Chunghwa Telecom Co., Ltd. and Subsidiaries

Consolidated Financial Statements as of December 31, 2009 and 2010, and for Each of the Three Years in the Period Ended December 31, 2010 and Report of Independent Registered Public Accounting Firm

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying consolidated balance sheets of Chunghwa Telecom Co., Ltd. and subsidiaries (the "Company") as of December 31, 2009 and 2010, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for the years ended December 31, 2008, 2009 and 2010, all expressed in New Taiwan dollars. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Chunghwa Telecom Co., Ltd. and subsidiaries as of December 31, 2009 and 2010, and the results of their operations and their cash flows for the years ended December 31, 2008, 2009 and 2010, in conformity with accounting principles generally accepted in the Republic of China.

As discussed in Note 4 to the consolidated financial statements, the Company early adopted the new Statement of Financial Accounting Standards No. 41, "Operating Segments" ("SFAS No. 41") beginning from September 1, 2009.

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

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

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2010, based on the criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 17, 2011 expressed an unqualified opinion on the Company's internal control over financial reporting.

Deloitte & Touche
Taipei, Taiwan
The Republic of China

March 17, 2011

CHUNGHWA TELECOM CO., LTD. AND SUBSIDIARIES

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

		December 31		
		2009	2010	
ASSETS	**Notes**	**NT$**	**NT$**	**US$ (Note 3)**
CURRENT ASSETS				
Cash and cash equivalents	2, 5	$ 73,259	$ 90,875	$ 3,119
Financial assets at fair value through profit or loss	2, 6	41	77	3
Available-for-sale financial assets	2, 7	17,537	2,191	75
Held-to-maturity financial assets	2, 8	1,100	1,964	67
Trade notes and accounts receivable, net	2, 9	11,973	14,503	498
Receivables from related parties	29	94	64	2
Other monetary assets	10	1,840	2,139	73
Inventories	2, 4, 11, 22	4,049	4,561	157
Deferred income tax assets	2, 26	101	91	3
Restricted assets	22, 30, 31	178	205	7
Other current assets	11, 12, 22	4,320	4,121	141
Total current assets		114,492	120,791	4,145
LONG-TERM INVESTMENTS				
Investments accounted for using equity method	2, 13	1,622	1,725	59
Financial assets carried at cost	2, 14	2,537	2,734	94
Held-to-maturity financial assets	2, 8	3,930	8,408	289
Other monetary assets	15, 31	1,000	1,000	34
Total long-term investments		9,089	13,867	476
PROPERTY, PLANT AND EQUIPMENT, NET	2, 11, 16, 29, 30	313,022	305,730	10,492
INTANGIBLE ASSETS	2			
3G concession		6,737	5,989	206
Goodwill		282	283	10
Others		598	584	19
Total intangible assets		7,617	6,856	235
OTHER ASSETS				
Refundable deposits		1,551	1,462	50
Deferred income tax assets	2, 26	483	472	16
Others	2, 28, 29, 30	2,743	5,133	177
Total other assets		4,777	7,067	243
TOTAL		$ 448,997	$ 454,311	$ 15,591

		December 31		
		2009	2010	
LIABILITIES AND STOCKHOLDERS' EQUITY	**Notes**	**NT$**	**NT$**	**US$ (Note 3)**
CURRENT LIABILITIES				
Short-term loans	17	$ 763	$ 115	$ 4
Short-term bills payable	18	-	230	8
Financial liabilities at fair value through profit or loss	2, 6	1	-	-
Trade notes and accounts payable	22	10,155	11,555	397
Payables to related parties	29	336	140	5
Income tax payable	2, 26	4,312	4,568	157
Accrued expenses	19	17,449	18,404	631
Due to stockholders for capital reduction	23	9,697	19,394	666
Current portion of long-term loans	21	117	309	11
Other current liabilities	11, 20, 22, 29	16,870	17,626	604
Total current liabilities		59,700	72,341	2,483
NONCURRENT LIABILITIES				
Long-term loans	21	221	3,148	108
Deferred income	2	2,484	2,589	89
Total noncurrent liabilities		2,705	5,737	197
RESERVE FOR LAND VALUE INCREMENTAL TAX	16	95	95	3
OTHER LIABILITIES				
Accrued pension liabilities	2, 28	1,217	1,291	44
Customers' deposits		5,998	5,781	198
Others		318	463	17
Total other liabilities		7,533	7,535	259
Total liabilities		70,033	85,708	2,942
EQUITY ATTRIBUTABLE TO STOCKHOLDERS OF THE PARENT	2, 7, 16, 23			
Common stock - NT$10 par value				
Authorized: 12,000,000 thousand shares				
Issued: 7,757,447 thousand shares in 2010 and 9,696,808 thousand shares in 2009		96,968	77,574	2,662
Additional paid-in capital		169,510	169,515	5,817
Retained earnings		103,413	111,653	3,832
Other adjustments				
Cumulative translation adjustments		8	(102)	(4)
Unrecognized net loss of pension		(44)	(40)	(1)
Unrealized gain (loss) on financial instruments		(447)	176	6
Unrealized revaluation increment		5,803	5,803	199
Total other adjustments		5,320	5,837	200
Total equity attributable to stockholders of the parent		375,211	364,579	12,511
MINORITY INTERESTS IN SUBSIDIARIES		3,753	4,024	138
Total stockholders' equity		378,964	368,603	12,649
TOTAL		$ 448,997	$ 454,311	$ 15,591

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

(With Deloitte & Touche audit report dated March 17, 2011)

CHUNGHWA TELECOM CO., LTD. AND SUBSIDIARIES

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

		Year Ended December 31			
		2008	2009	2010	
	Notes	NT$	NT$	NT$	US$ (Note 3)
NET REVENUES	29	$ 201,670	$ 198,361	$ 202,430	$ 6,947
OPERATING COSTS	29	113,546	112,736	115,332	3,958
GROSS PROFIT		88,124	85,625	87,098	2,989
OPERATING EXPENSES	29				
Marketing		22,732	22,293	22,469	772
General and administrative		3,680	3,765	4,012	138
Research and development		3,144	3,173	3,250	111
Total operating expenses		29,556	29,231	29,731	1,021
INCOME FROM OPERATIONS		58,568	56,394	57,367	1,968
NON-OPERATING INCOME AND GAINS	29				
Interest income		1,916	479	475	16
Equity in earnings of equity method investees, net		64	-	151	5
Valuation gain on financial instruments, net		551	99	-	-
Foreign exchange gain, net		336	89	-	-
Others		509	755	406	14
Total non-operating income and gains		3,376	1,422	1,032	35
NON-OPERATING EXPENSES AND LOSSES					
Loss on disposal of property, plant and equipment, net		278	7	216	7
Loss on disposal of financial instruments, net		672	142	157	5
Impairment loss on assets		1,168	110	125	4
Interest expense		4	15	107	4
Loss arising from natural calamities		-	149	19	1
Foreign exchange loss, net		-	-	17	-
Valuation loss on financial instruments, net		-	-	11	-
Equity in losses of equity method investees, net		-	23	-	-
Others		138	132	60	3
Total non-operating expenses and losses		2,260	578	712	24
INCOME BEFORE INCOME TAX		59,684	57,238	57,687	1,979
INCOME TAX EXPENSE	2, 26	13,892	12,743	9,129	313
CONSOLIDATED NET INCOME		$ 45,792	$ 44,495	$ 48,558	$ 1,666
ATTRIBUTABLE TO:					
Stockholders of the parent		$ 45,011	$ 43,757	$ 47,609	$ 1,633
Minority interests		781	738	949	33
		$ 45,792	$ 44,495	$ 48,558	$ 1,666

(Continued)

CHUNGHWA TELECOM CO., LTD. AND SUBSIDIARIES

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

		Year Ended December 31			
		2008	2009	2010	
	Notes	NT$	NT$	NT$	US$ (Note 3)
BASIC EARNINGS PER SHARE	27				
Before income tax		$ 6.03	$ 5.79	$ 5.82	$ 0.20
After income tax		$ 4.64	$ 4.51	$ 4.91	$ 0.17
DILUTED EARNINGS PER SHARE	27				
Before income tax		$ 6.02	$ 5.77	$ 5.80	$ 0.20
After income tax		$ 4.63	$ 4.50	$ 4.89	$ 0.17
BASIC EARNINGS PER EQUIVALENT ADS					
Before income tax		$ 60.30	$ 57.96	$ 58.20	$ 2.00
After income tax		$ 46.42	$ 45.16	$ 49.10	$ 1.68
DILUTED EARNINGS PER EQUIVALENT ADS					
Before income tax		$ 60.16	$ 57.77	$ 58.02	$ 1.99
After income tax		$ 46.31	$ 45.01	$ 48.95	$ 1.68
BASIC WEIGHTED AVERAGE SHARES OUTSTANDING (THOUSANDS)	27	9,696,808	9,696,808	9,696,808	
DILUTED WEIGHTED AVERAGE SHARES OUTSTANDING (THOUSANDS)	27	9,717,489	9,725,614	9,725,461	

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

(With Deloitte & Touche audit report dated March 17, 2011) (Concluded)

CHUNGHWA TELECOM CO., LTD. AND SUBSIDIARIES

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

	Equity Attributable to Stockholders of the Parent														
	Capital Stock (NT$10 Per Value)					Retained Earnings									
	Common Stock		Preferred Stock												
	Shares (Thousands)	Amount NT$	Shares (Thousands)	Amount NT$	Additional Paid-in Capital NT$	Legal Reserve NT$	Special Reserve NT$	Unappropriated Earnings NT$	Cumulative Translation Adjustments NT$	Unrecognized Net Loss of Pension NT$	Unrealized Gain (Loss) on Financial Instruments NT$	Unrealized Revaluation Increment NT$	Treasury Stock NT$	Minority Interests NT$	Total Stockholders' Equity NT$
BALANCE, JANUARY 1, 2008	9,667,845	$ 96,678	-	$ -	$ 200,605	$ 48,036	$ 2,679	$ 48,318	$ (2)	$ -	$ 37	$ 5,823	$ (7,107)	$ 2,775	$ 397,842
Adjustment of additional paid-in capital from revaluation of land to income upon disposal	-	-	-	-	-	-	-	-	-	-	-	(10)	-	-	(10)
Appropriation of 2007 earnings															
Legal reserve	-	-	-	-	-	4,823	-	(4,823)	-	-	-	-	-	-	-
Reversal of special reserve	-	-	-	-	-	-	(3)	3	-	-	-	-	-	-	-
Cash dividend - NT$4.26 per share	-	-	-	-	-	-	-	(40,716)	-	-	-	-	-	-	(40,716)
Stock dividend - NT$0.1 per share	95,578	956	-	-	-	-	-	(956)	-	-	-	-	-	-	-
Employees' bonus - cash	-	-	-	-	-	-	-	(1,304)	-	-	-	-	-	-	(1,304)
Employees' bonus - stock	43,453	435	-	-	-	-	-	(435)	-	-	-	-	-	-	-
Remuneration to board of directors and supervisors	-	-	-	-	-	-	-	(43)	-	-	-	-	-	-	(43)
Capital surplus transferred to common stock	1,911,555	19,116	-	-	(19,116)	-	-	-	-	-	-	-	-	-	-
Capital reduction	(1,911,555)	(19,116)	-	-	-	-	-	-	-	-	-	-	-	-	(19,116)
Decrease in minority interests	-	-	-	-	-	-	-	-	-	-	-	-	-	(419)	(419)
Consolidated net income in 2008	-	-	-	-	-	-	-	45,011	-	-	-	-	-	781	45,792
Unrealized loss on financial instruments held by investees	-	-	-	-	-	-	-	-	-	-	(7)	-	-	-	(7)
Equity adjustments in investees	-	-	-	-	-	-	-	(55)	-	-	-	-	-	-	(55)
Cumulative translation adjustment for foreign-currency investments held by investees	-	-	-	-	-	-	-	-	31	-	-	-	-	-	31
Defined benefit pension plan adjustments of investees	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Special reserve for gain arising from disposal of land	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Cancellation of treasury stock - 110,068 thousand common shares	(110,068)	(1,101)	-	-	(2,283)	-	-	(3,723)	-	-	-	-	7,107	-	-
Unrealized loss on financial instruments	-	-	-	-	-	-	-	-	-	-	(2,302)	-	-	1	(2,301)
BALANCE, DECEMBER 31, 2008	9,696,808	96,968	-	-	179,206	52,859	2,676	41,277	29	-	(2,272)	5,813	-	3,138	379,694
Adjustment of additional paid-in capital from revaluation of land to income upon disposal	-	-	-	-	-	-	-	-	-	-	-	(10)	-	-	(10)
Appropriation of 2008 earnings															
Legal reserve	-	-	-	-	-	4,128	-	(4,128)	-	-	-	-	-	-	-
Cash dividend - NT$3.83 per share	-	-	-	-	-	-	-	(37,139)	-	-	-	-	-	-	(37,139)
Cancellation of preferred stock (Note 23)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Capital surplus transferred to common stock	969,680	9,697	-	-	(9,697)	-	-	-	-	-	-	-	-	-	-
Decrease in minority interests	-	-	-	-	-	-	-	-	-	-	-	-	-	(129)	(129)
Capital reduction (Note 23)	(969,680)	(9,697)	-	-	-	-	-	-	-	-	-	-	-	-	(9,697)
Consolidated net income in 2009	-	-	-	-	-	-	-	43,757	-	-	-	-	-	738	44,495
Equity adjustments in investees	-	-	-	-	1	-	-	(17)	-	-	-	-	-	-	(16)
Cumulative translation adjustment for foreign-currency investments held by investees	-	-	-	-	-	-	-	-	(21)	-	-	-	-	(1)	(22)
Defined benefit pension plan adjustments of investees	-	-	-	-	-	-	-	-	-	(44)	-	-	-	(1)	(45)
Unrealized gain on financial instruments	-	-	-	-	-	-	-	-	-	-	1,825	-	-	8	1,833
BALANCE, DECEMBER 31, 2009	9,696,808	96,968	-	-	169,510	56,987	2,676	43,750	8	(44)	(447)	5,803	-	3,753	378,964
Appropriation of 2009 earnings															
Legal reserve	-	-	-	-	-	4,374	-	(4,374)	-	-	-	-	-	-	-
Cash dividend - NT$4.06 per share	-	-	-	-	-	-	-	(39,369)	-	-	-	-	-	-	(39,369)
Decrease in minority interests	-	-	-	-	-	-	-	-	-	-	-	-	-	(696)	(696)
Capital reduction (Note 23)	(1,939,361)	(19,394)	-	-	-	-	-	-	-	-	-	-	-	-	(19,394)
Consolidated net income in 2010	-	-	-	-	-	-	-	47,609	-	-	-	-	-	949	48,558
Equity adjustments in investees	-	-	-	-	5	-	-	-	-	-	-	-	-	-	5
Cumulative translation adjustment for foreign-currency investments held by investees	-	-	-	-	-	-	-	-	(110)	-	-	-	-	(9)	(119)
Defined benefit pension plan adjustments of investees	-	-	-	-	-	-	-	-	-	4	-	-	-	1	5
Unrealized gain on financial instruments	-	-	-	-	-	-	-	-	-	-	623	-	-	26	649
BALANCE, DECEMBER 31, 2010	7,757,447	$ 77,574	-	$ -	$ 169,515	$ 61,361	$ 2,676	$ 47,616	$ (102)	$ (40)	$ 176	$ 5,803	$ -	$ 4,024	$ 368,603
BALANCE, DECEMBER 31, 2010 (IN MILLIONS OF US$ - Note 3)		$ 2,662		$ -	$ 5,817	$ 2,106	$ 92	$ 1,634	$ (4)	$ (1)	$ 6	$ 199	$ -	$ 138	$ 12,649

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

(With Deloitte & Touche audit report dated March 17, 2011)

CHUNGHWA TELECOM CO., LTD. AND SUBSIDIARIES

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

	Year Ended December 31			
	2008	2009	2010	
	NT$	NT$	NT$	US$ (Note 3)
CASH FLOWS FROM OPERATING ACTIVITIES				
Consolidated net income	$ 45,792	$ 44,495	$ 48,558	$ 1,666
Adjustments to reconcile net income to net cash provided by operating activities:				
Provision for doubtful accounts	505	462	230	8
Depreciation and amortization	38,216	36,320	34,064	1,169
Amortization of premium of financial assets	3	16	38	1
Loss on disposal of financial instruments, net	672	142	157	5
Valuation loss on inventory	59	56	17	1
Valuation loss (gain) on financial instruments, net	(551)	(99)	11	-
Loss on disposal of property, plant and equipment, net	278	7	216	7
Equity in losses (earnings) of equity method investees, net	(64)	23	(151)	(5)
Dividends received from equity investees	217	89	36	1
Loss arising from natural calamities	-	149	19	1
Impairment loss on assets	1,168	110	125	4
Loss on disposal of leased assets, net	1	-	-	-
Deferred income taxes	(156)	1,099	27	1
Changes in operating assets and liabilities:				
Decrease (increase) in:				
Financial assets held for trading	(207)	221	32	1
Trade notes and accounts receivable	127	(1,492)	(2,749)	(94)
Receivables from related parties	(389)	(70)	(36)	(1)
Other monetary assets	4,841	350	(288)	(10)
Inventories	(270)	(144)	(492)	(17)
Other current assets	(1,181)	510	(858)	(30)
Increase (decrease) in:				
Financial liabilities held for trading	-	-	-	-
Trade notes and accounts payable	190	(1,565)	2,237	77
Payables to related parties	656	(206)	(260)	(9)
Income tax payable	(1,571)	(1,377)	257	9
Accrued expenses	907	950	954	33
Other current liabilities	809	777	2,447	84
Deferred income	567	422	105	4
Accrued pension liabilities	1,244	(3,960)	73	3
Net cash provided by operating activities	91,863	77,285	84,769	2,909
CASH FLOWS FROM INVESTING ACTIVITIES				
Acquisition of designated financial assets at fair value through profit or loss	-	(45)	(34)	(1)
Proceeds from disposal of financial assets at fair value through profit or loss	-	63	21	1
Acquisition of available-for-sale financial assets	(8,759)	(9,263)	(3,342)	(115)
Proceeds from disposal of available-for-sale financial assets	8,425	8,097	19,195	659
Acquisition of held-to-maturity financial assets	(3,327)	(2,100)	(6,917)	(237)
Proceeds from disposal of held-to-maturity financial assets	660	869	1,538	53
Acquisition of financial assets carried at cost	(486)	(142)	(384)	(13)
Proceeds from disposal of financial assets carried at cost	355	302	59	2
Acquisition of investments accounted for using equity method	(555)	(560)	(35)	(1)
Proceeds from disposal of long-term investment	44	-	-	-
Decrease in other monetary assets	(30)	-	-	-
Proceeds from sale of other monetary assets	29	-	-	-
Acquisition of property, plant and equipment	(30,119)	(25,478)	(24,617)	(845)
Proceeds from disposal of property, plant and equipment	14	65	82	3
Increase in intangible assets	(208)	(274)	(278)	(10)

(Continued)

CHUNGHWA TELECOM CO., LTD. AND SUBSIDIARIES

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

	Year Ended December 31			
	2008	2009	2010	
	NT$	NT$	NT$	US$ (Note 3)
Decrease (increase) in restricted assets	$ (3)	$ (91)	$ 31	$ 1
Increase in other assets	(566)	(914)	(2,682)	(93)
Net cash used in investing activities	(34,526)	(29,471)	(17,363)	(596)
CASH FLOWS FROM FINANCING ACTIVITIES				
Increase (decrease) in short-term loans	222	485	(648)	(22)
Increase in short-term note payable	-	-	230	8
Increase in long-term loans	-	400	3,238	111
Repayment of long-term loans	(37)	(124)	(119)	(4)
Decrease in customers' deposits	(127)	(118)	(81)	(3)
Increase (decrease) in other liabilities	(294)	(198)	61	3
Cash dividends paid	(41,202)	(37,139)	(39,369)	(1,351)
Proceeds from exercise of employee stock option granted by subsidiary	64	58	97	3
Decrease in minority interest	-	(697)	(675)	(23)
Capital reduction	(9,558)	(19,116)	(9,697)	(333)
Remuneration to board of directors and supervisors and bonus to employees	(1,394)	-	-	-
Net cash used in financing activities	(52,326)	(56,449)	(46,963)	(1,611)
EFFECT OF EXCHANGE RATE CHANGES	31	(7)	(63)	(2)
EFFECT OF CHANGE ON CONSOLIDATED SUBSIDIARIES	13	613	(2,764)	(95)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	5,055	(8,029)	17,616	605
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	76,233	81,288	73,259	2,514
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 81,288	$ 73,259	$ 90,875	$ 3,119
SUPPLEMENTAL INFORMATION				
Interest paid (excluding capitalized interest expense)	$ 4	$ 14	$ 98	$ 3
Income tax paid	$ 15,620	$ 13,024	$ 8,841	$ 303
NON-CASH FINANCING ACTIVITIES				
Current portion of long-term loans	$ 8	$ 117	$ 309	$ 11
Reclassification from common capital stock to due to stockholders for capital reduction	$ 19,116	$ 9,697	$ 19,394	$ 666
CASH AND NON-CASH INVESTING ACTIVITIES				
Increase in property, plant and equipment	$ 31,162	$ 25,151	$ 23,250	$ 798
Payables to suppliers	(1,071)	359	1,356	47
Prepayments for equipment	28	(32)	11	-
	$ 30,119	$ 25,478	$ 24,617	$ 845

(Continued)

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

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

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

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

(Continued)

CHUNGHWA TELECOM CO., LTD. AND SUBSIDIARIES

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

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

(With Deloitte & Touche audit report dated March 17, 2011) (Concluded)

1. GENERAL

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

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

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

Senao International Co., Ltd. ("SENAO") was incorporated in 1979. SENAO engages mainly in selling and maintaining mobile phones and its peripheral products. Chunghwa acquired 31.33% shares of SENAO on January 15, 2007 and has substantial control in SENAO by obtaining half of the seats of the board of directors of SENAO on April 12, 2007. On March 27, 2009, the board of directors of Chunghwa resolved to purchase 48,000 thousand common shares of SENAO through SENAO's private placement. However, Chunghwa and SENAO did not complete the required procedures within the legal payment period; therefore, Chunghwa and SENAO decided to discontinue the private placement.

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

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

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

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

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

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

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

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

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

Glory Network System Service (Shanghai) Co., Ltd. ("GNSS (Shanghai)"), a subsidiary of Concord, was incorporated in 2006. GNSS (Shanghai) engages mainly in planning and designing of systems and communications and information integration services. On March 20, 2009, the stockholders of CHSI resolved to dissolve GNSS (Shanghai). On July 23, 2009, the board of directors of GNSS (Shanghai) revoked the original resolution of dissolution. GNSS (Shanghai) is still operating as of December 31, 2010.

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

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

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

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

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

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

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

InfoExplorer Co., Ltd. ("IFE") was incorporated in 2008. IFE engages mainly in information system planning and maintenance, software development, and information technology consultation services. Chunghwa acquired 49% shares of IFE on January 5, 2009 and has control over IFE by obtaining half of seats of the board of directors of IFE on January 20, 2009.

InfoExplorer International Co., Ltd. (IESA) was established by IFE in 2010. IESA will engage mainly in international investment activities and have not yet begun operation as of December 31, 2010.

InfoExplorer (Hong Kong) Co., Limited (IEHK) was established by IESA in 2010. IEHK will engage mainly in international investment activities and have not yet begun operation as of December 31, 2010.

Chunghwa Investment Co., Ltd. ("CHI") was established in 2002. CHI engages mainly in professional investing in the telecommunication business, and telecommunication valued-added services. Chunghwa acquired additional 40% shares of CHI on September 9, 2009 for $759 million. Chunghwa increased its ownership interest in CHI from 49% to 89% and became the parent company of CHI. As a result of additional acquisition of CHI, the accounts of CHI and its subsidiaries are included in the consolidated financial statements starting from September 9, 2009.

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

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

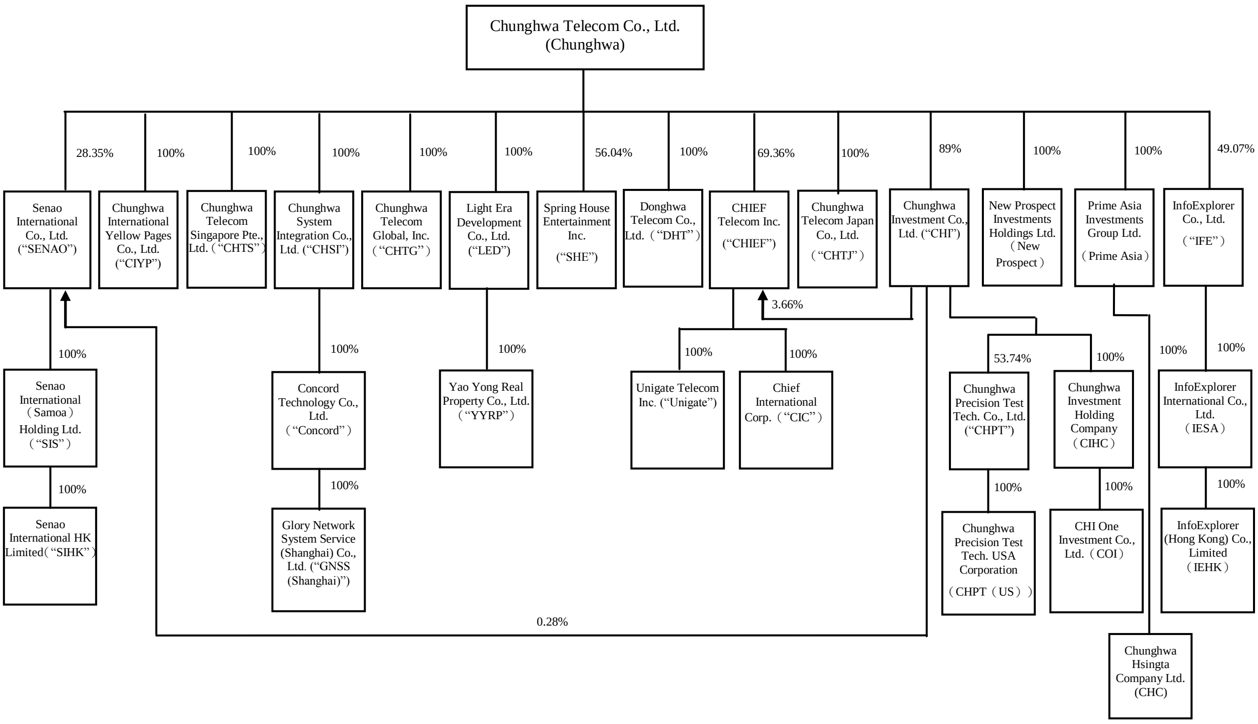
Chunghwa Investment Holding Company ("CIHC") was established by CHI in 2004. CIHC engages mainly in investment activities.

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

Chunghwa has established New Prospect Investments Holdings Ltd. ("New Prospect") and Prime Asia Investments Group Ltd. ("Prime Asia") in March 2006. Both holding companies are operating as investment companies and Chunghwa has 100% ownership rights in an amount of US$1 in each holding company as of December 31, 2010.

Chunghwa Hsingta Company Ltd. (CHC) was established by Prime Asia in 2010. CHC will engage mainly in investment activities, but no capital has been injected as of December 31, 2010.

The following diagram presents information regarding the relationship and ownership percentages between Chunghwa and its subsidiaries as of December 31, 2010:



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

As of December 31, 2009 and 2010, the Company had 27,915 and 28,134 employees, respectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying consolidated financial statements were prepared in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers and accounting principles generally accepted in the ROC ("ROC GAAP"). The preparation of consolidated financial statements requires management to make reasonable estimates and assumptions on allowances for doubtful accounts, valuation allowances on inventories, depreciation of property, plant and equipment, impairment of assets, bonuses paid to employees, directors and supervisors, pension plans and income tax, etc. These estimates and assumptions are inherently uncertain and actual results may differ significantly. The significant accounting policies are summarized as follows:

Principle of Consolidation

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

The consolidated financial statements for the year ended December 31, 2009 include the accounts of Chunghwa, SENAO, SIS, SIHK, CIYP, CHIEF, Unigate, CHIEF (HK), CIC, CHSI, Concord, GNSS (Shanghai), CHTG, DHT, SHE, LED, CHTS, CHTJ, IFE, CHI, CHPT, CIHC, COI, New Prospect, Prime Asia, and CHC. The consolidated financial statements for the year ended December 31, 2010 include the accounts of Chunghwa, SENAO, SIS, SIHK, CIYP, CHIEF, Unigate, CHIEF (HK), CIC, CHSI, Concord, GNSS (Shanghai), CHTG, DHT, SHE, LED, YYRP, CHTS, CHTJ, IFE, IESA, IEHK, CHI, CHPT, CHPT(US), CIHC, COI, New Prospect, Prime Asia and CHC.

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

Business Combination

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

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

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

Classification of Current and Noncurrent Assets and Liabilities

Current assets are assets expected to be converted to cash, sold or consumed within one year from the balance sheet date. Current liabilities are obligations expected to be settled within one year from the balance sheet date. Assets and liabilities that are not classified as current are noncurrent assets and liabilities, respectively.

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

Cash Equivalents

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

Financial Assets and Liabilities at Fair Value Through Profit or Loss

Financial instruments classified as financial assets or financial liabilities at fair value through profit or loss ("FVTPL") include financial assets or financial liabilities held for trading and those 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, with subsequent 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 purchase or sale of financial assets is accounted for using trade date accounting.

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

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

Available-for-sale Financial Assets

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

The recognition and derecognition of available-for-sale financial assets are similar to those of financial assets at FVTPL.

Fair values are determined as follows: Listed stocks and real estate investment trust fund - at closing prices at the balance sheet date; open-end mutual funds - at net asset values at the balance sheet date; bonds - quoted 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 acquisitions 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 for recalculating cost per share. The difference between the initial carrying amount of a debt instrument and its maturity amount is amortized using the effective interest method, with the amortized interest recognized in profit and loss.

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

Held-to-maturity Financial Assets

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

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

Revenue Recognition, Account Receivables and Allowance for Doubtful Receivables

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

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

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

Other revenues are recognized as follows: (a) one-time subscriber connection fees (on fixed-line services) are deferred and recognized over the average expected customer service periods, (b) monthly fees (on fixed-line services, wireless and Internet and data services) are accrued every month, and (c) prepaid services (fixed line, cellular and Internet) 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.

An allowance for doubtful receivables is provided based on a review of the collectibility of accounts receivable. The Company determines the amount of allowance for doubtful receivables by examining the aging analysis of outstanding accounts receivable as well as historical collection experience.

Inventories

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

Buildings and Lands Consigned to Constructing Firm

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

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

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

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

Investments Accounted for Using Equity Method

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

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

When the Company subscribes for additional investees shares at a percentage different from its existing ownership percentage, the resulting carrying amount of the investment in the investee differs from the amount of the Company 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.

Financial Assets Carried at Cost

Investments in equity instruments that do not have a quoted price in an active market and whose fair values cannot be reliably measured such as non-publicly traded stocks are measured at their original cost. If there is objective evidence which indicates that a financial asset is impaired, a loss is recognized. A subsequent reversal of such impairment loss is not allowed.

The accounting treatment for cash dividends and stock dividends arising from financial assets carried at cost is the same as that for cash dividends and stock dividends arising from available-for-sale financial assets.

Property, Plant and Equipment

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

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

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

Depreciation expense is computed using the straight-line method over the following estimated service lives: land improvements - 10 to 30 years; buildings - 5 to 60 years; computer equipment - 2 to 15 years; telecommunication equipment - 2 to 30 years; transportation equipment - 3 to 10 years; and miscellaneous equipment - 2 to 12 years.

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

Intangible Assets

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

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

Expenditure on research shall be expensed as incurred. Development costs are capitalized when those costs meet relative criteria and are amortized using the straight-line method over estimated useful lives. Development costs that do not meet relative criteria shall be expensed as incurred.

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

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

Idle Assets

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

Pension Costs

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

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

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

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

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

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

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

Expense Recognition

The costs of providing services are recognized as incurred.

Share-based Compensation

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

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

Income Tax

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

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

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

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

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.

Hedge Accounting

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

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

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

Concentrations

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

Earnings Per Share and Per Equivalent ADS

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

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

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

3. US DOLLAR AMOUNTS

The Company maintains its accounts and expresses its consolidated financial statements in New Taiwan dollars. For convenience only, US dollar amounts presented in the accompanying consolidated financial statements have been translated from New Taiwan dollars as set forth in the statistical release of the Federal Reserve Board as of December 30, 2010, which was NT$29.14 to US$1.00. The convenience translations should not be construed as representations that the New Taiwan dollar amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

4. EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES

In March 2007, the ARDF issued an Interpretation 96-052 that requires companies to recognize bonuses paid to employees, directors and supervisors as an expense rather than an appropriation of earnings beginning from January 1, 2008. For purposes of the statement of cash flows, such bonuses represent appropriations of the earnings from prior years and have been classified as financing activities for 2007, 2008. Beginning from 2009, such bonuses are classified as operating activities for purposes of the statement of cash flows when paid.

The Company adopted the newly-revised Statement of Financial Accounting Standards No. 10, "Accounting for Inventories," ("SFAS No. 10") beginning from January 1, 2009, which requires inventories to be 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. The inventory-related incomes and expenses shall be classified as operating cost.

The Company early adopted the Statement of Financial Accounting Standards No. 41 "Operating Segments" ("SFAS No. 41") starting from September 1, 2009. This Statement supersedes the Statement of Financial accounting Standards No. 20 "Segment Reporting". This new statement allows users of financial statements to see performance of segments from the viewpoint of the chief operating decision maker.

5. CASH AND CASH EQUIVALENTS

	December 31	
	2009	**2010**
	NT$	**NT$**
	(In Millions)	
Cash		
Cash on hand	$ 142	$ 125
Bank deposits	8,199	7,047
Negotiable certificate of deposit, annual yield rate - ranging from 0.25%-0.37% and 0.52%-0.91% for 2009 and 2010, respectively	63,350	54,265
	71,691	61,437

(Continued)

	December 31	
	2009	2010
	NT$	NT$
	(In Millions)	
Cash equivalents		
Commercial paper, annual yield rate - ranging from 0.19%-0.24% and 0.41%-0.48% for 2009 and 2010, respectively	$ 1,568	$ 26,550
Treasury bills, annual yield rate - ranging from 0.42%-0.43%	-	2,888
	1,568	29,438
	$ 73,259	$ 90,875

(Concluded)

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

	December 31	
	2009	2010
	NT$	NT$
	(In Millions)	
Derivatives - financial assets		
Currency swap contracts	$ 7	$ 34
Forward exchange contracts	-	-
	7	34
Designated financial assets at fair value through profit or loss		
Convertible bonds	34	43
	$ 41	$ 77
Derivatives - financial liabilities		
Forward exchange contracts	$ 1	$ -

Chunghwa entered into investment management agreements with well-known financial institutions (fund managers) to manage its investment portfolios in 2006. The investment portfolios managed by these fund managers aggregated to an original amount of US$100 million. Chunghwa terminated the investment management agreements on March 2, 2009 and asked fund managers to dispose of all the investment portfolios. The fund managers had disposed of all investment portfolios before June 23, 2009 and returned the proceeds to Chunghwa.

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

Outstanding currency swap contracts and forward exchange contracts as of December 31, 2009 and 2010:

	Currency	Maturity Period	Contract Amount (In Millions)
December 31, 2009			
Currency swap contracts	US$/NT$	2010.01-2010.04	US$45/NT$1,448
Forward exchange contracts - buy	NT$/US$	2010.01	NT$87/US$3
December 31, 2010			
Currency swap contracts	US$/NT$	2011.01-2011.03	US$25/NT$767
Forward exchange contracts - buy	NT$/US$	2011.01	NT$18/US$1

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

Net gains arising from financial assets and liabilities at fair value through profit or loss for the years ended December 31, 2009 and 2010 were NT$72 million (including realized settlement loss of NT$26 million and valuation gain of NT$98 million), and NT$65 million (including realized settlement gain of NT$37 million and valuation gain of NT$28 million), respectively.

7. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	December 31	
	2009	2010
	NT$ (In Millions)	NT$
Open-end mutual funds	$ 16,832	$ 1,562
Domestic listed stocks	500	527
Corporate bonds	103	102
Real estate investment trust fund	102	-
	$ 17,537	$ 2,191

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

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

As a result of global economic and financial crisis, Chunghwa determined that the impairment losses of available-for-sale financial assets were other-than-temporary in nature, and recorded impairment losses of NT$85 million for the year ended December 31, 2009.

8. HELD-TO-MATURITY FINANCIAL ASSETS

	December 31	
	2009	2010
	NT$	NT$
	(In Millions)	
Corporate bonds, nominal interest rate ranging from 0.76%-4.75% and 1.20%-4.75% for 2009 and 2010, respectively; effective interest rate ranging from 0.45%-2.95% and 1.00%-2.95%, respectively	$ 4,532	$ 9,868
Bank debentures, nominal interest rate ranging from 1.87%-2.11% and 1.60%-2.11% for 2009 and 2010, respectively; effective interest rate ranging from 1.14%-2.90% and 1.25%-2.45%, respectively	498	504
	5,030	10,372
Less: Current portion	1,100	1,964
	$ 3,930	$ 8,408

9. ALLOWANCE FOR DOUBTFUL ACCOUNTS

	Year Ended December 31		
	2008	2009	2010
	NT$	NT$	NT$
		(In Millions)	
Balance, beginning of year	$ 3,430	$ 3,051	$ 2,799
Provision for doubtful accounts	501	455	215
Impact on acquisition of subsidiaries	1	-	-
Accounts receivable written off	(881)	(707)	(463)
Balance, end of year	$ 3,051	$ 2,799	$ 2,551

10. OTHER MONETARY ASSETS - CURRENT

	December 31	
	2009	2010
	NT$	NT$
	(In Millions)	
Accrued custodial receipts from other carriers	$ 433	$ 387
Other receivables	1,407	1,752
	$ 1,840	$ 2,139

11. INVENTORIES

	December 31	
	2009	2010
	NT$	NT$
	(In Millions)	
Merchandise	$ 2,034	$ 2,147
Work in process	647	765
	2,681	2,912
Construction in progress	-	376
Land held under development	706	1,237
Land held for development	563	36
Prepayment for construction	99	-
	$ 4,049	$ 4,561

The operating costs related to inventories were NT$24,283 million (including the valuation loss on inventories of NT$59 million), NT$23,116 million (including valuation loss on inventories of NT$56 million) and NT$27,046 million (including the valuation loss on inventories of NT$17 million) for the years ended December 31, 2008, 2009 and 2010, respectively.

a. Land held under development and construction in progress of LED as of December 31, 2009 and 2010 were as follows (in millions):

	Estimated Contract Price	Estimated Construction Cost	Land Held Under Development	Construction in Progress			Deferred Marketing Expenses (Classified as Other Current Assets)	Advance from Land and Building (Classified as Other Current Liabilities)	Percentage of Completion	Expected Year of Completion
				Construction Cost	Recognized Cumulative Gain	Total				
12.31.2009										
Completed-contract method										
Wan-Xi Project	-	-	$ 706	$ -	$ -	$ -	$ 81	$ 260	-	2011
12.31.2010										
Completed-contract method										
Wan-Xi Project	-	-	$ 706	$ -	$ -	$ -	$ 82	$ 334	-	2011
Li-Shui (A) Project	-	-	55	-	-	-	-	-	-	2012
Li-Shui (B) Project	-	-	32	-	-	-	-	-	-	2011
LightEra-Covent Project	-	-	379	3	-	3	-	18	-	2011
Percentage of completion method										
Guang-Diang Project	983	425	65	174	199	373	38	155	43%	2012
			$ 1,237	$ 177	$ 199	$ 376	$ 120	$ 507		

With respect to Wan-Xi project, LED is responsible for selling the land, and Ruentex Development Co., Ltd. is responsible for the construction and sale of the buildings. Advanced from customers for land and buildings of NT$16 million was recognized as revenue from liquidated damage due to customers' breaches of contract, and the corresponding deferred marketing expenses of NT$12 million were recognized as expenses in 2009. There was no breach of contract in 2010.

With respect to Li-Shui (A) and (B) projects, LED is responsible for selling the land and Kindon Construction Corp. is responsible for building construction and selling the buildings.

With respect to LightEra- Covent Project, LED is responsible for selling the land and planning the design, and Covent Garden Development Co. is responsible for building construction and selling the buildings.

b. Land held for development of LED as of December 31, 2009 and 2010 were as follows:

	December 31	
	2009	2010
	NT$	NT$
	(In Millions)	
Subsection 2 Gongyuan Sec., Zhongzheng Dist., Taipei City	$ 32	$ 32
Yucheng Sec., Nangang Dist., Taipei City	-	4
Yanping Sec., Changhua City, Changhua County	379	-
Zhongshan Sec., Banqiao Dist., New Taipei City	65	-
Subsection 2, Jinhua Sec., Da'an Dist., Taipei City	55	-
Subsection 1, Jinhua Sec., Da'an Dist., Taipei City	32	-
	$ 563	$ 36

The advances from lands and buildings of Zhongshan Sec., Banqiao Dist., New Taipei City were NT$68 million and its deferred marketing expenses were NT$12 million as of December 31, 2009. The land held for development of Zhongshan Sec., Banqiao Dist., New Taipei City was reclassified as land held under development of Guang-Diang project in 2010.

The lands held for development of Yanping Sec., Changhua City, Changhua County, Subsection 2, Jinhua Sec., Da'an Dist., Taipei City and Subsection 1, Jinhua Sec., Da'an Dist., Taipei City were reclassified as lands held under development of Covent Garden, Li-Shui (A) and Li-Shui (B) projects in 2010, respectively.

c. Prepayment for construction of LED as of December 31, 2009 were as follows (in millions):

Location	Floor Area Capacity Cost	Design Cost	Other Cost	Total
	NT$	NT$	NT$	NT$
		(In Millions)		
Zhongshan Sec., Banqiao Dist., New Taipei City	$ 37	$ 4	$ 2	$ 43
Yanping Sec., Changhua City, Changhua County	-	3	-	3
Dunhua S. Rd. Project, Taipei City	52	-	1	53
	$ 89	$ 7	$ 3	$ 99

Prepayments for construction of Zhongshan Sec., Banqiao Dist., New Taipei City and Yanping Sec., Changhua City, Changhua County were reclassified as construction in progress for Guang-Diang and Covent Garden projects, respectively; the prepayment for construction of Dunhua S. Rd. Project, Taipei City, was reclassified as property, plant and equipment in 2010.

12. OTHER CURRENT ASSETS

	December 31	
	2009	2010
	NT$	NT$
	(In Millions)	
Spare parts	$ 2,349	$ 1,797
Prepaid expenses	652	1,009
Prepaid rents	812	789
Others	507	526
	$ 4,320	$ 4,121

13. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

	December 31			
	2009		2010	
	Carrying Amount	% of Owner-ship	Carrying Amount	% of Owner-ship
	NT$ (In Millions)		NT$ (In Millions)	
Non-listed				
Taiwan International Standard Electronics Co., Ltd. ("TISE")	$ 428	40	$ 556	40
ST-2 Satellite Ventures Pte., Ltd. ("STS")	408	38	398	38
Senao Networks, Inc. ("SNI")	288	41	308	41
Viettel-CHT Co., Ltd. ("Viettel-CHT")	270	30	246	30
Skysoft Co., Ltd. ("SKYSOFT")	90	30	95	30
Kingwaytek Technology Co., Ltd. ("KWT")	70	33	66	33
So-net Entertainment Taiwan Limited ("So-net")	31	30	25	30
HopeTech Technologies Limited ("HopeTech")	-	-	19	45
Xiamen Sertec Business Technology Co., Ltd. ("Sertec")	-	-	8	49
Tatung Technology Inc.	37	28	4	28
Panda Monium Company Ltd.	-	43	-	43
	$ 1,622		$ 1,725	

ST-1 telecommunications satellite is expected to be retired in 2011; therefore, CHTS and SingTelSat Pte., Ltd. established a joint venture, STS in Singapore in October 2008 in order to maintain the current service. STS engages in the installation and the operation of the ST-2 telecommunications satellite.

Chunghwa participated in the capital increase of Viettel-CHT in September, 2009, by investing NT$197 million cash. Viettel-CHT engages mainly in IDC services.

Chunghwa participated in So-net's capital increase on April 3, 2009, by investing NT$60 million cash, and acquired 30% of its shares. So-net engages mainly in online service and sale of computer hardware.

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

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

Tatung Technology Inc. and Panda Monium Company Ltd. are the equity method investees of Chunghwa Investment Co., Ltd. They engage mainly in selling the products of SET TOP BOX and making animations, respectively.

The equity in earnings for the years ended December 31, 2009 and 2010 are based on the audited financial statements.

14. FINANCIAL ASSETS CARRIED AT COST

	December 31			
	2009		2010	
	Carrying Amount	% of Owner-ship	Carrying Amount	% of Owner-ship
	NT$ (In Millions)		NT$ (In Millions)	
Non-listed				
Taipei Financial Center ("TFC")	$ 1,790	12	$ 1,790	12
Industrial Bank of Taiwan II Venture Capital Co., Ltd. ("IBT II")	200	17	200	17
Global Mobile Corp. ("GMC")	127	11	127	8
iD Branding Ventures ("iDBV")	100	11	100	11
UniDisplay Inc.	46	3	55	3
Innovation Works Development Fund, L.P. ("IWDF")	-	-	38	13
RPTI Intergroup International Ltd. ("RPTI")	34	10	34	10
Procrystal Technology Co., Ltd	-	-	30	1
VisEra Technologies Company Ltd.	-	-	29	-
Ultra Fine Optical Technology Co., Ltd.	-	-	27	12
Innovation Works Limited ("IW")	-	-	21	7
CQi Energy Infocom Inc. ("CQi")	-	-	20	18
Digimax Inc. ("DIG")	24	4	15	4
Lextar Electronics Corp.	-	-	15	-
PChome Store Inc.	-	-	14	3
Taimide Technology, Ltd.	-	-	14	1
Huga Optotech Inc.	7	-	13	-
N.T.U. Innovation Incubation	12	9	12	9
CoaTronics Inc.	-	-	12	9
A2peak Power Co., Ltd. ("A2P")	-	-	11	3
Win Semiconductors Corp.	8	-	11	-
OptiVision Technology. Inc.	-	-	10	-
Chia Chang Co., Ltd	-	-	9	-
Tatung Fine Chemicals Co., Ltd.	8	-	9	-
ChipSip Technology Co., Ltd. ("ChipSip")	23	3	8	2
SuperAlloy Industrial Co., Ltd.	-	-	7	-
Champion Microelectronic Corp.	-	-	7	-
DelSolar Co.	5	-	6	-
Crystal Media Inc. ("CMI")	12	5	6	5

(Continued)

	December 31			
	2009		2010	
	Carrying Amount NT$ (In Millions)	% of Owner-ship	Carrying Amount NT$ (In Millions)	% of Owner-ship
Subtron Technology Co.	$ 3	-	$ 5	-
Cando Corporation	3	-	5	-
3 Link Information Service Co.	4	10	4	10
eMemory Technology Inc.	-	-	3	-
XinTec Inc.	1	-	1	-
Giga Solar Materials Corp.	55	2	-	-
Superior Industries Co., Ltd.	23	2	-	-
LightHouse Technology Co.	11	-	-	-
Join Well Technology Co.	8	-	-	-
J Touch Corporation	4	-	-	-
Taidoc Technology Corporation	3	-	-	-
Daxon Technology Inc.	-	-	-	-
VisEra Technologies Company Ltd.	-	-	-	-
Essence Technology Solution, Inc. (“ETS”)	-	9	-	7
eASPNet Inc.	-	2	-	2
	2,511		2,668	
Prepayments for long-term investments in stocks				
Ultra Fine Optical Technology Co., Ltd.	-	-	66	-
GoaTronics Inc.	25	-	-	-
Huga Optotech Inc.	1	-	-	-
Cando Corporation	-	-	-	-
	26		66	
	$ 2,537		$ 2,734	

(Concluded)

After evaluating the financial assets carried at cost, Chunghwa determined the investment in RPTI was impaired and recognized an impairment loss of NT$15 million for the year ended December 31, 2008. RPTI completed a capital reduction to offset its deficits and as a result the number of shares held by Chunghwa was additional capital through cash distributions. Chunghwa did not participate in the RPTI’s capital increase plan; therefore, Chunghwa’s ownership of RPTI is decreased to 10%.

After evaluating the financial assets carried at cost, Chunghwa determined the investment in ETS was impaired and recognized an impairment loss of NT$10 million for the year ended December 31, 2009.

After evaluating the financial assets carried at cost, CHI determined the investments in ChipSip, CMI, and A2P were impaired and recognized impairment losses of NT$13 million, NT$9 million, and NT$16 million for the year ended December 31, 2010.

After evaluating the financial assets carried at cost, CHI determined the investment in DIG was impaired and recognized impairment losses of NT$10 million and NT$21 million in 2009 and 2010, respectively.

Chunghwa participated in TFC’s capital increase in October 2008 and prepaid $285 million. However, TFC was not expected to be able to collect enough amount of capital increase within a specific period; therefore TFC’s board of directors held a meeting on April 10, 2009 and resolved to withdraw its capital increase plan from Financial Supervisory Commission, Executive Yuan (“FSC”). TFC returned the prepayment to Chunghwa on May 8, 2009.

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

15. OTHER MONETARY ASSETS - NONCURRENT

	December 31	
	2009	2010
	NT$	NT$
	(In Millions)	
Piping Fund	$ 1,000	$ 1,000

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

16. PROPERTY, PLANT AND EQUIPMENT, NET

	December 31	
	2009	2010
	NT$	NT$
	(In Millions)	
Cost		
Land	$ 102,132	$ 104,136
Land improvements	1,535	1,555
Buildings	63,184	67,457
Computer equipment	16,344	16,086
Telecommunications equipment	656,016	656,301
Transportation equipment	2,113	2,373
Miscellaneous equipment	7,231	7,154
Total cost	848,555	855,062
Revaluation increment on land	5,801	5,801
	854,356	860,863
Accumulated depreciation		
Land improvements	951	1,004
Buildings	17,395	18,603
Computer equipment	12,150	12,232
Telecommunications equipment	518,609	527,819
Transportation equipment	1,886	1,637
Miscellaneous equipment	6,030	5,897
	557,021	567,192
Construction in progress and advances payments related to acquisition of equipment	15,687	12,059
Property, plant and equipment, net	$ 313,022	$ 305,730

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

The amendment to the Land Tax Act, relating to the article to permanently lower land value incremental tax, went effective from February 1, 2005. In accordance with the lowered tax rates, Chunghwa recomputed its land value incremental tax, and reclassified the reserve for land value incremental tax of NT$116 million to stockholders' equity - other adjustments. As of December 31, 2010, the unrealized revaluation increment was decreased to NT$5,803 million by disposal of revaluation assets.

Depreciation expense on property, plant and equipment was NT$37,101 million, NT$35,114 million and NT$32,737 million for the years ended December 31, 2008, 2009 and 2010, respectively. Interest expense capitalized for the years ended December 31, 2008, 2009, and 2010 were NT$2 million, NT$1 million, and NT$0.01 million, respectively. The capitalized interest rates were 2.268%-2.928%, 1.165%-1.604% and 1.1%, respectively, for the years ended December 31, 2008, 2009 and 2010.

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

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

17. SHORT-TERM LOANS

	December 31	
	2009	2010
	NT$	NT$
	(In Millions)	
Unsecured loans - annual rate - 1.15%-1.23% and 1.10%-1.33% for 2009 and 2010, respectively	$ 275	$ 115
Secured loans - annual rate - 0.81% for 2009	488	-
	$ 763	$ 115

18. SHORT-TERM BILLS PAYABLE

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

19. ACCRUED EXPENSES

	December 31	
	2009	2010
	NT$	NT$
	(In Millions)	
Accrued salary and compensation	$ 9,876	$ 10,716
Accrued employees' bonuses and remuneration to directors and supervisors	1,964	2,358
Accrued franchise fees	2,224	2,191
Other accrued expenses	3,385	3,139
	$ 17,449	$ 18,404

20. OTHER CURRENT LIABILITIES

	December 31	
	2009	2010
	NT$	NT$
	(In Millions)	
Advances from subscribers	$ 6,908	$ 9,220
Amounts collected in trust for others	2,225	2,356
Payables to contractors	2,229	1,262
Payables to equipment suppliers	1,533	1,106
Refundable customers' deposits	1,045	1,097
Others	2,930	2,585
	$ 16,870	$ 17,626

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

	December 31	
	2009	2010
	NT$	NT$
	(In Millions)	
Secured loans - annual rate 1.00%-1.37% and 0.80%-1.60% for 2009 and 2010, respectively	$ 28	$ 3,248
Unsecured loans - annual rate 2.01%-2.04% for 2009 and 2010	310	209
	338	3,457
Less: Current portion of long-term loans	117	309
	$ 221	$ 3,148

LED obtained a secured loan from Chang Hwa Bank in September 2010. Interest is paid monthly and the principal is paid yearly from December 2011 and due in September 2015. The loan from Chang Hwa bank was NT$2,750 million and the interest rate at December 31, 2010 was 0.80%.

LED obtained a secured loan from First Commercial Bank in September 2010. Interest is paid monthly and the principal is paid yearly from September 2014 and due in September 2017. The loan from First Commercial bank was NT$488 million and the interest rate at December 31, 2010 was 1.01%.

CHIEF obtained an unsecured loan from Bank of Taiwan in January 2009. Interest and principal amount are paid monthly from January 2009 and due in January 2013. The loan from Bank of Taiwan was NT$209 million and range of interest rate at December 31, 2010 was 2.01-2.04%.

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

CHPT obtained a secured loan from the E. Sun Commercial Bank in December 2006. Interest and the principal were paid monthly from January 2007 and due December 2009. CHPT obtained another loan from the E. Sun Commercial Bank in February 2009. Interest and the principal are paid monthly from March 2009 and due in February 2013. The loan from E. Sun Commercial Bank in February 2009 was NT$10 million and the interest rate at December 31, 2010 was 1.60%.

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

For the year ending December 31	
2011	$ 309
2012	702
2013	808
2014	1,272
2015 and thereafter	366
Total long-term debt	$ 3,457

22. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

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

	December 31, 2009		
	With in One Year NT$	Over One Year NT$ (In Millions)	Total NT$
Assets			
Inventories	$ -	$ 1,369	$ 1,369
Deferred expenses (classified as other current assets)	-	93	93
Restricted assets	-	101	101
	$ -	$ 1,563	$ 1,563
Liabilities			
Trade notes and accounts payable(classified as other current liabilities)	$ 6	$ -	$ 6
Advance from land and building (classified as other current liabilities)	-	328	328
	$ 6	$ 328	$ 334

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

23. STOCKHOLDERS' EQUITY

Under Chunghwa's Articles of Incorporation, Chunghwa's authorized capital is NT$120,000 million, which is divided into 12,000,000 thousand common shares (at $10 par value per share). The stockholders, at the stockholders' meeting held on June 18, 2010 resolved to reduce the amount of capital in Chunghwa by a cash distribution to its stockholders. The board of directors of Chunghwa further authorized the chairman of board of directors of Chunghwa to designate the record date of capital reduction as of October 26, 2010 and the stock transfer date of capital reduction as of January 15, 2011. The common stock capital of Chunghwa is NT$77,574 million as of December 31, 2010.

On March 28, 2006, the board of directors approved the issuance of the 2 preferred shares, and the MOTC purchased the 2 preferred shares at par value on April 4, 2006. In accordance with the Articles of Incorporation of Chunghwa, the preferred shares would be redeemed by Chunghwa three years from the date of issuance at their par value. These preferred shares expired on April 4, 2009 and were redeemed on April 6, 2009.

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, 2010, the outstanding ADSs representing 892,783 thousand common shares, which equaled approximately 89,278 thousand units and represented 9.21% 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. For those companies having no deficits, additional paid-in capital arising from capital surplus can be used to increase capital stock and distribute to stockholders in proportion to their ownership at the ex-dividend date. Also, such amounts can only be declared as a stock dividend by Chunghwa at an amount calculated in accordance with the provisions of existing regulations. The combined amount of any portions capitalized each year may not exceed 10 percent of common stock issued. 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.

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

Chunghwa operates in a capital-intensive and technology-intensive industry and requires capital expenditures to sustain its competitive position in a high-growth market. Thus, Chunghwa’s dividend policy takes into account future capital expenditure outlays. In this regard, a portion of the earnings may be retained to finance these capital expenditures. The remaining earnings can then be distributed as dividends if approved by the stockholders in the following year and will be recorded in the financial statements of that year.

For the years ended December 31, 2009 and 2010, the accrual amounts for bonuses to employees and remuneration to directors and supervisors were accrued 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 when reaching 50% of the aggregate par value of the outstanding capital stock of Chunghwa, up to 50% of the reserve may, at the option of Chunghwa, be declared as a stock dividend and transferred to capital.

The appropriations and distributions of the 2008 and 2009 earnings of Chunghwa have been approved and resolved by the stockholders on June 19, 2009 and June 18, 2010 as follows:

	Appropriation of Earnings		Dividends Per Share	
	For Fiscal Year 2008	For Fiscal Year 2009	For Fiscal Year 2008	For Fiscal Year 2009
	NT$	NT$	NT$	NT$
Legal reserve	$ 4,128	$ 4,374		
Cash dividends	37,139	39,369	$ 3.83	$ 4.06

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

The amounts for bonuses to employees and remuneration to directors and supervisors approved in the stockholders' meeting on June 19, 2009, were NT$1,630 million and NT$39 million paid in cash, respectively. The aforementioned approved amounts of the bonus to employees and the remuneration to directors and supervisors were different from the accrual amounts of NT$1,724 million and NT$41 million, respectively, reflected in the statement of income for the year ended December 31, 2008. The differences of NT$94 million and NT$2 million, respectively, were treated as change in estimates and were adjusted against earnings for the year ended December 31, 2009.

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

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

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

The stockholders, at a special meeting held on August 14, 2008, resolved to transfer capital surplus in the amount of NT$19,116 million to common capital stock. The abovementioned 2008 capital increase proposal was effectively registered with FSC. The board of directors resolved the ex-dividend date of the aforementioned proposal as October 25, 2008.

The stockholders, at the stockholders' meeting held on August 14, 2008, also resolved to reduce the amount of capital in Chunghwa by a cash distribution to its stockholders in order to improve the financial condition of Chunghwa and better utilize its excess funds. The capital reduction plan was effected by a transfer of capital surplus in the amount of NT$19,116 million to common capital stock and was effectively registered with FSC. Chunghwa designated December 30, 2008 as the record date and March 9, 2009 as the stock transfer date of capital reduction. Subsequently, common capital stock was reduced by NT$19,116 million and a liability for the same amount of cash to be distributed to stockholders was recorded. Such cash payment to stockholders was made in March 2009.

24. SHARE-BASED COMPENSATION PLANS

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

Effective Date	Grant Date	Stock Options Units (Thousands)	Exercise Price
2003.09.03	2003.10.17	3,981	$ 14.7 (Original price $20.2)
2003.09.03	2004.03.04	385	17.6 (Original price $23.9)
2004.12.01	2004.12.28	6,500	10.0 (Original price $11.6)
2004.12.01	2005.11.28	1,500	13.5 (Original price $18.3)
2005.09.30	2006.05.05	10,000	12.4 (Original price $16.9)
2007.10.16	2007.10.31	6,181	42.6 (Original price $44.2)
		28,547	

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

Information about SENAO's outstanding stock options for the years ended December 31, 2009 and 2010 was as follows:

	Stock Options Outstanding			
	2009		2010	
	Number of Options (Thousands)	Weighted Average Exercise Price NT$	Number of Options (Thousands)	Weighted Average Exercise Price NT$
Options outstanding, beginning of year	13,818	$26.34	9,323	$30.92
Options exercised	(4,076)	13.75	(4,075)	23.40
Options expired	(419)	31.35	(145)	37.60
Options outstanding, end of year	9,323	30.92	5,103	36.15
Options exercisable, end of year	4,545		3,719	

As of December 31, 2009, information about SENAO's outstanding and exercisable options was as follows:

	Options Outstanding			Options Exercisable	
Range of Exercise Price (NT$)	Number of Options (Thousand)	Weighted-average Remaining Contractual Life (Years)	Weighted Average Exercise Price (NT$)	Number of Options (Thousand)	Weighted Average Exercise Price (NT$)
$10.0-$13.3	3,427	2.20	$12.96	1,512	$12.54
$14.4-$17.6	259	1.92	14.40	259	14.40
$42.6	5,637	3.92	42.60	2,774	42.60
	9,323	3.23	30.92	4,545	30.99

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

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

No compensation cost was recognized under the intrinsic value method for the years ended December 31, 2008, 2009 and 2010. Had SENAO used the fair value method to recognize the compensation cost, there were no significant impact on the consolidated net income and earnings per share.

Had SENAO used the fair value method to evaluate the options using the Black-Scholes model, the assumptions of SENAO for the year ended December 31, 2010 would have been as follows:

	March 4, 2004	December 28, 2004	November 28, 2005	May 5, 2006	October 31, 2007
Expected dividend yield	-	-	-	-	1.49%
Risk free interest rate	1.88%	1.88%	2.00%	1.75%	2.00%
Expected life	4.375 years	4.375 years	4.375 years	4.375 years	4.375 years
Expected volatility	52.65%	49.88%	43.40%	39.63%	39.82%
Weighted-average fair value of grants	$10.56	$4.91	$6.93	$5.88	$13.69

25. COMPENSATION, DEPRECIATION AND AMORTIZATION EXPENSES

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

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

26. INCOME TAX

a. The components of income taxes are as follows:

	Year Ended December 31		
	2008	2009	2010
	NT$	NT$ (In Millions)	NT$
Current	$ 14,048	$ 11,644	$ 9,102
Deferred	(156)	1,099	27
	$ 13,892	$ 12,743	$ 9,129

b. A reconciliation between income tax expense computed by applying the statutory income tax rate of 25% for 2008 and 2009, and 17% for 2010 to income before income tax and income tax expense shown in the statements of income and comprehensive income is as follows:

	Year Ended December 31		
	2008	2009	2010
	NT$	NT$ (In Millions)	NT$
Income tax expense computed at statutory tax rate	$ 15,026	$ 14,404	$ 9,912
Permanent differences	(144)	(188)	(188)
Investment tax credits	(1,505)	(1,425)	(602)
10% undistributed earning tax	2	7	5
Prior year adjustment	78	(196)	(2)
Other	435	141	4
Income tax expense	$ 13,892	$ 12,743	$ 9,129

The balances of income tax payable as of December 31, 2008, 2009 and 2010 were shown net of prepaid income tax.

c. Income tax expense consisted of following:

	Year Ended December 31		
	2008	2009	2010
	NT$	NT$ (In Millions)	NT$
Income tax payable	$ 13,667	$ 11,777	$ 9,100
Income tax - separated	303	63	4
Income tax - deferred	(156)	1,099	27
Adjustments of prior years' income tax	78	(196)	(2)
	$ 13,892	$ 12,743	$ 9,129

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

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

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

	December 31	
	2009	2010
	NT$	NT$
	(In Millions)	
Current		
Deferred income tax assets (liabilities):		
Provision for doubtful accounts	$ 351	$ 241
Unrealized accrued expense	50	51
Estimated warranty liabilities	19	23
Valuation loss on inventory	17	17
Investment tax credit	1	2
Unrealized foreign exchange loss	3	1
Loss carryforward	2	-
Valuation gain on financial instruments, net	(9)	(6)
Others	18	3
	452	332
Valuation allowance	(351)	(241)
Net deferred income tax assets - current	$ 101	$ 91

The decrease of valuation allowance as of December 31, 2010 was attributed to the change of provision for doubtful accounts.

	December 31	
	2009	2010
	NT$	NT$
	(In Millions)	
Noncurrent		
Accrued pension cost	$ 333	$ 296
Loss carryforward	113	78
Impairment loss	64	64
Abandonment of equipment not approved by National Tax Administration	-	38
Investment tax credit	17	14
Equity in losses of equity method investees, net	-	6
Others	16	3
	543	499
Valuation allowance	(60)	(27)
Net deferred income tax assets - noncurrent	$ 483	$ 472

As of December 31, 2010, details for investment tax credit of CHI and CHPT are as follows:

Law/Statue	Items	Remaining Creditable Amount	Expiry Year
		NT$ (In Millions)	
Statute for Upgrading Industries	Pioneer Industry Investment Tax Credit	$ 7	2011
Statute for Upgrading Industries	Personnel training expenditures	$ 7	2013
	Purchase of machinery and equipment	2	2013
		$ 9	

e. As of December 31, 2010, loss carryforward of CHIEF, Unigate, LED and CHI are as follows:

Company	Total Amounts	Unused Amounts	Expiry Year
CHIEF	$ 15	$ 15	2014
	17	17	2015
	15	15	2016
	9	9	2017
	1	1	2018
Unigate	-	-	2017
	-	-	2018
	-	-	2020
LED	5	5	2018
	8	8	2019
	7	7	2020
CHI	1	1	2020
	$ 78	$ 78	

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

	December 31	
	2009	2010
	NT$	NT$
	(In Millions)	
Balance of Imputation Credit Account ("ICA")		
Chunghwa	$ 7,430	$ 4,483

The actual and the estimated creditable ratios distribution of Chunghwa's 2009 and 2010 for earnings were 26.49% and 18.77%, respectively. The imputation credit allocated to stockholders is based on its balance as of the date of dividend distribution. The estimated ratio may change when the actual distribution of imputation credit is made.

g. Undistributed earnings information

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

Chunghwa's income tax returns have been examined by tax authorities through 2005. The following subsidiaries' income tax returns have been examined by tax authorities through 2008: SENAO, CHIEF, CHSI, SHE, CIYP, LED, YYRP, IFE, CHI, CHPT and Unigate.

27. EARNINGS PER SHARE

EPS was calculated as follows:

	Amount (Numerator)		Weighted-average Number of Common Shares (Thousand) (Denominator)	Earnings Per Share (NT$)	
	Income Before Income Tax NT$ (In Millions)	Net Income NT$ (In Millions)		Income Before Income Tax	Net Income
Year ended December 31, 2008					
Basic EPS					
Income attributable to stockholders of the parent	$ 58,473	$ 45,011	9,696,808	$ 6.03	$ 4.64
Effect of dilutive potential common stock					
SENAO's stock options	(14)	(14)	-		
Employee bonus	-	-	20,681		
Diluted EPS					
Income attributable to stockholders of the parent (including effect of dilutive potential common stock)	$ 58,459	$ 44,997	9,717,489	$ 6.02	$ 4.63
Year ended December 31, 2009					
Basic EPS					
Income attributable to stockholders of the parent	$ 56,163	$ 43,757	9,696,808	$ 5.79	$ 4.51
Effect of dilutive potential common stock					
SENAO's stock options	(7)	(7)	-		
Employee bonus	-	-	28,806		
Diluted EPS					
Income attributable to stockholders of the parent (including effect of dilutive potential common stock)	$ 56,156	$ 43,750	9,725,614	$ 5.77	$ 4.50
Year ended December 31, 2010					
Basic EPS					
Income attributable to stockholders of the parent	$ 56,438	$ 47,609	9,696,808	$ 5.82	$ 4.91
Effect of dilutive potential common stock					
SENAO's stock options	(7)	(7)	-		
Employee bonus	-	-	28,653		
Diluted EPS					
Income attributable to stockholders of the parent (including effect of dilutive potential common stock)	$ 56,431	$ 47,602	9,725,461	$ 5.80	$ 4.89

In March 2007, the ARDF issued an Interpretation 96-052 that requires companies to recognize bonuses paid to employees, directors and supervisors as an expense rather than an appropriation of earnings beginning from January 1, 2008. 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, 2008, 2009 and 2010. The number of shares is calculated by dividing the amount of bonuses by the closing price of the Chunghwa's shares as of the balance sheet date. The dilutive effect of the shares needs to be considered until the stockholders resolve the number of shares to be distributed to employees in their meeting in the following year.

The diluted earnings per share for the years ended December 31, 2008, 2009 and 2010 were also due to the effect of potential common stock of stock options issued by SENAO.

28. PENSION PLANS

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

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

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

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

Pension costs of the Company were NT$2,938 million (NT$2,774 million subject to defined benefit plan and NT$164 million subject to defined contributed plan), NT$2,948 million (NT$2,737 million subject to defined benefit plan and NT$211 million subject to defined contributed plan) and NT$2,982 million (NT$2,752 million subject to defined benefit plan and NT$230 million subject to defined contribution plan) for the years ended December 31, 2008, 2009 and 2010, respectively.

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

a. Components of net periodic pension cost

	Year Ended December 31		
	2008	2009	2010
	NT$	NT$ (In Millions)	NT$
Service cost	$ 2,661	$ 2,695	$ 2,694
Interest cost	189	189	242
Expected return on plan assets	(85)	(144)	(183)
Amortizations	(2)	(3)	(1)
Curtailment/settlement loss to be recognized	11	-	-
Net periodic benefit pension cost	$ 2,774	$ 2,737	$ 2,752

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

	Year Ended December 31		
	2008	2009	2010
	NT$	NT$ (In Millions)	NT$
Change in benefits obligation:			
Projected benefits obligation, beginning of year	$ (6,761)	$ (9,565)	$ (12,155)
Services cost	(2,661)	(2,695)	(2,694)
Interest cost	(189)	(187)	(242)
Curtailment/settlement effect	79	-	-
Actuarial (loss) gain	(110)	71	(768)
Plan Amendments	61	-	-
Benefits paid	19	221	492
Impact on acquisition of subsidiary	(3)	-	-
Projected benefits obligation, end of year	$ (9,565)	$ (12,155)	$ (15,367)
Change in plan assets:			
Fair value of plan assets, beginning of year	$ 2,864	$ 4,407	$ 10,919
Actual return on plan assets	87	142	187
Actuarial (loss) gain	30	(104)	(46)
Employer contributions	1,522	6,652	2,611
Benefits paid - settlement	(87)	-	-
Benefits paid	(12)	(178)	(424)
Impact of acquisition of subsidiary	3	-	-
Fair value of plan assets, end of year	$ 4,407	$ 10,919	$ 13,247

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

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

	Year Ended December 31	
	2009	2010
	NT$	NT$
	(In Millions)	
Benefit obligation		
Vested benefit obligation	$ (7,455)	$ (10,089)
Non-vested benefit obligation	(3,262)	(3,733)
Accumulated benefit obligation	(10,717)	(13,822)
Additional benefit obligation	(1,438)	(1,545)
Projected benefit obligation	(12,155)	(15,367)
Fair values of plan assets	10,919	13,247
Funded status	(1,236)	(2,120)
Unrecognized net loss (gain)	24	888
Unrecognized net transition	7	6
Unrecognized prior service cost effect	3	(49)
Net amount recognized	$ (1,202)	$ (1,275)

The amounts recognized in the accompanying balance sheets at December 31, 2008, 2009 and 2010 are as follows:

	Year Ended December 31	
	2009	2010
	NT$	NT$
	(In Millions)	
Amounts recognized		
Prepaid pension (included in other assets)	$ 15	$ 16
Accrued pension liability	(1,217)	(1,291)
Net amount recognized	$ (1,202)	$ (1,275)

2) Vested benefit

	Year Ended December 31	
	2009	2010
	NT$	NT$
	(In Millions)	
Vested benefit	$ 10,654	$ 13,197

3) Actuarial assumptions

	Year Ended December 31		
	2008	2009	2010
Discount rate used in determining present value	2.00%	2.00%	1.75%
Rate of compensation increase	1.00%	1.00%	1.00%
Expected long-term rate of return on plan assets	2.50%	1.50%	1.50%

d. Contributions and payments for defined benefit plan

	Year Ended December 31	
	2009	2010
	NT$	NT$
	(In Millions)	
Contributions	$ 6,652	$ 2,611
Payments	$ 221	$ 492

e. Expected benefit payments

Year	Amount NT$ (In Millions)
2011	$ 492
2012	595
2013	762
2014	1,010
2015	1,250
2016 and thereafter	10,623

f. Plan assets allocation

Under the Labor Standards Law, the government is responsible for the administration of the Funds and determination of the investment strategies and policies. As of December 31, 2009 and 2010, the asset allocation was primarily in cash, equity securities and debt securities. Furthermore, under the Labor Standards Law, the rate of return on assets shall not be less than the average interest rate on a two-year time deposit published by the local banks. The government is responsible for any shortfall in the event that the rate of return is less than the required rate of return.

29. TRANSACTIONS WITH RELATED PARTIES

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

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

Company	Relationship
Chunghwa Precision Test Tech. Co., Ltd. ("CHPT")	Subsidiary of CHI, which was equity-method investee before Chunghwa obtained control over CHI on September 9, 2009
Taiwan International Standard Electronics Co., Ltd. ("TISE")	Equity-method investee
Kingwaytek Technology Co., Ltd. Co., Ltd. ("KWT")	Equity-method investee

(Continued)

Company	Relationship
Skysoft Co., Ltd. ("SKYSOFT")	Equity-method investee
So-net Entertainment Taiwan Limited ("So-net")	Equity-method investee
Senao Networks, Inc. ("SNI")	Equity-method investee of SENAO
HopeTech Technologies Limited ("HopeTech")	Equity-method investee of SIS
Senao Technical and Cultural Foundation ("STCF")	A nonprofit organization of which the funds donated by SENAO exceeds one third of its total funds
Institute for Information Industry ("III")	Investor with significant influence over IFE
e-To You International Inc. ("ETY")	Chairman of ETY is the vice chairman of IFE
ST-2 Satellite Ventures Pte., Ltd. ("STS")	Equity-method investee of CHTS

(Concluded)

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

	Year Ended December 31	
	2009	2010
	NT$	NT$
	(In Millions)	
1) Receivables		
Trade notes and accounts receivable		
So-net	$ -	$ 32
III	85	32
ETY	9	-
	$ 94	$ 64
2) Payables		
Trade notes payable, accounts payable, and accrued expenses		
TISE	$ 271	$ 111
So-net	-	12
SKYSOFT	14	5
KWT	-	4
STCF	3	3
ETY	3	3
Others	3	2
	294	140
Payables to contractors		
TISE	42	-
	$ 336	$ 140
3) Advances from customers (include in other current liabilities)		
SNI	$ 2	$ 3

	Year Ended December 31	
	2009	2010
	NT$	NT$
	(In Millions)	
4) Revenues		
So-net	$ 61	$ 329
SKYSOFT	34	38
III	127	28
HopeTech	-	25
TISE	3	4
ETY	11	2
Others	1	1
	$ 237	$ 427
5) Operating costs and expenses		
TISE	$ 482	$ 684
SKYSOFT	22	25
KWT	6	23
ETY	13	13
STCF	19	10
SNI	-	6
HopeTech	-	3
III	18	2
Others	1	1
	$ 561	$ 767
6) Non-operating income and gains		
SNI	$ 26	$ 30
TISE	-	2
	$ 26	$ 32
7) Acquisition of property, plant and equipment		
TISE	$ 1,337	$ 332
III	19	-
	$ 1,356	$ 332

8) Financing to related parties

Financing to related parties (include in other assets - others) was as follows:

	Year Ended December 31, 2009			
Related Party	**Ending Balance**	**Maximum Balance**	**Interest Rate**	**Interest Income**
STS	$ 546	$ 546	6.38%	$ 4

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

The Company did not have any financing to related parties for the year ended December 31, 2008.

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 official operation of ST-2 satellite and the total contract value is approximately NT$6,000 million (SG$261 million). The Company has prepaid NT$2,517 million which has classified as other assets - others. As of December 31, 2010, the ST-2 satellite is still under construction.

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

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

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

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

30. PLEDGED ASSETS

The following assets are pledged as collateral for short-term and long-term bank loans and contract deposits by LED, CHIEF, SHE, CHPT, IFE and CHTS.

	December 31	
	2009	**2010**
	NT$	**NT$**
	(In Millions)	
Property, plant and equipment, net	$ 661	$ 4,318
Restricted assets	100	70
	$ 761	$ 4,388

31. SIGNIFICANT COMMITMENTS AND CONTINGENCIES

As of December 31, 2010, in addition to those disclosed in other notes, the Company’s remaining commitments under non-cancelable contracts with various parties were as follows:

a. Acquisition of land and buildings of NT$148 million.

b. Acquisition of telecommunications equipment of NT$15,841 million.

c. Unused letters of credit of NT$321 million.

d. Contract to print billing, envelopes and marketing gifts of NT$57 million.

e. LED has already contracted to advance sale of lands and buildings for NT$2,593 million, and collected NT$507 million in advance according to the contracts.

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

   Trust assets are as follow:

	December 31, 2010
	NT$ (In Millions)
Restricted assets bank deposits	$ 169
Land held under development	1,085
	$ 1,254

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

Year	**Amount**
	NT$ (In Millions)
2011	$ 1,629
2012	1,292
2013	977
2014	748
2015 and thereafter	608

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

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

32. SIGNIFICANT SUBSEQUENT EVENT

The stockholders of IFE, at the special meeting of stockholders held on February 25, 2011, approved the merger with International Integrated System Inc. and e-ToYou International, Inc. in accordance with Business Mergers and Acquisitions Act. After the merger, IFE will be the surviving company and International Integrated System, Inc. and e-ToYou International, Inc. will be dissolved. The proposed name of the surviving company is "International Integrated System, Inc. (IISI)." The date of the merger is scheduled on April 1, 2011.

33. DISCLOSURES FOR FINANCIAL INSTRUMENTS

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

	December 31			
	2009		2010	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	NT$	NT$	NT$	NT$
	(In Millions)			
Assets				
Cash and cash equivalents	$ 73,259	$ 73,259	$ 90,875	$ 90,875
Financial assets at fair value through profit or loss	41	41	77	77
Available-for-sale financial assets	17,537	17,537	2,191	2,191
Held-to-maturity financial assets - current	1,100	1,100	1,964	1,964
Trade notes and accounts receivable, net	11,973	11,973	14,503	14,503
Receivables from related parties	94	94	64	64
Other current monetary assets	1,840	1,840	2,139	2,139

(Continued)

	December 31			
	2009		2010	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	NT$	NT$	NT$	NT$
	(In Millions)			
Restricted assets - current	$ 178	$ 178	$ 205	$ 205
Financial assets carried at cost	2,537	-	2,734	-
Held-to-maturity financial assets - noncurrent	3,930	3,930	8,408	8,408
Other noncurrent monetary assets	1,000	1,000	1,000	1,000
Refundable deposits	1,551	1,551	1,462	1,462
Restricted assets - noncurrent (included in “other assets - others”)	23	23	34	34
Liabilities				
Short-term loans	763	763	115	115
Commercial paper	-	-	230	230
Financial liabilities at fair value through profit or loss	1	1	-	-
Trade notes and accounts payable	10,155	10,155	11,555	11,555
Payables to related parties	336	336	140	140
Accrued expenses	17,449	17,449	18,404	18,404
Due to stockholder for capital reduction	9,697	9,697	19,394	19,394
Amounts collected in trust for others (included in “other current liabilities”)	2,225	2,225	2,356	2,356
Payables to contractors (included in “other current liabilities”)	2,229	2,229	1,262	1,262
Payables to equipment suppliers (included in “other current liabilities”)	1,533	1,533	1,106	1,106
Refundable customers’ deposits (included in “other current liabilities”)	1,045	1,045	1,097	1,097
Current portion of long-term loans	117	117	309	309
Long-term loans	221	221	3,148	3,148
Customers’ deposits	5,998	5,998	5,781	5,781

(Concluded)

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

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

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

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

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

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

	Amount Based on Quoted Market Price		Amount Determined Using Valuation Techniques	
	December 31		December 31	
	2009	2010	2009	2010
	NT$	NT$	NT$	NT$
	(In Millions)			
Assets				
Financial assets at fair value through profit or loss	$ 34	$ 43	$ 7	$ 34
Available-for-sale financial assets	17,434	2,089	103	102
Liabilities				
Financial liabilities at fair value through profit or loss	-	-	1	-

d. Information about financial risks

1) Market risk

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

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

2) Credit risk

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

3) Liquidation risk

The Company 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 risks are anticipated. The financial instruments categorized as financial assets carried at cost are investments that do not have a quoted market price in an active market. Therefore, material liquidation risk is anticipated.

4) Cash flow interest rate risk

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

e. Fair value hedge

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

34. SEGMENT FINANCIAL INFORMATION

Beginning from September 1, 2009, the Company redefined its financial reporting operating segments into five operating segments: (a) domestic fixed communications business, (b) mobile communications business, (c) internet business, (d) international fixed communications business and (e) others. Prior to September 1, 2009, Chunghwa Telecom had seven operating segments: (a) local operations, (b) domestic long distance operations, (c) international long distance operations, (d) cellular service operations, (e) internet and data operations, (f) cellular phone sales and (g) all others. The redefinition of the Company's operating segments is expected to facilitate the management's ability to assess the performance of each operating segment by conforming the Company's operating segments to the international trends of other telecommunications companies in general. The Company also early adopted the Statement of Financial accounting Standards No. 41 "Operating Segments" ("SFAS No. 41") starting from September 1, 2009. For the comparative purpose, the segment information for the years ended December 31, 2008 was presented in accordance with SFAS No. 41.

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

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

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

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

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

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

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

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

a. Segment information

	Domestic Fixed Communications Business NT$	Mobile Communications Business NT$	Internet Business NT$	International Fixed Communications Business NT$	Others NT$	Adjustment NT$	Total NT$
Year ended December 31, 2008							
Revenues from external customers	$ 73,058	$ 88,808	$ 23,022	$ 15,936	$ 846	$ -	$ 201,670
Intersegment service revenues	11,929	1,933	563	1,527	2	(15,954)	-
Interest income	3	14	4	35	1,860	-	1,916
Other income	209	175	22	34	1,020	-	1,460
	$ 85,199	$ 90,930	$ 23,611	$ 17,532	$ 3,728	$ (15,954)	$ 205,046
Interest expense	$ -	$ 1	$ 2	$ -	$ 1	$ -	$ 4
Depreciation and amortization	$ 25,501	$ 8,859	$ 2,354	$ 1,326	$ 176	$ -	$ 38,216
Other expense	$ 324	$ 37	$ 9	$ 2	$ 1,843	$ -	$ 2,215
Segment income before tax	$ 15,473	$ 33,175	$ 10,086	$ 2,911	$ (1,961)	$ -	$ 59,684
Total assets	$ 243,102	$ 66,971	$ 17,004	$ 18,244	$ 118,269	$ -	$ 463,590
Capital expenditures for segment assets	$ 20,710	$ 5,207	$ 2,186	$ 1,200	$ 816	$ -	$ 30,119
Year ended December 31, 2009							
Revenues from external customers	$ 71,467	$ 86,524	$ 23,653	$ 15,244	$ 1,473	$ -	$ 198,361
Intersegment service revenues	13,650	1,915	717	1,523	3	(17,808)	-
Interest income	3	8	4	11	453	-	479
Other income	77	104	74	10	678	-	943
	$ 85,197	$ 88,551	$ 24,448	$ 16,788	$ 2,607	$ (17,808)	$ 199,783
Interest expense	$ 3	$ 1	$ 10	$ -	$ 1	$ -	$ 15
Depreciation and amortization	$ 23,984	$ 8,373	$ 2,327	$ 1,404	$ 232	$ -	$ 36,320
Other expense	$ 156	$ 98	$ 11	$ 2	$ 279	$ -	$ 546
Segment income before tax	$ 17,452	$ 30,184	$ 9,356	$ 2,550	$ (2,304)	$ -	$ 57,238
Total assets	$ 231,177	$ 63,537	$ 17,154	$ 18,700	$ 118,429	$ -	$ 448,997
Capital expenditures for segment assets	$ 15,877	$ 5,028	$ 2,097	$ 1,299	$ 1,177	$ -	$ 25,478
Year ended December 31, 2010							
Revenues from external customers	$ 70,688	$ 89,044	$ 24,483	$ 15,534	$ 2,681	$ -	$ 202,430
Intersegment service revenues	14,662	2,117	1,104	1,720	750	(20,353)	-
Interest income	1	9	2	9	454	-	475
Other income	31	263	24	96	313	(170)	557
	$ 85,382	$ 91,433	$ 25,613	$ 17,359	$ 4,198	$ (20,523)	$ 203,462
Interest expense	$ 75	$ 1	$ 7	$ -	$ 24	$ -	$ 107
Depreciation and amortization	$ 21,948	$ 8,205	$ 2,206	$ 1,383	$ 322	$ -	$ 34,064
Other expense	$ 283	$ 7	$ 14	$ 198	$ 255	$ (170)	$ 587
Segment income before tax	$ 18,048	$ 29,328	$ 9,835	$ 2,652	$ (2,176)	$ -	$ 57,687
Total assets	$ 227,376	$ 63,330	$ 17,663	$ 23,535	$ 122,407	$ -	$ 454,311
Capital expenditures for segment assets	$ 14,260	$ 5,261	$ 1,889	$ 1,787	$ 1,420	$ -	$ 24,617

b. Products and service revenues from external customer information

	Year Ended December 31		
	2008	2009	2010
	NT$	NT$ (In Millions)	NT$
Mobile services revenue	$ 72,290	$ 71,295	$ 72,955
Local telephone services revenue	35,188	34,116	33,243
Leased line services revenue	27,644	27,477	27,412
Internet services revenue	21,770	21,511	22,016
Sales revenue	16,340	15,058	15,989
International long distance telephone services revenue	14,051	12,922	12,863
Domestic long distance telephone services revenue	8,480	7,407	6,650
Others	5,907	8,575	11,302
	$ 201,670	$ 198,361	$ 202,430

c. Geographic information

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

	Year Ended December 31		
	2008	2009	2010
	NT$	NT$ (In Millions)	NT$
Taiwan, ROC	$ 196,334	$ 193,003	$ 196,830
Overseas	5,336	5,358	5,600
	$ 201,670	$ 198,361	$ 202,430

The Company has long-lived assets in U.S., Singapore, Hong Kong, China, Vietnam, Thailand, and Japan and except for NT$175 million and NT$219 million at December 31, 2009 and 2010, respectively, in the aforementioned areas, the other long-lived assets are located in Taiwan, ROC.

d. Major customers

For the years ended December 31, 2008, 2009 and 2010, the Company did not have any single customer whose net revenue exceeded 10% of the total net revenues.

35. OTHERS

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

	December 31					
	2009			2010		
	Foreign Currencies	Exchange Rate	New Taiwan Dollars (Million)	Foreign Currencies	Exchange Rate	New Taiwan Dollars (Million)
Financial assets						
Monetary items						
Cash						
US Dollar	$ 36	32.03	$ 1,149	$ 15	29.13	$ 443
HK Dollar	37	4.13	152	92	3.75	344
JP Yen	30	0.35	10	45	0.36	16
SG Dollar	13	22.84	294	40	22.73	910
Euro Dollar	33	46.10	1,509	-	38.92	4
Accounts receivable						
US Dollar	110	32.03	3,524	157	29.13	4,566
HK Dollar	21	4.13	85	18	3.75	68
SG Dollar	-	22.84	5	1	22.73	17
Euro Dollar	-	46.1	4	-	38.92	8
JP Yen	8	0.35	3	18	0.36	6
Available-for-sale financial assets						
US Dollar	56	32.03	1,786	35	29.13	1,010
HK Dollar	-	-	-	2	3.75	7
Euro Dollar	39	46.10	1,808	-	-	-
Investments accounted for using equity method						
US Dollar	-	-	-	1	29.13	27
VND Dollar	155,821	0.00168	270	170,986	0.00144	246
SG Dollar	18	22.84	408	18	22.73	398
Financial liabilities						
Monetary items						
Accounts payable						
US Dollar	103	32.03	3,314	113	29.13	3,298
Euro Dollar	34	46.10	1,564	22	38.92	842
HK Dollar	8	4.13	34	32	3.75	119
SG Dollar	-	22.84	1	-	22.73	8
JP Yen	-	-	-	7	0.36	3

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

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

a. Property, plant and equipment

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

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

b. 10% tax on unappropriated earnings

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

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

c. Employee bonuses and remuneration to directors and supervisors

According to ROC regulations and the Company's Articles of Incorporation, a portion of the Company's distributable earnings should be set aside as bonuses to employees and remuneration to directors and supervisors. Such bonuses and remuneration give rise to the following GAAP differences due to the nature, measurement and timing of recording the transaction.

Under ROC GAAP:

1) Nature - employee bonuses and remuneration of directors and supervisors are treated as an expense rather than an appropriation of retained earnings starting in 2008. Before 2008, the bonuses were treated as appropriations of retained earnings.

2) Measurement and recognition - such bonuses to employees and remuneration to directors and supervisors are initially accrued based on management's estimate pursuant to the Articles of Incorporation of the Company. If the amounts initially accrued are significantly different from the amounts proposed subsequently by the board of directors in the following year, the difference needs to be retroactively adjusted. Otherwise, any difference between the amount initially accrued and actual amount of the bonuses approved by the stockholders is adjusted subsequently. If all or a portion of such bonuses and remuneration are in the form of shares, compensation expense remains the same but the actual number of shares to be distributed are determined by dividing the fair value of the Company's stock price as of one day prior to the stockholders' meeting held in the following year.

Under US GAAP:

1) Nature - employee bonuses and remuneration of directors and supervisors are treated as compensation expenses.

2) Measurement and recognition - such bonuses to employees and remuneration to directors and supervisors are initially accrued based on management's estimate pursuant to the Articles of Incorporation of the Company. However, the Company's stockholders ultimately decide the amount and form of bonus (i.e., cash, stock or combination) at the stockholders' meeting held in the following year. Any difference between the amount initially accrued and actual amount of the bonuses approved by the stockholders is adjusted subsequently. If all or a portion of such bonuses and remuneration are in the form of shares, compensation expense is recognized at the fair value of the Company's stock price on the relevant grant date which is not until after stockholders' approval in the following year and subsequently remeasured at fair value until the settlement date in accordance with the share-based payment guidance.

d. Deferred income from prepaid phone cards

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

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

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

e. One-time connection fees income

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

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

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

f. Share-based compensation

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

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

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

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

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

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

g. Defined benefit pension plan

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

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

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

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

h. Pension plan upon privatization

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

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

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

i. Income tax

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

j. Noncontrolling interests of acquired subsidiaries

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

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

k. Earnings per share

Under ROC GAAP, earnings per share is computed by dividing income attributable to stockholders of the parent by the weighted average number of shares outstanding in each period, which is retroactively adjusted to the beginning of the year for stock dividends and stock bonuses prior to 2008. Starting from 2008, shares for stock bonuses to employees are included in the calculation of weighted-average number of shares outstanding from the date of issuance.

Under US GAAP, earnings per share is calculated by dividing net income, which represents income attributable to stockholders of the parent, by the weighted-average number of shares outstanding in each period, which is retroactively adjusted for stock dividends issued subsequently. For stock bonuses to employees, shares are included in the calculation of weighted-average number of shares outstanding from the date of issuance.

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

	Year Ended December 31			
	2008	2009	2010	
	NT$	NT$	NT$	US$ (Note 3)
	(In Millions)			
Net income				
Consolidated net income under ROC GAAP	$ 45,792	$ 44,495	$ 48,558	$ 1,666
Adjustments:				
a. Property, plant and equipment				
1. Adjustments of gains and losses on disposal of property, plant and equipment	2	24	25	1
2. Adjustments for depreciation expenses	312	158	122	4
b. 10% tax on unappropriated earnings	191	110	(380)	(13)
c. Employee bonuses and remuneration to directors and supervisors	(3,993)	-	-	-
d. Revenues recognized from deferred income of prepaid phone cards	798	615	258	9
e. Revenues recognized from deferred one-time connection fees	1,918	1,426	1,118	38
f. Share-based compensation	(22)	(17)	(5)	-
g. Defined benefit pension plan	(1)	1	-	-
i. Income tax effect of US GAAP adjustments	(743)	(982)	(462)	(16)
j. Noncontrolling interests of acquired subsidiaries	-	(8)	(9)	-
Other minor GAAP differences not listed above	(42)	(7)	(34)	(1)
Net adjustment	(1,580)	1,320	633	22
Consolidated net income based on US GAAP	$ 44,212	$ 45,815	$ 49,191	$ 1,688
Attributable to				
Stockholders of the parent	$ 43,664	$ 45,096	$ 48,274	$ 1,657
Noncontrolling interests	548	719	917	31
	$ 44,212	$ 45,815	$ 49,191	$ 1,688

	December 31			
	2008	2009	2010	
	NT$	NT$	NT$	US$ (Note 3)
	(In Millions)			
Stockholders' equity				
Total stockholders' equity based on ROC GAAP	$ 379,694	$ 378,964	$ 368,603	$ 12,649
Adjustments:				
a. Property, plant and equipment				
1. Capital surplus reduction	(60,168)	(60,168)	(60,168)	(2,065)
2. Adjustment on depreciation expenses, and disposal gains and losses	3,959	4,141	4,288	147
3. Adjustments of revaluation of land	(5,813)	(5,803)	(5,803)	(199)
b. 10% tax on unappropriated earnings	(4,147)	(4,037)	(4,417)	(151)
d. Deferred income of prepaid phone cards				
1. Capital surplus reduction	(2,798)	(2,798)	(2,798)	(96)
2. Adjustment on deferred income recognition	1,925	2,540	2,798	96
e. Revenues recognized from deferred one-time connection fees				
1. Capital surplus reduction	(18,487)	(18,487)	(18,487)	(634)
2. Adjustment on deferred income recognition	13,156	14,582	15,700	539
f. Share-based compensation				
1. Adjustment on capital surplus	15,683	15,700	15,705	539
2. Adjustment on retained earnings	(15,683)	(15,700)	(15,705)	(539)
g. 1. Accrual for accumulative other comprehensive income under pension guidance	22	(1)	(608)	(21)
2. Accrual for pension cost	(29)	(28)	(28)	(1)
h. Adjustment for pension plan upon privatization				
1. Adjustment on capital surplus	1,782	1,782	1,782	61
2. Adjustment on retained earnings	(9,665)	(9,665)	(9,665)	(331)
i. Income tax effect of US GAAP adjustments	6,217	5,238	4,776	164
j. Noncontrolling interests of acquired subsidiaries	-	28	19	1
Other GAAP differences not listed above	201	184	150	4
Net adjustment	(73,845)	(72,492)	(72,461)	(2,486)
Total equity based on US GAAP	$ 305,849	$ 306,472	$ 296,142	$ 10,163
Attributable to				
Stockholders of the parent	$ 302,802	$ 302,799	$ 292,232	$ 10,029
Noncontrolling interests	3,047	3,673	3,910	134
	$ 305,849	$ 306,472	$ 296,142	$ 10,163

	Year Ended December 31			
	2008	2009	2010	
	NT$	NT$	NT$	US$ (Note 3)
	(In Millions)			
Changes in equity based on US GAAP				
Balance, beginning of year	$ 320,538	$ 305,849	$ 306,472	$ 10,517
Consolidated net income	44,212	45,815	49,191	1,688
Unrealized gain (loss) on available-for-sale securities	(2,301)	1,833	649	23
Unrealized gain on available-for-sale securities held by investees	(7)	-		
Employee stock bonus	3,302	-	-	-
Cumulative translation adjustment for foreign-currency investments held by investees	31	(22)	(119)	(4)
Increase in interest on issuance of stock by investees	64	(10)	7	-
Cash dividends	(40,716)	(37,139)	(39,369)	(1,351)
Capital reduction	(19,116)	(9,697)	(19,394)	(666)
Defined benefit pension plan adjustment	(11)	(68)	(605)	(21)
Decrease in noncontrolling interests	(147)	(89)	(690)	(23)
Balance, end of year	$ 305,849	$ 306,472	$ 296,142	$ 10,163
Attributable to				
Stockholders of the parent	$ 302,802	$ 302,799	$ 292,232	$ 10,029
Noncontrolling interests	3,047	3,673	3,910	134
	$ 305,849	$ 306,472	$ 296,142	$ 10,163

The following US GAAP condensed balance sheets as of December 31, 2009 and 2010, and statements of income for the years ended December 31, 2008, 2009 and 2010 have been derived from the audited consolidated financial statements and reflected the adjustments presented above.

	December 31		
	2009	2010	
	NT$	NT$	US$ (Note 3)
		(In Millions)	
Assets			
Current assets	$ 115,050	$ 121,233	$ 4,160
Long-term investments	8,072	12,847	441
Property, plant and equipment, net	248,797	241,689	8,294
Intangible assets	7,680	6,913	237
Other assets	5,734	7,822	269
Total assets	$ 385,333	$ 390,504	$ 13,401
Liabilities and equities			
Liabilities			
Current liabilities	$ 70,907	$ 83,235	$ 2,856
Long-term liabilities	7,954	11,127	382
Total liabilities	78,861	94,362	3,238
Equity attributable to stockholders of the parent			
Capital stock - NT$10 (US$0.3) par value	96,968	77,574	2,662
Capital surplus	132,742	132,919	4,562
Retained earnings	73,553	82,289	2,824
Other comprehensive income	(464)	(550)	(19)
Total equity attributable to stockholders of the parent	302,799	292,232	10,029
Noncontrolling interests	3,673	3,910	134
Total equity	306,472	296,142	10,163
Total liabilities and equity	$ 385,333	$ 390,504	$ 13,401

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

	Year Ended December 31			
	2008	2009	2010	
	NT$	NT$	NT$	US$ (Note 3)
	(In Millions Except Per Share Amounts)			
Net revenues	$ 204,352	$ 200,369	$ 203,773	$ 6,993
Operating costs and expenses	147,086	141,817	145,166	4,982
Income from operations	57,266	58,552	58,607	2,011
Non-operating income, net	1,391	877	555	19
Income before income tax	58,657	59,429	59,162	2,030
Income tax expense	(14,445)	(13,614)	(9,971)	(342)
Consolidated net income	$ 44,212	$ 45,815	$ 49,191	$ 1,688
Attributable to				
Stockholders of the parent	$ 43,664	$ 45,096	$ 48,274	$ 1,657
Noncontrolling interests	548	719	917	31
	$ 44,212	$ 45,815	$ 49,191	$ 1,688
Basic earnings per share	$ 4.52	$ 4.65	$ 4.98	$ 0.17
Diluted earnings per share	$ 4.51	$ 4.64	$ 4.96	$ 0.17
Weighted-average number of common shares outstanding (in 1,000 shares)				
Basic	9,661,309	9,696,808	9,696,808	9,696,808
Diluted	9,681,990	9,725,614	9,725,461	9,725,461
Net income per pro forma equivalent ADSs				
Basic	$ 45.19	$ 46.51	$ 49.78	$ 1.71
Diluted	$ 45.09	$ 46.36	$ 49.64	$ 1.70
Weighted-average number of pro forma equivalent ADSs (in 1,000 shares)				
Basic	966,131	969,681	969,681	969,681
Diluted	968,199	972,561	972,546	972,546

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

Statements of comprehensive income for the years ended December 31, 2008, 2009 and 2010 are as follows:

	Year Ended December 31			
	2008	2009	2010	
	NT$	NT$	NT$	US$ (Note 3)
	(In Millions)			
Comprehensive income				
Consolidated net income	$ 44,212	$ 45,815	$ 49,191	$ 1,688
Other comprehensive income:				
Cumulative translation adjustments for foreign-currency investments held by investees	31	(22)	(119)	(4)
Unrealized gain on available-for-sale securities held by investees	(7)	-	-	-
Unrealized gain (loss) on available-for-sale securities	(2,301)	1,833	649	23
Defined benefit pension plan adjustment	(11)	(68)	(605)	(21)
	(2,288)	1,743	(75)	(2)
	$ 41,924	$ 47,558	$ 49,116	$ 1,686
Attributable to				
Stockholders of the parent	$ 41,385	$ 46,843	$ 48,189	$ 1,654
Noncontrolling interests	539	715	927	32
	$ 41,924	$ 47,558	$ 49,116	$ 1,686

The components of accumulated other comprehensive income (loss) were as follows:

	December 31		
	2009	2010	
	NT$	NT$	US$ (Note 3)
	(In Millions)		
Cumulative translation adjustments for foreign-currency investments held by investees	$ 7	$ (112)	$ (4)
Unrealized gain (loss) on available-for-sale securities	(439)	210	7
Defined benefit pension plan adjustment	(47)	(652)	(22)
	$ (479)	$ (554)	$ (19)

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

	Year Ended December 31			
	2008	2009	2010	
	NT$	NT$	NT$	US$ (Note 3)
	(In Millions)			
Amounts recognized in other comprehensive income				
Net prior service cost, pretax	$ (57)	$ 6	$ 4	$ -
Net actuarial loss, pretax	72	73	804	28
Deferred tax asset	(4)	(11)	(203)	(7)
Net impact in accumulated other comprehensive loss	$ 11	$ 68	$ 605	$ 21

The Company applies ROC SFAS No. 17, "Statement of Cash Flows". Its objectives and principles are similar to those set out in U.S. standards. The principal differences between the two standards relate to classification. Cash flows from investing activities for changes in other assets, and cash flows from financing activities for changes in customers' deposits, other liabilities and cash bonuses paid to employees, directors and supervisors are reclassified to operating activities under U.S. standards. In addition, the effect of change on consolidated subsidiaries, which was shown as a separate item under ROC standards, is reclassified to investing activities under U.S. standards. As discussed in Note 4, beginning from 2009, bonuses paid to employees, directors and supervisors are classified as operating activities for purposes of the statement of cash flows when paid under R.O.C. standards. Therefore, the reclassification of bonuses paid to employees, directors and supervisors under U.S. standards is no longer required beginning from 2009. Summarized cash flow data by operating, investing and financing activities in accordance with U.S. standards are as follows:

	Year Ended December 31			
	2008	2009	2010	
	NT$	NT$	NT$	US$ (Note 3)
	(In Millions)			
Net cash flows (outflows) from:				
Operating activities	$ 89,484	$ 77,246	$ 84,840	$ 2,912
Investing activities	(33,961)	(28,755)	(20,127)	(691)
Financing activities	(50,512)	(56,513)	(47,034)	(1,614)
Effects of exchange rate change on cash and cash equivalents	31	(7)	(63)	(2)
Cash balance of SHE upon its consolidation	13	-	-	-
Net increase in cash and cash equivalents	5,055	(8,029)	17,616	605
Cash and cash equivalents, beginning of year	76,233	81,288	73,259	2,514
Cash and cash equivalents, end of year	$ 81,288	$ 73,259	$ 90,875	$ 3,119

37. ADDITIONAL DISCLOSURES REQUIRED BY US GAAP

a. Recent accounting pronouncements

In June 2009, the FASB issued new guidance relating to the transfer of financial assets. The new guidance requires entities to provide more information regarding sales of securitized financial assets and similar transactions, particularly if the entity has continuing exposure to the risks related to transferred financial assets. It also eliminates the concept of a "qualifying special-purpose entity," changes the requirements for derecognizing financial assets and requires additional disclosures. The new guidance becomes effective for annual reporting periods beginning after November 15, 2009. This guidance is effective for the Company for the year ending December 31, 2010. The adoption of the guidance did not have a material effect on the Company's results of operations, financial position and cash flows.

In June 2009, the FASB issued new guidance to improve financial reporting by enterprises involved with variable interest entities (VIE). The new guidance modifies the approach for determining the primary beneficiary of a variable interest entity ("VIE"). Under the modified approach, an enterprise is required to make a qualitative assessment whether it has (1) the power to direct the activities of the VIE that most significantly impact the entity's economic performance and (2) the obligation to absorb losses of the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE. If an enterprise has both of these characteristics, the enterprise is considered the primary beneficiary and must consolidate the VIE. The new guidance becomes effective for annual reporting periods beginning after November 15, 2009. This guidance is effective for the Company for the year ending December 31, 2010. Based on the Company's analysis, the adoption of the new guidance did not result in the identification of additional VIEs where the Company is the primary beneficiary or the deconsolidation of any existing VIEs.

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

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

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

In April 2010, the FASB issued an accounting update that provides guidance on defining a milestone and determining when it may be appropriate to apply the milestone method of revenue recognition for certain research and development transactions. Under this new standard, a company can recognize as revenue consideration that is contingent upon achievement of a milestone in the period in which it is achieved, only if the milestone meets all criteria to be considered substantive. This standard will be effective for the Company on a prospective basis as of January 1, 2011. The Company is currently evaluating the impact of the adoption of the update.

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

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

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

b. Share-based compensation

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

The Compensation expenses related to stock options were NT$22 million, NT$17 million and NT$6 million for 2008, 2009 and 2010, respectively. There is no income tax benefit effect related to share-based compensation arrangements.

The weighted average remaining contractual term and aggregate intrinsic value of options under the foregoing plans as of December 31, 2010 were as follows:

	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
	(In Years)	NT$ (In Millions)
Options outstanding	2.58	117
Options exercisable	2.45	94

The aggregate intrinsic value in the above table represents the total intrinsic value (the difference between the Company's closing stock price on the last trading day of fiscal year 2010 and the exercise price, multiplied by the number of in-the-money options) that would have been received by the option holders had all option holders exercised their options on December 31, 2010. Intrinsic value will change in future periods based on the fair market value of the Company' s stock and the number of shares outstanding.

SENAO did not grant any options in 2008, 2009 and 2010.

Total intrinsic values of options exercised for the years ended December 31, 2008, 2009 and 2010 were NT$117 million, NT$113 million and NT$110 million, respectively. Total fair values of shares vested during the years ended December 31, 2008, 2009 and 2010 were NT$238 million NT$252 million and NT$164 million, respectively.

A summary of the status of the Company's nonvested shares as of December 31, 2010 and changes during the year ended December 31, 2010 is presented below:

	Shares in Thousand	Weighted-average Grant-date Fair Value
Nonvested at January 1, 2010	9,323	$30.92
Granted	-	-
Vested	(4,075)	23.40
Forfeited	(145)	37.60
Nonvested at December 31, 2010	5,103	36.15

As of December 31, 2010, there was NT$2 million of total unrecognized compensation expense related to nonvested options. The expense is expected to be recognized over a weight-average period of 1.29 years.

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

	Year Ended December 31, 2010
Expected dividend yield	0-1.49%
Expected volatility	39.63-53.07%
Risk free interest rate	1.75-2.00%
Expected life	4.375 years

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

c. Marketable securities

	December 31, 2009		
	Carrying Amount	Unrealized Gain	Unrealized Loss
	NT$	NT$ (In Millions)	NT$
Available-for-sale securities			
Open-end mutual funds	$ 16,832	$ 90	$ 552
Domestic listed stocks	500	28	4
Corporate bonds	103	1	-
Real estate investment trust fund	102	7	9
	17,537	126	565
Held-to-maturity securities			
Corporate bond	4,532	1	39
Bank debentures	498	3	1
	5,030	4	40
	$ 22,567	$ 130	$ 605

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

The Company's gross realized gains on the sale of investments for the years ended December 31, 2008, 2009 and 2010 were NT$131 million, NT$553 million and NT$476 million, respectively. The Company's gross realized losses on the sale of investments for the years ended December 31, 2008, 2009 and 2010 were NT$1,014 million, NT$695 million and NT$654 million, respectively.

The carrying amounts at December 31, 2010 for debt securities classified as available-for-sale securities and held-to-maturity by contractual maturity are shown below.

	December 31, 2010
	NT$ (In Millions)
Due within one year or less	$ 1,964
Due after one year through four years	8,510
	$ 10,474

The following table shows the gross unrealized losses and fair value of the investments with unrealized losses that are not deemed to be other-than-temporary impaired, aggregated by investment category and length of time that have been in a continuous unrealized loss position as of December 31, 2010:

	Less than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	NT$	NT$	NT$ (In Millions)	NT$	NT$	NT$
Open-end-mutual funds	$ 1,089	$ (23)	$ -	$ -	$ 1,089	$ (23)
Domestic listed stocks	149	(19)	-	-	149	(19)
Corporate bond	1,986	(96)	-	-	1,986	(96)
Bank debentures	199	(5)	-	-	199	(5)
	$ 3,423	$ (143)	$ -	$ -	$ 3,423	$ (143)

The gross unrealized losses related to mutual funds, stocks, corporate bonds and bank debentures were due to fair value fluctuations. The Company reviewed its investment portfolio to identify and evaluate investments that have indications of possible impairment. Factors that were considered in determining whether a loss is other-than-temporary included but were not limited to, the length of time and extent to which fair value has been less than the cost basis, credit quality and the Company's ability and intent to hold the investment for a period of time sufficient to allow for any anticipated recovery in market value. As a result, the Company determined that aforementioned investments with unrealized losses were not deemed to be other- than-temporarily impaired as of December 31, 2010.

d. Fair value measurements

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

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

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

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

Assets and liabilities measured at fair value on a recurring basis

The following table presents our assets and liabilities measured at fair value on a recurring basis at December 31, 2009 and 2010:

	December 31, 2009			
	Level 1	**Level 2**	**Level 3**	**Total**
	NT$	**NT$**	**NT$**	**NT$**
		(In Millions)		
Assets				
Derivatives - currency swap contracts	$ -	$ 7	$ -	$ 7
Convertible bonds	34	-	-	34
Available-for-sale securities				
Open-end mutual funds	16,832	-	-	16,832
Domestic listed stocks	500	-	-	500
Corporate bonds	-	103	-	103
Real estate investment trust	102	-	-	102
	$ 17,468	$ 110	$ -	$ 17,578
Liabilities				
Derivative - forward exchange contracts	$ -	$ 1	$ -	$ 1

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

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

Available-for-sale financial assets include open-end mutual funds, domestic listed stocks, foreign listed stocks, and real estate investment trust fund that are actively traded or have quoted prices.

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

Assets measured at fair value on a nonrecurring basis

The tables below set out the balances for those assets required to be measured at fair value on a nonrecurring basis and the associated losses recognized during the years ended December 31, 2009 and 2010:

	For the Year Ended December 31, 2009			
	Level 1	Level 2	Level 3	Total Losses
	NT$	NT$	NT$	NT$
		(In Millions)		
Assets				
Cost method investees - ETS, and DIG	$ -	$ -	$ 24	$ 20
Other assets	$ -	$ -	$ -	$ 5

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

The Company evaluated its cost method investees for impairment by using valuation models based on discounted future cash flows because there are no quoted fair value for such investments. Cost method investees held with a carrying amount of NT$44 million were written down to their fair value of NT$24 million, resulting in an impairment charge of NT$20 million, which was included in earnings for year ended December 31, 2009, and cost method investees held with a carrying amount of NT$99 million were written down to their fair value of NT$40 million, resulting in an impairment charge of NT$59 million, which was included in earnings for year ended December 31, 2010.

Certain non-financial assets and non-financial liabilities measured at fair value on a recurring basis include reporting units measured at fair value in the first step of a goodwill impairment test, other non-financial long-lived assets and idle assets measured at fair value for impairment assessment. The Company calculates these fair values using the market approach which includes recent market condition and other economic factors as their fair value inputs. Other assets held with a carrying amount of NT$5 million were written down to their fair value of nil, resulting in an impairment charge of NT$5 million, which was included in earnings for year ended December 31, 2009, and other assets held with a carrying amount of NT$94 million were written down to their fair value of NT$28 million, resulting in an impairment charge of NT$66 million, which was included in earnings for year ended December 31, 2010.

e. Advertising and promotion expenses

Advertising and promotional expenses are charged to income as incurred. These expenses were NT$3,689 million, NT$3,413 million and NT$3,227 million for the years ended December 31, 2008, 2009 and 2010, respectively.

f. Income tax

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

The Company did not identify significant unrecognized tax benefits for the year ended December 31, 2008, 2009 and 2010. The Company did not incur any interest or penalties related to potential underpaid income tax expenses.

g. Estimated aggregate amortization expense of intangible assets

As of December 31, 2010, the Company's estimated aggregate amortization expense for each of the five succeeding fiscal years is as follows:

Year	Amount NT$ (In Millions)
2011	$ 975
2012	875
2013	819
2014	779
2015	768
2016 and thereafter	2,357

h. Loss contingency on litigation

The Company is involved in various legal proceedings of a nature considered in the ordinary course of its business. It is the Company's policy to provide for reserves related to these legal matters when it is probable that a liability has been incurred and the amount is reasonably estimable. The Company recorded an additional accrual in 2010 of NT$30 million and the loss contingency reserve balance at December 31, 2010 was approximately NT$50 million.

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