7,757,447 thousand shares in 2010 and 9,696,808 thousand shares in 2009	77,574,465	18	96,968,082	22
Land improvements	1,554,776	-	1,535,066	-	Additional paid-in capital				
Buildings	65,720,709	15	62,669,377	14	Capital surplus	169,496,289	38	169,496,289	38
Computer equipment	15,422,954	3	15,636,520	4	Donated capital	13,170	-	13,170	-
Telecommunications equipment	654,890,287	147	654,609,330	148	Equity in additional paid-in capital reported by equity-method investees	5,643	-	304	-
Transportation equipment	2,371,493	1	2,111,872	-	Total additional paid-in capital	169,515,102	38	169,509,763	38
Miscellaneous equipment	6,968,946	2	7,062,450	2	Retained earnings				
Total cost	848,638,178	191	844,890,641	191	Legal reserve	61,361,255	14	56,987,241	13
Revaluation increment on land	5,800,701	1	5,800,909	1	Special reserve	2,675,894	-	2,675,894	1
	854,438,879	192	850,691,550	192	Unappropriated earnings	47,615,807	11	43,749,962	10
Less: Accumulated depreciation	565,756,859	127	555,893,816	126	Total retained earnings	111,652,956	25	103,413,097	24
	288,682,020	65	294,797,734	66	Other adjustments				
Construction in progress and advances related to acquisition of equipment	12,014,639	3	15,715,083	4	Cumulative translation adjustments	(102,885)	-	7,626	-
Property, plant and equipment, net	300,696,659	68	310,512,817	70	Unrecognized net loss of pension	(40,182)	-	(43,750)	-
INTANGIBLE ASSETS (Note 2)					Unrealized gain (loss) on financial instruments	176,048	-	(447,129)	-
3G concession	5,988,870	1	6,737,479	2	Unrealized revaluation increment	5,803,238	1	5,803,446	1
Others	447,294	-	418,080	-	Total other adjustments	5,836,219	1	5,320,193	1
Total intangible assets	6,436,164	1	7,155,559	2	Total stockholders' equity	364,578,742	82	375,211,135	85
OTHER ASSETS									
Idle assets (Note 2)	878,896	-	926,277	-					
Refundable deposits	1,478,342	1	1,408,706	1					
Deferred income tax assets (Notes 2 and 20)	398,050	-	398,423	-					
Others (Note 23)	3,817,546	1	863,212	-					
Total other assets	6,572,834	2	3,596,618	1					
TOTAL	\$ 444,386,979	100	\$ 443,159,803	100	TOTAL	\$ 444,386,979	100	\$ 443,159,803	100

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

(With Deloitte & Touche audit report dated March 13, 2011)

V. Statements of Income
CHUNGHWA TELECOM CO., LTD.

STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009
(Amounts in Thousands of New Taiwan Dollars, Except Earnings Per Share Data)

	2010		2009	
	Amount	%	Amount	%
NET REVENUES (Note 23)	\$ 186,410,943	100	\$ 184,040,272	100
OPERATING COSTS (Note 23)	<u>98,675,571</u>	<u>53</u>	<u>97,229,277</u>	<u>53</u>
GROSS PROFIT	<u>87,735,372</u>	<u>47</u>	<u>86,810,995</u>	<u>47</u>
OPERATING EXPENSES (Note 23)				
Marketing	25,325,544	13	25,210,891	13
General and administrative	3,396,438	2	3,303,370	2
Research and development	<u>3,261,176</u>	<u>2</u>	<u>3,155,752</u>	<u>2</u>
Total operating expenses	<u>31,983,158</u>	<u>17</u>	<u>31,670,013</u>	<u>17</u>
INCOME FROM OPERATIONS	<u>55,752,214</u>	<u>30</u>	<u>55,140,982</u>	<u>30</u>
NON-OPERATING INCOME AND GAINS				
Equity in earnings of equity method investees, net	778,664	1	281,340	-
Interest income	445,894	-	454,464	-
Foreign exchange gain, net	6,798	-	87,597	-
Valuation gain on financial instruments, net	-	-	100,688	-
Gain on disposal of property, plant and equipment, net	-	-	5,147	-
Others	<u>253,835</u>	<u>-</u>	<u>646,593</u>	<u>1</u>
Total non-operating income and gains	<u>1,485,191</u>	<u>1</u>	<u>1,575,829</u>	<u>1</u>
NON-OPERATING EXPENSES AND LOSSES				
Loss on disposal of financial instruments, net	385,544	-	194,133	-
Loss on disposal of property, plant and equipment, net	208,878	-	-	-
Interest expense	75,458	-	2,776	-
Impairment loss on assets	61,323	-	95,349	-
Loss arising from natural calamities	18,553	-	148,747	-
Valuation loss on financial instruments, net	11,626	-	-	-
Others	<u>37,958</u>	<u>-</u>	<u>112,385</u>	<u>-</u>
Total non-operating expenses and losses	<u>799,340</u>	<u>-</u>	<u>553,390</u>	<u>-</u>
INCOME BEFORE INCOME TAX	56,438,065	31	56,163,421	31
INCOME TAX EXPENSE (Notes 2 and 20)	<u>8,829,165</u>	<u>5</u>	<u>12,405,995</u>	<u>7</u>
NET INCOME	<u>\$ 47,608,900</u>	<u>26</u>	<u>\$ 43,757,426</u>	<u>24</u>

(Continued)

CHUNGHWA TELECOM CO., LTD.

STATEMENTS OF INCOME

FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

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

	2010		2009	
	Income Before Income Tax	Net Income	Income Before Income Tax	Net Income
EARNINGS PER SHARE (Note 21)				
Basic earnings per share	<u>\$ 5.82</u>	<u>\$ 4.91</u>	<u>\$ 5.79</u>	<u>\$ 4.51</u>
Diluted earnings per share	<u>\$ 5.80</u>	<u>\$ 4.89</u>	<u>\$ 5.77</u>	<u>\$ 4.50</u>

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

(With Deloitte & Touche audit report dated March 13, 2011)

(Concluded)

VI. Statements of Changes in Stockholders' Equity

CHUNGHWA TELECOM CO., LTD.

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009
(Amounts in Thousands of New Taiwan Dollars, Except Dividend Per Share Data)

	Common Stock		Preferred Stock		Additional Paid-in Capital	Retained Earnings			Other Adjustments				Total Stockholders' Equity
	Shares (Thousands)	Amount	Shares (Thousands)	Amount		Legal Reserve	Special Reserve	Unappropriated Earnings	Cumulative Translation Adjustments	Unrecognized Net Loss of Pension	Unrealized Gain (Loss) on Financial Instruments	Unrealized Revaluation Increment	
BALANCE, JANUARY 1, 2009	9,696,808	\$ 96,968,082	-	\$ -	\$ 179,206,270	\$ 52,859,566	\$ 2,675,894	\$ 41,276,274	\$ 29,474	\$ (84)	\$ (2,272,242)	\$ 5,813,187	\$ 376,556,421
Adjustment of additional paid-in capital from revaluation of land to income upon disposal	-	-	-	-	-	-	-	-	-	-	-	(9,741)	(9,741)
Appropriation of 2008 earnings													
Legal reserve	-	-	-	-	-	4,127,675	-	(4,127,675)	-	-	-	-	-
Cash dividends - NT\$3.83 per share	-	-	-	-	-	-	-	(37,138,775)	-	-	-	-	(37,138,775)
Cancellation of preferred stock (Note 18)	-	-	-	-	-	-	-	-	-	-	-	-	-
Capital surplus transferred to common stock	969,680	9,696,808	-	-	(9,696,808)	-	-	-	-	-	-	-	-
Capital reduction (Note 18)	(969,680)	(9,696,808)	-	-	-	-	-	-	-	-	-	-	(9,696,808)
Net income in 2009	-	-	-	-	-	-	-	43,757,426	-	-	-	-	43,757,426
Unrealized gain on financial instruments held by investees	-	-	-	-	-	-	-	-	-	-	36,011	-	36,011
Equity adjustments in investees	-	-	-	-	301	-	-	(17,288)	-	-	-	-	(16,987)
Cumulative translation adjustment for foreign-currency investments held by investees	-	-	-	-	-	-	-	-	(21,848)	-	-	-	(21,848)
Defined benefit pension plan adjustments of investees	-	-	-	-	-	-	-	-	-	(43,666)	-	-	(43,666)
Unrealized gain on financial instruments	-	-	-	-	-	-	-	-	-	-	1,789,102	-	1,789,102
BALANCE, DECEMBER 31, 2009	9,696,808	96,968,082	-	-	169,509,763	56,987,241	2,675,894	43,749,962	7,626	(43,750)	(447,129)	5,803,446	375,211,135
Adjustment of additional paid-in capital from revaluation of land to income upon disposal	-	-	-	-	-	-	-	-	-	-	-	(208)	(208)
Appropriation of 2009 earnings													
Legal reserve	-	-	-	-	-	4,374,014	-	(4,374,014)	-	-	-	-	-
Cash dividends - NT\$4.06 per share	-	-	-	-	-	-	-	(39,369,041)	-	-	-	-	(39,369,041)
Capital reduction (Note 18)	(1,939,361)	(19,393,617)	-	-	-	-	-	-	-	-	-	-	(19,393,617)
Net income in 2010	-	-	-	-	-	-	-	47,608,900	-	-	-	-	47,608,900
Unrealized loss on financial instruments held by investees	-	-	-	-	-	-	-	-	-	-	176,916	-	176,916
Equity adjustments in investees	-	-	-	-	5,339	-	-	-	-	-	-	-	5,339
Cumulative translation adjustment for foreign-currency investments held by investees	-	-	-	-	-	-	-	-	(110,511)	-	-	-	(110,511)
Defined benefit pension plan adjustments of investees	-	-	-	-	-	-	-	-	-	3,568	-	-	3,568
Unrealized loss on financial instruments	-	-	-	-	-	-	-	-	-	-	446,261	-	446,261
BALANCE, DECEMBER 31, 2010	<u>7,757,447</u>	<u>\$ 77,574,465</u>	<u>-</u>	<u>\$ -</u>	<u>\$ 169,515,102</u>	<u>\$ 61,361,255</u>	<u>\$ 2,675,894</u>	<u>\$ 47,615,807</u>	<u>\$ (102,885)</u>	<u>\$ (40,182)</u>	<u>\$ 176,048</u>	<u>\$ 5,803,238</u>	<u>\$ 364,578,742</u>

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

(With Deloitte & Touche audit report dated March 13, 2011)

VII. Statements of Cash Flows
CHUNGHWA TELECOM CO., LTD.

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009
(Amounts in Thousands of New Taiwan Dollars)

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 47,608,900	\$ 43,757,426
Impairment loss on assets	61,323	95,349
Provision for doubtful accounts	227,057	454,402
Depreciation and amortization	33,647,930	35,972,878
Amortization of premium of financial assets	37,200	15,295
Loss on disposal of financial instruments, net	385,544	194,133
Valuation loss (gain) on financial instruments, net	11,626	(100,688)
Valuation loss on inventory	11,956	11,550
Loss (gain) on disposal of property, plant and equipment, net	208,878	(5,147)
Loss arising from natural calamities	18,553	148,747
Equity in earnings of equity method investees, net	(778,664)	(281,340)
Dividends received from equity investees	278,677	393,115
Deferred income taxes	7,235	1,092,773
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Financial assets held for trading	33,173	215,658
Trade notes and accounts receivable	(2,095,986)	(1,322,076)
Receivables from related parties	(83,204)	(40,202)
Other monetary assets	(336,694)	371,339
Inventories	54,543	(205,463)
Other current assets	(394,960)	601,970
Increase (decrease) in:		
Trade notes and accounts payable	1,230,002	(1,338,719)
Payables to related parties	484,481	(324,270)
Income tax payable	253,555	(1,275,644)
Accrued expenses	762,095	819,458
Other current liabilities	1,470,186	501,273
Deferred income	105,146	411,467
Accrued pension liabilities	75,065	(3,956,431)
Net cash provided by operating activities	<u>83,283,617</u>	<u>76,206,853</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of available-for-sale financial assets	(2,289,718)	(8,617,262)
Proceeds from disposal of available-for-sale financial assets	17,931,915	7,642,345
Acquisition of held-to-maturity financial assets	(6,917,141)	(2,099,875)
Proceeds from disposal of held-to-maturity financial assets	1,537,500	868,860
Acquisition of financial assets carried at cost	(79,306)	-
Proceeds from disposal of financial assets carried at cost	-	285,859
Acquisition of investments accounted for using equity method	(320,740)	(1,637,615)
Acquisition of property, plant and equipment	(24,303,478)	(24,344,334)
Proceeds from disposal of property, plant and equipment	21,029	64,599

(Continued)

CHUNGHWA TELECOM CO., LTD.

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009 (Amounts in Thousands of New Taiwan Dollars)

	2010	2009
Increase in intangible assets	\$ (265,374)	\$ (233,471)
Increase in other assets	<u>(3,233,515)</u>	<u>(329,770)</u>
Net cash used in investing activities	<u>(17,918,828)</u>	<u>(28,400,664)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Decrease in customers' deposits	(33,489)	(95,111)
Increase (decrease) in other liabilities	41,695	(201,273)
Cash dividends paid	(39,369,041)	(37,138,775)
Capital reduction	<u>(9,696,808)</u>	<u>(19,115,554)</u>
Net cash used in financing activities	<u>(49,057,643)</u>	<u>(56,550,713)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	16,307,146	(8,744,524)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>68,393,379</u>	<u>77,137,903</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 84,700,525</u>	<u>\$ 68,393,379</u>
SUPPLEMENTAL INFORMATION		
Interest paid	<u>\$ 68,766</u>	<u>\$ 37</u>
Income tax paid	<u>\$ 8,568,375</u>	<u>\$ 12,588,866</u>
NON-CASH FINANCING ACTIVITIES		
Reclassification from common capital stock to due to stockholders for capital reduction	<u>\$ 19,393,617</u>	<u>\$ 9,696,808</u>
CASH AND NON-CASH INVESTING ACTIVITIES		
Increase in property, plant and equipment	\$ 22,945,900	\$ 24,257,098
Payables to suppliers	<u>1,357,578</u>	<u>87,236</u>
	<u>\$ 24,303,478</u>	<u>\$ 24,344,334</u>

(Continued)

CHUNGHWA TELECOM CO., LTD.

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009 (Amounts in Thousands of New Taiwan Dollars)

The acquisition of InfoExplorer Co., Ltd. (“IFE”) was made on January 20, 2009. The following table presents the allocation of acquisition costs of IFE to assets acquired and liabilities assumed based on their fair values on the basis of the final data on May 7, 2009:

Cash and cash equivalents	\$ 457,990
Receivables	13,479
Other current assets	14,792
Property, plant, and equipment	40,221
Identifiable intangible assets	53,001
Refundable deposits	2,468
Other assets	2,338
Payables	(83,319)
Income tax payable	(246)
Other current liabilities	<u>(153)</u>
Total	500,571
Percentage of ownership	<u>49.07%</u>
Goodwill	<u>245,630</u>
Acquisition costs of acquired subsidiary (cash prepaid for long-term investments in December 2008)	<u>\$ 283,500</u>

(Continued)

CHUNGHWA TELECOM CO., LTD.

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009 (Amounts in Thousands of New Taiwan Dollars)

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

Cash and cash equivalents	\$ 913,593
Financial assets at fair value through profit or loss	51,357
Available-for-sale financial assets	568,377
Trade notes and accounts receivable	76,258
Inventories	60,040
Other current assets	19,429
Investments accounted for using equity method	57,339
Financial assets carried at cost	155,714
Property, plant, and equipment	90,278
Identifiable intangible assets	33,662
Other assets	22,462
Trade notes and accounts payable	(33,665)
Accrued expenses	(16,496)
Income tax payable	(1,289)
Short-term loans	(20,000)
Long-term loans	(24,238)
Other liabilities	<u>(1,115)</u>
Subtotal	1,951,706
Minority interests	<u>(100,071)</u>
Total	1,851,635
Percentage of additional ownership	<u>40%</u>
	740,654
Goodwill	<u>18,055</u>
Acquisition costs of acquired subsidiary paid in cash	<u>\$ 758,709</u>

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

(With Deloitte & Touche audit report dated March 13, 2011)

(Concluded)

VIII. Independent Auditors' Report and Consolidated Balance Sheets

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated balance sheet of Chunghwa Telecom Co., Ltd. and subsidiaries (“the Company”) as of December 31, 2010 and 2009, and the related consolidated statements of income, changes in stockholders’ equity, and cash flows 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 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, such consolidated financial statements present fairly, in all material respects, the financial position of Chunghwa Telecom Co., Ltd. and subsidiaries as of December 31, 2010 and 2009, and the results of their operations and their cash flows for the years then ended in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, and accounting principles generally accepted in the Republic of China.

As discussed in Note 3 to the consolidated financial statements, the Company early adopted the new Statements of Financial Accounting Standards No. 41, “Operating Segments” (“SFAS No. 41”) beginning from September 1, 2009.

March 13, 2011

Notice to Readers

The accompanying consolidated 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 consolidated financial statements are those generally accepted and applied in the Republic of China.

For the convenience of readers, the auditors’ report and the accompanying consolidated 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 consolidated financial statements shall prevail.

CHUNGHWA TELECOM CO., LTD. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 2010 AND 2009

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

ASSETS	2010		2009		LIABILITIES AND STOCKHOLDERS' EQUITY	2010		2009	
	Amount	%	Amount	%		Amount	%	Amount	%
CURRENT ASSETS					CURRENT LIABILITIES				
Cash and cash equivalents (Notes 2 and 4)	\$ 90,875,222	20	\$ 73,259,490	16	Short-term loans (Note 16)	\$ 115,000	-	\$ 763,000	-
Financial assets at fair value through profit or loss (Notes 2 and 5)	77,322	-	40,519	-	Short-term bills payable (Note 17)	229,896	-	-	-
Available-for-sale financial assets (Notes 2 and 6)	2,190,674	1	17,537,089	4	Financial liabilities at fair value through profit or loss (Notes 2 and 5)	-	-	828	-
Held-to-maturity financial assets (Notes 2 and 7)	1,963,608	-	1,099,595	-	Trade notes and accounts payable (Note 21)	11,554,887	3	10,155,383	2
Trade notes and accounts receivable, net of allowance for doubtful accounts of \$2,551,464 in 2010 and \$2,798,679 in 2009 (Notes 2 and 8)	14,502,507	3	11,973,180	3	Payables to related parties (Note 28)	139,660	-	335,719	-
Receivables from related parties (Note 28)	63,858	-	94,323	-	Income tax payable (Notes 2 and 25)	4,567,944	1	4,311,545	1
Other monetary assets (Note 9)	2,139,662	1	1,839,745	-	Accrued expenses (Note 18)	18,404,002	4	17,448,914	4
Inventories (Notes 2, 3, 10 and 21)	4,560,803	1	4,049,207	1	Due to stockholders for capital reduction (Note 22)	19,393,617	4	9,696,808	2
Deferred income taxes assets (Notes 2 and 25)	90,881	-	101,347	-	Current portion of long-term loans (Note 20)	308,896	-	117,181	-
Restricted assets (Notes 21, 29 and 30)	204,606	-	177,462	-	Other current liabilities (Notes 10, 19, 21 and 28)	17,626,527	4	16,870,329	4
Other current assets (Notes 10, 11, 21 and 28)	4,121,381	1	4,319,700	1	Total current liabilities	72,340,429	16	59,699,707	13
Total current assets	120,790,524	27	114,491,657	25	NONCURRENT LIABILITIES				
LONG-TERM INVESTMENTS					Long-term loans (Note 20)	3,148,259	1	221,252	-
Investments accounted for using equity method (Notes 2 and 12)	1,724,927	-	1,621,772	-	Deferred income (Note 2)	2,588,910	-	2,483,764	1
Financial assets carried at cost (Notes 2 and 13)	2,734,187	1	2,536,560	1	Total noncurrent liabilities	5,737,169	1	2,705,016	1
Held-to-maturity financial assets (Notes 2 and 7)	8,408,090	2	3,929,662	1	RESERVE FOR LAND VALUE INCREMENTAL TAX (Note 15)	94,986	-	94,986	-
Other monetary assets (Notes 14 and 30)	1,000,000	-	1,000,000	-	OTHER LIABILITIES				
Total long-term investment	13,867,204	3	9,087,994	2	Accrued pension liabilities (Notes 2 and 27)	1,290,783	1	1,216,940	-
PROPERTY, PLANT AND EQUIPMENT (Notes 2, 10, 15, 28 and 29)					Customers' deposits (Note 28)	5,780,746	1	5,998,035	2
Cost					Others	463,505	-	318,517	-
Land	104,136,053	23	102,131,565	23	Total other liabilities	7,535,034	2	7,533,492	2
Land improvements	1,554,776	-	1,535,066	-	Total liabilities	85,707,618	19	70,033,201	16
Buildings	67,457,269	15	63,184,398	14	EQUITY ATTRIBUTABLE TO STOCKHOLDERS OF THE PARENT (Notes 2, 6, 15 and 22)				
Computer equipment	16,085,635	4	16,343,774	4	Common stock - \$10 par value;				
Telecommunications equipment	656,300,682	144	656,016,086	146	Authorized: 12,000,000 thousand shares				
Transportation equipment	2,372,673	-	2,113,053	-	Issued: 7,757,447 thousand shares in 2010 and 9,696,808 thousand shares in 2009	77,574,465	17	96,968,082	21
Miscellaneous equipment	7,155,083	2	7,230,632	2	Additional paid-in capital				
Total cost	855,062,171	188	848,554,574	189	Capital surplus	169,496,289	37	169,496,289	38
Revaluation increment on land	5,800,701	1	5,800,909	1	Donated capital	13,170	-	13,170	-
	860,862,872	189	854,355,483	190	Equity in additional paid-in capital reported by equity-method investees	5,643	-	304	-
Less: Accumulated depreciation	567,192,234	125	557,020,560	124	Total additional paid-in capital	169,515,102	37	169,509,763	38
	293,670,638	64	297,334,923	66	Retained earnings				
Construction in progress and advances related to acquisition of equipment	12,058,972	3	15,687,426	4	Legal reserve	61,361,255	14	56,987,241	13
Property, plant and equipment, net	305,729,610	67	313,022,349	70	Special reserve	2,675,894	1	2,675,894	-
INTANGIBLE ASSETS (Note 2)					Unappropriated earnings	47,615,807	10	43,749,962	10
3G concession	5,988,870	1	6,737,479	2	Total retained earnings	111,652,956	25	103,413,097	23
Goodwill	283,054	-	282,182	-	Other adjustments				
Others	583,669	-	597,417	-	Cumulative translation adjustments	(102,885)	-	7,626	-
Total intangible assets	6,855,593	1	7,617,078	2	Unrecognized net loss of pension	(40,182)	-	(43,750)	-
OTHER ASSETS					Unrealized loss on financial instruments	176,048	-	(447,129)	-
Leased assets	411,374	-	362,700	-	Unrealized revaluation increment	5,803,238	1	5,803,446	1
Idle assets (Note 2)	902,412	-	957,475	-	Total other adjustments	5,836,219	1	5,320,193	1
Refundable deposits (Note 28)	1,462,011	1	1,550,825	1	Total equity attributable to stockholders of the parent	364,578,742	80	375,211,135	83
Deferred income taxes assets (Notes 2 and 25)	472,260	-	482,931	-	MINORITY INTERESTS IN SUBSIDIARIES	4,024,372	1	3,752,479	1
Restricted assets (Note 29)	34,731	-	23,524	-	Total stockholders' equity	368,603,114	81	378,963,614	84
Others (Notes 27 and 28)	3,785,013	1	1,400,282	-	TOTAL	\$ 454,310,732	100	\$ 448,996,815	100
Total other assets	7,067,801	2	4,777,737	1					
TOTAL	\$ 454,310,732	100	\$ 448,996,815	100					

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

(With Deloitte & Touche audit report dated March 13, 2011)

IX. Consolidated Statements of Income
CHUNGHWA TELECOM CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2010		2009	
	Amount	%	Amount	%
NET REVENUES (Note 28)	\$ 202,430,022	100	\$ 198,361,220	100
OPERATING COSTS (Note 28)	<u>115,332,391</u>	<u>57</u>	<u>112,735,948</u>	<u>57</u>
GROSS PROFIT	<u>87,097,631</u>	<u>43</u>	<u>85,625,272</u>	<u>43</u>
OPERATING EXPENSES (Note 28)				
Marketing	22,469,186	11	22,292,965	11
General and administrative	4,012,099	2	3,764,974	2
Research and development	<u>3,249,895</u>	<u>2</u>	<u>3,173,255</u>	<u>2</u>
Total operating expenses	<u>29,731,180</u>	<u>15</u>	<u>29,231,194</u>	<u>15</u>
INCOME FROM OPERATIONS	<u>57,366,451</u>	<u>28</u>	<u>56,394,078</u>	<u>28</u>
NON-OPERATING INCOME AND GAINS (Note 28)				
Interest income	475,462	1	478,708	-
Equity in earnings of equity method investees, net	150,683	-	-	-
Valuation gain on financial instruments, net	-	-	98,654	-
Foreign exchange gain, net	-	-	88,840	-
Others	<u>406,794</u>	<u>-</u>	<u>755,692</u>	<u>1</u>
Total non-operating income and gains	<u>1,032,939</u>	<u>1</u>	<u>1,421,894</u>	<u>1</u>
NON-OPERATING EXPENSES AND LOSSES				
Loss on disposal of property, plant and equipment, net	216,124	-	6,903	-
Loss on disposal of financial instruments, net	157,143	-	141,865	-
Impairment loss on assets	125,416	-	109,968	-
Interest expense	107,246	-	15,223	-
Loss arising from natural calamities	18,553	-	148,747	-
Foreign exchange loss, net	16,781	-	-	-
Valuation loss on financial instruments, net	11,375	-	-	-
Equity in losses of equity method investees, net	-	-	23,223	-
Others	<u>59,347</u>	<u>-</u>	<u>131,956</u>	<u>-</u>
Total non-operating expenses and losses	<u>711,985</u>	<u>-</u>	<u>577,885</u>	<u>-</u>
INCOME BEFORE INCOME TAX	57,687,405	29	57,238,087	29
INCOME TAX EXPENSE (Notes 2 and 25)	<u>9,129,106</u>	<u>5</u>	<u>12,742,934</u>	<u>7</u>
CONSOLIDATED NET INCOME	<u>\$ 48,558,299</u>	<u>24</u>	<u>\$ 44,495,153</u>	<u>22</u>

(Continued)

CHUNGHWA TELECOM CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009 (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2010		2009	
	Amount	%	Amount	%
ATTRIBUTABLE TO				
Stockholders of the parent	\$ 47,608,900	24	\$ 43,757,426	22
Minority interests	<u>949,399</u>	<u>-</u>	<u>737,727</u>	<u>-</u>
	<u>\$ 48,558,299</u>	<u>24</u>	<u>\$ 44,495,153</u>	<u>22</u>
	2010		2009	
	Before Income Tax	After Income Tax	Before Income Tax	After Income Tax
EARNINGS PER SHARE (Note 26)				
Basic earnings per share	<u>\$ 5.82</u>	<u>\$ 4.91</u>	<u>\$ 5.79</u>	<u>\$ 4.51</u>
Diluted earnings per share	<u>\$ 5.80</u>	<u>\$ 4.89</u>	<u>\$ 5.77</u>	<u>\$ 4.50</u>

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

(With Deloitte & Touche audit report dated March 13, 2011)

(Concluded)

X. Consolidated Statements of Changes in Stockholders' Equity
CHUNGHWA TELECOM CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009
(In Thousands of New Taiwan Dollars)

	Common Stock		Preferred Stock		Additional Paid-in Capital	Retained Earnings			Other Adjustments				Total Stockholders' Equity	
	Shares (Thousands)	Amount	Shares (Thousands)	Amount		Legal Reserve	Special Reserve	Unappropriated Earnings	Cumulative Translation Adjustments	Unrecognized Not Loss of Pension	Unrealized Loss on Financial Instruments	Unrealized Revaluation Increment		Minority Interests
BALANCE, JANUARY 1, 2009	9,696,808	\$ 96,968,082	-	\$ -	\$ 179,206,270	\$ 52,859,566	\$ 2,675,894	\$ 41,276,274	\$ 29,474	\$ (84)	\$ (2,272,242)	\$ 5,813,187	\$ 3,137,450	\$ 379,693,871
Adjustment of additional paid-in capital from revaluation of land to income upon disposal	-	-	-	-	-	-	-	-	-	-	-	(9,741)	-	(9,741)
Appropriation of 2008 earnings														
Legal reserve	-	-	-	-	-	4,127,675	-	(4,127,675)	-	-	-	-	-	-
Cash dividend - NT\$3.83 per share	-	-	-	-	-	-	-	(37,138,775)	-	-	-	-	-	(37,138,775)
Cancellation of preferred stock (Note 22)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Capital surplus transferred to common stock	969,680	9,696,808	-	-	(9,696,808)	-	-	-	-	-	-	-	-	-
Decrease in minority interests	-	-	-	-	-	-	-	-	-	-	-	-	(128,833)	(128,833)
Capital reduction (Note 22)	(969,680)	(9,696,808)	-	-	-	-	-	-	-	-	-	-	-	(9,696,808)
Consolidated net income in 2009	-	-	-	-	-	-	-	43,757,426	-	-	-	-	737,727	44,495,153
Equity adjustments in investees	-	-	-	-	301	-	-	(17,288)	-	-	-	-	-	(16,987)
Cumulative translation adjustment for foreign-currency investments held by investees	-	-	-	-	-	-	-	-	(21,848)	-	-	-	(210)	(22,058)
Defined benefit pension plan adjustments of investees	-	-	-	-	-	-	-	-	-	(43,666)	-	-	(1,079)	(44,745)
Unrealized loss on financial instruments	-	-	-	-	-	-	-	-	-	-	1,825,113	-	7,424	1,832,537
BALANCE, DECEMBER 31, 2009	9,696,808	96,968,082	-	-	169,509,763	56,987,241	2,675,894	43,749,962	7,626	(43,750)	(447,129)	5,803,446	3,752,479	378,963,614
Adjustment of additional paid-in capital from revaluation of land to income upon disposal	-	-	-	-	-	-	-	-	-	-	-	(208)	-	(208)
Appropriation of 2009 earnings														
Legal reserve	-	-	-	-	-	4,374,014	-	(4,374,014)	-	-	-	-	-	-
Cash dividend - NT\$4.06 per share	-	-	-	-	-	-	-	(39,369,041)	-	-	-	-	-	(39,369,041)
Decrease in minority interests	-	-	-	-	-	-	-	-	-	-	-	-	(695,797)	(695,797)
Capital reduction (Note 22)	(1,939,361)	(19,393,617)	-	-	-	-	-	-	-	-	-	-	-	(19,393,617)
Consolidated net income in 2010	-	-	-	-	-	-	-	47,608,900	-	-	-	-	949,399	48,558,299
Equity adjustments in investees	-	-	-	-	5,339	-	-	-	-	-	-	-	-	5,339
Cumulative translation adjustment for foreign-currency investments held by investees	-	-	-	-	-	-	-	-	(110,511)	-	-	-	(9,257)	(119,768)
Defined benefit pension plan adjustments of investees	-	-	-	-	-	-	-	-	-	3,568	-	-	1,526	5,094
Unrealized loss on financial instruments	-	-	-	-	-	-	-	-	-	-	623,177	-	26,022	649,199
BALANCE, DECEMBER 31, 2010	<u>7,757,447</u>	<u>\$ 77,574,465</u>	<u>-</u>	<u>\$ -</u>	<u>\$ 169,515,102</u>	<u>\$ 61,361,255</u>	<u>\$ 2,675,894</u>	<u>\$ 47,615,807</u>	<u>\$ (102,885)</u>	<u>\$ (40,182)</u>	<u>\$ 176,048</u>	<u>\$ 5,803,238</u>	<u>\$ 4,024,372</u>	<u>\$ 368,603,114</u>

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

(With Deloitte & Touche audit report dated March 13, 2011)

XI. Consolidated Statements of Cash Flows
CHUNGHWA TELECOM CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009
(Amounts in Thousands of New Taiwan Dollars)

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Consolidated net income	\$ 48,558,299	\$ 44,495,153
Provision for doubtful accounts	229,583	462,329
Depreciation and amortization	34,063,939	36,319,957
Amortization of premium of financial assets	38,227	16,080
Loss on disposal of financial instruments, net	157,143	141,865
Valuation loss on inventory	16,910	56,055
Valuation loss (gain) on financial instruments, net	11,375	(98,654)
Loss on disposal of property, plant and equipment, net	216,124	6,903
Equity in loss (earnings) of equity investees, net	(150,683)	23,223
Dividends received from equity investees	35,862	89,279
Loss arising from natural calamities	18,553	148,747
Impairment loss on assets	125,416	109,968
Loss on disposal of leased assets	-	24
Deferred income taxes	26,568	1,098,630
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Financial assets held for trading	32,345	221,427
Trade notes and accounts receivable	(2,748,979)	(1,491,798)
Receivables from related parties	(36,063)	(70,392)
Other monetary assets	(288,397)	350,295
Inventories	(491,693)	(143,704)
Other current assets	(857,594)	510,031
Increase (decrease) in:		
Financial liabilities held for trading	(305)	145
Trade notes and accounts payable	2,236,752	(1,564,541)
Payables to related parties	(259,591)	(206,090)
Income tax payable	256,538	(1,377,091)
Accrued expenses	953,866	950,081
Other current liabilities	2,446,547	775,918
Deferred income	105,146	421,598
Accrued pension liabilities	73,023	(3,959,844)
Net cash provided by operating activities	<u>84,768,911</u>	<u>77,285,594</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of designated financial assets at fair value through profit or loss	(33,503)	(44,625)
Proceeds from disposal of designated financial assets at fair value through profit or loss	20,519	62,695
Acquisition of available-for-sale financial assets	(3,341,890)	(9,263,485)
Proceeds from disposal of available-for-sale financial assets	19,195,145	8,096,767
Acquisition of held-to-maturity financial assets	(6,917,141)	(2,099,875)
Proceeds from disposal of held-to-maturity financial assets	1,537,500	868,860
Acquisition of financial assets carried at cost	(384,074)	(142,455)

(Continued)

CHUNGHWA TELECOM CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009 (Amounts in Thousands of New Taiwan Dollars)

	2010	2009
Proceeds from disposal of financial assets carried at cost	\$ 59,384	\$ 302,157
Acquisition of investments accounted for using equity method	(35,039)	(559,725)
Acquisition of property, plant and equipment	(24,617,158)	(25,477,587)
Proceeds from disposal of property, plant and equipment	82,282	65,177
Increase in intangible assets	(277,778)	(274,406)
Decrease (increase) in restricted assets	30,586	(90,574)
Increase in other assets	<u>(2,681,748)</u>	<u>(913,815)</u>
Net cash used in investing activities	<u>(17,362,915)</u>	<u>(29,470,891)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase (decrease) in short-term loans	(648,000)	485,000
Increase in short-term bills payable	229,896	-
Increase in long-term loans	3,238,000	400,000
Repayment of long-term loans	(119,424)	(123,645)
Decrease in customers' deposits	(81,123)	(118,081)
Increase (decrease) in other liabilities	61,554	(199,126)
Cash dividends paid	(39,369,041)	(37,138,775)
Proceeds from exercise of employee stock option granted by subsidiary	97,073	58,289
Decrease in minority interests	(674,877)	(697,667)
Capital reduction	<u>(9,696,808)</u>	<u>(19,115,554)</u>
Net cash used in financing activities	<u>(46,962,750)</u>	<u>(56,449,559)</u>
EFFECT OF EXCHANGE RATE CHANGES	<u>(63,533)</u>	<u>(6,693)</u>
EFFECT OF CHANGE ON CONSOLIDATED SUBSIDIARIES	<u>(2,763,981)</u>	<u>612,874</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	17,615,732	(8,028,675)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>73,259,490</u>	<u>81,288,165</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 90,875,222</u>	<u>\$ 73,259,490</u>
SUPPLEMENTAL INFORMATION		
Interest paid (excluding capitalized interest expense)	<u>\$ 98,484</u>	<u>\$ 13,480</u>
Income tax paid	<u>\$ 8,841,027</u>	<u>\$ 13,023,872</u>
NON-CASH FINANCING ACTIVITIES		
Current portion of long-term loans	<u>\$ 308,896</u>	<u>\$ 117,181</u>
Reclassification from common capital stock to due to stockholders for capital reduction	<u>\$ 19,393,617</u>	<u>\$ 9,696,808</u>

(Continued)

CHUNGHWA TELECOM CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009 (Amounts in Thousands of New Taiwan Dollars)

	2010	2009
CASH AND NON-CASH INVESTING ACTIVITIES		
Increase in property, plant and equipment	\$ 23,250,030	\$ 25,150,339
Payables to suppliers	1,356,316	359,280
Prepayments for equipment	<u>10,812</u>	<u>(32,032)</u>
	<u>\$ 24,617,158</u>	<u>\$ 25,477,587</u>

The acquisition of Yao Yong Real Property Co., Ltd. (“YYP”) by Light Era Development Co., Ltd. (LED) was made on March 1, 2010. The following table presents the allocation of acquisition costs of YYRP to assets acquired and liabilities assumed based on their fair values on the basis of the final data obtained on April 12, 2010:

Cash and cash equivalents	\$ 29,686
Other monetary assets	13,439
Deferred income tax assets	5,603
Property, plant, and equipment	2,781,547
Customers’ deposits	(34,857)
Accrued expenses	(1,312)
Other current liabilities	<u>(1,311)</u>
Total	2,792,795
Percentage of ownership	<u>100%</u>
	2,792,795
Goodwill	<u>872</u>
Acquisition costs of acquired subsidiary	<u>\$ 2,793,667</u>

The acquisition of InfoExplorer Co., Ltd. (“IFE”) was made on January 20, 2009. The following table presents the allocation of acquisition costs of IFE to assets acquired and liabilities assumed based on their fair values on the basis of the final data on May 7, 2009:

Cash and cash equivalents	\$ 457,990
Receivables	13,479
Other current assets	14,792
Property, plant, and equipment	40,221
Identifiable intangible assets	53,001
Refundable deposits	2,468
Other assets	2,338
Payables	(83,319)
Income tax payable	(246)
Other current liabilities	<u>(153)</u>
Total	500,571
Percentage of ownership	<u>49.07%</u>
	245,630
Goodwill	<u>37,870</u>
Acquisition costs of acquired subsidiary (cash prepaid for long-term investments in December 2008)	<u>\$ 283,500</u>

(Continued)

CHUNGHWA TELECOM CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009 (Amounts in Thousands of New Taiwan Dollars)

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

Cash and cash equivalents	\$ 913,593
Financial assets at fair value through profit or loss	51,357
Available-for-sale financial assets	568,377
Trade notes and accounts receivable	76,258
Inventories	60,040
Other current assets	19,429
Investments accounted for using equity method	57,339
Financial assets carried at cost	155,714
Property, plant, and equipment	90,278
Identifiable intangible assets	33,662
Other assets	22,462
Trade notes and accounts payable	(33,665)
Accrued expense	(16,496)
Income tax payable	(1,289)
Short-term loans	(20,000)
Long-term loans	(24,238)
Other liabilities	(1,115)
Subtotal	<u>1,951,706</u>
Minority interests	<u>(100,071)</u>
Total	1,851,635
Percentage of additional ownership	<u>40%</u>
	740,654
Goodwill	<u>18,055</u>
Acquisition costs of acquired subsidiary paid in cash	<u>\$ 758,709</u>

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

(With Deloitte & Touche audit report dated March 13, 2011)

(Concluded)

XII. Profit Allocation Proposal

Chunghwa Telecom Co., Ltd. 2010 PROFIT ALLOCATION PROPOSAL

Units: NT\$

Source items:	
Unappropriated Retained Earnings of Pervious Years (Note 1)	6,906,707
Net Income of 2010	47,608,899,938
Subtract: 10% Legal Reserve	(4,760,889,994)
Distributable earnings for 2010	42,854,916,651
Distribution items:	
Shareholders' cash dividends (total of 7,757,446,545 shares x NT\$5.5243 per share)	(42,854,461,949)
Unappropriated Retained Earnings	454,702
Notes:	
1. The amount of "Unappropriated Retained Earnings of Pervious Years" is the same as the amount of "Unappropriated Retained Earnings " on the profit allocation proposal approved at the 2010 annual general meeting	
2. Employee bonuses expensed	2,144,074,405
Director and supervisor remuneration expensed	45,043,580

Shyue-Ching Lu, Chairman and CEO

Shaio-Tong Chang, President

Shui-Yi Kuo, Accounting Officer