Chunghwa Telecom Co., Ltd. and Subsidiaries

Consolidated Financial Statements as of December 31, 2011 and 2012, and for Each of the Three Years in the Period Ended December 31, 2012 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, 2011 and 2012, and the related consolidated statements of income, changes in stockholders’ equity, and cash flows for the years ended December 31, 2010, 2011 and 2012, 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, 2011 and 2012, and the results of their operations and their cash flows for the years ended December 31, 2010, 2011 and 2012, in conformity with accounting principles generally accepted in the Republic of China.

Accounting principles generally accepted in the Republic of China vary in certain significant respects from accounting principles generally accepted in the United States of America. Information relating to the nature and effect of such differences is presented in Note 34 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, 2012, based on the criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated April 10, 2013 expressed an unqualified opinion on the Company's internal control over financial reporting.

/s/ DELOITTE & TOUCHE

Deloitte & Touche
Taipei, Taiwan
The Republic of China

April 10, 2013

CHUNGHWA TELECOM CO., LTD. AND SUBSIDIARIES

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

		December 31		
		2011	2012	
ASSETS	**Notes**	**NT$**	**NT$**	**US$ (Note 3)**
CURRENT ASSETS				
Cash and cash equivalents	2, 5	$ 67,390	$ 53,202	$ 1,832
Financial assets at fair value through profit or loss	2, 6	46	3	-
Available-for-sale financial assets	2, 7	2,499	2,250	77
Held-to-maturity financial assets	2, 8	1,201	4,250	146
Trade notes and accounts receivable, net	2, 9, 21	22,396	24,355	838
Receivables from related parties	28	34	44	2
Other monetary assets	10	2,068	2,185	75
Inventories	2, 11, 21, 30	5,214	7,196	248
Deferred income tax assets	2, 25	115	143	5
Restricted assets	21, 29	57	10	-
Other current assets	6, 11, 12, 21, 28	5,519	7,357	254
Total current assets		106,539	100,995	3,477
LONG-TERM INVESTMENTS				
Investments accounted for using equity method	2, 13	2,563	2,250	77
Financial assets carried at cost	2, 14	2,760	2,550	88
Available-for-sale financial assets	2, 7	58	3,196	110
Held-to-maturity financial assets	2, 8	13,495	11,796	406
Other monetary assets	15, 30	1,000	1,000	35
Total long-term investments		19,876	20,792	716
PROPERTY, PLANT AND EQUIPMENT, NET	2, 16, 28, 29	302,612	303,650	10,453
INTANGIBLE ASSETS	2, 28			
3G concession		5,240	4,492	155
Goodwill		245	245	8
Others		845	1,076	37
Total intangible assets		6,330	5,813	200
OTHER ASSETS				
Refundable deposits		1,760	2,087	72
Deferred income tax assets	2, 25	340	438	15
Others	2, 16, 27, 29	5,463	5,672	194
Total other assets		7,563	8,197	281
TOTAL		$ 442,920	$ 439,447	$ 15,127

		December 31		
		2011	2012	
LIABILITIES AND STOCKHOLDERS' EQUITY	**Notes**	**NT$**	**NT$**	**US$ (Note 3)**
CURRENT LIABILITIES				
Short-term loans	17	$ 75	$ 111	$ 4
Financial liabilities at fair value through profit or loss	2, 6	4	2	-
Trade notes and accounts payable	21	14,265	13,513	465
Payables to related parties	28	788	837	29
Income tax payable	2, 25	3,539	3,320	114
Accrued expenses	18, 21	18,571	17,933	617
Current portion of long-term loans	20	702	8	-
Other current liabilities	11, 19, 21	21,336	21,060	726
Total current liabilities		59,280	56,784	1,955
NONCURRENT LIABILITIES				
Long-term loans	20	1,058	2,050	71
Deferred income	2	2,578	2,666	92
Total noncurrent liabilities		3,636	4,716	163
RESERVE FOR LAND VALUE INCREMENTAL TAX	16	95	95	3
OTHER LIABILITIES				
Accrued pension liabilities	2, 27	1,444	2,539	87
Customers' deposits	28	5,014	4,911	169
Others		408	492	16
Total other liabilities		6,866	7,942	272
Total liabilities		69,877	69,537	2,393
EQUITY ATTRIBUTABLE TO STOCKHOLDERS OF THE PARENT	2, 7, 16, 22			
Common stock - NT$10 par value				
Authorized: 12,000,000 thousand shares				
Issued: 7,757,447 thousand shares		77,574	77,574	2,670
Additional paid-in capital		169,536	169,544	5,836
Retained earnings		115,866	113,408	3,904
Other adjustments				
Cumulative translation adjustments		(38)	(95)	(2)
Unrecognized net loss of pension		(38)	(1,007)	(35)
Unrealized gain on financial instruments		68	258	9
Unrealized revaluation increment		5,763	5,760	198
Total other adjustments		5,755	4,916	170
Total equity attributable to stockholders of the parent		368,731	365,442	12,580
MINORITY INTERESTS IN SUBSIDIARIES		4,312	4,468	154
Total stockholders' equity		373,043	369,910	12,734
TOTAL		$ 442,920	$ 439,447	$ 15,127

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

CHUNGHWA TELECOM CO., LTD. AND SUBSIDIARIES

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

		Year Ended December 31			
		2010	2011	2012	
	Notes	NT$	NT$	NT$	US$ (Note 3)
NET REVENUES	28	$ 202,430	$ 217,493	$ 220,131	$ 7,578
OPERATING COSTS	28	115,332	131,531	141,177	4,860
GROSS PROFIT		87,098	85,962	78,954	2,718
OPERATING EXPENSES	28				
Marketing		22,469	23,172	22,319	768
General and administrative		4,012	4,180	4,024	139
Research and development		3,250	3,525	3,698	127
Total operating expenses		29,731	30,877	30,041	1,034
INCOME FROM OPERATIONS		57,367	55,085	48,913	1,684
NON-OPERATING INCOME AND GAINS	13, 28				
Interest income		475	682	742	26
Equity in earnings of equity method investees, net		151	364	529	18
Gain on disposal of financial instruments, net		-	20	112	4
Foreign exchange gain, net		-	81	34	1
Dividend income		26	34	21	1
Gain on disposal of property, plant and equipment, net		-	298	-	-
Others		380	402	419	14
Total non-operating income and gains		1,032	1,881	1,857	64
NON-OPERATING EXPENSES AND LOSSES	7, 14, 16				
Impairment loss on assets		125	148	1,768	61
Interest expense		107	31	22	1
Loss on disposal of property, plant and equipment, net		216	-	2	-
Valuation loss on financial instruments, net		11	37	1	-
Loss on disposal of financial instruments, net		157	-	-	-
Foreign exchange loss, net		17	-	-	-
Loss arising from natural calamities		19	1	7	-
Others		60	50	74	3
Total non-operating expenses and losses		712	267	1,874	65
INCOME BEFORE INCOME TAX		57,687	56,699	48,896	1,683
INCOME TAX EXPENSE	2, 25	9,129	8,604	7,858	270
CONSOLIDATED NET INCOME		$ 48,558	$ 48,095	$ 41,038	$ 1,413
ATTRIBUTABLE TO:					
Stockholders of the parent		$ 47,609	$ 47,068	$ 39,904	$ 1,374
Minority interests		949	1,027	1,134	39
		$ 48,558	$ 48,095	$ 41,038	$ 1,413

(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			
		2010	2011	2012	
	Notes	NT$	NT$	NT$	US$ (Note 3)
BASIC EARNINGS PER SHARE	26				
Before income tax		$ 5.82	$ 7.11	$ 6.11	$ 0.21
After income tax		$ 4.91	$ 6.04	$ 5.14	$ 0.18
DILUTED EARNINGS PER SHARE	26				
Before income tax		$ 5.80	$ 7.09	$ 6.09	$ 0.21
After income tax		$ 4.89	$ 6.03	$ 5.13	$ 0.18
BASIC EARNINGS PER EQUIVALENT ADS					
Before income tax		$ 58.20	$ 71.10	$ 61.07	$ 2.10
After income tax		$ 49.10	$ 60.43	$ 51.44	$ 1.77
DILUTED EARNINGS PER EQUIVALENT ADS					
Before income tax		$ 58.02	$ 70.89	$ 60.91	$ 2.10
After income tax		$ 48.95	$ 60.25	$ 51.30	$ 1.77
BASIC WEIGHTED AVERAGE SHARES OUTSTANDING (THOUSANDS)	26	9,696,808	7,789,326	7,757,447	
DILUTED WEIGHTED AVERAGE SHARES OUTSTANDING (THOUSANDS)	26	9,725,461	7,810,605	7,777,238	

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

CHUNGHWA TELECOM CO., LTD. AND SUBSIDIARIES

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

	Equity Attributable to Stockholders of the Parent											
	Capital Stock (NT$10 Par Value) Common Stock			Retained Earnings								
	Shares (Thousands)	Amount NT$	Additional Paid-in Capital NT$	Legal Reserve NT$	Special Reserve NT$	Unappropriated Earnings NT$	Cumulative Translation Adjustments NT$	Unrecognized Net Loss of Pension NT$	Unrealized Gain (Loss) on Financial Instruments NT$	Unrealized Revaluation Increment NT$	Minority Interests NT$	Total Stockholders' Equity NT$
BALANCE, JANUARY 1, 2010	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 22)	(1,939,361)	(19,394)	-	-	-	-	-	-	-	-	-	(19,394)
Consolidated net income in 2010	-	-	-	-	-	47,609	-	-	-	-	949	48,558
Equity adjustments in investees	-	-	5	-	-	-	-	-	-	-	-	5
Cumulative translation adjustment for foreign-currency investments held by investees	-	-	-	-	-	-	(110)	-	-	-	(9)	(119)
Defined benefit pension plan adjustments of investees	-	-	-	-	-	-	-	4	-	-	1	5
Unrealized gain on financial instruments	-	-	-	-	-	-	-	-	623	-	26	649
BALANCE, DECEMBER 31, 2010	7,757,447	77,574	169,515	61,361	2,676	47,616	(102)	(40)	176	5,803	4,024	368,603
Transfer of unrealized revaluation increment to income upon disposal of revalued assets	-	-	-	-	-	-	-	-	-	(40)	-	(40)
Appropriation of 2010 earnings												
Legal reserve	-	-	-	4,761	-	(4,761)	-	-	-	-	-	-
Cash dividend - NT$5.52 per share	-	-	-	-	-	(42,855)	-	-	-	-	-	(42,855)
Decrease in minority interests	-	-	-	-	-	-	-	-	-	-	(727)	(727)
Consolidated net income in 2011	-	-	-	-	-	47,068	-	-	-	-	1,027	48,095
Equity adjustments in investees	-	-	21	-	-	-	-	-	-	-	-	21
Cumulative translation adjustment for foreign-currency investments held by investees	-	-	-	-	-	-	64	-	-	-	19	83
Defined benefit pension plan adjustments of investees	-	-	-	-	-	-	-	2	-	-	-	2
Unrealized loss on financial instruments	-	-	-	-	-	-	-	-	(108)	-	(31)	(139)
BALANCE, DECEMBER 31, 2011	7,757,447	77,574	169,536	66,122	2,676	47,068	(38)	(38)	68	5,763	4,312	373,043
Transfer of unrealized revaluation increment to income upon disposal of revalued assets	-	-	-	-	-	-	-	-	-	-	-	-
Decrease in unrealized revaluation increment on property, plant and equipment due to property impairment	-	-	-	-	-	-	-	-	-	(3)	-	(3)
Appropriation of 2011 earnings												
Legal reserve	-	-	-	4,707	-	(4,707)	-	-	-	-	-	-
Cash dividend - NT$5.46 per share	-	-	-	-	-	(42,362)	-	-	-	-	-	(42,362)
Decrease in minority interests	-	-	-	-	-	-	-	-	-	-	(945)	(945)
Consolidated net income in 2012	-	-	-	-	-	39,904	-	-	-	-	1,134	41,038
Equity adjustments in investees	-	-	8	-	-	-	-	-	-	-	-	8
Cumulative translation adjustment for foreign-currency investments held by investees	-	-	-	-	-	-	(57)	-	-	-	(10)	(67)
Defined benefit pension plan adjustments of investees	-	-	-	-	-	-	-	(21)	-	-	(25)	(46)
Defined benefit pension plan adjustments	-	-	-	-	-	-	-	(948)	-	-	-	(948)
Unrealized gain on financial instruments	-	-	-	-	-	-	-	-	190	-	2	192
BALANCE, DECEMBER 31, 2012	7,757,447	$ 77,574	$ 169,544	$ 70,829	$ 2,676	$ 39,903	$ (95)	$ (1,007)	$ 258	$ 5,760	$ 4,468	$ 369,910
BALANCE, DECEMBER 31, 2012 (IN MILLIONS OF US$ - Note 3)		$ 2,670	$ 5,836	$ 2,438	$ 92	$ 1,374	$ (2)	$ (35)	$ 9	$ 198	$ 154	$ 12,734

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

CHUNGHWA TELECOM CO., LTD. AND SUBSIDIARIES

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

	Year Ended December 31			
	2010	2011	2012	
	NT$	NT$	NT$	US$ (Note 3)
CASH FLOWS FROM OPERATING ACTIVITIES				
Consolidated net income	$ 48,558	$ 48,095	$ 41,038	$ 1,413
Adjustments to reconcile net income to net cash provided by operating activities:				
Provision for (reversal of) doubtful accounts	230	113	(1,451)	(50)
Depreciation and amortization	34,064	32,306	32,525	1,120
Amortization of premium or discount of financial assets	38	61	65	2
Loss (gain) on disposal of financial instruments, net	157	(20)	(112)	(4)
Valuation loss on financial instruments, net	11	37	1	-
Loss (gain) on disposal of property, plant and equipment, net	216	(298)	2	-
Equity in earnings of equity method investees, net	(151)	(364)	(529)	(18)
Dividends received from equity investees	36	158	763	26
Loss arising from natural calamities	19	1	7	-
Impairment loss on assets	125	148	1,768	61
Compensation cost of employee stock option	-	-	3	-
Deferred income taxes	27	56	(126)	(4)
Changes in operating assets and liabilities:				
Decrease (increase) in:				
Financial assets held for trading	32	(53)	74	3
Trade notes and accounts receivable	(2,749)	(8,313)	(483)	(17)
Receivables from related parties	(36)	144	345	12
Other monetary assets	(288)	58	(130)	(5)
Inventories	(475)	(665)	(1,945)	(67)
Other current assets	(858)	(1,046)	(2,707)	(92)
Increase (decrease) in:				
Trade notes and accounts payable	2,237	2,377	14	-
Payables to related parties	(260)	650	(338)	(12)
Income tax payable	257	(1,028)	(218)	(8)
Accrued expenses	954	196	(627)	(22)
Other current liabilities	2,447	2,609	(596)	(19)
Deferred income	105	(14)	89	3
Accrued pension liabilities	73	151	130	4
Net cash provided by operating activities	84,769	75,359	67,562	2,326
CASH FLOWS FROM INVESTING ACTIVITIES				
Acquisition of designated financial assets at fair value through profit or loss	(34)	(113)	(30)	(1)
Proceeds from disposal of financial assets at fair value through profit or loss	21	147	57	2
Acquisition of available-for-sale financial assets	(3,342)	(4,325)	(4,452)	(153)
Proceeds from disposal of available-for-sale financial assets	19,195	3,945	1,793	62
Acquisition of held-to-maturity financial assets	(6,917)	(6,544)	(3,865)	(133)
Proceeds from disposal of held-to-maturity financial assets	1,538	2,159	2,451	84
Acquisition of financial assets carried at cost	(318)	(236)	(50)	(2)
Proceeds from disposal of financial assets carried at cost	59	66	31	1
Capital reduction of financial assets carried at cost	-	7	35	1
Liquidating dividend	-	6	2	-
Capital reduction of equity investees	-	7	65	2
Prepaid long-term investment	(66)	(84)	-	-
Acquisition of investments accounted for using equity method	(35)	(365)	(26)	(1)
Acquisition of property, plant and equipment	(24,617)	(26,876)	(33,280)	(1,146)
Proceeds from disposal of property, plant and equipment	82	656	33	1
Acquisition of intangible assets	(278)	(556)	(592)	(20)

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CHUNGHWA TELECOM CO., LTD. AND SUBSIDIARIES

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

	Year Ended December 31			
	2010	2011	2012	
	NT$	NT$	NT$	US$ (Note 3)
Decrease (increase) in restricted assets	$ 31	$ 12	$ (9)	$ -
Increase in other assets	(2,682)	(1,010)	(1,036)	(35)
Net cash used in investing activities	(17,363)	(33,104)	(38,873)	(1,338)
CASH FLOWS FROM FINANCING ACTIVITIES				
Increase (decrease) in short-term loans	(648)	(40)	36	1
Increase (decrease) in short-term note payable	230	(230)	-	-
Increase in long-term loans	3,238	-	400	14
Repayment of long-term loans	(119)	(1,697)	(102)	(4)
Increase (decrease) in customers' deposits	(81)	(895)	63	2
Increase in other liabilities	61	48	86	3
Cash dividends paid	(39,369)	(42,855)	(42,362)	(1,458)
Capital reduction	(9,697)	(19,394)	-	-
Proceeds from exercise of employee stock options granted by subsidiary	97	94	44	2
Decrease in minority interest	(675)	(769)	(1,005)	(35)
Net cash used in financing activities	(46,963)	(65,738)	(42,840)	(1,475)
EFFECT OF EXCHANGE RATE CHANGES	(63)	111	(37)	(1)
EFFECT OF CHANGE ON CONSOLIDATED SUBSIDIARIES	(2,764)	(113)	-	-
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	17,616	(23,485)	(14,188)	(488)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	73,259	90,875	67,390	2,320
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 90,875	$ 67,390	$ 53,202	$ 1,832
SUPPLEMENTAL INFORMATION				
Interest paid (excluding capitalized interest expense)	$ 98	$ 41	$ 29	$ 1
Income tax paid	$ 8,841	$ 9,574	$ 8,213	$ 283
NON-CASH FINANCING ACTIVITIES				
Current portion of long-term loans	$ 309	$ 702	$ 8	$ -
Reclassification from common capital stock to due to stockholders for capital reduction	$ 19,394	$ -	$ -	$ -
CASH AND NON-CASH INVESTING ACTIVITIES				
Increase in property, plant and equipment	$ 23,250	$ 28,257	$ 33,721	$ 1,161
Decrease (increase) in payables to suppliers	1,356	(1,354)	(441)	(15)
Prepayments for equipment	11	(27)	-	-
	$ 24,617	$ 26,876	$ 33,280	$ 1,146

(Continued)

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

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

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

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

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

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

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

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

1. GENERAL

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

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

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

Senao International Co., Ltd. ("SENAO") was incorporated in 1979. SENAO has been listed on the Taiwan Stock Exchange under the number "2450" since May 2001. SENAO engages mainly in selling and maintaining mobile phones and its peripheral products. Chunghwa acquired 31.33% shares of SENAO on January 15, 2007 and has substantial control in SENAO by obtaining half of the seats of the board of directors of SENAO on April 12, 2007. At general annual stockholder meeting of SENAO in June 2010, the Company continued to maintain control of a majority of the board of directors through the continued support of other shareholder. The Company's equity ownership of SENAO decreased from 31.33% as of January 15, 2007 to 28.30% as of December 31, 2012 due to the exercise of options by employees that were previously granted before 2007.

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

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

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

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

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

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

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

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% 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 data center (“IDC”) services.

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

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

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

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

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

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

Ceylon Innovation Co., Ltd. (“CEI”) was established by SHE in April 2011. CEI engages mainly in international trade, general advertisement and book publishing service.

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

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

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

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

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

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

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

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 established New Prospect Investments Holdings Ltd. (“New Prospect”) in March 2006. The holding company is operating as investment company and Chunghwa has 100% ownership interest in an amount of US$1 in the holding company as of December 31, 2012.

Chunghwa established Prime Asia Investments Group Ltd. (“Prime Asia“) in March 2006. This holding company is operating as an investment company.

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

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

Jiangsu Zhenhua Information Technology Company, LLC. ("JZIT") was established by CHC and Zhenjiang New Area Hi-Tech Industrial Investment Co., Ltd. in January 2012. JZIT engages mainly in intelligent energy networks (iEN) and incorporating iEN into buildings.

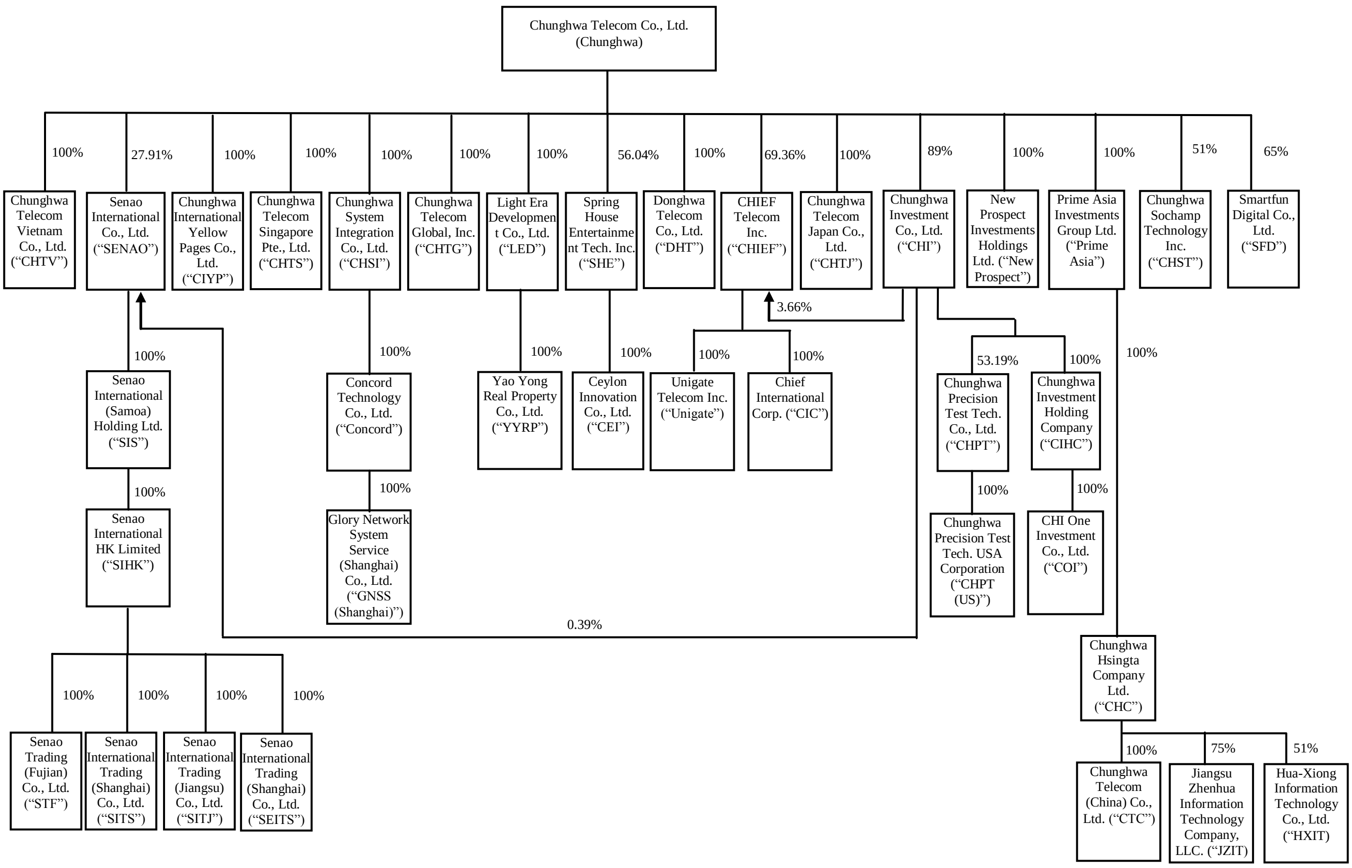
Hua-Xiong Information Technology Co., Ltd. ("HXIT") was established by CHC and Farglory Land Development Co., Ltd. in November 2012. HXIT engages mainly in providing intelligent system and energy saving system services in buildings.

Chunghwa established Chunghwa Telecom Vietnam Co., Ltd. ("CHTV") in May 2011. CHTV engages mainly in providing information and communications technology, and intelligent energy network service.

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

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

The following diagram presents information regarding the relationship and ownership percentages between Chunghwa and its subsidiaries as of December 31, 2012:



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, 2011 and 2012, the Company had 28,772 and 30,432 employees, respectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Principle of Consolidation

The Company accounts for business combinations in accordance with the requirements of the Statement of Financial Accounting Standards No. 25, “Business Combinations”.

The accompanying consolidated financial statements include the accounts of all directly and indirectly majority owned subsidiaries of the Company, 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 intercompany transactions and balances are eliminated upon consolidation.

The consolidated financial statements for the year ended December 31, 2010 include the accounts of Chunghwa, SENAO, SIS, SIHK, CIYP, CHIEF, Unigate, CHIEF (HK), CIC, CHSI, Concord, GNSS (Shanghai), CHTG, DHT, SHE, LED, YYRP, CHTS, CHTJ, IFE, IESA, IEHK, CHI, CHPT, CHPT (US), CIHC, COI, New Prospect, Prime Asia and CHC. The consolidated financial statements for the year ended December 31, 2011 include the accounts of Chunghwa, SENAO, SIS, SIHK, STF, SITS, SITJ, SEITS, CIYP, CHIEF, Unigate, CIC, CHSI, Concord, GNSS (Shanghai), CHTG, DHT, SHE, CEI, LED, YYRP, CHTS, CHTJ, IISI, IESA, IEHK, CHI, CHPT, CHPT (US), CIHC, COI, New Prospect, Prime Asia, CHC, CTC, CHTV, CHST, and SFD. The accounts of IISI, IESA and IEHK were deconsolidated on June 24, 2011 (see Note 1). The consolidated financial statements for the year ended December 31, 2012 include the accounts of Chunghwa, SENAO, SIS, SIHK, STF, SITS, SITJ, SEITS, CIYP, CHIEF, Unigate, CIC, CHSI, Concord, GNSS (Shanghai), CHTG, DHT, SHE, CEI, LED, YYRP, CHTS, CHTJ, CHI, CHPT, CHPT (US), CIHC, COI, New Prospect, Prime Asia, CHC, CTC, JZIT, HXIT, CHTV, CHST, and SFD.

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

Business Combination

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

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

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

Foreign-currency Transactions

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

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

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

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

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

Accounting Estimates

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

Current and Noncurrent Assets and Liabilities

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

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

Cash Equivalents

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

Financial Assets and Liabilities at Fair Value Through Profit or Loss

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

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

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

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

Available-for-sale Financial Assets

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

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

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

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

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

Held-to-maturity Financial Assets

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

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

Financial Assets Carried at Cost

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

Impairment of Accounts Receivable

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

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

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

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

Inventories

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

Buildings and Lands Consigned to Constructing Firm

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

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

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

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

Investments Accounted for Using Equity Method

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

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

The cost of an investment shall be analyzed and the cost of investment in excess of the fair value of identifiable net assets acquired, representing goodwill, shall not be amortized. If the fair value of identifiable net assets acquired exceeds the cost of investment, the excess shall be proportionately allocated as reductions to fair values of non-current assets (except for financial assets other than investments accounted for using the equity method and deferred income tax assets). When an indication of impairment is identified, the carrying amount of the investment is reduced, with the related impairment loss recognized in earnings.

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

Property, Plant and Equipment

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

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

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

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

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

Intangible Assets

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

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

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

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

Idle Assets

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

Pension Costs

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

Income Tax

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

Any tax credits arising from 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 at 10% on undistributed earnings is recorded in the year of stockholders approval which is the year subsequent to the year the earnings are generated.

Share-based Compensation

Employee stock options granted on or after January 1, 2008 are accounted for using fair value method in accordance with SFAS No. 39, "Accounting for Share-based Payment". Financial Supervisory Commission ("FSC") provided the two-year transition provision for unlisted companies to allow them to account for the options granted between January 1, 2008 to December 31, 2009 using intrinsic value method, under which compensation cost was amortized over the vesting period. 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 in accordance with the interpretations issued by the ARDF.

Revenue Recognition

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

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

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

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

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

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

Expense Recognition

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

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 2009 and 2010 and the declaration of the stock dividends.

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

3. U.S. DOLLAR AMOUNTS

The Company maintains its accounts and expresses its consolidated financial statements in New Taiwan dollars. For readers' convenience only, U.S. dollar amounts presented in the accompanying consolidated financial statements have been translated from New Taiwan dollars as set forth in the statistical release of the Federal Reserve Board as of December 31, 2012, which was NT$29.05 to US$1.00. The convenience translations should not be construed as representations that the New Taiwan dollar amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

4. EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES

The Company adopted the newly-revised Statements of Financial Accounting Standards No. 34, "Financial Instruments," ("SFAS No. 34") beginning from January 1, 2011. When an enterprise adopts the revised provisions, the initial recognition of loans and receivables shall be accounted for under SFAS No. 34.

5. CASH AND CASH EQUIVALENTS

	December 31	
	2011	2012
	NT$	NT$
	(In Millions)	
Cash		
Cash on hand	$ 239	$ 447
Bank deposits	6,258	7,248
Negotiable certificate of deposit, annual yield rate - ranging from 0.80%-1.05% and 0.83%-0.96% for 2011 and 2012, respectively	41,627	26,550
	48,124	34,245
Cash equivalents		
Commercial paper, annual yield rate - ranging from 0.70%-0.80% and 0.71%-0.74% for 2011 and 2012, respectively	18,966	18,957
Treasury bills, annual yield rate - 0.70%	300	-
	19,266	18,957
	$ 67,390	$ 53,202

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

	December 31	
	2011	2012
	NT$	NT$
	(In Millions)	
Derivatives - financial assets		
Currency swap contracts	$ 6	$ 3
Forward exchange contracts	-	-
	6	3
Designated financial assets at fair value through profit or loss		
Convertible bonds	40	-
	$ 46	$ 3
Derivatives - financial liabilities		
Currency swap contracts	$ 4	$ 2
Forward exchange contracts	-	-
Index future contracts	-	-
	$ 4	$ 2

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

Outstanding currency swap contracts and forward exchange contracts as of December 31, 2011 and 2012:

	Currency	Maturity Period	Contract Amount (In Millions)
December 31, 2011			
Currency swap contracts	US$/NT$	2012.01-2012.03	US$43/NT$1,307
Currency swap contracts	US$/NT$	2012.01-2012.02	US$19/NT$571
Forward exchange contracts - buy	NT$/US$	2012.01	NT$60/US$2
December 31, 2012			
Currency swap contracts	US$/NT$	2013.01-2013.03	US$34/NT$991
Currency swap contracts	US$/NT$	2013.01-2013.03	US$32/NT$929
Forward exchange contracts - buy	NT$/US$	2013.01	NT$154/US$5

The Company did not have any outstanding index future contracts on December 31, 2012.

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

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

As of December 31, 2011, the deposits paid for outstanding index future contracts were NT$5 million (classified as other current assets).

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

Net gains (loss) arising from financial assets and liabilities at fair value through profit or loss for the years ended December 31, 2011 and 2012 were NT$(72) million (including realized settlement loss of NT$35 million and valuation loss of NT$37 million), and NT$58 million (including realized settlement gain of NT$59 million and valuation loss of NT$1 million), respectively.

7. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	December 31	
	2011	2012
	NT$	NT$
	(In Millions)	
Domestic listed stocks	$ 343	$ 3,196
Open-end mutual funds	2,137	2,190
Corporate bonds	77	50
Foreign listed stocks	-	10
	2,557	5,446
Less: Current portion	2,499	2,250
	$ 58	$ 3,196

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

After evaluating the available-for-sale financial assets, CHI determined that some investments were impaired and recognized an impairment loss of NT$27 million for the year ended December 31, 2012.

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

	Year Ended December 31		
	2010	2011	2012
	NT$	NT$	NT$
		(In Millions)	
Balance, beginning of year	$ (447)	$ 176	$ 68
Recognized in stockholders' equity	204	(55)	240
Transferred to profit or loss	419	(53)	(50)
Balance, end of year	$ 176	$ 68	$ 258

8. HELD-TO-MATURITY FINANCIAL ASSETS

	December 31	
	2011	2012
	NT$	NT$
	(In Millions)	
Corporate bonds, nominal interest rate ranging from 1.20%-2.98% and 1.15%-2.90% for 2011 and 2012, respectively; effective interest rate ranging from 0.83%-2.89% and 1.00%-2.89%, respectively	$ 13,790	$ 14,791
Bank debentures, nominal interest rate ranging from 1.37%-1.60% and 1.25%-1.60% for 2011 and 2012, respectively; effective interest rate ranging from 1.25%-1.40% and 1.15%-1.40%, respectively	906	1,255
	14,696	16,046
Less: Current portion	1,201	4,250
	$ 13,495	$ 11,796

9. ALLOWANCE FOR DOUBTFUL ACCOUNTS

	Year Ended December 31		
	2010	2011	2012
	NT$	NT$ (In Millions)	NT$
Balance, beginning of year	$ 2,799	$ 2,551	$ 2,423
Provision for (reversal of) doubtful accounts	215	105	(1,473)
Accounts receivable written off	(463)	(235)	(139)
Impact on changes of consolidated subsidiaries	-	2	-
Balance, end of year	$ 2,551	$ 2,423	$ 811

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

10. OTHER MONETARY ASSETS - CURRENT

	December 31	
	2011	2012
	NT$ (In Millions)	NT$
Accrued custodial receipts from other carriers	$ 105	$ 188
Accrued custodial receipts of Multimedia on Demand (MOD) service	119	182
Other receivables	1,844	1,815
	$ 2,068	$ 2,185

11. INVENTORIES

	December 31	
	2011	2012
	NT$ (In Millions)	NT$
Merchandise	$ 2,999	$ 4,243
Work in process	782	813
Raw materials	25	36
	3,806	5,092
Land held for sale	579	15
Land and building held for sale	-	55
Land held under development	111	-
Construction in progress	682	-
Land held for development	36	2,034
	$ 5,214	$ 7,196

The operating costs related to inventories were NT$27,046 million (including valuation loss on inventories of NT$17 million), NT$32,826 million (including the valuation loss on inventories of NT$187 million) and NT$43,815 million (including the valuation loss on inventories of NT$113 million) for the years ended December 31, 2010, 2011 and 2012, respectively.

Land held for sale on December 31, 2011 was for Wan-Xi and Covent projects. There was no land and building held for sale on December 31, 2011. Land held for sale on December 31, 2012 was for Li-Shui (A) and Wan-Xi projects. Land and building held for sale on December 31, 2012 was for Guang-Diang project.

Land held under development and construction in progress on December 31, 2011 was for Guang-Diang and Li-Shui (A) projects. Li-Shui (A) project was completed in April 2012, and reclassified to land held for sale. Covent project was completed in 2011, reclassified to land held for sale, and sold out in October 2012.

Land held for development on December 31, 2011 was for Subsection 2 Gongyuan Sec., Zhongzheng Dist., Taipei City and Yucheng Sec., Nangang Dist., Taipei City. Land held for development on December 31, 2012 was for Subsection 2 Gongyuan Sec., Zhongzheng Dist., Taipei City and Yucheng Sec., Nangang Dist., Taipei City and Qingshan Sec., Dayuan Township, Taoyuan County.

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

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

Guang-Diang project was completed in June 2012, and reclassified to land and building held for sale. Some of the land and buildings were sold in 2012.

12. OTHER CURRENT ASSETS

	December 31	
	2011	2012
	NT$	NT$
	(In Millions)	
Spare parts	$ 2,306	$ 4,046
Prepaid expenses	1,584	1,975
Prepaid rents	994	918
Others	635	418
	$ 5,519	$ 7,357

13. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

	December 31			
	2011		2012	
	Carrying Amount	% of Owner-ship	Carrying Amount	% of Owner-ship
	NT$ (In Millions)		NT$ (In Millions)	
Non-listed				
ST-2 Satellite Ventures Pte., Ltd. ("STS")	$ 462	38	$ 542	38
Senao Networks, Inc. ("SNI")	346	41	413	40
International Integrated System, Inc. (IISI)	257	33	277	33
Viettel-CHT Co., Ltd. ("Viettel-CHT")	255	30	265	30
Huada Digital Corporation ("HDD")	251	50	241	50
Taiwan International Standard Electronics Co., Ltd. ("TISE")	609	40	224	40
Skysoft Co., Ltd. ("SKYSOFT")	113	30	128	30
Kingwaytek Technology Co., Ltd. ("KWT")	75	33	77	33
So-net Entertainment Taiwan Limited ("So-net")	34	30	31	30
HopeTech Technologies Limited ("HopeTech")	21	45	22	45
Dian Zuan Integrating Marketing Co., Ltd. ("DZIM")	110	40	21	33
Xiamen Sertec Business Technology Co., Ltd. ("Sertec")	1	49	9	49
Panda Monium Company Ltd.	-	43	-	43
	2,534		2,250	
Prepayments for long-term investments in stocks				
Jiangsu Zhenhua Information Technology Company, LLC.	29	-	-	-
	$ 2,563		$ 2,250	

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

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

Chunghwa, President Chain Store Corporation and EasyCard Corporation established a joint venture, DZIM, in May 2011. Chunghwa invested NT$115 million cash and held 40% ownership of DZIM in May 2011. Chunghwa participated in the capital increase of DZIM by investing NT$14 million in May 2012 but did not subscribe the shares at its corresponding proportion. Thus, the ownership interest decreased from 40% to 33%. DZIM reduced its capital by NT$193 million in December 2012. Chunghwa received NT$65 million from capital distribution and the ownership interest remains at 33%. DZIM engages mainly in information technology service and general advertisement service.

COI participated in the capital increase of Sertec by investing NT$12 million in February 2012. COI retained 49% ownership of Sertec after the capital increase.

Chunghwa established 100% owned subsidiary of Honghwa Human Resources Co., Ltd. ("HHR") by prepaying NT$180 million in January 2013. HHR engages mainly in providing human resources service.

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

14. FINANCIAL ASSETS CARRIED AT COST

	December 31			
	2011		2012	
	Carrying Amount	% of Owner-ship	Carrying Amount	% of Owner-ship
	NT$ (In Millions)		NT$ (In Millions)	
Non-listed				
Taipei Financial Center Corp. ("TFC")	$ 1,790	12	$ 1,790	12
Industrial Bank of Taiwan II Venture Capital Co., Ltd. ("IBT II")	200	17	180	17
Innovation Works Development Fund, L.P. ("IWDF")	73	4	108	4
Global Mobile Corp. ("GMC")	77	8	77	3
iD Branding Ventures ("iDBV")	90	11	75	11
Tatung Technology Inc.	60	11	74	11
Tons Lightology Inc.	66	4	66	4
Innovation Works Limited ("IW")	31	2	31	2
VisEra Technologies Company Ltd.	30	-	30	-
Alder Optomechanical Corp. ("Alder")	29	1	23	2
UniDisplay Inc. ("Uni Display")	55	3	22	1
Ultra Fine Optical Technology Co., Ltd. ("Ultra Fine")	27	8	18	8
Procrystal Technology Co., Ltd. ("Procrystal")	68	2	16	2
N.T.U. Innovation Incubation	12	9	12	9
Digimax Inc. ("DIG")	15	4	11	3
Mediapro Technology Ltd. ("Mediapro")	-	-	8	-
3 Link Information Service Co.	4	10	4	10

(Continued)

	December 31			
	2011		2012	
	Carrying Amount	% of Owner-ship	Carrying Amount	% of Owner-ship
	NT$ (In Millions)		NT$ (In Millions)	
Aide Energy (“Cayman”) Holding Co., Ltd. (“Aide”)	$ 9	1	$ 2	1
Fashion Guide Co., Ltd. (“Fashion Guide”)	-	-	2	2
CoaTronics Inc. (“CoaTronics”)	12	9	1	6
CQi Energy Infocom Inc. (“CQi”)	6	18	-	18
RPTI Intergroup International Ltd. (“RPTI”)	-	10	-	10
Essence Technology Solution, Inc. (“ETS”)	-	7	-	7
A2peak Power Co., Ltd. (“A2P”)	-	3	-	3
Hiroca Holdings Ltd.	18	-	-	-
SuperAlloy Industrial Co., Ltd.	7	-	-	-
DelSolar Co.	6	-	-	-
OptiVision Technology Inc. (“OptiVision”)	5	1	-	-
Subtron Technology Co.	4	-	-	-
Tatung Fine Chemicals Co., Ltd. (“TFChemicals”)	5	-	-	-
Cando Corporation	5	-	-	-
XinTec Inc.	1	-	-	-
	2,705		2,550	
Prepayments for long-term investments in stocks				
Mediapro Technology Ltd. (“Mediapro”)	45	-	-	-
Fashion Guide Co., Ltd. (“Fashion Guide”)	10	-	-	-
	55		-	
	$ 2,760		$ 2,550	

(Concluded)

The above investments that do not have a quoted market price in an active market and whose fair values cannot be reliably measured are carried at original cost.

After evaluating these financial assets, the Company determined the following investments were impaired and recognized impairment losses for the years ended December 31, 2010, 2011 and 2012:

	Year Ended December 31		
	2010	2011	2012
	NT$	NT$ (In Millions)	NT$
Procrystal	$ -	$ 10	$ 52
Mediapro	-	-	37
Uni Display	-	-	33
CoaTronics	-	-	11
Ultra Fine	-	-	9
Fashion Guide	-	-	8
Alder	-	-	7
Aide	-	21	7

(Continued)

	Year Ended December 31		
	2010	2011	2012
	NT$	NT$ (In Millions)	NT$
CQi	$ -	$ 14	$ 6
DIG	21	-	4
TFChemicals	-	4	2
GMC	-	50	-
RPTI	-	34	-
A2P	16	10	-
OptiVision	-	5	-
ChipSip Technology Co., Ltd. (“ChipSip”)	13	-	-
Crystal Media Inc. (“CMI”)	9	-	-
	$ 59	$ 148	$ 176

(Concluded)

15. OTHER MONETARY ASSETS - NONCURRENT

	December 31	
	2011	2012
	NT$ (In Millions)	NT$
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 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	
	2011	2012
	NT$ (In Millions)	NT$
Cost		
Land	$ 103,814	$ 103,891
Land improvements	1,553	1,580
Buildings	67,692	67,842
Computer equipment	14,951	15,379
Telecommunications equipment	655,287	669,083
Transportation equipment	2,527	3,315
Miscellaneous equipment	6,974	7,343
Total cost	852,798	868,433
Revaluation increment on land	5,762	5,762
	858,560	874,195

(Continued)

	December 31	
	2011	2012
	NT$	NT$
	(In Millions)	
Accumulated depreciation		
Land improvements	$ 1,041	$ 1,093
Buildings	19,755	20,919
Computer equipment	10,946	11,387
Telecommunications equipment	531,124	547,408
Transportation equipment	1,254	1,270
Miscellaneous equipment	5,517	5,643
	569,637	587,720
Accumulated impairment	-	1,508
Construction in progress and advances payments related to acquisition of equipment	13,689	18,683
Property, plant and equipment, net	$ 302,612	$ 303,650

(Concluded)

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 have been 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, 2012, the unrealized revaluation increment was decreased to NT$5,760 million by disposal of revaluation assets.

Chunghwa reclassified 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. The Company did not recognize any property, plant and equipment impairment loss for the year ended December 31, 2011. In 2012, the Company determined that partial land and telecommunication equipment were impaired and recognized an impairment loss of NT$1,505 million. Due to the impairment, the unrealized revaluation increment was decreased by NT$3 million. In 2012, idle asset and other asset - other recognized impairment losses of NT$35 million and NT$20 million, respectively.

Depreciation expense on property, plant and equipment was NT$32,737 million, NT$30,889 million and NT$31,027 million for the years ended December 31, 2010, 2011 and 2012, respectively. Interest expense capitalized for the years ended December 31, 2010, 2011 and 2012 were NT$0.01 million, NT$0.08 million and NT$0.04 million, respectively. The capitalized interest rates were 1.10%, 1.10%-1.25% and 1.22%-1.25%, respectively, for the years ended December 31, 2010, 2011 and 2012.

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	
	2011	2012
	NT$	NT$
	(In Millions)	
Unsecured loans - annual rate - 1.25%-1.53% and 1.25%-2.40% for 2011 and 2012, respectively	$ 75	$ 111

18. ACCRUED EXPENSES

	December 31	
	2011	2012
	NT$	NT$
	(In Millions)	
Accrued salary and compensation	$ 10,506	$ 9,838
Accrued franchise fees	2,246	2,164
Accrued employees’ bonuses and remuneration to directors and supervisors	2,343	1,785
Accrued maintenance fees	898	988
Other accrued expenses	2,578	3,158
	$ 18,571	$ 17,933

19. OTHER CURRENT LIABILITIES

	December 31	
	2011	2012
	NT$	NT$
	(In Millions)	
Advances from subscribers	$ 12,070	$ 11,135
Payables to contractors	1,834	2,380
Payables to equipment suppliers	1,870	1,884
Amounts collected for others	1,201	1,327
Refundable customers’ deposits	1,095	1,219
Others	3,266	3,115
	$ 21,336	$ 21,060

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

	December 31	
	2011	2012
	NT$	NT$
	(In Millions)	
Secured loans - annual rate 1.10%-1.83% and 1.13%-2.10% for 2011 and 2012, respectively	$ 1,651	$ 2,050
Unsecured loans - annual rate 2.01%-2.04% and 2.01% for 2011 and 2012, respectively	109	8
	1,760	2,058
Less: Current portion of long-term loans	702	8
	$ 1,058	$ 2,050

LED obtained a secured loan from Chang Hwa Bank in September 2010. Interest is paid monthly. NT$300 million and NT$1,350 million are due in December 2014 and September 2015, respectively. Such loan bears interest rate of 1.13% at December 31, 2012. LED obtained another secured loan from Chang Hwa Bank in December 2012 at NT$400 million which is due in December 2017. Such loan bears interest rate of 2.1% at December 31, 2012.

CHIEF obtained an unsecured loan at NT$209 million from Bank of Taiwan in January 2009. Interest and principal amount are paid monthly from January 2009 and due in January 2013. Such loan bears interest rate of 2.01% at December 31, 2012.

CHPT obtained a secured loan from the E.SUN Commercial Bank in February 2009. Interest and the principal were paid monthly from March 2009. The outstanding balance was NT$1 million as of December 31, 2011 and all were repaid in February 2012.

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

	Amount
	NT$
	(In Millions)
For the year ending December 31	
2013	$ 8
2014	300
2015	1,350
2016	-
2017	400
Total long-term debt	$ 2,058

21. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

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

	December 31, 2012		
	Within One Year	Over One Year	Total
	NT$	NT$ (In Millions)	NT$
Assets			
Accounts receivable	$ -	$ -	$ -
Inventories	70	2,034	2,104
Deferred expenses (classified as other current assets)	2	-	2
	$ 72	$ 2,034	$ 2,106
Liabilities			
Accrued expenses	$ 43	$ -	$ 43
Payables to contractors (classified as other current liabilities)	32	-	32
	$ 75	$ -	$ 75

22. STOCKHOLDERS' EQUITY

Under Chunghwa's Articles of Incorporation, Chunghwa's authorized capital is NT$120,000,000 thousand, which is divided into 12,000,000 thousand common shares (at $10 par value per share), among which 7,757,447 thousand common shares are issued and outstanding as of December 31, 2012.

For the purpose of privatizing Chunghwa, the MOTC sold 1,109,750 thousand common shares of Chunghwa in an international offering of securities in the form of American Depositary Shares ("ADS") amounting to 110,975 thousand units (one ADS represents ten common shares) on the New York Stock Exchange on July 17, 2003. Afterwards, the MOTC sold 1,350,682 thousand common shares in the form of ADS amounting to 135,068 thousand units on August 10, 2005. Subsequently, the MOTC and Taiwan Mobile Co., Ltd. sold 505,389 thousand and 58,959 thousand common shares of Chunghwa, respectively, in the form of ADS totally amounting to 56,435 thousand units on September 29, 2006. The MOTC and Taiwan Mobile Co., Ltd. have sold 3,024,780 thousand common shares in the form of ADS amounting to 302,478 thousand units. As of December 31, 2012, the outstanding ADSs representing 309,211 thousand common shares, which equaled approximately 30,921 thousand units and represented 3.99% of Chunghwa's total outstanding common shares.

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

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

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

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

For the years ended December 31, 2011 and 2012, the accrual amounts for bonuses to employees and remuneration to directors and supervisors were accrued based on past experiences and the probable amount to be paid in accordance with Chunghwa's Articles of Incorporation and Implementation Guidance for the Employee's Bonus Distribution of Chunghwa Telecom Co., Ltd.

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

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

The appropriations and distributions of the 2010 and 2011 earnings of Chunghwa have been approved by the stockholders on June 24, 2011 and June 22, 2012 as follows:

	Appropriation of Earnings		**Dividends Per Share**	
	For Fiscal Year 2010	**For Fiscal Year 2011**	**For Fiscal Year 2010**	**For Fiscal Year 2011**
	NT$ (In Millions)	**NT$ (In Millions)**	**NT$**	**NT$**
Legal reserve	$ 4,761	$ 4,707		
Cash dividends	42,855	42,362	$ 5.52	$ 5.46

The amounts for bonuses to employees and remuneration to directors and supervisors approved in the stockholders' meeting on June 24, 2011, were NT$2,144 million and NT$45 million, 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 shareholders' meeting on June 22, 2012, were NT$2,040 million and NT$44 million, respectively. There was no difference between the initial accrual amounts and the amounts resolved in shareholders' meeting of the aforementioned bonuses to employees and the remuneration to directors and supervisors.

Up to date, the appropriation and distribution of 2012 earnings of Chunghwa has not been resolved by the board of directors. 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.

23. 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 (NT$)
2003.09.03	2004.03.04	385	17.6 (Original price $23.9)
2004.12.01	2004.12.28	6,500	10.0 (Original price $11.6)
2004.12.01	2005.11.28	1,500	13.5 (Original price $18.3)
2005.09.30	2006.05.05	10,000	12.1 (Original price $16.9)
2007.10.16	2007.10.31	6,181	42.6 (Original price $44.2)
		24,566	

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%, each will vest three and four years after the grant date respectively.

Information about SENAO's outstanding stock options for the years ended December 31, 2011 and 2012 was as follows:

	Stock Options Outstanding			
	2011		2012	
	Number of Options (Thousands)	Weighted Average Exercise Price (NT$)	Number of Options (Thousands)	Weighted Average Exercise Price (NT$)
Options outstanding, beginning of year	5,103	$36.15	2,278	$38.85
Options exercised	(2,780)	33.76	(1,222)	35.73
Options expired	(45)	40.07	(5)	12.1
Options outstanding, end of year	2,278	38.85	1,051	42.6
Options exercisable, end of year	2,278		1,051	

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

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

As of December 31, 2012, 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$)
$42.6	1,051	0.92	$42.6	1,051	$42.6

No compensation cost was recognized under the intrinsic value method for the years ended December 31, 2010, 2011 and 2012. 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 used to calculate the share based compensation of SENAO for the year ended December 31, 2012 would have been as follows:

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

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

The board of SENAO resolved to authorize 10,000 thousand units of stock options on May 2, 2012. Each option is eligible to subscribe for one common share when exercisable. The aforementioned share-based compensation plan (2012 Plan) was effectively approved by FSC on May 28, 2012. Under the terms of the 2012 Plan, 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 on the grant date. The 2012 Plan has 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 dividends, 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, and (ii) except if the exercise price after adjustment exceeds the exercise price before adjustment. The options are valid for six years and based on the graded vesting schedule, 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. Up to date, SENAO has not granted options to employees.

CHPT share-based compensation plan ("CHPT Plan") described as follows:

Effective Date	Grant Date	Stock Options Units	Exercise Price (NT$)
2007.08.15	2008.12.31	1,000	$12.6

CHPT granted 1,000 options to some of its employees in December 2008. Under the terms of CHPT Plan, each option entitles the holder to subscribe for one thousand common shares when exercisable. The options are valid for 5 years and based on the graded vesting schedule, two tranches of 30% of option will vest two and three years after the grant date, respectively, and the rest of 40% will vest four years after the grant date. There is exercise price adjustment formula upon the issuance of new common shares, capitalization of retained earnings and/or capital reserves, stock split, issuance of new shares in connection with mergers, issuance of global depositary receipts as well as distribution of cash dividends, except if the exercise price after adjustment exceeds the exercise price before adjustment.

Information about CHPT's outstanding stock options for the years ended December 31, 2011 and 2012 were as follows:

	Stock Options Outstanding			
	2011		2012	
	Number of Options	Weighted Average Exercise Price (NT$)	Number of Options	Weighted Average Exercise Price (NT$)
Options outstanding, beginning of year	960	$12.2	920	$10.1
Options granted	-	-	-	-
Options exercised	-	-	-	-
Options expired	(40)	12.1	-	-
Options outstanding, end of year	920	12.1	920	10.1
Options exercisable, end of year	552		920	

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

Options Outstanding				Options Exercisable	
Range of Exercise Price (NT$)	Number of Options	Weighted-average Remaining Contractual Life (Years)	Weighted Average Exercise Price (NT$)	Number of Options	Weighted Average Exercise Price (NT$)
$12.1	920	2	$12.1	552	$12.1

As of December 31, 2012, information about CHPT's outstanding and exercisable options was as follows:

Options Outstanding				Options Exercisable	
Range of Exercise Price (NT$)	Number of Options	Weighted-average Remaining Contractual Life (Years)	Weighted Average Exercise Price (NT$)	Number of Options	Weighted Average Exercise Price (NT$)
$10.1	920	1	$10.1	920	$10.1

Compensation cost recognized was NT$3 million under the intrinsic value method for the year ended December 31, 2012. No compensation cost was recognized under the intrinsic value method for the year ended December 31, 2010 and 2011. Had CHPT 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 CHPT used the fair value method to evaluate the options using the Black-Scholes model, the assumptions used to calculate the share based compensation of CHPT for the year ended December 31, 2012 would have been as follows:

	December 31, 2008
Expected dividend yield	-
Risk free interest rate	2.00%
Expected life	3.1 years
Expected volatility	20%
Weighted-average fair value of grants	NT$3.80

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 companies in the same industry and CHPT. Expected life represents the period that CHPT's share-based awards are expected to be outstanding and was determined based on historical experience regarding similar awards, giving consideration to the contractual term of the share-based awards. The dividend yield is zero as there are dividend protection rights in CHPT's option plans with the exception of the options granted in 2008. The expected dividend yield for CHPT's 2008 Plan is based on anticipated future cash dividends yield at the time of grant.

24. COMPENSATION, DEPRECIATION AND AMORTIZATION EXPENSES

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

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

	Year Ended December 31, 2012		
	Operating Costs	Operating Expenses	Total
	NT$	NT$ (In Millions)	NT$
Compensation expense			
Salaries	$ 13,055	$ 11,278	$ 24,333
Insurance	1,240	1,048	2,288
Pension	1,810	1,316	3,126
Other compensation	8,604	6,075	14,679
	$ 24,709	$ 19,717	$ 44,426
Depreciation expense	$ 29,079	$ 1,948	$ 31,027
Amortization expense	$ 1,217	$ 259	$ 1,476

25. INCOME TAX

a. The components of income taxes are as follows:

	Year Ended December 31		
	2010	2011	2012
	NT$	NT$ (In Millions)	NT$
Current	$ 9,102	$ 8,547	$ 7,984
Deferred	27	57	(126)
	$ 9,129	$ 8,604	$ 7,858

b. A reconciliation between income tax expense computed by applying the statutory income tax rate of 17% for 2010, 2011 and 2012 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		
	2010	2011	2012
	NT$	NT$ (In Millions)	NT$
Income tax expense computed at statutory tax rate	$ 9,912	$ 9,991	$ 8,534
Permanent differences	(188)	(773)	(165)
Investment tax credits	(602)	(644)	(401)
10% undistributed earning tax	5	10	9
Prior year adjustment	(2)	52	30
Others	4	(32)	(149)
Income tax expense	$ 9,129	$ 8,604	$ 7,858

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

c. Income tax expense consisted of the following:

	Year Ended December 31		
	2010	2011	2012
	NT$	NT$ (In Millions)	NT$
Income tax payable	$ 9,100	$ 8,467	$ 7,930
Income tax - separated	4	-	-
Income tax - deferred	27	57	(126)
Adjustments of prior years' income tax	(2)	52	30
Foreign income tax	-	28	24
	$ 9,129	$ 8,604	$ 7,858

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	
	2011	2012
	NT$ (In Millions)	NT$
Current		
Deferred income tax assets (liabilities):		
Valuation loss on inventory	$ 62	$ 44
Unrealized accrued expense	26	33
Estimated warranty liabilities	8	26
Unrealized foreign exchange loss (gain), net	(13)	18
Temporary difference from expense and sales allowance	2	12
Loss carryforward	27	4
Investment tax credit	2	3

(Continued)

	December 31	
	2011	2012
	NT$	NT$
	(In Millions)	
Provision for doubtful accounts	$ 178	$ 2
Valuation gain on financial instruments, net	-	-
Others	-	1
	292	143
Valuation allowance	(177)	-
Net deferred income tax assets - current	$ 115	$ 143

(Concluded)

The decrease of valuation allowance as of December 31, 2012 was attributed to the change of provision for doubtful accounts.

	December 31	
	2011	2012
	NT$	NT$
	(In Millions)	
Noncurrent		
Deferred income tax assets (liabilities):		
Accrued pension cost	$ 241	$ 263
Loss carryforward	47	137
Equity in losses of equity method investees, net	41	89
Impairment loss	12	59
Investment tax credit	5	-
Abandonment of equipment not approved by National Tax Administration	-	-
Others	(1)	(1)
	345	547
Valuation allowance	(5)	(109)
Net deferred income tax assets - noncurrent	$ 340	$ 438

The increase of valuation allowance as of December 31, 2012 was attributed to the change of loss carry forward by Unigate, SFD, STF, SITS, SEITS, and SITJ.

As of December 31, 2012, details for investment tax credit of a subsidiary are as follows:

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

e. As of December 31, 2012, loss carryforwards of subsidiaries are as follows:

Regulations	Total Amounts	Unused Amounts	Expiry Year
	NT$	NT$	
	(In Millions)		
Local income tax laws	$ 38	$ 38	2016
Local income tax laws	73	68	2017
Local income tax laws	6	3	2018
Local income tax laws	8	8	2019
Local income tax laws	8	8	2020
Local income tax laws	12	12	2021
Local income tax laws	4	4	2022
	$ 149	$ 141	

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

	December 31	
	2011	2012
	NT$	NT$
	(In Millions)	
Balance of Imputation Credit Account ("ICA")		
Chunghwa	$ 4,899	$ 4,459

The actual and the estimated creditable ratios distribution of Chunghwa's 2011 and 2012 for earnings were 17.63% and 19.05%, respectively. The imputation credit allocated to stockholders is based on its balance as of the date of dividend distribution. The estimated ratio may change when the actual distribution of imputation credit is made.

g. Undistributed earnings information

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

Chunghwa's income tax returns have been examined by tax authorities through 2007. The following subsidiaries income tax returns have been examined by authorities through 2010: SENAO, CHPT, CHSI, SHE, CHIEF, Unigate, CHI, LED and CIYP. The following subsidiaries income tax returns have been examined by authorities through 2011: YYRP and CHST.

26. 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, 2010					
Basic EPS					
Income attributable to stockholders of the parent	$ 56,438	$ 47,609	9,696,808	$ 5.82	$ 4.91
Effect of dilutive potential common stock					
SENAO's stock options	(7)	(7)	-		
Employee bonus	-	-	28,653		
Diluted EPS					
Income attributable to stockholders of the parent (including effect of dilutive potential common stock)	$ 56,431	$ 47,602	9,725,461	$ 5.80	$ 4.89
Year ended December 31, 2011					
Basic EPS					
Income attributable to stockholders of the parent	$ 55,379	$ 47,068	7,789,326	$ 7.11	$ 6.04
Effect of dilutive potential common stock					
SENAO's stock options	(9)	(9)	-		
Employee bonus	-	-	21,279		
Diluted EPS					
Income attributable to stockholders of the parent (including effect of dilutive potential common stock)	$ 55,370	$ 47,059	7,810,605	$ 7.09	$ 6.03
Year ended December 31, 2012					
Basic EPS					
Income attributable to stockholders of the parent	$ 47,375	$ 39,904	7,757,447	$ 6.11	$ 5.14
Effect of dilutive potential common stock					
SENAO's stock options	(4)	(4)	-		
Employee bonus	-	-	19,791		
Diluted EPS					
Income attributable to stockholders of the parent (including effect of dilutive potential common stock)	$ 47,371	$ 39,900	7,777,238	$ 6.09	$ 5.13

According to the Interpretation 97-169 issued by ARDF in May 2008, Chunghwa presumed that the employee 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, 2010, 2011 and 2012. 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, 2010, 2011 and 2012 were also due to the effect of potential common stock of stock options by SENAO.

27. 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. 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$2,982 million (NT$2,752 million subject to defined benefit plan and NT$230 million subject to defined contribution plan), NT$3,057 million (NT$2,810 million subject to defined benefit plan and NT$247 million subject to defined contributed plan) and NT$3,212 million (NT$2,901 million subject to defined benefit plan and NT$311 million subject to defined contributed plan), for the years ended December 31, 2010, 2011 and 2012, 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		
	2010	2011	2012
	NT$	NT$ (In Millions)	NT$
Service cost	$ 2,694	$ 2,760	$ 2,836
Interest cost	242	266	322
Expected return on plan assets	(183)	(215)	(255)
Amortizations	(1)	(1)	(2)
Net periodic benefit pension cost	$ 2,752	$ 2,810	$ 2,901

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		
	2010	2011	2012
	NT$	NT$ (In Millions)	NT$
Change in benefits obligation:			
Projected benefits obligation, beginning of year	$ (12,155)	$ (15,367)	$ (18,689)
Services cost	(2,694)	(2,760)	(2,836)
Interest cost	(242)	(266)	(322)
Actuarial (loss) gain	(768)	(618)	(1,413)
Benefits paid	492	322	1,160
Projected benefits obligation, end of year	$ (15,367)	$ (18,689)	$ (22,100)
Change in plan assets:			
Fair value of plan assets, beginning of year	$ 10,919	$ 13,247	$ 15,751
Actual return on plan assets	141	167	163
Employer contributions	2,611	2,603	2,641
Benefits paid	(424)	(266)	(1,027)
Fair value of plan assets, end of year	$ 13,247	$ 15,751	$ 17,528

The increase of benefit paid as of December 31, 2012 was mainly attributed to Chunghwa approved a Special Retirement Incentive Program in July 2012. The program allowed eligible employees who voluntarily applied to leave Chunghwa starting September 1, 2012 to receive special termination benefits. The cost of providing special termination benefits recognized during the period was NT$1,126 million, and NT$601 million was paid by plan assets.

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:

	December 31	
	2011	2012
	NT$ (In Millions)	NT$
Benefit obligation		
Vested benefit obligation	$ (12,554)	$ (15,850)
Non-vested benefit obligation	(4,354)	(4,207)
Accumulated benefit obligation	(16,908)	(20,057)
Additional benefit obligation	(1,781)	(2,043)
Projected benefit obligation	(18,689)	(22,100)
Fair values of plan assets	15,751	17,528
Funded status	(2,938)	(4,572)
Unrecognized net transition	-	-
Unrecognized prior service cost effect	(45)	(40)
Unrecognized net loss	1,557	3,059
Additional liability	-	(982)
Net amount recognized	$ (1,426)	$ (2,535)

The amounts recognized in the accompanying balance sheets at December 31, 2011 and 2012 are as follows:

	December 31	
	2011	2012
	NT$	NT$
	(In Millions)	
Amounts recognized		
Prepaid pension (included in other assets)	$ 18	$ 4
Accrued pension liability	(1,444)	(2,539)
Net amount recognized	$ (1,426)	$ (2,535)

2) Vested benefit

	December 31	
	2011	2012
	NT$	NT$
	(In Millions)	
Vested benefit	$ 16,197	$ 18,491

3) Actuarial assumptions

	December 31		
	2010	2011	2012
Discount rate used in determining present value	1.75%	1.75%	1.60%
Rate of compensation increase	1.00%	1.00%	1.00%
Expected long-term rate of return on plan assets	1.50%	1.50%	1.60%

d. Contributions and payments for defined benefit plan

	Year Ended December 31	
	2011	2012
	NT$	NT$
	(In Millions)	
Contributions	$ 2,603	$ 2,641
Payments	$ 322	$ 1,160

e. Expected benefit payments

Year	Amount
	NT$
	(In Millions)
2013	$ 744
2014	1,211
2015	1,888
2016	2,750
2017	3,619
2018 and thereafter	19,889

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, 2011 and 2012, 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.

28. TRANSACTIONS WITH RELATED PARTIES

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

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

Company	Relationship
Taiwan International Standard Electronics Co., Ltd. ("TISE")	Equity-method investee
Kingwaytek Technology Co., Ltd. Co., Ltd. ("KWT")	Equity-method investee
Skysoft Co., Ltd. ("SKYSOFT")	Equity-method investee
So-net Entertainment Taiwan Limited ("So-net")	Equity-method investee
Viettel - CHT Co., Ltd. ("Viettel")	Equity-method investee
Huada Digital Corporation ("HDD")	Equity-method investee
Dian Zuan Integrating Marketing Co., Ltd. ("DZIM")	Equity-method investee
Senao Networks, Inc. ("SNI")	Equity-method investee of SENAO
HopeTech Technologies Limited ("HopeTech")	Equity-method investee of SIS
Chunghwa Telecom Foundation ("CTF")	A nonprofit organization of which the funds donated by Chunghwa exceeds one third of its total funds
Senao Technical and Cultural Foundation ("STCF")	A nonprofit organization of which the funds donated by SENAO exceeds one third of its total funds
International Integrated System, Inc. ("IISI")	Equity-method investee, which was a subsidiary of Chunghwa before Chunghwa lost control over IISI on June 24, 2011
ST-2 Satellite Ventures Pte., Ltd. ("STS")	Equity-method investee of CHTS
Sochamp Technology Co., Ltd. ("Sochamp")	Investor with significant influence over CHST
United Daily News Co., Ltd. ("UDN")	Investor with significant influence over SFD
udn Digital Co., Ltd. ("udnD")	Investor with significant influence over SFD
Xiamen Sertec Business Technology Co., Ltd. ("Sertec")	Equity-method investee of COI
Cheng Fong Investment Co., Ltd.	The chairman of the board of directors, who is served as the president of SENAO

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

	December 31	
	2011	2012
	NT$	NT$
	(In Millions)	
1) Receivables		
Trade notes and accounts receivable		
So-net	$ 11	$ 38
HopeTech	18	-
Others	5	6
	$ 34	$ 44
2) Payables		
Trade notes payable, accounts payable, and accrued expenses		
TISE	$ 520	$ 594
IISI	120	113
SKYSOFT	10	33
STS	82	19
HopeTech	12	13
Others	14	16
	758	788
Amounts collected in trust for others		
So-net	20	33
SKYSOFT	10	16
Others	-	-
	30	49
	$ 788	$ 837
3) Customer's deposits		
Others	$ 2	$ 3

	Year Ended December 31		
	2010	2011	2012
	NT$	NT$	NT$
		(In Millions)	
4) Revenues			
So-net	$ 329	$ 289	$ 336
SKYSOFT	38	41	39
HopeTech	25	82	21
IISI	-	19	19
Others	35	6	10
	$ 427	$ 437	$ 425

	Year Ended December 31		
	2010	2011	2012
	NT$	NT$ (In Millions)	NT$
5) Operating costs and expenses			
TISE	$ 684	$ 494	$ 573
STS	-	168	406
IISI	-	105	274
SKYSOFT	25	49	108
HopeTech	3	35	73
CTF	35	50	47
KWT	23	45	36
STCF	10	18	17
Others	22	10	2
	$ 802	$ 974	$ 1,536
6) Non-operating income and gains			
SNI	$ 30	$ 31	$ 31
Others	2	1	1
	$ 32	$ 32	$ 32
7) Acquisition of property, plant and equipment			
TISE	$ 332	$ 1,332	$ 731
SKYSOFT	-	14	14
IISI	-	152	-
Others	-	1	1
	$ 332	$ 1,499	$ 746
8) Acquisition of intangible assets			
udnD	$ -	$ 10	$ -

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), which included a prepayment of NT$3,068 million, and the rest of amount will be paid annually when ST-2 satellite starts its official operation. ST-2 satellite was launched in May 2011, and began its official operation in August 2011. The total rental expense for the year ended December 31, 2012 was NT$406 million, which consisted of a reduction of the prepayment of NT$205 million and an additional accrual of NT$201 million. The prepayment was NT$2,778 million (classified as other current assets NT$205 million, and other assets - others NT$2,573 million) as of December 31, 2012.

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

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

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

	Year Ended December 31		
	2010	2011	2012
	NT$	NT$ (In Millions)	NT$
Salaries	$ 156	$ 157	$ 125
Compensations	58	70	73
Bonus and remunerations	63	84	79
Amortizations			
	$ 277	$ 311	$ 277

29. PLEDGED ASSETS

The following assets are pledged as collaterals for long-term bank loans and contract deposits by the Company.

	December 31	
	2011	2012
	NT$ (In Millions)	NT$
Property, plant and equipment, net	$ 2,736	$ 2,694
Land held for development	-	1,999
Restricted assets	9	10
	$ 2,745	$ 4,703

30. SIGNIFICANT COMMITMENTS AND CONTINGENCIES

As of December 31, 2012, 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$31 million.

b. Acquisition of telecommunications equipment of NT$25,839 million.

c. Contract to print billing, envelopes and marketing gifts of NT$18 million.

d. Unused letters of credit of NT$150 million.

e. The Company also has non-cancellable 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)
2013	$ 2,321
2014	1,821
2015	1,317
2016	924
2017 and thereafter	686

f. 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 terms of Construction Funding Agreement, 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.

31. DISCLOSURES FOR FINANCIAL INSTRUMENTS

a. Fair values of financial instruments were as follows:

	December 31			
	2011		2012	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	NT$	NT$ (In Millions)	NT$	NT$
Assets				
Cash and cash equivalents	$ 67,390	$ 67,390	$ 53,202	$ 53,202
Financial assets at fair value through profit or loss	46	46	3	3
Available-for-sale financial assets - current	2,499	2,499	2,250	2,250
Held-to-maturity financial assets - current	1,201	1,201	4,250	4,250
Trade notes and accounts receivable, net	22,396	22,396	24,355	24,355
Receivables from related parties	34	34	44	44
Other current monetary assets	2,068	2,068	2,185	2,185
Restricted assets - current	57	57	10	10
Financial assets carried at cost	2,760	-	2,550	-
Available-for-sale financial assets - noncurrent	58	58	3,196	3,196
Held-to-maturity financial assets - noncurrent	13,495	13,495	11,796	11,796
Other noncurrent monetary assets	1,000	1,000	1,000	1,000
Refundable deposits	1,760	1,760	2,087	2,087
Restricted assets - noncurrent (included in “other assets - others”)	8	8	-	-

(Continued)

	December 31			
	2011		2012	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	NT$	NT$	NT$	NT$
	(In Millions)			
Liabilities				
Short-term loans	$ 75	$ 75	$ 111	$ 111
Financial liabilities at fair value through profit or loss	4	4	2	2
Trade notes and accounts payable	14,265	14,265	13,513	13,513
Payables to related parties	788	788	837	837
Accrued expenses	18,571	18,571	17,933	17,933
Payables to contractors (included in "other current liabilities")	1,834	1,834	2,380	2,380
Payables to equipment suppliers (included in "other current liabilities")	1,870	1,870	1,884	1,884
Amounts collected in trust for others (included in "other current liabilities")	1,201	1,201	1,327	1,327
Refundable customers' deposits (included in "other current liabilities")	1,095	1,095	1,219	1,219
Current portion of long-term loans	702	702	8	8
Long-term loans	1,058	1,058	2,050	2,050
Customers' deposits	5,014	5,014	4,911	4,911

(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 unlisted 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	
	2011	2012	2011	2012
	NT$	NT$	NT$	NT$
	(In Millions)			
Assets				
Financial assets at fair value through profit or loss	$ 40	$ -	$ 6	$ 3
Available-for-sale financial assets	2,480	5,396	77	50
Liabilities				
Financial liabilities at fair value through profit or loss	-	-	4	2

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, and forward exchange contracts exposed to rate risk.

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

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

2) Credit risk

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

3) Liquidity risk

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

The financial instruments of the Company categorized as open-end mutual funds, beneficiary certificates and domestic listed stocks are publicly-traded, easily converted to cash. Therefore, no material liquidity risk is anticipated. The financial instruments categorized as financial assets carried at cost are investments that do not have a quoted market price in an active market. Therefore, material liquidity risk is anticipated.

4) Cash flow interest rate risk

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

e. Fair value hedge

Chunghwa entered into currency swap contracts to hedge the fluctuation in exchange rates of beneficiary certificates denominated in foreign currency, which is fair value hedge. No transaction met the criteria for hedge accounting for the years ended December 31, 2010, 2011 and 2012.

32. SEGMENT FINANCIAL INFORMATION

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$ (In Millions)	Mobile Communications Business NT$ (In Millions)	Internet Business NT$ (In Millions)	International Fixed Communications Business NT$ (In Millions)	Others NT$ (In Millions)	Adjustment NT$ (In Millions)	Total NT$ (In Millions)
Year ended December 31, 2010							
Revenues from external customers	$ 70,688	$ 89,044	$ 24,483	$ 15,534	$ 2,681	$ -	$ 202,430
Intersegment service revenues	14,662	2,117	1,104	1,720	750	(20,353)	-
Interest income	1	9	2	9	454	-	475
Other income	31	263	24	96	313	(170)	557
	$ 85,382	$ 91,433	$ 25,613	$ 17,359	$ 4,198	$ (20,523)	$ 203,462
Interest expense	$ 75	$ 1	$ 7	$ -	$ 24	$ -	$ 107
Depreciation and amortization	$ 21,948	$ 8,205	$ 2,206	$ 1,383	$ 322	$ -	$ 34,064
Other expense	$ 283	$ 7	$ 14	$ 198	$ 255	$ (170)	$ 587
Segment income before tax	$ 18,048	$ 29,328	$ 9,835	$ 2,652	$ (2,176)	$ -	$ 57,687
Total assets	$ 227,376	$ 63,330	$ 17,663	$ 23,535	$ 122,407	$ -	$ 454,311
Capital expenditures for segment assets	$ 14,260	$ 5,261	$ 1,889	$ 1,787	$ 1,420	$ -	$ 24,617
Year ended December 31, 2011							
Revenues from external customers	$ 79,351	$ 92,998	$ 24,834	$ 15,218	$ 5,092	$ -	$ 217,493
Intersegment service revenues	15,355	6,994	1,917	2,620	725	(27,611)	-
Interest income	4	8	1	3	666	-	682
Other income	465	130	10	41	562	(9)	1,199
	$ 95,175	$ 100,130	$ 26,762	$ 17,882	$ 7,045	$ (27,620)	$ 219,374
Interest expense	$ -	$ -	$ 4	$ -	$ 27	$ -	$ 31
Depreciation and amortization	$ 20,139	$ 8,288	$ 2,278	$ 1,282	$ 319	$ -	$ 32,306
Other expense	$ 15	$ 7	$ 6	$ 3	$ 197	$ (9)	$ 219
Segment income before tax	$ 18,482	$ 27,839	$ 9,562	$ 2,041	$ (1,225)	$ -	$ 56,699
Total assets	$ 227,822	$ 64,742	$ 20,323	$ 24,770	$ 105,263	$ -	$ 442,920
Capital expenditures for segment assets	$ 16,569	$ 4,334	$ 3,746	$ 1,529	$ 698	$ -	$ 26,876
Year ended December 31, 2012							
Revenues from external customers	$ 75,550	$ 100,794	$ 24,757	$ 15,319	$ 3,711	$ -	$ 220,131
Intersegment service revenues	16,991	6,581	2,877	2,231	1,035	(29,715)	-
Interest income	6	12	2	4	718	-	742
Other income	165	279	13	69	819	(230)	1,115
	$ 92,712	$ 107,666	$ 27,649	$ 17,623	$ 6,283	$ (29,945)	$ 221,988
Interest expense	$ -	$ -	$ 2	$ -	$ 20	$ -	$ 22
Depreciation and amortization	$ 19,395	$ 8,666	$ 2,692	$ 1,437	$ 335	$	$ 32,525
Other expense	$ 1,309	$ 368	$ 7	$ 313	$ 63	$ (230)	$ 1,830
Segment income before tax	$ 15,023	$ 25,830	$ 8,582	$ 1,316	$ (1,855)	$ -	$ 48,896
Total assets	$ 229,246	$ 67,003	$ 23,961	$ 24,413	$ 94,824	$ -	$ 439,447
Capital expenditures for segment assets	$ 19,551	$ 7,232	$ 3,441	$ 2,379	$ 677	$ -	$ 33,280

b. Products and service revenues from external customer information

	Year Ended December 31		
	2010	2011	2012
	NT$	NT$ (In Millions)	NT$
Mobile services revenue	$ 72,955	$ 70,773	$ 72,356
Local telephone services revenue	33,243	42,951	41,819
Sales of products	15,989	22,066	28,420
Leased line services revenue	27,412	27,068	25,856
Internet services revenue	22,016	21,949	21,341
International long distance telephone services revenue	12,863	12,422	12,068
Domestic long distance telephone services revenue	6,650	5,793	3,770
Others	11,302	14,471	14,501
	$ 202,430	$ 217,493	$ 220,131

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		
	2010	2011	2012
	NT$	NT$ (In Millions)	NT$
Taiwan, ROC	$ 196,830	$ 211,826	$ 212,547
Overseas	5,600	5,667	7,584
	$ 202,430	$ 217,493	$ 220,131

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

The Company has long-lived assets in U.S., Singapore, Hong Kong, China, Vietnam, and Japan amounting to NT$736 million and NT$1,415 million at December 31, 2011 and 2012, respectively.

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

d. Major customers

For the years ended December 31, 2010, 2011 and 2012, the Company did not have any single customer whose net revenue exceeded 10% of the total net revenues.

33. OTHERS

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

	December 31					
	2011			2012		
	Foreign Currencies (In Millions)	Exchange Rate	New Taiwan Dollars (In Millions)	Foreign Currencies (In Millions)	Exchange Rate	New Taiwan Dollars (In Millions)
Financial assets						
Monetary items						
Cash						
US Dollar	$ 8	30.28	$ 254	$ 13	29.04	$ 389
HK Dollar	122	3.90	475	64	3.75	239
JP Yen	78	0.39	31	107	0.34	36
SG Dollar	35	23.31	826	5	23.76	126
Accounts receivable						
US Dollar	154	30.28	4,670	136	29.04	3,957
HK Dollar	1	3.90	2	26	3.75	99
RMB	1	4.81	5	14	4.66	66
JP Yen	36	0.39	14	35	0.34	12
Available-for-sale financial assets						
US Dollar	68	30.28	2,066	76	29.04	2,193

(Continued)

	December 31					
	2011			2012		
	Foreign Currencies (In Millions)	Exchange Rate	New Taiwan Dollars (In Millions)	Foreign Currencies (In Millions)	Exchange Rate	New Taiwan Dollars (In Millions)
Investments accounted for using equity method						
US Dollar	$ 1	30.28	$ 22	$ 1	29.04	$ 30
VND Dollar	183,540	0.00139	255	196,335	0.00135	265
SG Dollar	20	23.31	462	23	23.76	542
Financial liabilities						
Monetary items						
Accounts payable						
US Dollar	116	30.28	3,505	124	29.04	3,608
Euro Dollar	28	39.18	1,098	34	38.49	1,311
HK Dollar	1	3.90	3	22	3.75	84
SG Dollar	4	23.31	83	1	23.76	21
RMB	16	4.81	75	12	4.66	58
JP Yen	13	0.39	5	39	0.34	13

(Concluded)

34. 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 value of land announced by the government. This revaluation is recorded as an "unrealized revaluation increment" under equity at the time of revaluation and is subsequently depreciated. Upon sale or disposal of property, plant and equipment, the cost and any related unrealized 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. An impairment loss on a revalued asset is charged to "unrealized revaluation increment" to the extent available with the balance recognized as a loss in earnings. If the recoverable amount increases in the subsequent period, the amount previously recognized as an impairment loss could be reversed and recognized as a gain, with the remaining credited to "unrealized revaluation increment". This revaluation adjustment also created differences in the opening balances of additional paid-in capital upon incorporation of the Company on July 1, 1996.

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

b. 10% tax on unappropriated earnings

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

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

c. Deferred income from prepaid phone cards

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

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

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

d. One-time connection fees income

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

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

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

e. Share-based compensation

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

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

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

2) The Company's subsidiaries, SENAO and CHPT granted options to employees.

Under ROC GAAP, employee stock options granted on or after January 1, 2008 are accounted for using fair value method in accordance with SFAS No. 39, "Accounting for Share-based Payment". Financial Supervisory Commission ("FSC") provided the two-year transition provision for unlisted companies to allow them to account for the options granted between January 1, 2008 to December 31, 2009 using intrinsic value method, under which compensation cost was amortized over the vesting period. 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 in accordance with the interpretations issued by the ARDF.

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

f. Defined benefit pension plan

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

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

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

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

g. Pension plan upon privatization

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

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

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

h. Income tax

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

i. Noncontrolling interests of acquired subsidiaries

The adjustment to net income for the years ended December 31, 2010 and to stockholders' equity as of December 31, 2010, 2011 and 2012 represents a difference between ROC GAAP and US GAAP for the accounting for business combinations.

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

Under ROC GAAP, the Company is not required to present items of other comprehensive income in statements of income. There is no term defined as other comprehensive income, although such other comprehensive income components are presented in the equity section. Under US GAAP, an entity is required to present items of net income and other comprehensive income in one continuous statement or in two separate, but consecutive, statements. The Company currently presented the statement of comprehensive income separately under US GAAP and certain accounts have been reclassified to conform to the US GAAP presentation requirement.

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			
	2010	**2011**	**2012**	
	NT$	**NT$**	**NT$**	**US$ (Note 3)**
	(In Millions)			
Net income				
Consolidated net income under ROC GAAP	$ 48,558	$ 48,095	$ 41,038	$ 1,413

(Continued)

	Year Ended December 31			
	2010	2011	2012	
	NT$	NT$	NT$	US$ (Note 3)
	(In Millions)			
Adjustments:				
a. Property, plant and equipment				
1. Adjustments of gains and losses on disposal of property, plant and equipment	$ 25	$ 725	$ 272	$ 9
2. Adjustments for depreciation expenses	122	112	108	4
3. Adjustments for impairment losses	-	-	6	-
b. 10% tax on unappropriated earnings	(380)	(125)	725	25
c. Revenues recognized from deferred income of prepaid phone cards	258	-	-	-
d. Revenues recognized from deferred one-time connection fees	1,118	861	640	22
e. Share-based compensation	(5)	(2)	-	-
f. Defined benefit pension plan	-	1	-	-
h. Income tax effect of US GAAP adjustments	(462)	(226)	(161)	(6)
i. Noncontrolling interests of acquired subsidiaries	(9)	-	-	-
Other minor GAAP differences not listed above	(34)	(3)	(42)	(1)
Net adjustment	633	1,343	1,548	53
Consolidated net income based on US GAAP	$ 49,191	$ 49,438	$ 42,586	$ 1,466
Attributable to				
Stockholders of the parent	$ 48,274	$ 48,426	$ 41,446	$ 1,427
Noncontrolling interests	917	1,012	1,140	39
	$ 49,191	$ 49,438	$ 42,586	$ 1,466

(Concluded)

	December 31			
	2010	2011	2012	
	NT$	NT$	NT$	US$ (Note 3)
	(In Millions)			
Stockholders' equity				
Total stockholders' equity based on ROC GAAP	$ 368,603	$ 373,043	$ 369,910	$ 12,734
Adjustments:				
a. Property, plant and equipment				
1. Capital surplus reduction	(60,168)	(60,168)	(60,168)	(2,071)
2. Adjustment on depreciation expenses, and disposal gains and losses and impairment losses	4,288	5,125	5,511	190
3. Adjustments of revaluation of land	(5,803)	(5,763)	(5,760)	(198)
b. 10% tax on unappropriated earnings	(4,417)	(4,542)	(3,817)	(132)
c. Deferred income of prepaid phone cards				
1. Capital surplus reduction	(2,798)	(2,798)	(2,798)	(96)

(Continued)

	December 31			
	2010	2011	2012	
	NT$	NT$	NT$	US$ (Note 3)
	(In Millions)			
2. Adjustment on deferred income recognition	$ 2,798	$ 2,798	$ 2,798	$ 96
d. Revenues recognized from deferred one-time connection fees				
1. Capital surplus reduction	(18,487)	(18,487)	(18,487)	(636)
2. Adjustment on deferred income recognition	15,700	16,561	17,201	592
e. Share-based compensation				
1. Adjustment on capital surplus	15,705	15,707	15,707	541
2. Adjustment on retained earnings	(15,705)	(15,707)	(15,707)	(541)
f. 1. Accrual for accumulative other comprehensive income under pension guidance	(608)	(1,114)	(1,250)	(43)
2. Accrual for pension cost	(28)	(27)	(27)	(1)
g. 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)	(333)
h. Income tax effect of US GAAP adjustments	4,776	4,550	4,389	151
i. Noncontrolling interests of acquired subsidiaries	19	(29)	(29)	(1)
Other GAAP differences not listed above	150	146	105	4
Net adjustment	(72,461)	(71,631)	(70,215)	(2,417)
Total equity based on US GAAP	$ 296,142	$ 301,412	$ 299,695	$ 10,317
Attributable to				
Stockholders of the parent	$ 292,232	$ 297,285	$ 295,393	$ 10,169
Noncontrolling interests	3,910	4,127	4,302	148
	$ 296,142	$ 301,412	$ 299,695	$ 10,317

(Concluded)

	Year Ended December 31			
	2010	2011	2012	
	NT$	NT$	NT$	US$ (Note 3)
	(In Millions)			
Changes in equity based on US GAAP				
Balance, beginning of year	$ 306,472	$ 296,142	$ 301,412	$ 10,376
Consolidated net income	49,191	49,438	42,586	1,466
Unrealized gain (loss) on available-for-sale securities	649	(139)	192	7
Cumulative translation adjustment for foreign-currency investments held by investees	(119)	82	(67)	(2)
Increase in equity adjustments in investees	7	22	8	-
Cash dividends	(39,369)	(42,855)	(42,362)	(1,458)

(Continued)

	Year Ended December 31			
	2010	2011	2012	
	NT$	NT$	NT$	US$ (Note 3)
	(In Millions)			
Capital reduction	$ (19,394)	$ -	$ -	$ -
Defined benefit pension plan adjustment	(605)	(509)	(1,129)	(39)
Decrease in noncontrolling interests	(690)	(769)	(945)	(33)
Balance, end of year	$ 296,142	$ 301,412	$ 299,695	$ 10,317
Attributable to				
Stockholders of the parent	$ 292,232	$ 297,285	$ 295,393	$ 10,169
Noncontrolling interests	3,910	4,127	4,302	148
	$ 296,142	$ 301,412	$ 299,695	$ 10,317

(Concluded)

The following US GAAP condensed balance sheets as of December 31, 2011 and 2012 have been derived from the audited consolidated financial statements and reflected the adjustments presented above.

	December 31		
	2011	2012	
	NT$	NT$	US$ (Note 3)
	(In Millions)		
Assets			
Current assets	$ 106,763	$ 101,031	$ 3,478
Long-term investments	18,856	19,764	680
Property, plant and equipment, net	238,954	240,133	8,266
Intangible assets	6,339	5,821	200
Other assets	8,479	9,536	329
Total assets	$ 379,391	$ 376,285	$ 12,953
Liabilities and equities			
Liabilities			
Current liabilities	$ 69,278	$ 65,500	$ 2,255
Long-term liabilities	8,701	11,090	381
Total liabilities	77,979	76,590	2,636
Equity attributable to stockholders of the parent			
Capital stock - NT$10 (US$0.3) par value	77,574	77,574	2,670
Capital surplus	135,734	132,946	4,576
Retained earnings	85,068	86,948	2,993
Accumulated other comprehensive income	(1,091)	(2,075)	(70)
Total equity attributable to stockholders of the parent	297,285	295,393	10,169
Noncontrolling interests	4,127	4,302	148
Total equity	301,412	299,695	10,317
Total liabilities and equity	$ 379,391	$ 376,285	$ 12,953

The following US GAAP condensed statements of income and comprehensive income for the years ended December 31, 2010, 2011 and 2012 have been derived from the audited consolidated financial statements and reflected the adjustments presented above.

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.

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.

	Year Ended December 31			
	2010	2011	2012	
	NT$	NT$	NT$	US$ (Note 3)
	(In Millions Except Per Share Amounts)			
Net revenues	$ 203,773	$ 218,321	$ 220,738	$ 7,599
Operating costs and expenses	(145,166)	(161,245)	(170,840)	(5,881)
Income from operations	58,607	57,076	49,898	1,718
Non-operating income (loss), net	555	1,316	(17)	(1)
Income before income tax	59,162	58,392	49,881	1,717
Income tax expense	(9,971)	(8,954)	(7,295)	(251)
Consolidated net income	$ 49,191	$ 49,438	$ 42,586	$ 1,466
Attributable to				
Stockholders of the parent	$ 48,274	$ 48,426	$ 41,446	$ 1,427
Noncontrolling interests	917	1,012	1,140	39
	$ 49,191	$ 49,438	$ 42,586	$ 1,466
Basic earnings per share	$ 4.98	$ 6.22	$ 5.34	$ 0.18
Diluted earnings per share	$ 4.96	$ 6.20	$ 5.33	$ 0.18
Weighted-average number of common shares outstanding (in 1,000 shares)				
Basic	9,696,808	7,789,326	7,757,447	
Diluted	9,725,461	7,810,605	7,777,238	
Net income per pro forma equivalent ADSs				
Basic	$ 49.78	$ 62.17	$ 53.43	$ 1.84
Diluted	$ 49.64	$ 62.00	$ 53.29	$ 1.83
Weighted-average number of pro forma equivalent ADSs (in 1,000 shares)				
Basic	969,681	778,933	775,745	
Diluted	972,546	781,061	777,724	

	Year Ended December 31			
	2010	2011	2012	
	NT$	NT$	NT$	US$ (Note 3)
	(In Millions)			
Comprehensive income				
Consolidated net income	$ 49,191	$ 49,438	$ 42,586	$ 1,466
Other comprehensive income:				
Cumulative translation adjustments for foreign-currency investments held by investees, net of tax expense of nil	(119)	82	(67)	(2)
Unrealized gain (loss) on available-for-sale securities, net of tax expense of nil	649	(139)	192	7
Defined benefit pension plan adjustment, net of tax benefit of NT$203 million, NT$168 million and NT$379 million for 2010, 2011 and 2012, respectively	(605)	(509)	(1,129)	(39)
	(75)	(566)	(1,004)	(34)
	$ 49,116	$ 48,872	$ 41,582	$ 1,432
Attributable to				
Stockholders of the parent	$ 48,189	$ 47,885	$ 40,461	$ 1,393
Noncontrolling interests	927	987	1,121	39
	$ 49,116	$ 48,872	$ 41,582	$ 1,432

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

	December 31		
	2011	2012	
	NT$	NT$	US$ (Note 3)
	(In Millions)		
Cumulative translation adjustments for foreign-currency investments held by investees	$ (38)	$ (95)	$ (2)
Unrealized gain on available-for-sale securities	68	258	9
Defined benefit pension plan adjustment	(1,121)	(2,238)	(77)
	$ (1,091)	$ (2,075)	$ (70)

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

	Year Ended December 31			
	2010	2011	2012	
	NT$	NT$	NT$	US$ (Note 3)
	(In Millions)			
Amounts recognized in other comprehensive income				
Net prior service cost, pretax	$ 4	$ 4	$ 4	$ -
Net actuarial loss, pretax	804	673	1,504	52
Deferred tax asset	(203)	(168)	(379)	(13)
Net impact in other comprehensive loss	$ 605	$ 509	$ 1,129	$ 39

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

	Year Ended December 31			
	2010	2011	2012	
	NT$	NT$	NT$	US$ (Note 3)
	(In Millions)			
Net cash inflows (outflows) from:				
Operating activities	$ 84,840	$ 74,652	$ 66,911	$ 2,303
Investing activities	(20,127)	(32,909)	(38,074)	(1,310)
Financing activities	(47,034)	(65,337)	(42,988)	(1,480)
Effects of exchange rate change on cash and cash equivalents	(63)	109	(37)	(1)
Net increase (decrease) in cash and cash equivalents	17,616	(23,485)	(14,188)	(488)
Cash and cash equivalents, beginning of year	73,259	90,875	67,390	2,320
Cash and cash equivalents, end of year	$ 90,875	$ 67,390	$ 53,202	$ 1,832

35. ADDITIONAL DISCLOSURES REQUIRED BY US GAAP

a. Transition to IFRS in 2013

As of January 1, 2013, the Company began preparing its financial statements in accordance with International Financial Reporting Standards, International Accounting Standards, and relevant Interpretations (collectively, "IFRSs") as issued by International Accounting Standards Board ("IASB") and IFRSs as endorsed for use in R.O.C. Its transition date to IFRSs was January 1, 2012. Therefore, the Company's 2012 consolidated financial statements under IFRSs may be materially different from the accompanied 2012 consolidated financial statements under R.O.C. GAAP.

b. Recent accounting pronouncements

In May 2011, the Financial Accounting Standards Board (FASB) issued an accounting update to amend the fair value measurement guidance and include some enhanced disclosure requirements. The most significant change in disclosures is an expansion of the information required for Level 3 measurements based on unobservable inputs. The standard is effective for the Company for the year ended December 31, 2012. The Company has included these new disclosure, as applicable, in Note 35 (e).

In June and December 2011, the FASB issued accounting updates to eliminate the current option to report other comprehensive income and its components in the statement of stockholders' equity. Instead, an entity will be required to present items of net income and other comprehensive income in one continuous statement or in two separate, but consecutive, statements. The new requirements do not change which components of comprehensive income are recognized in net income or other comprehensive income, or when an item of other comprehensive income must be reclassified to net income. The standard is effective for the Company for the year ended December 31, 2012. The Company has reported other comprehensive income and its components in two separate but consecutive statements and the adoption did not have an impact on its results of operations, financial position or cash flows.

In September 2011, the FASB issued an accounting update, which is intended to reduce the cost and complexity of the annual goodwill impairment test by providing entities an option to perform a "qualitative" assessment to determine whether further impairment testing is necessary. Specifically, an entity has the option to first assess qualitative factors to determine whether it is necessary to perform the current two-step test. If an entity believes, as a result of its qualitative assessment, that it is more-likely-than-not that the fair value of a reporting unit is less than its carrying amount, the quantitative impairment test is required. Otherwise, no further testing is required. This standard is effective for the Company for the year ended December 31, 2012. The adoption of this guidance did not have a material impact on the Company's results of operations, financial position or cash flows.

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

In February 2013, the FASB issued an accounting update requiring entities to present information about significant items reclassified out of accumulated other comprehensive income (loss) by component either on the face of the statement where net income is presented or as a separate disclosure in the notes to the financial statements. This standard is effective for the Company for the year ending December 31, 2013. Since the Company started to adopt IFRS in 2013, it will not adopt this standard.

c. Share-based compensation

The Company adopted share-based compensation guidance to recognize compensation cost of options granted by SENAO and CHPT. 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$5 million, NT$2 million and NT$3 million for 2010, 2011 and 2012, respectively. There is no income tax effect related to share-based compensation arrangements.

SENAO

The weighted average remaining contractual term and aggregate intrinsic value of options of SENAO under the foregoing plans as of December 31, 2012 were as follows:

	Weighted Average Remaining Contractual Term	**Aggregate Intrinsic Value**
	(In Years)	**NT$ (In Millions)**
Options outstanding	0.92	70
Options exercisable	0.92	70

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 2012 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, 2012. 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 2010, 2011 and 2012.

Total intrinsic values of options exercised for the years ended December 31, 2010, 2011 and 2012 were NT$110 million, NT$193 million and NT$70 million, respectively. Total fair values of shares vested during the years ended December 31, 2010, 2011 and 2012 were NT$164 million, NT$204 million and NT$103 million, respectively.

As of December 31, 2012, there was no unrecognized compensation expense related to share-based compensation plan.

CHPT

The weighted average remaining contractual term and aggregate intrinsic value of options of CHPT under the foregoing plans as of December 31, 2012 were as follows:

	Weighted Average Remaining Contractual Term (In Years)	Aggregate Intrinsic Value NT$ (In Millions)
Options outstanding	1	3
Options exercisable	1	3

The aggregate intrinsic value in the above table represents the total intrinsic value (the difference between the fair value of shares 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, 2012. Intrinsic value will change in future periods based on the audited Company's share in investees' net assets and the number of shares outstanding.

CHPT did not grant any options in 2010, 2011 and 2012.

Total intrinsic value of options exercised for the years ended December 31, 2010, 2011 and 2012 was nil. Total fair values of shares vested during the years ended December 31, 2010, 2011 and 2012 were nil, nil and NT$3 million, respectively.

As of December 31, 2012, there was no unrecognized compensation expense related to share-based compensation plan.

d. Marketable securities

	December 31, 2011		
	Carrying Amount NT$	Unrealized Gain NT$ (In Millions)	Unrealized Loss NT$
Available-for-sale securities			
Open-end mutual funds	$ 2,137	$ 77	$ 9
Domestic listed stocks	343	55	54
Corporate bonds	77	1	-
	2,557	133	63
Held-to-maturity securities	13,790	129	4
Corporate bond	906	6	-
Bank debentures	14,696	135	4
	$ 17,253	$ 268	$ 67

	December 31, 2012		
	Carrying Amount	Unrealized Gain	Unrealized Loss
	NT$	NT$ (In Millions)	NT$
Available-for-sale securities			
Domestic listed stocks	$ 3,196	$ 89	$ -
Open-end mutual funds	2,190	177	1
Corporate bonds	50	-	-
Foreign listed stocks	10	-	3
	5,446	266	4
Held-to-maturity securities			
Corporate bonds	14,791	90	3
Bank debentures	1,255	5	-
	16,046	95	3
	$ 21,492	$ 361	$ 7

The Company's gross realized gains on the sale of investments for the years ended December 31, 2010, 2011 and 2012 were NT$476 million, NT$137 million and NT$90 million, respectively. The Company's gross realized losses on the sale of investments for the years ended December 31, 2010, 2011 and 2012 were NT$654 million, NT$84 million and NT$40 million, respectively.

The carrying amounts at December 31, 2012 for debt securities classified as available-for-sale securities and held-to-maturity by contractual maturity are shown below.

	December 31, 2012
	NT$ (In Millions)
Due within one year or less	$ 4,300
Due after one year through four years	11,796
	$ 16,096

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, 2012:

	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	NT$	NT$	NT$	NT$ (In Millions)	NT$	NT$
Open-end-mutual funds	$ 148	$ 1	$ -	$ -	$ 148	$ 1
Foreign listed stocks	10	3	-	-	10	3
Corporate bonds	3,612	3	-	-	3,612	3
	$ 3,770	$ 7	$ -	$ -	$ 3,770	$ 7

The gross unrealized losses related to mutual funds, foreign listed stocks and corporate bonds were due to fair value fluctuations. The Company reviewed its investment portfolio to identify and evaluate investments that have indications of possible impairment. Factors that were considered in determining whether a loss is other-than-temporary included but were not limited to, the length of time and extent to which fair value has been less than the cost basis, credit quality and the Company's ability and intent to hold the investment for a period of time sufficient to allow for any anticipated recovery in market value. As discussed in Note 7, the Company recognized an impairment loss of NT$27 million for the year ended December 31, 2012 and the related impaired available-for-sale financial assets were sold as of December 31, 2012. 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, 2012.

e. 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, 2011 and 2012:

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

	December 31, 2012			
	Level 1	**Level 2**	**Level 3**	**Total**
	NT$	**NT$**	**NT$**	**NT$**
		(In Millions)		
Assets				
Derivatives - currency swap contracts and forward exchange contracts	$ -	$ 3	$ -	$ 3
Available-for-sale securities				
Domestic listed stocks	3,196	-	-	3,196
Open-end mutual funds	2,190	-	-	2,190
Corporate bonds	-	50	-	50
Foreign listed stocks	10	-	-	10
	$ 5,396	$ 53	$ -	$ 5,449
Liabilities				
Derivatives - currency swap contracts and forward exchange contracts	$ -	$ 2	$ -	$ 2

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 and foreign listed stocks that are actively traded or have quoted prices.

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

Assets measured at fair value on a nonrecurring basis

The tables below set out the balances for those assets required to be measured at fair value on a nonrecurring basis and the associated losses recognized during the years ended December 31, 2011 and 2012:

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

	For the Year Ended December 31, 2012			
	Level 1	Level 2	Level 3	Total Losses
	NT$	NT$	NT$	NT$
		(In Millions)		
Assets				
Cost method investees - Procrystal, Mediapro, Uni Display, CoaTronics, UltraFine, Fashion Guide, Alder, Aide, CQi, DIG and TFChemicals	$ -	$ -	$ 103	$ 176
Property, plant and equipment	$ -	$ -	$ 266,869	$ 1,505
Intangible assets - others	$ -	$ -	$ -	$ 5
Other assets				
Idle assets	$ -	$ -	$ -	$ 35
Others	-	-	-	20
	$ -	$ -	$ -	$ 55

The table below presents the valuation methodology and unobservable inputs for Level 3 assets measured at fair value on nonrecurring basis during the years ended December 31, 2011 and 2012:

	For the Year Ended December 31, 2011			
	Fair Value	Valuation Methodology	Unobservable Inputs	Range of Inputs
	NT$ (In Millions)			
Assets				
Cost method investees	$ 170	Discounted cash flow	Return on investment	7%
			Industrial risk	3%
			Enterprise risk	2%-2.5%
			Sustainable growth rate	2%

	For the Year Ended December 31, 2012			
	Fair Value	Valuation Methodology	Unobservable Inputs	Range of Inputs
	NT$ (In Millions)			
Assets				
Cost method investees	$ 103	Discounted cash flow	Return on investment	7%
			Industrial risk	1%-3%
			Enterprise risk	1%-3%
			Sustainable growth rate	2%
Property, plant and equipment	$ 266,869	Market approach	Market multiples	-
Intangible assets - others	$ -	-	-	-

(Continued)

	For the Year Ended December 31, 2012			
	Fair Value	Valuation Methodology	Unobservable Inputs	Range of Inputs
	NT$ (In Millions)			
Other assets				
Idle assets	$ -	-	-	-
Others	-	-	-	-
	$ -			

(Concluded)

The Department of Investment and the Department of Finance are responsible for the impairment tests of financial instruments. They have set forth the Company's valuation policies and procedures for the impairment test and is responsible for reporting to General Manager regarding the changes in fair value and reasonableness of the underlying assumptions utilized in the valuation whenever the impairment test is performed.

The Company determined that intangible assets - others and other assets with carrying amounts of NT$5 million and NT$55 million will not have future economic benefits. Therefore, the carrying amounts of both assets were written down to their fair value of nil.

The Company evaluated its cost method investees for impairment by using valuation models based on discounted future cash flows because there were no quoted fair value for such investments. Pursuant to the established policies, the Company employed an internal valuation model in 2011 and 2012 to determine the fair value of cost method investees using the discounted cash flow approach based on management's projections. Variables utilized in discounted cash flow approach require the use of unobservable inputs (Level 3), including return on investment, industrial risk, enterprise risk and sustainable growth rate. Changes in management estimates to the unobservable inputs in the valuation models would significantly change the fair value of cost method investee. The return on investment is the assumption that most significantly affects the fair value determination. Cost method investees held with a carrying amount of NT$318 million were written down to their fair value of NT$170 million, resulting in an impairment charge of NT$148 million, which was included in earnings for the year ended December 31, 2011. Cost method investees held with a carrying amount of NT$279 million were written down to their fair value of NT$103 million, resulting in an impairment charge of NT$176 million, which was included in earnings for year ended December 31, 2012.

Certain non-financial assets and non-financial liabilities measured at fair value on a nonrecurring basis include 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. The Company used market approach which uses market multiples to evaluate the fair values of property, plant, and equipment with fair value of NT$266,869 million. The market multiples which were derived from a set of comparables were prices and other relevant information generated by market transactions involving comparable assets and factors specific to the measurement. Multiples might lie in ranges with a different multiple for each comparable. Property, plant, and equipment held with a carrying amount of NT$268,374 million were written down to their fair value of NT$266,869 million, resulting in an impairment charge of NT$1,505 million, which was included in earnings for the year ended December 31, 2012. Intangible assets - others 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 the year ended December 31, 2012. Other assets - idle assets held with a carrying amount of NT$35 million were written down to their fair value of nil, resulting in an impairment charge of NT$35 million, which was included in earnings for the year ended December 31, 2012. Other assets - others held with a carrying amount of NT$20 million were written down to their fair value of nil, resulting in an impairment charge of NT$20 million, which was included in earnings for the year ended December 31, 2012.

<u>Financial Assets and Liabilities Not Measured at Fair Value but for which Fair Value is Disclosed</u>

The following table provides information about the assets and liabilities not carried at fair value in the consolidated balance sheets in accordance with ASC 825, “Financial Instruments”.

	December 31, 2011			
	Carrying Amount	Estimated Fair Value		
		Level 1	Level 2	Level 3
	NT$	NT$	NT$	NT$
	(In Millions)			
Assets				
Other assets	$ 1,000	$ -	$ -	$ 1,712
Liabilities				
Long-term loans	1,058	-	1,058	-

	December 31, 2012			
	Carrying Amount	Estimated Fair Value		
		Level 1	Level 2	Level 3
	NT$	NT$	NT$	NT$
	(In Millions)			
Assets				
Other assets	$ 1,000	$ -	$ -	$ 1,687
Liabilities				
Long-term loans	2,050	-	2,050	-

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

1) The carrying amounts of cash and cash equivalents, other current monetary assets, refundable deposits, short-term loans, current portion of long-term loans and customers’ deposits approximate fair value due to the short period of time to maturity.

2) Other assets were Piping Fund. Based on the terms of Construction Funding Agreement, if the Piping Fund project is considered to be no longer necessary by the ROC government, the Company will receive back its proportionate share of the net equity of the Piping Fund upon its dissolution. Therefore, the fair value was determined based on the Company’s proportionate share of the net equity of the Piping Fund as of December 31, 2012 and 2011.

3) The Company uses discounted cash flow model with observable market data, such as Reuters Limited' 60-days secondary markets bills rate based yield curve and Chunghwa Post Co., Ltd.'s one-year time deposit floating rate based yield curve, to determine the fair value of long-term bank loans. These liabilities are therefore included in Level 2.

f. Advertising and promotion expenses

Advertising and promotional expenses are charged to income as incurred. These expenses were NT$3,227 million, NT$3,177 million and NT$3,053 million for the years ended December 31, 2010, 2011 and 2012, respectively.

g. 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, the Company 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 years ended December 31, 2010, 2011 and 2012. The Company did not incur any interest or penalties related to potential underpaid income tax expenses.

h. Aggregate amortization expense of intangible assets

The aggregate amortization expense were NT$1,021 million, NT$1,027 million and NT$1,097 million for the years ended December 31, 2010, 2011 and 2012, respectively.

As of December 31, 2012, the Company's estimated aggregate amortization expense for each of the five succeeding fiscal years and thereafter is as follows:

Year	**Amount** **NT$** **(In Millions)**
2013	$ 1,129
2014	1,043
2015	935
2016	871
2017	806
2018 and thereafter	784

i. Litigation

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

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

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