

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

**Consolidated Financial Statements for the
Three Months Ended March 31, 2014 and 2013**

CHUNGHWA TELECOM CO., LTD. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (In Millions of New Taiwan Dollars)

ASSETS	March 31, 2014 (Unaudited)		December 31, 2013 (Audited)		March 31, 2013 (Unaudited)		LIABILITIES AND EQUITY	March 31, 2014 (Unaudited)		December 31, 2013 (Audited)		March 31, 2013 (Unaudited)	
	Amount	%	Amount	%	Amount	%		Amount	%	Amount	%	Amount	%
CURRENT ASSETS							CURRENT LIABILITIES						
Cash and cash equivalents	\$ 18,986	5	\$ 14,585	3	\$ 35,066	8	Short-term loans	\$ 304	-	\$ 254	-	\$ 156	-
Financial assets at fair value through profit or loss	-	-	-	-	1	-	Financial liabilities at fair value through profit or loss	1	-	-	-	1	-
Available-for-sale financial assets	-	-	24	-	3,059	-	Hedging derivative liabilities	-	-	-	-	42	-
Held-to-maturity financial assets	4,313	1	4,264	1	3,947	1	Trade notes and accounts payable	12,355	3	15,589	4	10,855	3
Trade notes and accounts receivable, net	22,988	5	22,901	5	25,835	6	Payables to related parties	503	-	557	-	533	-
Accounts receivable from related parties, net	62	-	69	-	41	-	Current tax liabilities	9,241	2	6,171	2	9,950	2
Inventories	8,944	2	7,848	2	8,265	2	Other payables	22,331	5	26,792	6	22,601	5
Prepayment	5,351	1	2,224	1	5,402	1	Provisions	143	-	129	-	245	-
Other current monetary assets	4,621	1	4,636	1	21,838	5	Advance receipts	9,394	2	9,464	2	10,564	2
Other current assets	4,012	1	3,962	1	4,338	1	Current portion of long-term loans	300	-	300	-	-	-
Total current assets	69,277	16	60,513	14	107,792	24	Other current liabilities	1,603	-	1,599	-	1,563	-
							Total current liabilities	56,175	12	60,855	14	56,510	12
NONCURRENT ASSETS							NONCURRENT LIABILITIES						
Available-for-sale financial assets	5,232	1	5,470	1	5,639	1	Long-term loans	1,400	1	1,400	1	1,750	1
Held-to-maturity financial assets	6,796	1	7,502	2	11,135	3	Deferred income taxes liabilities	101	-	101	-	108	-
Investments accounted for using equity method	2,556	1	2,359	-	1,996	1	Provisions	119	-	123	-	69	-
Property, plant and equipment	299,084	67	302,714	69	295,839	66	Customers' deposits	4,755	1	4,835	1	4,846	1
Investment properties	8,014	2	8,018	2	7,785	2	Accrued pension liabilities	5,582	1	5,482	1	4,668	1
Intangible assets	44,134	10	44,399	10	5,623	1	Deferred revenue	3,615	1	3,701	1	3,840	1
Deferred income tax assets	1,713	-	1,506	-	1,317	-	Other noncurrent liabilities	1,355	-	1,335	-	1,306	-
Prepayments	3,590	1	3,608	1	3,520	1	Total noncurrent liabilities	16,927	4	16,977	4	16,587	4
Other noncurrent assets	5,059	1	4,883	1	4,649	1	Total liabilities	73,102	16	77,832	18	73,097	16
Total noncurrent assets	376,178	84	380,459	86	337,503	76							
							EQUITY ATTRIBUTABLE TO STOCKHOLDERS OF THE PARENT						
							Common stock	77,574	17	77,574	17	77,574	18
							Additional paid-in capital	163,294	37	163,294	37	168,880	38
							Retained earnings						
							Legal reserve	74,819	17	74,819	17	70,829	16
							Special reserve	2,676	1	2,676	1	2,676	-
							Unappropriated earnings	49,368	11	40,075	9	47,344	11
							Total retained earnings	126,863	29	117,570	27	120,849	27
							Other adjustments	(372)	-	(144)	-	146	-
							Total equity attributable to stockholders of the parent	367,359	83	358,294	81	367,449	83
							NONCONTROLLING INTERESTS						
								4,994	1	4,846	1	4,749	1
							Total equity	372,353	84	363,140	82	372,198	84
TOTAL	\$ 445,455	100	\$ 440,972	100	\$ 445,295	100	TOTAL	\$ 445,455	100	\$ 440,972	100	\$ 445,295	100

CHUNGHWA TELECOM CO., LTD. AND SUBSIDIARIES

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

	Three Months Ended March 31			
	2014 (Unaudited)		2013 (Unaudited)	
	Amount	%	Amount	%
REVENUES	\$ 55,050	100	\$ 56,617	100
OPERATING COSTS	<u>35,000</u>	<u>64</u>	<u>37,451</u>	<u>66</u>
GROSS PROFIT	<u>20,050</u>	<u>36</u>	<u>19,166</u>	<u>34</u>
OPERATING EXPENSES				
Marketing	6,168	11	5,989	11
General and administrative	1,083	2	1,048	2
Research and development	<u>894</u>	<u>2</u>	<u>871</u>	<u>1</u>
Total operating expenses	<u>8,145</u>	<u>15</u>	<u>7,908</u>	<u>14</u>
OTHER INCOME AND EXPENSES	<u>(9)</u>	<u>-</u>	<u>(24)</u>	<u>-</u>
INCOME FROM OPERATIONS	<u>11,896</u>	<u>21</u>	<u>11,234</u>	<u>20</u>
NON-OPERATING INCOME AND EXPENSES				
Interest income	59	-	151	-
Other revenue	253	1	69	-
Other gains and losses	(33)	-	12	-
Financial costs	(9)	-	(8)	-
Share of the profit of associates and joint ventures accounted for using equity method	<u>161</u>	<u>-</u>	<u>93</u>	<u>-</u>
Total non-operating income and expenses	<u>431</u>	<u>1</u>	<u>317</u>	<u>-</u>
INCOME BEFORE INCOME TAX	12,327	22	11,551	20
INCOME TAX EXPENSE	<u>2,903</u>	<u>5</u>	<u>2,830</u>	<u>5</u>
NET INCOME	<u>9,424</u>	<u>17</u>	<u>8,721</u>	<u>15</u>
OTHER COMPREHENSIVE INCOME (LOSS)				
Items that will not be reclassified to profit or loss:				
Share of remeasurements of defined benefit pension plans of associates	<u>-</u>	<u>-</u>	<u>(40)</u>	<u>-</u>
Items that may be reclassified subsequently to profit or loss:				
Unrealized loss on available-for-sale financial assets	(260)	-	(89)	-
Income tax relating to items that may be reclassified subsequently	1	-	1	-

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CHUNGHWA TELECOM CO., LTD. AND SUBSIDIARIES

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

	Three Months Ended March 31			
	2014 (Unaudited)		2013 (Unaudited)	
	Amount	%	Amount	%
Exchange differences arising from the translation of the foreign operations	\$ 14	-	\$ 74	-
Share of exchange differences arising from the translation of the foreign operations of associates	<u>8</u>	<u>-</u>	<u>12</u>	<u>-</u>
	<u>(237)</u>	<u>-</u>	<u>(2)</u>	<u>-</u>
Total other comprehensive loss, net	<u>(237)</u>	<u>-</u>	<u>(42)</u>	<u>-</u>
TOTAL COMPREHENSIVE INCOME	<u>\$ 9,187</u>	<u>17</u>	<u>\$ 8,679</u>	<u>15</u>
NET INCOME ATTRIBUTABLE TO				
Stockholders of the parent	\$ 9,293	17	\$ 8,347	15
Noncontrolling interests	<u>131</u>	<u>-</u>	<u>374</u>	<u>-</u>
	<u>\$ 9,424</u>	<u>17</u>	<u>\$ 8,721</u>	<u>15</u>
COMPREHENSIVE INCOME ATTRIBUTABLE TO				
Stockholders of the parent	\$ 9,065	17	\$ 8,292	14
Noncontrolling interests	<u>122</u>	<u>-</u>	<u>387</u>	<u>1</u>
	<u>\$ 9,187</u>	<u>17</u>	<u>\$ 8,679</u>	<u>15</u>
EARNINGS PER SHARE				
Basic	<u>\$1.20</u>		<u>\$1.08</u>	
Diluted	<u>\$1.20</u>		<u>\$1.07</u>	

(Concluded)

CHUNGHWA TELECOM CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(In Millions of New Taiwan Dollars)
(Unaudited)

	Equity Attributable to Stockholders of the Parent						Other Adjustments			Total Equity Attributable to Stockholders of the Parent	Non-controlling Interests	Total Equity
	Common Stock	Additional Paid-in Capital	Retained Earnings			Total Retained Earnings	Exchange Differences Arising from the Translation of the Foreign Operations	Unrealized Gain (Loss) on Available-for-sale Financial Assets	Total Other Adjustments			
			Legal Reserve	Special Reserve	Unappropriated Earnings							
BALANCE, JANUARY 1, 2013	\$ 77,574	\$ 168,877	\$ 70,829	\$ 2,676	\$ 39,037	\$ 112,542	\$ (97)	\$ 258	\$ 161	\$ 359,154	\$ 4,336	\$ 363,490
Net income for the three months ended March 31, 2013	-	-	-	-	8,347	8,347	-	-	-	8,347	374	8,721
Other comprehensive income (loss) for the three months ended March 31, 2013	-	-	-	-	(40)	(40)	70	(85)	(15)	(55)	13	(42)
Total comprehensive income (loss) for the three months ended March 31, 2013	-	-	-	-	8,307	8,307	70	(85)	(15)	8,292	387	8,679
Exercise of employee stock options of subsidiaries	-	3	-	-	-	-	-	-	-	3	-	3
Increase in noncontrolling interests	-	-	-	-	-	-	-	-	-	-	26	26
BALANCE, MARCH 31, 2013	<u>\$ 77,574</u>	<u>\$ 168,880</u>	<u>\$ 70,829</u>	<u>\$ 2,676</u>	<u>\$ 47,344</u>	<u>\$ 120,849</u>	<u>\$ (27)</u>	<u>\$ 173</u>	<u>\$ 146</u>	<u>\$ 367,449</u>	<u>\$ 4,749</u>	<u>\$ 372,198</u>
BALANCE, JANUARY 1, 2014	\$ 77,574	\$ 163,294	\$ 74,819	\$ 2,676	\$ 40,075	\$ 117,570	\$ 6	\$ (150)	\$ (144)	\$ 358,294	\$ 4,846	\$ 363,140
Net income for the three months ended March 31, 2014	-	-	-	-	9,293	9,293	-	-	-	9,293	131	9,424
Other comprehensive income (loss) for the three months ended March 31, 2014	-	-	-	-	-	-	26	(254)	(228)	(228)	(9)	(237)
Total comprehensive income (loss) for the three months ended March 31, 2014	-	-	-	-	9,293	9,293	26	(254)	(228)	9,065	122	9,187
Compensation cost of employee stock option of a subsidiary	-	-	-	-	-	-	-	-	-	-	26	26
BALANCE, MARCH 31, 2014	<u>\$ 77,574</u>	<u>\$ 163,294</u>	<u>\$ 74,819</u>	<u>\$ 2,676</u>	<u>\$ 49,368</u>	<u>\$ 126,863</u>	<u>\$ 32</u>	<u>\$ (404)</u>	<u>\$ (372)</u>	<u>\$ 367,359</u>	<u>\$ 4,994</u>	<u>\$ 372,353</u>

CHUNGHWA TELECOM CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (In Millions of New Taiwan Dollars)

	Three Months Ended March 31	
	2014	2013
	(Unaudited)	(Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	\$ 12,327	\$ 11,551
Adjustments to reconcile income before income tax to net cash provided by operating activities:		
Depreciation	8,044	7,660
Amortization	323	297
Provision for doubtful accounts	51	109
Interest expenses	9	8
Interest income	(59)	(151)
Dividend income	-	(18)
Compensation cost of employee share options	26	-
Share of the profit of associates and joint ventures accounted for using equity method	(161)	(93)
Impairment loss on available-for-sale financial assets	1	6
Impairment loss on intangible assets	-	18
Provision for inventory and obsolescence	157	92
Impairment loss on property, plant and equipment	-	2
Loss (gain) on disposal of financial instruments	(16)	29
Loss on disposal of property, plant and equipment	9	4
Valuation loss (gain) on financial instruments at fair value through profit or loss, net	1	(29)
Loss on disposal of investments accounted for by using equity method	2	-
Loss (gain) on foreign exchange	(72)	87
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Financial assets held for trading	-	1
Trade notes and accounts receivable	(132)	(1,639)
Receivables from related parties	7	75
Inventories	(1,253)	(1,162)
Other current monetary assets	(73)	(645)
Prepayments	(3,109)	(3,382)
Other current assets	(63)	375
Increase (decrease) in:		
Trade notes and accounts payable	(3,192)	(2,803)
Payables to related parties	(54)	(407)
Other payables	(3,078)	(2,084)
Provisions	10	48
Advance receipts	(69)	376
Other current liabilities	3	183

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CHUNGHWA TELECOM CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (In Millions of New Taiwan Dollars)

	Three Months Ended March 31	
	2014	2013
	(Unaudited)	(Unaudited)
Deferred revenue	\$ (86)	\$ 1
Accrued pension liabilities	<u>99</u>	<u>84</u>
Cash generated from operations	9,652	8,593
Interest paid	(9)	(8)
Income tax paid	<u>(27)</u>	<u>(23)</u>
Net cash provided by operating activities	<u>9,616</u>	<u>8,562</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of available-for-sale financial assets	(27)	(726)
Proceeds from disposal of available-for-sale financial assets	44	-
Acquisition of time deposits and negotiable certificate of deposits with maturities of more than three months	(231)	(15,505)
Proceeds from disposal of time deposits and negotiable certificate of deposits with maturities of more than three month	322	18,769
Proceeds from disposal of held-to-maturity financial assets	650	950
Proceeds from disposal of hedging derivative assets	-	3
Derecognition of hedging derivative liabilities	-	(32)
Acquisition of investments accounted for using equity method	(50)	(60)
Capital reduction of associates	-	16
Acquisition of property, plant and equipment	(5,768)	(7,535)
Proceeds from disposal of property, plant and equipment	5	-
Acquisition of intangible assets	(58)	(158)
Increase in other noncurrent assets	(188)	(15)
Interest received	61	169
Cash dividends received	<u>-</u>	<u>297</u>
Net cash used in investing activities	<u>(5,240)</u>	<u>(3,827)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from short-term loans	50	138
Repayment of short-term loans	-	(94)
Repayment of long-term loans	-	(308)
Customers' deposits refunded	(78)	(110)
Increase (decrease) in other noncurrent liabilities	18	(238)
Proceeds from exercise of employee stock option granted by subsidiaries	<u>-</u>	<u>29</u>
Net cash used in financing activities	<u>(10)</u>	<u>(583)</u>
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		
	<u>35</u>	<u>(24)</u>

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CHUNGHWA TELECOM CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (In Millions of New Taiwan Dollars)

	<u>Three Months Ended March 31</u>	
	<u>2014</u>	<u>2013</u>
	<u>(Unaudited)</u>	<u>(Unaudited)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	\$ 4,401	\$ 4,128
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	<u>14,585</u>	<u>30,938</u>
CASH AND CASH EQUIVALENTS, END OF PERIOD	<u>\$ 18,986</u>	<u>\$ 35,066</u>

(Concluded)

CHUNGHWA TELECOM CO., LTD. AND SUBSIDIARIES

NOTE TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) THREE MONTHS ENDED MARCH 31, 2014 AND 2013

STATEMENT OF COMPLIANCE

The Company has prepared its consolidated financial statements as of and for the three months ended March 31, 2014 in accordance with the International Financial Reporting Standards, International Accounting Standard and International Financial Reporting Interpretations Committee, as issued by the International Accounting Standard Board (collectively, "IFRSs"). The consolidated financial statements are incomplete as they omit the related footnote disclosures as required under IFRSs.