Chunghwa Telecom Co., Ltd. and Subsidiaries

Consolidated Financial Statements for the Years Ended December 31, 2012 and 2013 and Report of Independent Registered Public Accounting Firm

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying consolidated balance sheets of Chunghwa Telecom Co., Ltd. and subsidiaries (the "Company") as of January 1, 2012, December 31, 2012 and December 31, 2013, and the related consolidated statements of comprehensive income, changes in equity, and cash flows for the years ended December 31, 2012 and 2013, all expressed in New Taiwan dollars. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the 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 consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated 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 January 1, 2012, December 31, 2012 and December 31, 2013, and the results of their operations and their cash flows for the years ended December 31, 2012 and 2013, in conformity with International Financial Reporting Standards as issued by the International Accounting Standard Board ("IASB").

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 6 to the consolidated financial statements. 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, 2013, based on the criteria established in Internal Control Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated April 28, 2014 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 28, 2014

CHUNGHWA TELECOM CO., LTD. AND SUBSIDIARIES

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

ASSETS	Notes	January 1, 2012 NT$	December 31, 2012 NT$	December 31, 2013 NT$	December 31, 2013 US$ (Note 6)
CURRENT ASSETS					
Cash and cash equivalents	3, 7	$ 26,407	$ 30,938	$ 14,585	$ 489
Financial assets at fair value through profit or loss	3, 8	46	3	-	-
Available-for-sale financial assets	3, 9	2,499	2,250	24	1
Held-to-maturity financial assets	3, 10	1,201	4,250	4,264	143
Trade notes and accounts receivable, net	3, 4, 11	22,396	24,355	22,901	768
Accounts receivable from related parties	39	34	44	69	2
Inventories	3, 4, 12, 40	4,822	7,196	7,848	263
Prepayments	13, 38	1,889	1,986	2,224	75
Other current monetary assets	8, 14, 27	43,051	24,449	4,636	155
Other current assets	8, 20	3,039	4,476	3,962	133
Total current assets		105,384	99,947	60,513	2,029
NONCURRENT ASSETS					
Available-for-sale financial assets	3, 9	2,818	5,746	5,470	183
Held-to-maturity financial assets	3, 10	13,495	11,796	7,502	251
Investments accounted for using equity method	3, 16	2,520	2,191	2,359	80
Property, plant and equipment	3, 4, 17, 38, 40	295,032	297,342	302,714	10,148
Investment properties	3, 4, 18	9,060	7,789	8,018	269
Intangible assets	3, 4, 19	6,278	5,782	44,399	1,488
Deferred income tax assets	3, 31	1,056	1,306	1,506	50
Prepayments	13, 39	3,547	3,554	3,608	121
Other noncurrent assets	20, 27, 40	3,858	4,596	4,883	164
Total noncurrent assets		337,664	340,102	380,459	12,754
TOTAL		$ 443,048	$ 440,049	$ 440,972	$ 14,783

LIABILITIES AND EQUITY	Notes	January 1, 2012 NT$	December 31, 2012 NT$	December 31, 2013 NT$	December 31, 2013 US$ (Note 6)
CURRENT LIABILITIES					
Short-term loans	21	$ 75	$ 111	$ 254	$ 9
Financial liabilities at fair value through profit or loss	3, 8	4	2	-	-
Trade notes and accounts payable	23	14,265	13,513	15,589	523
Payables to related parties	39	788	837	557	19
Current tax liabilities	3, 31	8,044	7,139	6,171	207
Other payables	24	26,302	26,102	26,792	898
Provisions	3, 25	148	221	129	4
Advance receipts	26	11,502	10,194	9,464	317
Current portion of long-term loans	22	702	8	300	10
Other current liabilities		1,955	1,598	1,599	53
Total current liabilities		63,785	59,725	60,855	2,040
NONCURRENT LIABILITIES					
Long-term loans	22	1,058	2,050	1,400	47
Deferred income tax liabilities	3, 31	111	98	101	3
Provisions	3, 25	34	45	123	4
Customers' deposits	39	5,014	4,911	4,835	162
Accrued pension liabilities	3, 27	2,950	4,577	5,482	184
Deferred revenue		3,888	3,839	3,701	124
Other noncurrent liabilities		866	1,314	1,335	45
Total noncurrent liabilities		13,921	16,834	16,977	569
Total liabilities		77,706	76,559	77,832	2,609
EQUITY ATTRIBUTABLE TO STOCKHOLDERS OF THE PARENT					
Common stock		77,574	77,574	77,574	2,601
Additional paid-in capital		168,872	168,877	163,294	5,474
Retained earnings					
Legal reserve		66,122	70,829	74,819	2,508
Special reserve		2,676	2,676	2,676	90
Unappropriated earnings		45,888	39,037	40,075	1,344
Total retained earnings		114,686	112,542	117,570	3,942
Other adjustments		29	161	(144)	(5)
Total equity attributable to stockholders of the parent	15, 28	361,161	359,154	358,294	12,012
NONCONTROLLING INTERESTS	15	4,181	4,336	4,846	162
Total equity		365,342	363,490	363,140	12,174
TOTAL		$ 443,048	$ 440,049	$ 440,972	$ 14,783

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

CHUNGHWA TELECOM CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE 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		
		2012	2013	
	Notes	NT$	NT$	US$ (Note 6)
REVENUES	29, 39	$ 221,420	$ 227,981	$ 7,643
OPERATING COSTS	12, 39	141,513	147,289	4,938
GROSS PROFIT		79,907	80,692	2,705
OPERATING EXPENSES				
Marketing		22,208	25,164	844
General and administrative		4,021	4,190	140
Research and development		3,698	3,726	126
Total operating expenses	39	29,927	33,080	1,110
OTHER INCOME AND EXPENSES	30	(1,569)	59	2
INCOME FROM OPERATIONS		48,411	47,671	1,597
NON-OPERATING INCOME AND EXPENSES				
Interest income		742	563	19
Other income	30, 39	441	356	12
Other gains and losses	30, 39	(139)	(124)	(4)
Financial costs	30	(22)	(36)	(1)
Share of the profit of associates and joint venture accounted for using equity method	16	520	666	23
Total non-operating income and expenses		1,542	1,425	49
INCOME BEFORE INCOME TAX		49,953	49,096	1,646
INCOME TAX EXPENSE	3, 31	7,336	6,478	217
NET INCOME		42,617	42,618	1,429
OTHER COMPREHENSIVE INCOME (LOSS)				
Items that will not be reclassified to profit or loss:				
Remeasurements of defined benefit pension plans		(1,539)	(617)	(21)
Share of remeasurements of defined benefit pension plans of associates		(18)	(39)	(1)
Income tax relating to items that will not be reclassified	31	265	105	4
		(1,292)	(551)	(18)

(Continued)

CHUNGHWA TELECOM CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE 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		
		2012	2013	
	Notes	NT$	NT$	US$ (Note 6)
Items that may be reclassified subsequently to profit or loss:				
Exchange differences arising from the translation of the foreign operations		$ (58)	$ 129	$ 4
Share of exchange differences arising from the translation of the foreign operations of associates		(8)	4	-
Unrealized gain (loss) on available-for-sale financial assets		192	(392)	(14)
Income tax relating to items that may be reclassified subsequently		-	(6)	-
		126	(265)	(10)
Total other comprehensive income (loss), net of income tax		(1,166)	(816)	(28)
TOTAL COMPREHENSIVE INCOME		$ 41,451	$ 41,802	$ 1,401
NET INCOME ATTRIBUTABLE TO				
Stockholders of the parent		$ 41,492	$ 41,494	$ 1,391
Noncontrolling interests		1,125	1,124	38
		$ 42,617	$ 42,618	$ 1,429
COMPREHENSIVE INCOME ATTRIBUTABLE TO				
Stockholders of the parent		$ 40,350	$ 40,636	$ 1,362
Noncontrolling interests		1,101	1,166	39
		$ 41,451	$ 41,802	$ 1,401
EARNINGS PER SHARE	32			
Basic		$ 5.35	$ 5.35	$ 0.18
Diluted		$ 5.33	$ 5.34	$ 0.18
EARNINGS PER EQUIVALENT ADS	32			
Basic		$ 53.49	$ 53.49	$ 1.79
Diluted		$ 53.34	$ 53.40	$ 1.79

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

CHUNGHWA TELECOM CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(In Millions of New Taiwan or U.S. Dollars)

	Equity Attributable to Stockholders of the Parent											
			Retained Earnings				Other Adjustments					
	Common Stock	Additional Paid-in Capital	Legal Reserve	Special Reserve	Unappropriated Earnings	Total Retained Earnings	Exchange Differences Arising from the Translation of the Foreign Operations	Unrealized Gain (Loss) on Available-for-sale Financial Assets	Total Other Adjustments	Total Equity Attributable to Stockholders' of the Parent	Noncontrolling Interests	Total Equity
	NT$	NT$	NT$	NT$	NT$	NT$	NT$	NT$	NT$	NT$	NT$	NT$
BALANCE, JANUARY 1, 2012	$ 77,574	$ 168,872	$ 66,122	$ 2,676	$ 45,888	$ 114,686	$ (39)	$ 68	$ 29	$ 361,161	$ 4,181	$ 365,342
Appropriation of 2011 earnings												
Legal reserve	-	-	4,707	-	(4,707)	-	-	-	-	-	-	-
Cash dividends paid by Chunghwa	-	-	-	-	(42,362)	(42,362)	-	-	-	(42,362)	-	(42,362)
Cash dividends paid by subsidiaries to noncontrolling interests	-	-	-	-	-	-	-	-	-	-	(893)	(893)
Net income for the year ended December 31, 2012	-	-	-	-	41,492	41,492	-	-	-	41,492	1,125	42,617
Other comprehensive income for the year ended December 31, 2012	-	-	-	-	(1,274)	(1,274)	(58)	190	132	(1,142)	(24)	(1,166)
Total comprehensive income for the year ended December 31, 2012	-	-	-	-	40,218	40,218	(58)	190	132	40,350	1,101	41,451
Exercise of employee stock option of a subsidiary	-	5	-	-	-	-	-	-	-	5	38	43
Decrease in noncontrolling interests	-	-	-	-	-	-	-	-	-	-	(91)	(91)
BALANCE, DECEMBER 31, 2012	77,574	168,877	70,829	2,676	39,037	112,542	(97)	258	161	359,154	4,336	363,490
Appropriation of 2012 earnings												
Legal reserve	-	-	3,990	-	(3,990)	-	-	-	-	-	-	-
Cash dividends paid by Chunghwa	-	-	-	-	(35,913)	(35,913)	-	-	-	(35,913)	-	(35,913)
Cash dividends paid by subsidiaries to noncontrolling interests	-	-	-	-	-	-	-	-	-	-	(811)	(811)
Cash distributed from capital surplus	-	(5,589)	-	-	-	-	-	-	-	(5,589)	-	(5,589)
Net income for the year ended December 31, 2013	-	-	-	-	41,494	41,494	-	-	-	41,494	1,124	42,618
Other comprehensive income for the year ended December 31, 2013	-	-	-	-	(553)	(553)	103	(408)	(305)	(858)	42	(816)
Total comprehensive income for the year ended December 31, 2013	-	-	-	-	40,941	40,941	103	(408)	(305)	40,636	1,166	41,802
Exercise of employee stock option of subsidiaries	-	6	-	-	-	-	-	-	-	6	44	50
Compensation cost of employee stock options of a subsidiary	-	-	-	-	-	-	-	-	-	-	70	70
Employee stock bonus issued by a subsidiary	-	-	-	-	-	-	-	-	-	-	2	2
Increase in noncontrolling interests	-	-	-	-	-	-	-	-	-	-	39	39
BALANCE, DECEMBER 31, 2013	$ 77,574	$ 163,294	$ 74,819	$ 2,676	$ 40,075	$ 117,570	$ 6	$ (150)	$ (144)	$ 358,294	$ 4,846	$ 363,140
BALANCE, DECEMBER 31, 2013 (IN MILLIONS OF US$ - Note 6)	$ 2,601	$ 5,474	$ 2,508	$ 90	$ 1,344	$ 3,942	$ -	$ (5)	$ (5)	$ 12,012	$ 162	$ 12,174

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		
	2012	2013	
	NT$	NT$	US$ (Note 6)
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	$ 49,953	$ 49,096	$ 1,646
Adjustments to reconcile income before income tax to net cash provided by operating activities:			
Depreciation	31,037	30,954	1,038
Amortization	1,123	1,238	42
Provision for (reversal of) doubtful accounts	(1,451)	253	8
Interest expenses	22	36	1
Interest income	(742)	(563)	(19)
Dividend income	(21)	(79)	(3)
Compensation cost of employee share options	-	70	2
Share of the profit of associates and joint venture accounted for using equity method	(520)	(666)	(23)
Impairment loss on available-for-sale financial assets	203	66	2
Provision for inventory and obsolescence	113	203	7
Impairment loss on property, plant and equipment	301	254	9
Impairment loss (reversal of) on investment properties	1,261	(246)	(8)
Impairment loss on intangible assets	5	18	1
Gain on disposal of financial instruments	(113)	(76)	(3)
Loss (gain) on disposal of property, plant and equipment	2	(85)	(3)
Gain on disposal of investments accounted for using equity method	-	(13)	(1)
Valuation loss on financial instruments at fair value through profit or loss, net	1	1	-
Loss (gain) on foreign exchange	(18)	19	1
Changes in operating assets and liabilities:			
Decrease (increase) in:			
Financial assets held for trading	74	9	-
Trade notes and accounts receivable	(509)	1,219	41
Receivables from related parties	(10)	(25)	(1)
Inventories	(2,487)	(855)	(29)
Other current monetary assets	(118)	(1)	-
Prepayment	(104)	(287)	(10)
Other current assets	(1,518)	590	10
Increase (decrease) in:			
Trade notes and accounts payable	(804)	2,076	70
Payables to related parties	49	(280)	(9)
Other payables	(263)	447	8
Provisions	84	(14)	-
Advance receipts	(1,308)	(730)	(24)
Other current liabilities	(383)	88	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		
	2012	2013	
	NT$	NT$	US$ (Note 6)
Deferred revenue	$ (49)	$ (138)	$ (5)
Accrued pension liabilities	88	289	10
Cash generated from operations	73,898	82,868	2,778
Interest paid	(29)	(36)	(1)
Income tax paid	(8,213)	(7,544)	(253)
Net cash provided by operating activities	65,656	75,288	2,524
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of designated financial assets at fair value through profit or loss	(30)	-	-
Proceeds from disposal of designated financial assets at fair value through profit or loss	57	-	-
Acquisition of available-for-sale financial assets	(4,502)	(1,822)	(61)
Proceeds from disposal of available-for-sale financial assets	1,824	3,989	134
Acquisition of time deposits and negotiable certificate of deposit with maturities of more than three months	(32,934)	(18,199)	(610)
Proceeds from disposal of time deposits and negotiable certificate of deposit with maturities of more than three months	51,653	37,928	1,271
Acquisition of held-to-maturity financial assets	(3,865)	-	-
Proceeds from disposal of held-to-maturity financial assets	2,451	4,236	142
Capital reduction of available-for-sale financial assets	35	36	1
Proceeds from disposal of hedging derivative assets	-	15	1
Derecognition of hedging derivative liabilities	-	(108)	(4)
Acquisition of investments accounted for using equity method	(26)	(90)	(3)
Proceeds from disposal of investments accounted for using equity method	-	24	1
Capital reduction of investments accounted for using equity method	65	16	1
Acquisition of property, plant and equipment	(33,280)	(36,382)	(1,220)
Proceeds from disposal of property, plant and equipment	33	205	7
Acquisition of intangible assets	(632)	(39,872)	(1,337)
Increase in noncurrent assets	(624)	(291)	(10)
Interest received	853	672	23
Cash dividends received	315	475	16
Net cash used in investing activities	(18,607)	(49,168)	(1,648)

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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		
	2012	2013	
	NT$	NT$	US$ (Note 6)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from short-term loans	$ 857	$ 1,399	$ 47
Repayment of short-term loans	(821)	(1,256)	(42)
Proceeds from long-term loans	400	-	-
Repayment of long-term loans	(102)	(358)	(12)
Increase (decrease) customers' deposits	63	(50)	(2)
Increase in other liabilities	447	22	1
Cash dividends and cash distributed from additional paid-in capital	(42,362)	(41,502)	(1,391)
Proceeds from exercise of employee stock option granted by subsidiaries	43	50	2
Dividends paid to noncontrolling interests	(893)	(811)	(27)
Other change in noncontrolling interests	(102)	42	1
Net cash used in financing activities	(42,470)	(42,464)	(1,423)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(48)	(9)	-
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	4,531	(16,353)	(547)
CASH AND CASH EQUIVALENTS, BEGINNING OF THE YEAR	26,407	30,938	1,036
CASH AND CASH EQUIVALENTS, END OF THE YEAR	$ 30,938	$ 14,585	$ 489

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 Chunghwa which continues to carry out the business and the DGT continues to be the industry regulator.

As the dominant telecommunications service provider of domestic and international fixed-line, Global System for Mobile Communications ("GSM"), and Third Generation ("3G") in the ROC, Chunghwa is subject to industry-specific regulations imposed by the ROC.

Effective August 12, 2005, the MOTC 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 stocks were listed and traded on the Taiwan Stock Exchange (the "TWSE") on October 27, 2000. Certain of Chunghwa's common stocks were 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 stocks were also 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 stocks 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.

Chunghwa together with its subsidiaries are hereinafter referred to collectively as "the Company".

2. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorized for issue by the management on April 28, 2014.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Starting from January 1, 2012, the Company has prepared its financial statements in accordance with the International Financial Reporting Standards as issued by the International Accounting Standard Board ("IASB") (collectively, "IFRSs").

The consolidated financial statements for the year ended December 31, 2013 is its first IFRS consolidated financial statements. Prior to 2013, the Company prepared and reported its consolidated financial statements in accordance with accounting principles generally accepted in the Republic of China with reconciliation of net income and balance sheet differences of its consolidated financial statements to accounting principles generally accepted in the United States. The date of transition to IFRSs was January

1, 2012. Refer to Note 43 for the impact of IFRS conversion on the Company's consolidated financial statements.

Statement of Compliance

The consolidated financial statements have been prepared in conformity with IFRSs.

Basis of Preparation

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at revalued amounts or fair values, as explained in the accounting policies below.

The opening balance sheet at the date of transition is prepared in accordance with the recognition and measurement required by IFRS 1. According to IFRS 1, the Company is required to apply each effective IFRS retrospectively in its opening balance sheet at the date of transition to IFRSs; except for optional exemptions and mandatory exceptions to such retrospective application provided under IFRS 1. The main optional exemptions the Company adopted are described in Note 43.

Historical cost is generally based on the fair value of the consideration given in exchange for assets.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2, leasing transactions that are within the scope of IAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realizable value in IAS 2 or value in use in IAS 36.

In addition, for financial reporting purposes, fair value measurements are categorized into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

- Level 3 inputs are unobservable inputs for the asset or liability.

Current and Noncurrent Assets and Liabilities

Current assets include:

a. assets held primarily for the purpose of trading;

b. assets expected to be realized within twelve months after the reporting period; and

c. cash and cash equivalents unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

Current liabilities include:

a. liabilities held primarily for the purpose of trading;

b. liabilities due to be settled within twelve months after the reporting period; and

c. liabilities for which the Company does not have an unconditional right to defer settlement for at least twelve months after the reporting period.

Assets and liabilities that are not classified as current are classified as non-current.

Light Era Development Co., Ltd. (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.

Basis of Consolidation

a. The basis for the consolidated financial statements

The consolidated financial statements incorporate the financial statements of Chunghwa and entities controlled by Chunghwa (its subsidiaries). Control is achieved when the Company (a) has power over the investee; (b) is exposed, or has rights, to variable returns from its involvement with the investee; and (c) has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power, including:

- The size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;

- Potential voting rights held by the Company, other vote holders or other parties;

- Rights arising from other contractual arrangements; and

- Any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by the Company.

All intra-company transactions, balances, income and expenses are eliminated in full upon consolidation.

The noncontrolling interests in the subsidiaries and the equity attributable to stockholders are presented separately.

<u>Allocation of comprehensive income to the noncontrolling interests</u>

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the noncontrolling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the noncontrolling interests even if it results in the noncontrolling interests having a deficit balance.

Changes in the Company's ownership interests in subsidiaries

Changes in the Company's ownership interests in subsidiaries that do not result in the Company losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Company's interests and the noncontrolling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the noncontrolling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to owners of the Company.

b. The subsidiaries in the consolidated financial statements

The detail information of the subsidiaries at the end of reporting period was as follows:

			Percentage of Ownership			
Name of Investor	**Name of Investee**	**Main Businesses and Products**	**January 1, 2012**	**December 31, 2012**	**December 31, 2013**	**Note**
Chunghwa Telecom Co., Ltd.	Senao International Co., Ltd. ("SENAO")	Selling and maintaining mobile phones and its peripheral products	28	28	28	1)
	Light Era Development Co., Ltd. ("LED")	Housing, office building development, rent and sale services	100	100	100	
	Donghwa Telecom Co., Ltd. ("DHT")	International telecommunications IP fictitious internet and internet transfer services	100	100	100	
	Chunghwa Telecom Singapore Pte., Ltd. ("CHTS")	Telecommunication wholesale, internet transfer services international data and long distance call wholesales to carriers	100	100	100	
	Chunghwa System Integration Co., Ltd. ("CHSI")	Providing communication and information aggregative services	100	100	100	
	Chunghwa Investment Co., Ltd. ("CHI")	Investment	89	89	89	
	CHIEF Telecom Inc. ("CHIEF")	Internet communication and internet data center ("IDC") service	69	69	69	
	Chunghwa International Yellow Pages Co., Ltd. ("CHYP")	Yellow pages sales and advertisement services	100	100	100	
	Prime Asia Investments Group Ltd. (B.V.I.) ("Prime Asia")	Investment	100	100	100	
	Spring House Entertainment Tech. Inc. ("SHE")	Network services, producing digital entertainment contents and broadband visual sound terrace development	56	56	56	
	Chunghwa Telecom Global, Inc. ("CHTG")	International data and internet services and long distance call wholesales to carriers	100	100	100	
	Chunghwa Telecom Vietnam Co., Ltd. ("CHTV")	Information and communications technology, international circuit, and intelligent energy network service	100	100	100	
	Smartfun Digital Co., Ltd. ("SFD")	Software retail	65	65	65	

(Continued)

Name of Investor	Name of Investee	Main Businesses and Products	Percentage of Ownership January 1, 2012	December 31, 2012	December 31, 2013	Note
	Chunghwa Telecom Japan Co., Ltd. ("CHTJ")	Telecom business, information process and information provide service, development and sale of software and consulting services in telecommunication	100	100	100	
	Chunghwa Sochamp Technology Inc. ("CHST")	License plate recognition system	51	51	51	
	Honghwa Human Resources Co., Ltd. ("HHR")	Human resources service	-	-	100	2)
	New Prospect Investments Holdings Ltd. (B.V.I.) ("New Prospect")	Investment	100	100	100	
Senao International Co., Ltd.	Senao International (Samoa) Holding Ltd. ("SIS")	International investment	100	100	100	
CHIEF Telecom Inc.	Unigate Telecom Inc. ("Unigate")	Telecommunication and internet service	100	100	100	
	Chief International Corp. ("CIC")	Internet communication and internet data center ("IDC") service	100	100	100	
Chunghwa System Integrated Co., Ltd.	Concord Technology Co., Ltd. ("Concord")	Investment	100	100	100	
Spring House Entertainment Tech. Inc.	Ceylon Innovation Ltd. ("CEI")	International trading, general advertisement and book publishing service	100	100	100	
Light Era Development Co., Ltd.	Yao Yong Real Property Co., Ltd. ("YYRP")	Real estate management and leasing business	100	100	100	
Chunghwa Investment Co., Ltd.	Chunghwa Precision Test Tech Co., Ltd. ("CHPT")	Semiconductor testing components and printed circuit board industry production and marketing of electronic products	53	53	51	3)
	Chunghwa Investment Holding Co., Ltd. ("CIHC")	Investment	100	100	100	
Concord Technology Co., Ltd.	Glory Network System Service (Shanghai) Co., Ltd. ("GNSS (Shanghai)")	Planning and design of software and hardware system services and integration of information system	100	100	100	
Chunghwa Precision Test Tech. Co., Ltd.	Chunghwa Precision Test Tech. USA Corporation ("CHPT (US)")	Semiconductor testing components and printed circuit board industry production and marketing of electronic products	100	100	100	
	CHPT Japan Co., Ltd. ("CHPT (JP)")	Sale and maintenance of electronic parts and machinery processed products, and design of printed circuit board	-	-	100	4)
	Chunghwa Precision Test Tech. International, Ltd. ("CHPT (International)")	Wholesale electronic materials, electronic materials and general retail investment industry	-	-	100	5)

(Continued)

Name of Investor	Name of Investee	Main Businesses and Products	Percentage of Ownership January 1, 2012	Percentage of Ownership December 31, 2012	Percentage of Ownership December 31, 2013	Note
Senao International (Samoa) Holding Ltd.	Senao International HK Limited ("SIHK")	International investment	100	100	100	
Chunghwa Investment Holding Co., Ltd.	CHI One Investment Co., Limited ("COI")	Investment	100	100	100	
Senao International HK Limited	Senao Trading (Fujian) Co., Ltd. ("STF")	Information technology services and sale of communication products	100	100	100	
	Senao International Trading (Shanghai) Co., Ltd. ("SITS")	Information technology services and sale of communication products	100	100	100	
	Senao International Trading (Shanghai) Co., Ltd. ("SEITS")	Information technology services and maintenance of communication products	100	100	100	
	Senao International Trading (Jiangsu) Co., Ltd. ("SITJ")	Information technology services and sale of communication products	100	100	100	
Prime Asia Investments Group, Ltd. (B.V.I.)	Chunghwa Hsingta Co., Ltd. ("CHC")	Investment	100	100	100	
Chunghwa Hsingta Company Ltd.	Chunghwa Telecom (China) Co., Ltd. ("CTC")	Planning and design of energy conservation and software and hardware system services, and integration of information system	100	100	100	
	Jiangsu Zhenhua Information Technology Company, LLC. ("JZIT")	Intelligent energy conserving and intelligent building services	-	75	75	6)
	Hua-Xiong Information Technology Co., Ltd. ("HXIT")	Intelligent system and energy saving system services in buildings	-	51	51	7)

(Concluded)

1) The Company's equity ownership of SENAO decreased from 28.44% as of January 1, 2012 to 28.30% and 28.18% as of December 31, 2012 and 2013, respectively, due to the exercise of options by SENAO's employees. The Company owns 28% equity shares of SENAO. However, the Company has four out of seven seats of the board of directors of SENAO through the support of large beneficial shareholders. Therefore, the Company has control over SENAO and the accounts of SENAO are included in the consolidated financial statements.

2) Chunghwa established 100% owned subsidiary of HHR in January 2013.

3) The Company's equity ownership of CHPT decreased from 53.19% as of December 31, 2012 to 50.62% as of December 31, 2013 due to the exercise of options by CHPT's employees and CHPT issued employee stock bonus.

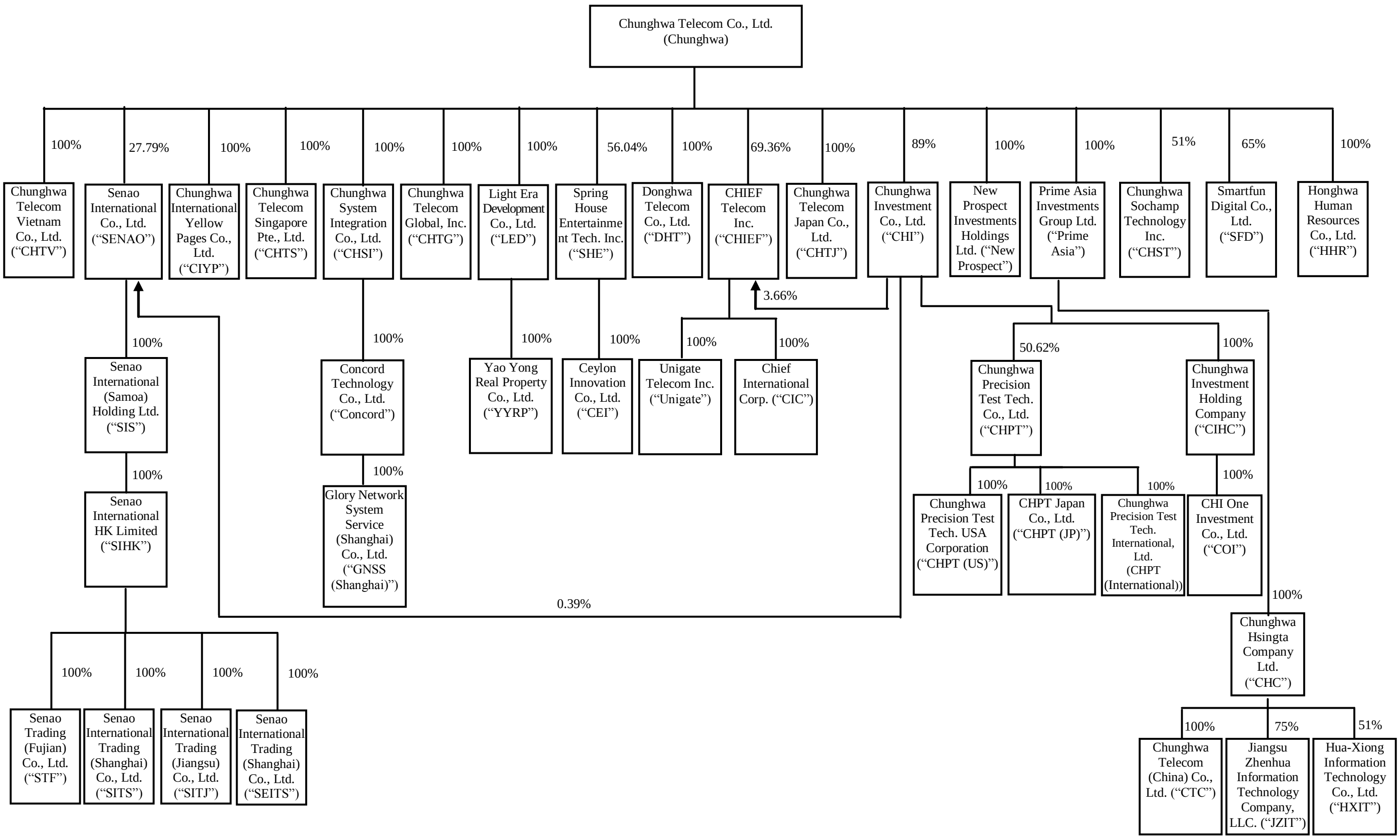
4) CHPT established 100% owned subsidiary of CHPT (JP) in January 2013.

5) CHPT established 100% owned subsidiary of CHPT (International) in July 2013.

6) JZIT was established in January 2012 and CHC owns 75% ownership of JZIT.

7) HXIT was established in November 2012 and CHC owns 51% ownership of HXIT.

The following diagram presents information regarding the relationship and ownership percentages between Chunghwa and its subsidiaries as of December 31, 2013:



Business Combination

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Company, liabilities incurred by the Company to the former owners of the acquire and the equity interests issued by the Company in exchange for control of the acquiree. Acquisition-related costs are recognized in profit or loss as incurred.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any noncontrolling interests in the acquiree, and the fair value of the acquirer’s previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any noncontrolling interests in the acquiree and the fair value of the acquirer’s previously held interest in the acquiree (if any), the excess is recognized immediately in profit or loss as a bargain purchase gain.

For each business combination, the Company shall measure at the acquisition date components of noncontrolling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity’s net assets in the event of liquidation at either fair value or at the noncontrolling interest’s proportionate share of the acquiree’s identifiable net assets.

When the consideration transferred by the Company in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

Foreign Currencies

In preparing the financial statements of each individual entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items denominated in foreign currencies are recognized in profit or loss when the transactions occur.

Foreign-currency nonmonetary assets or liabilities (such as equity instruments) that are carried at fair value are revalued using prevailing exchange rates at the balance sheet date and related exchange differences are recognized in profit or loss. Conversely, when the fair value changes were recognized in other comprehensive income, related exchange difference shall be recognized in other comprehensive income.

Chunghwa use New Taiwan dollars as the functional currency. For the purposes of presenting consolidated financial statements, the assets and liabilities of the Company's foreign operations are translated into New Taiwan dollars using exchange rates prevailing at the end of each balance date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are recognized in other comprehensive income and accumulated in equity attributed to noncontrolling interests as appropriate.

Cash Equivalents

Cash equivalent includes treasury bills, commercial paper, time deposits and negotiable certificate of deposit with original maturities within three months from the date of acquisition, are highly liquid, readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These cash equivalents are held for the purpose of meeting short-term cash commitments.

Inventories

Inventories 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. For qualifying assets, cost includes capitalized borrowing costs.

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.

Investments in Associates and Joint Venture

An associate is an entity over which the Company has significant influence and that is neither a subsidiary nor an interest in a joint venture. Joint venture arrangements that involve the establishment of a separate entity in which venturers have joint control over the economic activity of the entity are referred to as joint venture.

The operating results and identifiable net assets of associates and joint venture are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, an investment in an associate and joint venture is initially recognized in the consolidated balance sheet at cost and adjusted thereafter to recognize the Company's share of the profit or loss, any impairment losses, and other comprehensive income of the associate and joint venture. The Company also recognizes the changes in the Company's share of equity of associates and joint venture attributable to the Company.

When the Company reduces its ownership interest in an associate or a joint venture but the Company continues to use the equity method, the Company reclassifies to profit or loss the proportion of the gain or loss that had previously been recognized in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

Any excess of the cost of acquisition over the Company's share of the fair value of the identifiable net assets, liabilities and contingent liabilities of an associate and joint venture recognized at the date of acquisition is recognized as goodwill, which is included in the carrying amount of the investment and shall not be amortized.

The entire carrying amount of the investment (including goodwill) is tested for impairment as a single asset by comparing its recoverable amount with its carrying amount. Any impairment loss recognized forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized to the extent that the recoverable amount of the investment subsequently increases.

When a Company entity transacts with its associate and joint venture, profits and losses resulting from the transactions with the associate are recognized in the Company' consolidated financial statements only to the extent of interests in the associate and the joint venture that are not related to the Company.

Property, Plant and Equipment

When future economic benefits are expected to inflow to the Company and costs can be evaluated reliably, property, plant and equipment that are held for use in the production or supply of goods or services, or for administrative purposes for over one year are measured at costs. Subsequent to initial recognition, property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment.

Depreciation is recognized so as to write off the cost of the assets less their residual values over their useful lives, and it is computed using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed periodically, however, at least annually, with the effect of any changes in estimates accounted for on a prospective basis.

Upon sale or disposal of property, plant and equipment, the related cost, accumulated depreciation and accumulated impairment losses are deducted from the corresponding accounts, and any gain or loss is recognized in profit or loss as incurred.

Investment Properties

Investment properties are properties held to earn rentals and/or for capital appreciation (including property under construction for such purposes). Investment properties also include land held for a currently undetermined future use as such land is regarded as held for capital appreciation.

Investment properties are measured initially at cost, including direct costs of bringing the assets to intended use. Subsequent to initial recognition, investment properties are measured at cost less accumulated depreciation and accumulated impairment.

The Company uses the straight line method to depreciate the assets, that is, to evenly allocate the cost less residual value over the expected useful lives of the investment properties.

Upon disposal of investment properties, the related cost, accumulated depreciation and accumulated impairment losses are deducted from the corresponding accounts, and any gain or loss is recognized in profit or loss as incurred.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

For the purpose of impairment testing, goodwill is allocated to each of the Company's cash-generating units or groups of cash-generating units that are expected to benefit from the synergies of the business combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognized directly in profit or loss. An impairment loss recognized for goodwill is not reversed in subsequent periods.

When the Company disposes of an operation within a cash-generating unit (group of units) to which goodwill has been allocated, the goodwill associated with that operation should be included in the carrying amount of the operation when determining the gain or loss on disposal; and measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit (group of units) retained.

Intangible Assets Other Than Goodwill

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized on a straight-line basis over their estimated useful lives. The estimated useful life and amortization method are reviewed periodically, however, at least annually, with the effect of any changes in estimate being accounted for on a prospective basis. Except for the intangible assets to be disposed by the Company before the end of the useful lives, the residual values of intangible assets with finite useful lives are expected to be zero.

Upon disposal of intangible assets, the related cost, accumulated amortization and accumulated impairment losses are deducted from the corresponding accounts, and any gain or loss is recognized in profit or loss as incurred.

Impairment of Tangible and Intangible Assets Other Than Goodwill

When an indication of impairment is identified for tangible and 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.

Financial Instruments

Financial assets and financial liabilities are recognized when a consolidated entity becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

a. Financial assets

Regular way purchases or sales of financial assets are accounted for using trade date accounting. The regular way of transaction means the purchase or sale of financial assets delivered within the time frame established by regulation or convention in the marketplace.

1) Measurement category

a) Financial assets at fair value through profit and loss (FVTPL)

Financial assets are classified as at FVTPL when the financial asset is either held for trading or it is designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on measurement recognized in profit or loss. The net gain or loss recognized in profit or loss does not incorporate any dividend or interest earned on the financial asset.

b) Held-to-maturity financial assets

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturity date that the Company has positive intention and ability to hold to maturity other than those that are designated as at fair value through profit or loss or as available-for-sale and those that meet the definition of loans and receivables on initial recognition. When the counterparties of the Company’s investments have good credit quality, and the Company has positive intention and ability to hold to maturity, the investments are classified as held-to-maturity financial assets.

Subsequent to initial recognition, held-to-maturity financial assets are measured at amortized cost using the effective interest method less any impairment.

The effective interest rate method is a method of calculating the amortized cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that discounts the estimated future cash receipts through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

c) Available-for-sale financial assets (AFS financial assets)

AFS financial assets are non-derivatives that are either designated as AFS or are not classified as loans and receivables, held-to-maturity financial assets or financial assets at fair value through profit or loss.

Listed stocks, emerging market stocks, open-end mutual funds, unlisted stocks and corporate bonds held by the Company in an active market and classified as AFS are measured at fair value at the end of each reporting period. AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less any identified impairment losses at the end of each reporting period.

Changes in the carrying amount of AFS monetary financial assets relating to changes in foreign currency rates, interest income calculated using the effective interest method and dividends on AFS equity investments are recognized in profit or loss. Other changes in the carrying amount of AFS financial assets are recognized in other comprehensive income. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognized in other comprehensive income is reclassified to profit or loss.

Dividends on AFS equity instruments are recognized in profit or loss when the Company's right to receive the dividends is established.

d) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are measured at amortized cost using the effective interest method, less any impairment. Interest income is recognized by applying the effective interest rate, except for short-term receivables when the effect of discounting would be immaterial.

2) Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are 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 financial asset, the estimated future cash flows of the investment have been affected.

For financial assets carried at amortized cost, such as held-to-maturity investments and trade notes and accounts receivable, assets are assessed for impairment on a collective and individual basis.

For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate. However, since the discounted effect of short-term receivables is immaterial, the impairment loss is recognized on the difference between carrying amount and estimated future cash flow.

For financial assets measured at amortized cost, if, in a subsequent period, the amount of the impairment loss decreases, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss in the period.

In respect of AFS equity securities, impairment losses previously recognized in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognized in other comprehensive income.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables and other receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable and other receivables is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

3) Derecognition of financial assets

The Company derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

On derecognition of a financial asset in its entirety, the difference between the asset’s carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income and accumulated in equity is recognized in profit or loss.

c. Financial liabilities

1) Subsequent measurement

Except for financial liabilities at FVTPL, other financial liabilities are subsequently measured at amortized cost using the effective interest method.

2) Derecognition of financial liabilities

The Company derecognizes financial liabilities when, and only when, the Company’s obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable (includes the transfer of non-cash assets or assumption of liabilities) is recognized in profit or loss.

d. Derivative financial instruments

The Company enters into a variety of derivative financial instruments to manage its exposure to risk of foreign exchange rate and the fluctuation on stock price, including foreign exchange forward contracts, cross currency swap contracts and index future contracts.

Derivative financial instruments are initially recognized at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognized in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship. When the fair value of the derivative is positive, it is recognized as a financial asset; otherwise, it is recognized as a financial liability.

Hedge Accounting

The Company designates certain derivative instruments as fair value hedges.

At the inception of the hedge relationship, the Company documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Company documents whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk.

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognized in profit or loss immediately, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The change in the fair value of the hedging instrument and the change in the hedged item attributable to the hedged risk are recognized in the line of the consolidated statement of comprehensive income relating to the hedged item.

Hedge accounting is discontinued when the Company revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting.

Provisions

Provisions for the expected cost of warranty obligations under sale of goods are recognized at the date of sale of the relevant products, at the management's best estimate of the expenditure required to settle the Company's obligation.

Revenue Recognition

Revenue from the sale of goods is recognized when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

a. The Company has transferred to the buyer the significant risks and rewards of ownership of the goods;

b. The Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;

c. The amount of revenue can be measured reliably;

d. It is probable that the economic benefits associated with the transaction will flow to the Company; and

e. The costs incurred or to be incurred in respect of the transaction can be measured reliably.

Services revenue is recognized when service is provided.

Revenue is measured at the fair value of the consideration received or receivable and represents amounts 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 domestic and international), 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 services, 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 products and air time in these arrangements are allocated and measured using units of accounting within the arrangement based on their relative fair values limited to the amount that is not contingent upon the delivery of products.

Services revenue from a contract to provide services is recognized by reference to the stage of completion of the contract.

Dividend income from investments is recognized when the shareholder’s right to receive payment has been established.

Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to the Company and the amount of income can be measured reliably.

Leasing

a. The Company as lessor

   Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease.

b. The Company as lessee

   Operating lease payments are recognized as an expense on a straight-line basis over the lease term.

Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

Retirement Benefit Costs

Payments to defined contribution retirement benefit plans are recognized as an expense when employees have rendered entitling them to the contributions.

For defined benefit retirement benefit plans, the cost of providing benefits is determined using the Projected Unit Credit Method with actuarial calculations being carried out at the year end. Remeasurement, comprising actuarial gains and losses, the effect of the changes to the asset ceiling (if applicable) and the return on plan assets (excluding interest), is reflected immediately in the balance sheet with a charge or credit recognized in other comprehensive income in the period in which they occur. Remeasurement recognized in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss and past service cost is recognized in profit or loss in the period of a plan amendment. Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset. Defined benefit costs are categorized as follows:

- Service cost (including current service cost, past service cost, as well as gains and losses on curtailments and settlements);

- Net interest expense or income; and

- Remeasurement.

The retirement benefit obligation recognized in the consolidated balance sheet represents the actual deficit or surplus in the Company's defined retirement benefit plans. Any surplus resulting from this calculation is limited to the present value of any economic benefits available in the form of refunds from the plans or reductions in future contributions to the plans.

Share-based Payments

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date.

The value of the stock options granted, which is equal to the best available estimate of the number of stock options expected to vest multiplied by the grant-date fair value, is expensed over the vesting period, with a corresponding adjustment to additional paid-in capital - employee stock options. For those options with graded vesting schedules, each installment is treated as a separate share option grant for purposes of determining the grant date fair value. Expenses are recognized at the grant date in profit or loss if vested immediately.

At the balance sheet date, the Company reviews its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognized in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to additional paid-in capital - employee stock options.

Income Tax

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current and deferred taxes are recognized in profit or loss, except for those relate to items recognized in other comprehensive income or directly in equity; in which cases, the relevant tax effects (current and deferred taxes) are also recognized in other comprehensive income or directly in equity, respectively.

a. Current tax

   The current tax is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

   Income tax (10%) on undistributed 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.

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

b. Deferred tax

   Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences, loss carryforwards, unused tax credits from purchases of machinery, equipment and technology, research and development expenditures, and personnel training expenditures can be utilized.

   Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the balance sheet date, and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. Current and deferred tax are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity respectively.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Company's accounting policies, which are described in Note 3, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period. Actual results may differ from these estimates.

a. Impairment of accounts receivable

When there is objective evidence showing indications of impairment, the Company will consider the estimation of future cash flows. The amount of impairment will be measured as the difference between the carrying amount and the present value of estimated future cash flows discounted by the original effective interest rates of the financial assets. However, the impact from discounting short-term receivables is not material; therefore, the impairment of short-term receivables is based on the undiscounted estimated future cash flows. Where the actual future cash flows are less than expected, a material impairment loss may arise.

b. Provision for inventory valuation and obsolescence

Inventories are stated at the lower of cost or net realizable value. Estimates of net realizable value are based on the most reliable evidence available at the time the estimates are made at the end of reporting period. These estimates take into consideration fluctuations of price or cost directly relating to events occurring after the end of the period to the extent that such events confirm conditions existing at the end of the period. Estimates of net realizable value also take into consideration. Inventory write-downs are determined on an item by item basis, except for those similar items which could be categorized into the same groups. The Company uses the inventory holding period and turnover as the evaluation basis for inventory obsolescence losses.

c. Impairment of tangible and intangible assets

In the process of evaluating the potential impairment of tangible and intangible assets, the Company is required to consider internal and external indicators of impairment and make subjective judgments in determining the independent cash flows, useful lives, expected future revenue and expenses related to the specific asset groups within the context of the telecommunication industry. Any changes in these estimates based on changed economic conditions or business strategies could result in significant impairment charges in future periods.

d. Useful lives of property, plant and equipment

As discussed in Note 3, "Summary of Significant Accounting Policies" "Property, Plant and Equipment", the Company reviews the estimated useful lives of property, plant and equipment at the balance sheet date.

e. Recognition and measurement of defined benefit plans

Accrued pension liabilities and the resulting pension expense under defined benefit pension plans are calculated using the Projected Unit Credit Method. Actuarial assumptions comprise the discount rate, rate of employee turnover, and long-term average future salary increase. Changes in economic circumstances and market conditions will affect these assumptions and may have a material impact on the amount of the expense and the liability.

5. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

New and Revised IFRSs in Issue But Not Yet Effective

The Company has not applied the following new and revised IFRSs that have been issued but are not yet effective.

New, Revised or Amended Standards and Interpretations		Effective Date Issued by IASB (Note)
IFRS 9	Financial Instruments	Tentatively determined as January 1, 2018
Amendments to IFRS 9 and IFRS 7	Mandatory Effective Date and Transition Disclosure	Tentatively determined as January 1, 2018
Amendments to IFRS 10, IFRS 12 and IAS 27	Investment Entities	January 1, 2014
IFRS 14	Regulatory Deferral Accounts	January 1, 2016
Amendment to IAS 19	Defined Benefit Plans: Employee Contributions	July 1, 2014

(Continued)

New, Revised or Amended Standards and Interpretations		Effective Date Issued by IASB (Note)
Amendment to IAS 32	Offsetting of Financial Assets and Financial Liabilities	January 1, 2014
Amendments to IAS 36	Recoverable Amount Disclosure for Non-financial Assets	January 1, 2014
Amendment to IAS 39	Novation of Derivatives and Continuation of Hedge Accounting	January 1, 2014
IFRIC 21	Levies	January 1, 2014
IFRSs (Amendments)	Annual Improvements to IFRSs 2010-2012 Cycle	The amendments to IFRS 2 apply to share-based payment transactions for which the grant date is on or after July 1, 2014; the amendments to IFRS 3 apply to business combinations occurred on or after July 1, 2014; the amendments to IFRS 13 are effective immediately; the amendments to the remaining standards are effective for annual periods beginning on or after July 1, 2014.
IFRSs (Amendments)	Annual Improvements to IFRSs 2011-2013 Cycle	Effective for annual periods beginning on or after July 1, 2014

(Concluded)

Note: The aforementioned new, revised or amended standards or interpretations are effective after fiscal year beginning on or after the effective dates, unless specified otherwise.

Except for the following items, the Company believes the adoption of the aforementioned new and revised IFRSs will not have material impact on the Company's financial statements.

a. IFRS 9 "Financial Instruments"

Recognition and measurement of financial assets

With regards to financial assets, all recognized financial assets that are within the scope of IAS 39 "Financial Instruments: Recognition and Measurement" are to be subsequently measured at amortized cost or fair value. Specifically, financial assets that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of subsequent accounting periods. All other financial assets are measured at their fair values at the balance sheet date. However, the Company may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognized in profit or loss.

Hedge accounting

The main changes in hedge accounting amended the application requirements for hedge accounting to better reflect the entity's risk management activities. Compared with IAS 39, the main changes include: (1) enhancing types of transactions eligible for hedge accounting, specifically broadening the risk eligible for hedge accounting of non-financial items; (2) changing the way hedging derivative instruments are accounted for to reduce profit or loss volatility; and (3) replacing retrospective effectiveness assessment with the principle of economic relationship between the hedging instrument and the hedged item.

The mandatory effective date of IFRS 9, which was previously set on January 1, 2015, was removed and will be reconsidered once the standard is complete with a new impairment model and finalization of any limited amendments to classification and measurement.

The Company anticipates that the application of IFRS 9 in the future may have a significant impact on amounts reported in respect of the Company's financial assets. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 9 until a detailed review has been completed.

b. Amendments to IAS 36 "Recoverable Amount Disclosure for Non-financial Assets"

In issuing IFRS13 "Fair Value Measurement", the IASB made some consequential amendments to the disclosure requirements in IAS 36 "Impairment of Assets", introducing a requirement to disclose in every reporting period the recoverable amount of an asset or each cash-generating unit. The amendment clarifies that the disclosure of such recoverable amount is required during the period when an impairment loss has been recognized or reversed. Furthermore, the Company is required to disclose the discount rate used in current and previous measurements of the recoverable amount based on fair value less costs of disposal measured using a present value technique. The Company is currently evaluating the impact on the adoption of the amendments.

c. Amendments to IAS 39 "Novation of Derivatives and Continuation of Hedge Accounting"

The amendments to IAS 39 provide an exception to the requirement for the discontinuation of hedge accounting. The amendment states that the novation of a hedging instrument should not be considered an expiration or termination giving rise to the discontinuation of hedge accounting when a hedging derivative is novated:

As a consequence of laws and regulations, or the introduction of laws and regulations, one or more clearing counterparties replace the original counterparty; and

Any changes in terms of the novated derivative are limited to those necessary to effect the replacement of the counterparty.

Any changes to the derivative's fair value arising from the novation would be reflected in its measurement and therefore in the measurement and assessment of hedge effectiveness. The Company does not anticipate that the application of these amendments to IAS 39 will have a significant impact on the Company's consolidated financial statements as the Company does not have any novation of derivatives.

6. 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 of the United States as of December 31, 2013, which was NT$29.83 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.

7. CASH AND CASH EQUIVALENTS

	January 1, 2012	December 31, 2012	December 31, 2013
	NT$	NT$ (In Millions)	NT$
Cash			
Cash on hand	$ 239	$ 447	$ 236
Bank deposits	5,115	5,731	10,592
	5,354	6,178	10,828
Cash equivalents			
Commercial paper	18,966	18,957	2,375
Time deposits with maturities of less than three months	610	1,213	1,382
Negotiable certificate of deposit	1,177	4,590	-
Treasury bills	300	-	-
	21,053	24,760	3,757
	$ 26,407	$ 30,938	$ 14,585

The annual yield rates of bank deposits, commercial paper, time deposits with maturities of less than three months from acquisition, negotiable certificate of deposit and treasury bills were as follows:

	January 1, 2012	December 31, 2012	December 31, 2013
Bank deposits	0.00%-0.75%	0.00%-0.75%	0.00%-0.76%
Commercial paper	0.45%-0.80%	0.71%-0.74%	0.60%-0.65%
Time deposits with maturities of less than three months	0.40%-5.50%	0.88%-4.70%	0.05%-5.10%
Negotiable certificate of deposit	0.63%-0.72%	0.83%-0.96%	-
Treasury bills	0.70%	-	-

8. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	January 1, 2012	December 31, 2012	December 31, 2013
	NT$	NT$ (In Millions)	NT$
Financial assets held for trading			
Derivatives (not designated for hedge)			
Forward exchange contracts	$ -	$ -	$ -
Currency swap contracts	6	3	-
	6	3	-
Financial assets designated as at fair value through profit or loss			
Convertible bonds	40	-	-
	$ 46	$ 3	$ -

(Continued)

	January 1, 2012 NT$	December 31, 2012 NT$ (In Millions)	December 31, 2013 NT$
Financial liabilities held for trading			
Derivatives (not designated for hedge)			
Forward exchange contracts	$ -	$ -	$ -
Currency swap contracts	4	2	-
Index future contracts	-	-	-
	$ 4	$ 2	$ -

(Concluded)

The Company did not apply hedge accounting on the aforementioned contracts at the balance sheet date.

Outstanding currency swap contracts and forward exchange contracts as of balance sheet dates were as follows:

	Currency	Maturity Period	Contract Amount (In Millions)
January 1, 2012			
Currency swap contracts	US$/NT$	2012.01-2012.03	US$43/NT$1,307
	US$/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$991
	US$/NT$	2013.01-2013.03	US$32/NT$929
Forward exchange contracts - buy	NT$/US$	2013.01	NT$154/US$5
December 31, 2013			
Forward exchange contracts - buy	NT$/US$	2014.01	NT$90/US$3

Outstanding index future contracts of subsidiaries on January 1, 2012 were as follows:

	Maturity Period	Units	Contract Amount (In Millions)
January 1, 2012			
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

The deposits paid for outstanding index future contracts of subsidiaries (included in other current assets) were $5 million as of January 1, 2012.

The Company did not have any outstanding index future contracts as of December 31, 2012 and 2013.

The Company entered into the above currency swap contracts, forward exchange contracts and index future contracts to manage its exposure to foreign currency risk 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.

The convertible bonds owned by subsidiaries were hybrid financial instruments that were financial assets designated as at fair value through profit or loss.

9. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	January 1, 2012	December 31, 2012	December 31, 2013
	NT$	NT$ (In Millions)	NT$
Equity securities			
Domestic listed stocks and emerging stocks	$ 528	$ 3,278	$ 3,046
Domestic and foreign open-end mutual funds	2,137	2,190	-
Domestic non-listed stocks	2,470	2,328	2,224
Foreign non-listed stocks	105	140	200
Foreign listed stocks	-	10	24
	5,240	7,946	5,494
Debt securities			
Corporate bonds	77	50	-
	$ 5,317	$ 7,996	$ 5,494
Current	$ 2,499	$ 2,250	$ 24
Non-current	2,818	5,746	5,470
	$ 5,317	$ 7,996	$ 5,494

Since the range of fair values measurement of the non-listed stocks is significant and the probabilities of the various estimates cannot be reasonably assessed, thus the above non-listed stocks investment owned by the Company were carried at costs less any impairment losses at the balance sheet date.

CHI evaluated and concluded its available-for-sale financial assets were partially impaired, and recorded an impairment loss of $203 million and $66 million for the years ended December 31, 2012 and 2013, respectively.

10. HELD-TO-MATURITY FINANCIAL ASSETS

	January 1, 2012	December 31, 2012	December 31, 2013
	NT$	NT$ (In Millions)	NT$
Corporate bonds	$ 13,790	$ 14,791	$ 10,513
Bank debentures	906	1,255	1,253
	$ 14,696	$ 16,046	$ 11,766
Current	$ 1,201	$ 4,250	$ 4,264
Non-current	13,495	11,796	7,502
	$ 14,696	$ 16,046	$ 11,766

The related information of corporate bonds and bank debentures as of balance sheet dates were as follows:

	January 1, 2012	December 31, 2012	December 31, 2013
	NT$	NT$ (In Millions)	NT$
Corporate bonds			
Par value	$ 13,865	$ 15,955	$ 10,473
Nominal interest rate	1.20%-2.98%	1.15%-2.90%	1.15%-2.49%
Effective interest rate	0.83%-2.89%	1.00%-2.89%	1.00%-1.95%
Average expiry date	4 years	4 years	4 years
Bank debentures			
Par value	$ 900	$ 1,250	$ 1,250
Nominal interest rate	1.37%-1.60%	1.25%-1.60%	1.25%-1.60%
Effective interest rate	1.25%-1.40%	1.15%-1.40%	1.15%-1.40%
Average expiry date	4 years	4 years	4 years

11. TRADE NOTES AND ACCOUNTS RECEIVABLE

	January 1, 2012	December 31, 2012	December 31, 2013
	NT$	NT$ (In Millions)	NT$
Trade notes and accounts receivable			
Trade notes and accounts receivable	$ 24,819	$ 25,166	$ 23,823
Less: Allowance doubtful accounts	(2,423)	(811)	(922)
	$ 22,396	$ 24,355	$ 22,901

The average credit terms range from 30 to 90 days. In determining the recoverability of a trade receivable, the Company considers significant change in the credit quality of the trade notes and accounts receivable from the date credit was initially granted up to the end of the reporting period. In general, with few exceptional cases, it is unlikely for the notes and accounts receivable due longer than 180 days to be collected, therefore the Company recognized 100% allowance of notes and accounts receivable overdue longer than 180 days. For the notes and accounts receivable less than 180 days, the allowance for doubtful accounts was estimated based on the Company's historical recovery experience.

The Company serves a large consumer base; therefore, the concentration of credit risks is limited.

As of January 1, 2012, December 31, 2012 and December 31, 2013, the trade and accounts receivables that were neither past due nor impaired amounted to $21,108 million, $23,798 million and $22,399 million, respectively.

Aging of receivables that are past due but not impaired was as follows:

	January 1, 2012	December 31, 2012	December 31, 2013
	NT$	NT$ (In Millions)	NT$
Less than 30 days	$ 178	$ 188	$ 132
31-60 days	84	49	41
61-90 days	59	36	14
91-120 days	9	8	85
121-180 days	-	-	2
More than 181 days	11	9	12
	$ 341	$ 290	$ 286

The above aging analysis was based on days overdue.

Movements of the allowance for doubtful accounts were as follows:

	Year Ended December 31	
	2012	2013
	NT$	NT$
	(In Millions)	
Balance, beginning of year	$ 2,423	$ 811
Add: Provision for (reversal of) doubtful accounts	(1,473)	239
Deduct: Amounts written off	(139)	(128)
Balance, end of year	$ 811	$ 922

The amount of allowance for doubtful accounts assessed individually included the impairment loss of accounts receivable from certain companies in liquidation process or in significant financial difficulties, which were $7 million, $164 million and $221 million as of January 1, 2012, December 31, 2012 and December 31, 2013, respectively.

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.

12. INVENTORIES

	January 1, 2012	December 31, 2012	December 31, 2013
	NT$	NT$ (In Millions)	NT$
Merchandise	$ 2,999	$ 4,243	$ 5,221
Project in process	770	795	520
Work in process	12	18	26
Raw materials	25	36	26
	3,806	5,092	5,793
Land held for sale	579	15	-
Land and building held for sale	-	55	8
Construction in progress	290	-	44
Land held under development	111	-	1,999
Land held for development	36	2,034	4
	$ 4,822	$ 7,196	$ 7,848

The operating costs related to inventories were $44,150 million and $50,860 million for the years ended December 31, 2012 and 2013, respectively.

For the years ended December 31, 2012 and 2013, the costs of valuation loss on inventories recognized as operating cost included the amount of $113 million and $203 million, respectively.

The capitalized borrowing costs of construction in progress were not significant for both 2012 and 2013.

As of January 1, 2012, December 31, 2012 and December 31, 2013, inventories of $1,023 million, $2,042 million and $2,057 million, respectively, were expected to be recovered for a time period longer than twelve months. The aforementioned amount of inventories is mainly related to property development owned by LED.

Land held for sale on January 1, 2012 was for Wan-Xi, Li-Shui (A) projects and Covent projects. Land held for sale on December 31, 2012 was for Wan-Xi and Li-Shui (A) projects.

Land and building held for sale on December 31, 2012 and 2013 was for the Guang-Diang project.

Land held under development and construction in progress on January 1, 2012 was for Guang-Diang and Li-Shui (A) projects. Land held under development and construction in progress on December 31, 2013 was for Qingshan Sec., Dayuan Township, Taoyuan County.

Land held for development on January 1, 2012 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, Yucheng Sec., Nangang Dist., Taipei City and Qingshan Sec., Dayuan Township, Taoyuan County. Land held for development on December 31, 2013 was for Yucheng Sec., Nangang Dist., Taipei City.

Subsection 2 Gongyuan Sec., Zhongzheng Dist, Taipei City was sold in July 2013.

13. PREPAYMENTS

	January 1, 2012	December 31, 2012	December 31, 2013
	NT$	NT$ (In Millions)	NT$
Prepaid rents	$ 3,852	$ 3,566	$ 3,389
Others	1,584	1,974	2,443
	$ 5,436	$ 5,540	$ 5,832
Current			
Prepaid rents	$ 994	$ 919	$ 953
Others	895	1,067	1,271
	$ 1,889	$ 1,986	$ 2,224
Non-current			
Prepaid rents	$ 2,858	$ 2,647	$ 2,436
Others	689	907	1,172
	$ 3,547	$ 3,554	$ 3,608

14. OTHER CURRENT MONETARY ASSETS

	January 1, 2012	December 31, 2012	December 31, 2013
	NT$	NT$ (In Millions)	NT$
Time deposits and negotiable certificates of deposit with maturities of more than three months	$ 40,982	$ 22,264	$ 2,535
Receivables from the Fund for Privatization of Government - owned Enterprises under the Executive Yuan	1,284	869	1,318
Others	785	1,316	783
	$ 43,051	$ 24,449	$ 4,636

The annual yield rates of time deposits and negotiable certificates of deposit with maturities of more than three months at each period end were as follows:

	January 1, 2012	December 31, 2012	December 31, 2013
Time deposits and negotiable certificate of deposit with maturities of more than three months	0.25%-3.30%	0.25%-3.30%	0.11%-3.30%

15. NON-WHOLLY OWNED SUBSIDIARIES THAT HAVE NONCONTROLLING MATERIAL INTERESTS

The table below shows details of less than wholly owned subsidiaries of the Company that have material noncontrolling interests:

	Place of Incorporation and Principal Place of Business	Proportion of Ownership Interests and Voting Rights Held by Noncontrolling Interests		
		January 1, 2012	December 31, 2012	December 31, 2013
Senao International Co., Ltd.	Taiwan	72%	72%	72%

	Profit Allocated to Noncontrolling Interests		Accumulated Noncontrolling Interests		
	Year Ended December 31				
	2012	2013	January 1, 2012	December 31, 2012	December 31, 2013
	NT$	NT$	NT$ (In Millions)	NT$	NT$
Senao International Co., Ltd.	$ 1,066	$ 1,022	$ 3,534	$ 3,811	$ 4,302
Individually immaterial subsidiaries with noncontrolling interests			647	525	544
			$ 4,181	$ 4,336	$ 4,846

The Company owns 28% equity shares of Senao International Co., Ltd. (SENAO). However, the Company has four out of seven seats of the board of directors of SENAO through the support of large beneficial shareholders. Therefore, the Company has control over SENAO and the accounts of SENAO are included in the consolidated financial statements.

Summarised financial information in respect of SENAO that has material noncontrolling interests is set out below. The summarized financial information below represents amounts before intracompany eliminations.

Senao International Co., Ltd.	January 1, 2012	December 31, 2012	December 31, 2013
	NT$	NT$ (In Millions)	NT$
Current assets	$ 7,559	$ 8,723	$ 8,134
Non-current assets	$ 1,704	$ 1,926	$ 2,386
Current liabilities	$ 4,221	$ 5,247	$ 4,439
Non-current liabilities	$ 79	$ 100	$ 91
Equity attributable to the parent	$ 1,429	$ 1,491	$ 1,688
Noncontrolling interests	$ 3,534	$ 3,811	$ 4,302

	Year Ended December 31	
	2012	2013
	NT$	NT$
	(In Millions)	
Revenue	$ 35,241	$ 43,033
Expenses	33,758	41,610
Profit for the year	$ 1,483	$ 1,423
Profit attributable to the parent	$ 417	$ 401
Profit attributable to the noncontrolling interests	1,066	1,022
Profit for the year	$ 1,483	$ 1,423
Other comprehensive income (loss) attributable to the parent	$ (9)	$ 12
Other comprehensive income (loss) attributable to the noncontrolling interests	(24)	30
Other comprehensive income (loss) for the year	$ (33)	$ 42
Total comprehensive income attributable to the parent	$ 408	$ 413
Total comprehensive income attributable to the noncontrolling interests	1,042	1,052
Total comprehensive income for the year	$ 1,450	$ 1,465
Dividends paid to noncontrolling interests	$ 827	$ 739
Net cash inflow (outflow) from operating activities	$ 1,554	$ (240)
Net cash outflow from investing activities	$ (196)	$ (274)
Net cash outflow from financing activities	$ (1,111)	$ (993)
Net cash inflow (outflow)	$ 247	$ (1,507)

The Company's equity ownership of SENAO decreased from 28.44% as of January 1, 2012 to 28.30% and 28.18% as of December 31, 2012 and 2013, due to the exercise of options by SENAO's employees. The total proceeds from exercise of employee stock options were $43 million and $42 million for the years ended December 31, 2012 and 2013, respectively. The partial proceeds of $38 million and $36 million were attributed to noncontrolling interests for the years ended December 31, 2012 and 2013, respectively.

The Company's equity ownership of CHPT decreased from 53.19% as of December 31, 2012 to 50.62% as of December 31, 2013 due to the exercise of options by CHPT's employees and CHPT issued employee stock bonus. The total proceeds from exercise of employee stock options were $8 million, substantially all of which were attributed to noncontrolling interests for the year ended December 31, 2013.

16. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

	January 1, 2012	December 31, 2012	December 31, 2013
	NT$	NT$ (In Millions)	NT$
Associates	$ 2,269	$ 1,950	$ 2,131
Joint venture	251	241	228
	$ 2,520	$ 2,191	$ 2,359

a. Investments in associates

Investments in associates were as follows:

	Carrying Amount		
	January 1, 2012	December 31, 2012	December 31, 2013
	NT$	NT$ (In Millions)	NT$
Listed			
Senao Networks, Inc. ("SNI")	$ 332	$ 393	$ 484
Non-listed			
ST-2 Satellite Ventures Pte., Ltd. ("STS")	462	542	520
International Integrated System, Inc. ("IISI")	257	276	290
Viettle-CHT Co., Ltd.	255	265	278
Taiwan International Standard Electronics Co., Ltd. ("TISE")	612	192	180
Skysoft Co., Ltd. ("SKYSOFT")	111	124	152
So-net Entertainment Taiwan Limited ("So-net")	34	31	92
Kingwaytek Technology Co., Ltd. ("KWT")	74	76	74
Alliance Digital Technology Co., Ltd. ("ADT")	-	-	29
HopeTech Technologies Limited ("HopeTech")	21	22	25
Xiamen Sertec Business Technology Co., Ltd. ("Sertec")	1	8	6
Dian Zuan Integrating Marketing Co., Ltd. ("DZIM")	110	21	1
Panda Monium Company Ltd.	-	-	-
	$ 2,269	$ 1,950	$ 2,131

At the end of the reporting period, the percentage of ownership and voting rights in associates held by the Company were as follows:

	% of Ownership and Voting Right		
	January 1, 2012	**December 31, 2012**	**December 31, 2013**
Senao Networks, Inc. ("SNI")	41	40	34
ST-2 Satellite Ventures Pte., Ltd. ("STS")	38	38	38
International Integrated System, Inc. ("IISI")	33	33	33
Viettle-CHT Co., Ltd.	30	30	30
Taiwan International Standard Electronics Co., Ltd. ("TISE")	40	40	40
Skysoft Co., Ltd. ("SKYSOFT")	30	30	30
So-net Entertainment Taiwan Limited ("So-net")	30	30	30
Kingwaytek Technology Co., Ltd. ("KWT")	33	33	33
Alliance Digital Technology Co., Ltd. ("ADT")	-	-	19
HopeTech Technologies Limited ("HopeTech")	45	45	45
Xiamen Sertec Business Technology Co., Ltd. ("Sertec")	49	49	49
Dian Zuan Integrating Marketing Co., Ltd. ("DZIM")	40	33	13
Panda Monium Company Ltd.	43	43	43

None of the above associates is considered individually material to the Company. Aggregate information of associates that are not individually material was as follows:

	Year Ended December 31	
	2012	**2013**
	NT$ (In Millions)	**NT$ (In Millions)**
The Company's share of the profit	$ 529	$ 680
The Company's share of other comprehensive income (loss)	(26)	(35)
The Company's share of total comprehensive income	$ 503	$ 645

SNI was listed in December 2013. The fair value based on the closing market prices of SNI as of the balance sheet date is as follows:

	December 31, 2013
	NT$ (In Millions)
SNI	$ 2,545

SENAO's equity ownership of SNI decreased from 40% as of December 31, 2012 to 34% as of December 31, 2013 for the following reasons: (1) not participating in capital increase of SNI; (2) disposal some shares of SNI; and (3) the exercise of options by SNI's employees.

SENAO disposed of 245 thousand shares of SNI in December 2013 and the amount of profit and loss recognized was as follows:

	Year Ended December 31, 2013
	NT$ (In Millions)
Proceeds from disposal	$ 24
Carrying amount of the disposed investment	(9)
Reclassification adjustment upon disposal - exchange differences arising from the translation of the net investment in foreign operations	(2)
Profit or loss, net	$ 13

Chunghwa participated in the capital increase of So-net by investing $60 million in March 2013. The ownership interest remains 30% after the capital increase.

Chunghwa, Taiwan Mobile Corporation, Asia Pacific Telecom, Vibo Telecom, EasyCard Corporation and Far Eastone Telecommunications established an associate, ADT, in November 2013. Chunghwa invested $30 million cash and held 19% ownership of ADT. Based on the share of capital commitments, Chunghwa has one seat out of five seats in the board of directors; therefore it has significant influence over ADT. ADT engages mainly in the development of mobile payments and information processing service.

Chunghwa, President Chain Store Corporation and EasyCard Corporation established an associate, DZIM, in May 2011. Chunghwa invested $115 million cash and held 40% ownership of DZIM in May 2011. Chunghwa participated in the capital increase of DZIM by investing $14 million in May 2012 but did not subscribe to the shares at its corresponding proportion. Thus, the ownership interest decreased from 40% to 33% after the capital increase of DZIM. DZIM reduced its capital by $193 million in December 2012; Chunghwa received $65 million from the capital reduction and the ownership interest remains at 33%. DZIM reduced its capital to offset the deficits amounting to $131 million and made capital reduction of $49 million during its stockholders' meeting held on March 31, 2013. Chunghwa received $16 million form the capital reduction. Chunghwa did not participate in the capital increase of DZIM in July 2013 and the ownership interest decreased from 33% to 13% after the capital increase of DZIM. The Company still has two seats out of five seats in the board of directors; therefore it remains an investor with significant influence over DZIM. DZIM engages mainly in information technology service and general advertisement service.

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

The Company's share of profit (loss) and other comprehensive income (loss) of associates was recorded based on financial statements of the associates prepared in conformity with IFRSs for the years ended December 31, 2012 and 2013.

b. Investment in joint venture

Investment in joint venture was as follows:

	Carrying Amount			% of Ownership and Voting Rights		
	January 1, 2012	December 31, 2012	December 31, 2013	January 1, 2012	December 31, 2012	December 31, 2013
	NT$	NT$ (In Millions)	NT$			
Non-listed						
Huada Digital Corporation (“HDD”)	$ 251	$ 241	$ 228	50	50	50

Chunghwa invested in HDD in September 2011 at $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 entity obtained control over HDD. HDD engages mainly in providing software services.

Summarized financial information of joint venture that was not material to the Company was as follows:

	Year Ended December 31	
	2012	2013
	NT$ (In Millions)	NT$
The Company’s share of the loss	$ (9)	$ (14)
The Company’s share of other comprehensive income	-	-
The Company’s share of total comprehensive loss	$ (9)	$ (14)

The Company’s share of loss of the joint venture was recorded based on audited financial statements for the years ended December 31, 2012 and 2013.

17. PROPERTY, PLANT AND EQUIPMENT

	December 31		
	2011	2012	2013
	NT$	NT$ (In Millions)	NT$
Carrying amount			
Land	$ 102,122	$ 102,197	$ 102,263
Land improvements	504	480	443
Buildings	47,619	46,604	45,586
Computer equipment	3,889	3,886	4,395
Telecommunications equipment	124,300	121,530	122,804
Transportation equipment	1,273	2,045	2,073
Miscellaneous equipment	1,636	1,917	2,297
Construction in progress and advances related to acquisition of equipment	13,689	18,683	22,853
	$ 295,032	$ 297,342	$ 302,714

	Land	Land Improvements	Buildings	Computer Equipment	Telecommuni-cations Equipment	Transportation Equipment	Miscellaneous Equipment	Construction in Progress and Advances Related to Acquisition of Equipment	Total
	NT$	NT$	NT$	NT$	NT$ (In Millions)	NT$	NT$	NT$	NT$
Cost									
Balance on January 1, 2012	$ 102,122	$ 1,521	$ 67,289	$ 14,808	$ 655,543	$ 2,527	$ 7,220	$ 13,689	$ 864,719
Additions	-	-	-	51	30	1	108	33,531	33,721
Disposal	(17)	(5)	(47)	(921)	(11,204)	(399)	(417)	-	(13,010)
Effect of foreign exchange differences	-	-	-	(1)	(1)	-	(1)	(21)	(24)
Other	92	32	187	1,297	25,008	1,186	678	(28,516)	(36)
Balance on December 31, 2012	$ 102,197	$ 1,548	$ 67,429	$ 15,234	$ 669,376	$ 3,315	$ 7,588	$ 18,683	$ 885,370
Balance on January 1, 2013	$ 102,197	$ 1,548	$ 67,429	$ 15,234	$ 669,376	$ 3,315	$ 7,588	$ 18,683	$ 885,370
Additions	-	-	6	68	72	1	285	36,295	36,727
Disposal	(56)	(9)	(18)	(1,132)	(14,778)	(158)	(439)	-	(16,590)
Effect of foreign exchange differences	-	-	-	2	7	-	(9)	-	-
Other	122	8	141	1,824	28,441	587	990	(32,125)	(12)
Balance on December 31, 2013	$ 102,263	$ 1,547	$ 67,558	$ 15,996	$ 683,118	$ 3,745	$ 8,415	$ 22,853	$ 905,495
Accumulated depreciation and impairment									
Balance on January 1, 2012	$ -	$ (1,017)	$ (19,670)	$ (10,919)	$ (531,243)	$ (1,254)	$ (5,584)	$ -	$ (569,687)
Depreciation Expenses	-	(56)	(1,220)	(1,342)	(27,534)	(408)	(461)	-	(31,021)
Disposal	-	5	47	918	11,191	398	416	-	12,975
Impairment losses	-	-	-	-	(281)	-	(20)	-	(301)
Effect of foreign exchange differences	-	-	-	-	2	-	-	-	2
Other	-	-	18	(5)	19	(6)	(22)	-	4
Balance on December 31, 2012	$ -	$ (1,068)	$ (20,825)	$ (11,348)	$ (547,846)	$ (1,270)	$ (5,671)	$ -	$ (588,028)
Balance on January 1, 2013	$ -	$ (1,068)	$ (20,825)	$ (11,348)	$ (547,846)	$ (1,270)	$ (5,671)	$ -	$ (588,028)
Depreciation Expenses	-	(57)	(1,245)	(1,380)	(26,977)	(550)	(728)	-	(30,937)
Disposal	-	9	18	1,129	14,735	158	421	-	16,470
Impairment losses	-	-	-	-	(254)	-	-	-	(254)
Effect of foreign exchange differences	-	-	-	(1)	22	-	(27)	-	(6)
Other	-	12	80	(1)	6	(10)	(113)	-	(26)
Balance on December 31, 2013	$ -	$ (1,104)	$ (21,972)	$ (11,601)	$ (560,314)	$ (1,672)	$ (6,118)	$ -	$ (602,781)

The Company determined that some telecommunications equipment and miscellaneous equipment will not have future economic benefits, and wrote off their carrying amount to nil, which resulted in an impairment loss of $301 million and $254 million for the years ended December 31, 2012 and 2013, respectively.

Depreciation expense is computed using the straight-line method over the following estimated service lives:

Land improvement	8-30 years
Buildings	
Main building	35-60 years
Other building facilities	3-10 years
Computer equipment	3-8 years
Telecommunications equipment	
Telecommunication circuits	9-15 years
Telecommunication machinery and antennas equipment	5-10 years
Transportation equipment	3-10 years
Miscellaneous equipment	
Leasehold improvements	2-6 years
Mechanical and air conditioner equipment	8-16 years
Others	3-10 years

18. INVESTMENT PROPERTIES

	December 31		
	2011	2012	2013
	NT$	NT$ (In Millions)	NT$
Carrying amount			
Investment properties	$ 9,060	$ 7,789	$ 8,018
Cost	$ 9,249	$ 9,260	$ 9,260

	Investment Properties
	NT$ (In Millions)
Accumulated depreciation and impairment	
Balance on January 1, 2012	$ (189)
Depreciation expense	(16)
Recognized impairment loss	(1,261)
Reclassification	(5)
Balance on December 31, 2012	$ (1,471)
Balance on January 1, 2013	$ (1,471)
Depreciation expense	(17)
Reversal of impairment loss	246
Balance on December 31, 2013	$ (1,242)

The fair values of investment properties were based on appraisals conducted by independent appraisers. Those appraisals are based on the comparison approach, income approach or cost approach. Key assumptions and the fair values were as follows:

	December 31		
	2011	2012	2013
	NT$	NT$ (In Millions)	NT$
Fair value	$ 15,058	$ 15,511	$ 17,501
Overall capital interest rate	1.46%	1.46%	1.46%-2.20%
Profit margin ratio	12%-15%	12%-15%	12%-20%
Discount rate	1.36%	1.36%	1.36%
Capitalization rate	1.5%-2.05%	1.5%-2.05%	0.68%-2.02%

After evaluating the investment properties, the Company determined that some land and buildings were impaired and recognized an impairment loss of $1,261 million for the year ended December 31, 2012.

The fair value associated with certain properties increased during 2013 and therefore the Company reversed a portion of previously recognized impairment losses amounting to $246 million for the year ended December 31, 2013.

The fair values of impaired investment properties were based on appraisals conducted by independent appraisers and are Level 3 in the hierarchy of valuations in IFRS 13. The appraisers used comparison approach or cost approach to estimate the fair values. For comparison approach, the valuation was based on observable inputs from comparable property transactions. For cost approach, the overall capital interest rate, profit margin ratio and discount rate were used in measuring fair value. The fair value less costs to sell is higher than the value in use and hence the recoverable amount of the relevant assets has been determined on the basis of their fair value less costs to sell. The fair values of these properties were $2,685 million and $2,858 million and the cost of disposal were $4 million and $5 million as of December 31, 2012 and 2013, respectively.

Depreciation expense is computed using the straight-line method over the following estimated service lives:

Land improvements	8-30 years
Buildings	
Main buildings	35-60 years
Other building facilities	3-10 years

All of the Company's investment properties are held under freehold interest.

19. INTANGIBLE ASSETS

	January 1, 2012	December 31, 2012	December 31, 2013
	NT$	NT$ (In Millions)	NT$
Carrying amount			
3G and 4G concession	$ 5,240	$ 4,492	$ 42,818
Computer software	751	1,015	1,331
Goodwill	181	181	163
Others	106	94	87
	$ 6,278	$ 5,782	$ 44,399

	3G and 4G Concession	Computer Software	Goodwill	Others	Total
	NT$	NT$	NT$ (In Millions)	NT$	NT$
Cost					
Balance on January 1, 2012	$ 10,179	$ 1,733	$ 181	$ 139	$ 12,232
Additions-acquired separately	-	630	-	2	632
Disposal	-	(298)	-	(24)	(322)
Balance on December 31, 2012	$ 10,179	$ 2,065	$ 181	$ 117	$ 12,542
Balance on January 1, 2013	$ 10,179	$ 2,065	$ 181	$ 117	$ 12,542
Additions-acquired separately	39,075	796	-	1	39,872
Disposal	-	(225)	-	-	(225)
Effect of foreign exchange difference	-	1	-	-	1
Balance on December 31, 2013	$ 49,254	$ 2,637	$ 181	$ 118	$ 52,190

(Continued)

	3G and 4G Concession NT$	Computer Software NT$	Goodwill NT$ (In Millions)	Others NT$	Total NT$
Accumulated amortization and impairment					
Balance on January 1, 2012	$ (4,939)	$ (982)	$ -	$ (33)	$ (5,954)
Amortization expenses	(748)	(366)	-	(9)	(1,123)
Disposal	-	298	-	24	322
Impairment loss	-	-	-	(5)	(5)
Effect of foreign exchange difference	-	-	-	-	-
Balance on December 31, 2012	$ (5,687)	$ (1,050)	$ -	$ (23)	$ (6,760)
Balance on January 1, 2013	$ (5,687)	$ (1,050)	$ -	$ (23)	$ (6,760)
Amortization expenses	(749)	(481)	-	(8)	(1,238)
Disposal	-	225	-	-	225
Impairment loss	-	-	(18)	-	(18)
Effect of foreign exchange difference	-	-	-	-	-
Balance on December 31, 2013	$ (6,436)	$ (1,306)	$ (18)	$ (31)	$ (7,791)

(Concluded)

For long-term business development, Chunghwa participated in mobile broadband (4G) license bidding process announced by NCC and obtained certain spectrums. Chunghwa paid the 4G concession fee amounting to $39,075 million in November 2013. Amortization of the 4G concession fee would commence at the date the network is available for use. Chunghwa expects to amortize the 4G concession fee from the second half of 2014 to December 2030.

Except for goodwill, the amortization expense is computed using the straight-line method over the following estimated service lives:

The computer software is amortized using the straight-line method over the estimated useful lives of 2 to 10 years.

The 3G concession fee is amortized on a straight-line basis from the date operations commence through the date the license expires. The carrying amount of 3G concession fee will be fully amortized by December 2018. Goodwill is not amortized.

Other intangible assets are amortized using the straight-line method over the estimated useful lives of 3 to 20 years.

CHPT recognized an impairment loss of $5 million on the patent for the year ended December 31, 2012.

The Company did not recognize any impairment loss on goodwill for the year ended December 31, 2012. Goodwill amounted to $18 million arising from the business combination of a subsidiary, CHI, was fully impaired for the year ended December 31, 2013 because CHI underwent organizational downsizing.

20. OTHER ASSETS

	January 1, 2012	December 31, 2012	December 31, 2013
	NT$	NT$ (In Millions)	NT$
Spare parts	$ 2,306	$ 4,046	$ 3,008
Refundable deposits	1,760	2,087	2,210
Other financial assets	1,000	1,000	1,000
Others	1,831	1,939	2,627
	$ 6,897	$ 9,072	$ 8,845
Current	$ 3,039	$ 4,476	$ 3,962
Noncurrent	3,858	4,596	4,883
	$ 6,897	$ 9,072	$ 8,845
Current			
Spare parts	$ 2,306	$ 4,046	$ 3,008
Others	733	430	954
	$ 3,039	$ 4,476	$ 3,962
Noncurrent			
Refundable deposits	$ 1,760	$ 2,087	$ 2,210
Other financial assets	1,000	1,000	1,000
Others	1,098	1,509	1,673
	$ 3,858	$ 4,596	$ 4,883

Other financial assets - noncurrent relates to the Piping Fund. 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 to a Piping Fund administered by the Taipei City Government. This fund was used to finance various telecommunications infrastructure projects. Net assets of this fund would be returned proportionately after the project was completed.

21. SHORT-TERM LOANS

	January 1, 2012	December 31, 2012	December 31, 2013
	NT$	NT$ (In Millions)	NT$
Unsecured loans	$ 75	$ 111	$ 254
Annual interest rate	1.25%-1.53%	1.25%-2.40%	1.18%-2.40%

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

	January 1, 2012	December 31, 2012	December 31, 2013
	NT$	NT$ (In Millions)	NT$
Secured loans	$ 1,651	$ 2,050	$ 1,700
Unsecured loans	109	8	-
	1,760	2,058	1,700
Less: Current portion of long-term loans	702	8	300
	$ 1,058	$ 2,050	$ 1,400

The annual interest rates of loans were as follows:

	January 1, 2012	December 31, 2012	December 31, 2013
Secured loans	1.10%-1.83%	1.13%-2.10%	1.15%-2.10%
Unsecured loans	2.01%-2.04%	2.01%	-

LED obtained a secured loan from Chang Hwa Bank in September 2010. Interest is paid monthly. $300 million and $1,350 million will become due in December 2014 and September 2015, respectively. LED obtained another secured loan from Chang Hwa Bank in December 2012 at $400 million which will be due in December 2017; LED repaid $350 million in February 2013.

CHIEF obtained an unsecured loan from Bank of Taiwan in January 2009. Interest and principal amount are paid monthly from January 2009 and all were repaid in January 2013.

CHPT obtained a secured loan from the E.SUN Commercial Bank in February 2009. Interest and the principal were paid monthly from March 2009 and all were repaid in February 2012.

23. TRADE NOTES AND ACCOUNTS PAYABLE

	January 1, 2012	December 31, 2012	December 31, 2013
	NT$	NT$ (In Millions)	NT$
Trade notes and accounts payable	$ 14,265	$ 13,513	$ 15,589

Trade notes and accounts payable were attributable to operating activities, and the trading term and conditions were agreed separately.

24. OTHER PAYABLES

	January 1, 2012	December 31, 2012	December 31, 2013
	NT$	NT$ (In Millions)	NT$
Other payables			
Accrued salary and compensation	$ 10,506	$ 9,838	$ 10,336
Payables to contractors	1,834	2,380	2,733
Accrued franchise fees	2,246	2,164	2,009
Payables to equipment suppliers	1,870	1,884	1,820
Amounts collected for others	1,201	1,327	1,326
Accrual amounts for bonuses to employees and remuneration to directors and supervisors	2,344	1,785	980
Accrued maintenance costs	898	988	991
Others	5,403	5,736	6,597
	$ 26,302	$ 26,102	$ 26,792

25. PROVISIONS

	January 1, 2012	December 31, 2012	December 31, 2013
	NT$	NT$ (In Millions)	NT$
Warranties	$ 148	$ 221	$ 201
Employee benefits	33	42	47
Others	1	3	4
	$ 182	$ 266	$ 252
Current	$ 148	$ 221	$ 129
Noncurrent	34	45	123
	$ 182	$ 266	$ 252

	Warranties	Employee Benefits	Others	Total
	NT$	NT$ (In Millions)	NT$	NT$
Balance on January 1, 2012	$ 148	$ 33	$ 1	$ 182
Additional provisions recognized	166	9	2	177
Used during the period	(92)	-	-	(92)
Unused amounts reserved	(1)	-	-	(1)
Balance on December 31, 2012	$ 221	$ 42	$ 3	$ 266

(Continued)

	Warranties	Employee Benefits	Others	Total
	NT$	NT$	NT$	NT$
		(In Millions)		
Balance on January 1, 2013	$ 221	$ 42	$ 3	$ 266
Additional provisions recognized	153	5	1	159
Used during the period	(173)	-	-	(173)
Balance on December 31, 2013	$ 201	$ 47	$ 4	$ 252

(Concluded)

a. The provision for warranty claims represents the present values of the management's best estimate of the future outflow of economic benefits that will be required under the Company's obligation for warranties in sales agreements. The estimate has been made based on the historical warranty experience.

b. The provision for employee benefits represents vested long-term service leave entitlements accrued.

26. ADVANCE RECEIPTS

Advance receipts are mainly from advance telecommunication charges. In accordance with NCC's regulation named "Mandatory and Prohibitory Provisions To Be Included In Standard Contracts for Telecommunication Goods (Services) Coupons", the Company entered into a contract with Bank of Taiwan. Bank of Taiwan provided a performance guarantee from selling prepaid cards amounting to $1,058 million as of December 31, 2013.

27. RETIREMENT BENEFIT PLANS

a. Defined contribution plans

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 domestic subsidiaries make monthly contributions to employees' individual pension accounts at 6% of monthly salaries and wages. Its foreign subsidiaries would make monthly contributions based on the local pension requirements. The amount recognized as an expense for defined contribution plans were $311 million and $375 million for the years ended December 31, 2012 and 2013, respectively.

b. Defined benefit plans

Chunghwa completed its 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 was requested to administer the distributions to employees on behalf of MOTC for pension obligations including service clearance payment, lump sum payment under civil service plan, additional separation payments, etc. upon the completion of the privatization and recognized such receivable from MOTC in other current monetary assets.

The Company's pension plan under the Labor Standards Law is considered as a defined benefit plan that provide benefits based on an employee's length of service and average last 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. To meet the minimum funding requirement, the Company is to make monthly contributions of at least 2% of eligible employees.

The most recent actuarial valuation of plan assets and the present value of the defined benefit obligation were carried out at December 31, 2013 by an independent actuary. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit Method.

The principal assumptions used for the purpose of the actuarial valuations were as follows:

	Measurement Date		
	January 1, 2012	**December 31, 2012**	**December 31, 2013**
Discount rates	1.75%	1.60%	2.00%
Expected rates of salary increase	1.00%-3.00%	1.00%-2.75%	1.00%-2.75%

Amounts recognized in consolidated statement of comprehensive income in respect of these defined benefit plans are as follows.

	Year Ended December 31	
	2012	**2013**
	NT$	**NT$**
	(In Millions)	
Current service cost	$ 2,836	$ 2,906
Net interest expense	26	53
Components of defined benefit costs recognized in profit or loss	2,862	2,959
Remeasurement on the net defined benefit liability:		
Return on plan assets	132	(226)
Actuarial gains and losses arising from changes in demographic assumptions	534	(3)
Actuarial gains and losses arising from changes in financial assumptions	300	(858)
Actuarial gains and losses arising from experience adjustments	573	1,704
Components of defined benefit costs recognized in other comprehensive income	1,539	617
	$ 4,401	$ 3,576
An analysis by function		
Operating cost	$ 1,719	$ 1,762
Marketing expenses	803	858
General and administrative expenses	158	162
Research and development expenses	105	100
	$ 2,785	$ 2,882

The cumulative amount of actuarial gains and losses recognized in other comprehensive income as of December 31, 2012 and 2013 was $1,539 million and $2,156 million, respectively.

The amount included in the consolidated balance sheets arising from the Company's obligation in respect of its defined benefit plans is as follows:

	January 1, 2012	December 31, 2012	December 31, 2013
	NT$	NT$ (In Millions)	NT$
Present value of funded defined benefit obligation	$ 18,697	$ 22,100	$ 25,457
Fair value of plan assets	(15,750)	(17,528)	(19,982)
Net liability arising from defined benefit obligation	$ 2,947	$ 4,572	$ 5,475
Accrued pension liabilities	$ 2,950	$ 4,577	$ 5,482
Prepaid pension cost (included in other noncurrent assets - others)	(3)	(5)	(7)
	$ 2,947	$ 4,572	$ 5,475

Movements in the present value of the defined benefit obligation in the current year were as follows.

	Year Ended December 31	
	2012	2013
	NT$ (In Millions)	NT$
Balance, beginning of the year	$ 18,697	$ 22,100
Current service cost	2,836	2,906
Interest cost	321	347
Remeasurement on the net defined benefit liability:		
Actuarial gains and losses arising from changes in demographic assumptions	534	(3)
Actuarial gains and losses arising from changes in financial assumptions	300	(858)
Actuarial gains and losses arising from experience adjustments	573	1,704
Benefits paid from plan assets	(1,026)	(632)
Benefits paid directly by the Company	(135)	(107)
Balance, end of the year	$ 22,100	$ 25,457

Movements in the fair value of the plan assets were as follows.

	Year Ended December 31	
	2012	2013
	NT$ (In Millions)	NT$
Balance, beginning of the year	$ 15,750	$ 17,528
Interest income	295	294
Return on plan assets	(132)	226
Contributions from employer	2,641	2,566
Benefits paid from plan assets	(1,026)	(632)
Balance, end of the year	$ 17,528	$ 19,982

The major categories of plan assets and the fair value of plan assets at the end of the reporting period for each category, were as follows:

	Fair Value of Plan Assets		
	January 1, 2012	**December 31, 2012**	**December 31, 2013**
Stock and beneficiary certificates	$ 6,418	$ 6,677	$ 8,946
Fixed income investments	5,552	6,417	6,310
Cash	3,760	4,296	4,568
Others	20	138	158
	$ 15,750	$ 17,528	$ 19,982

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 and the government is responsible for any shortfall in the event that the rate of return is less than the required rate of return. The plan assets are held in a commingled fund which is operated and managed by the government's designated authorities; as such, the Company does not have any right to intervene in the investments of the funds.

Significant actuarial assumptions for the determination of the defined obligation are discount rate and expected salary increase. The sensitivity analyses below have been determined based on reasonably possible changes of the respective assumptions occurring at the end of the reporting period, while holding all other assumptions constant.

If the discount rate is 0.5% higher, the defined benefit obligation would decrease by $1,027 million. If the discount rate is 0.5% lower, the defined benefit obligation would increase by $1,097 million.

If the expected salary growth increases by 0.5%, the defined benefit obligation would increase by $1,153 million. If the expected salary growth decreases by 0.5%, the defined benefit obligation would decrease by $1,131 million.

The sensitivity analysis presented above may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

Furthermore, in presenting the above sensitivity analysis, the present value of the defined benefit obligation has been calculated using the projected unit credit method at the end of the reporting period, which is the same as that applied in calculating the defined benefit obligation liability recognised in the consolidated balance sheets.

The average duration of the benefit obligation at December 31, 2013 is from 8 to 18 years.

The Company's maturity analysis of the benefit payments was as follows.

Year	**Amount NT$ (In Millions)**
2014	$ 1,184
2015	1,807
2016	2,892
2017	3,993
2018 and thereafter	48,096

The Company expects to make a contribution of $2,590 million to the defined benefit plans in the next twelve months starting from December 31, 2013.

28. EQUITY

a. Share capital

1) Common stock

	January 1, 2012	December 31, 2012	December 31, 2013
	NT$	NT$ (In Millions)	NT$
Number of authorized shares	12,000	12,000	12,000
Authorized shares	$ 120,000	$ 120,000	$ 120,000
Number of shares issued and outstanding	7,757	7,757	7,757
Issued and outstanding shares	$ 77,574	$ 77,574	$ 77,574

The issued common stock of a par value at $10 per share entitled the right to vote and receive dividends.

2) Global depositary receipts

For the purpose of privatizing Chunghwa, the MOTC sold 1,110 million shares of common stock of Chunghwa in an international offering of securities in the form of American Depositary Shares ("ADS") amounting to 111 million units (one ADS represents ten shares of common stock) on the New York Stock Exchange on July 17, 2003. Afterwards, the MOTC sold 1,351 million common shares in the form of ADS amounting to 135 million units on August 10, 2005. Subsequently, the MOTC and Taiwan Mobile Co., Ltd. sold 505 million and 59 million common shares of Chunghwa, respectively, in the form of ADS totally amounting to 56 million units on September 29, 2006. The MOTC and Taiwan Mobile Co., Ltd. have sold 3,025 million common shares in the form of ADS amounting to 302 million units. As of December 31, 2013, there were 28 million ADSs outstanding, which represent 283 million common shares, representing 3.64% 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.

b. Addition paid-in capital

The adjustment of additional paid-in capital for the years ended December 31, 2012 and 2013 were as follows:

	Share Premium NT$	Donated Capital NT$	Movements of Paid-in Capital for Associates Accounted for Using Equity Method NT$	Share-based Payment Transactions NT$	Stockholders' Contribution Due to Privatization NT$	Total NT$
			(In Millions)			
Balance on January 1, 2012	$ 148,211	$ 13	$ -	$ -	$ 20,648	$ 168,872
Exercise of employee stock option of a subsidiary	-	-	-	5	-	5
Balance on December 31, 2012	$ 148,211	$ 13	$ -	$ 5	$ 20,648	$ 168,877
Balance on January 1, 2013	$ 148,211	$ 13	$ -	$ 5	$ 20,648	$ 168,877
Cash distributed from capital surplus	(5,589)	-	-	-	-	(5,589)
Exercise of employee stock option of subsidiaries	-	-	6	-	-	6
Balance on December 31, 2013	$ 142,622	$ 13	$ 6	$ 5	$ 20,648	$ 163,294

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 distributed in cash or capitalized when a company has no deficit, which however is limited to a certain percentage of Chunghwa's paid-in capital.

Additional paid-in capital from investments accounted for using equity method may not be used for any purpose.

The additional paid-in capital due to privatization relates to the retrospective adjustment at the date of transition to IFRSs. Please refer to Note 43 to the consolidated financial statement for further details.

c. Retained earnings and dividends policy

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 Chunghwa's Articles of Incorporation, no less than 50% of the remaining earnings comprising remaining balance of net income, if any, plus cumulative undistributed earnings shall be distributed in the following order: (a) from 2% to 5% of distributable earnings shall be distributed to employees as employee bonus; (b) no more than 0.2% of distributable earnings shall be distributed to board of directors and supervisors as remuneration; and (c) cash dividends to be distributed shall not be less than 50% of the total amount of dividends to be distributed. If cash dividend to be distributed is less than $0.10 per share, such cash dividend shall be distributed in the form of common stocks.

For the years ended December 31, 2012 and 2013, 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. If the shareholders' meeting approved to distribute the employee bonus as stocks, the share number of the stock bonus were determined by the amount of bonus divided by the fair value of the common stocks which was the closing market prices one day before shareholders' meeting after taking into account the effects of ex-rights and ex-dividends.

Special reserve was appropriated in accordance with the relevant laws and regulations or as requested by local authority. Pursuant to existing regulations, the Company is required to set aside additional special reserve equivalent to debit balances under stockholder's equity. For subsequent decrease in the deduction amount to stockholder's equity, the decreased amount could be reversed from the special reserve to retained earnings.

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

Except for non-ROC resident shareholders, all shareholders receiving the dividends are entitled a tax credit equal to their proportionate share of the income tax paid by the Company.

The appropriations and distributions of the 2011 and 2012 earnings of Chunghwa have been approved by the stockholders on June 22, 2012 and June 25, 2013 as follows:

	Appropriation of Earnings		**Dividends Per Share**	
	For Fiscal Year 2011	**For Fiscal Year 2012**	**For Fiscal Year 2011**	**For Fiscal Year 2012**
	NT$ (In Millions)	**NT$**	**NT$**	**NT$**
Legal reserve	$ 4,707	$ 3,990		
Cash dividends	42,362	35,913	$ 5.46	$ 4.63

The stockholders of Chunghwa resolved to distribute cash $0.72 per share and the total amount of $5,589 million from additional paid-in capital on June 25, 2013. Such amount was subsequently paid in August 2013.

The bonuses to the employees and remuneration to the directors and supervisors of the 2011 and 2012 approved by the board of directors and the stockholders on June 22, 2012 and June 25, 2013 were as follows:

	2011	**2012**
	Cash Bonus	**Cash Bonus**
	NT$ (In Millions)	**NT$**
Bonus distributed to the employees	$ 2,040	$ 1,533
Remuneration paid to the directors and supervisors	44	37

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 on June 22, 2012 and June 25, 2013.

Chunghwa's distributable earnings, bonus distributed to the employees and remuneration paid to the directors and supervisors as of the end of the period were based on the consolidated financial statements of 2012 prepared in conformity with the pre-revised Guidelines Governing the Preparation of Financial Reports by Securities Issuers and accounting principles generally accepted in the ROC ("ROC GAAP").

The appropriations of earnings for 2013 had been approved by Chunghwa's board of directors on March 25, 2014. The appropriations and dividends per share were as follows:

	Appropriation of Earnings	
	For Fiscal Year 2013	For Fiscal Year 2013
	NT$	NT$
	(In Millions)	
Legal reserve	$ 2,074	
Special reserve	144	
Cash dividends	18,526	$ 2.39

In addition, Chunghwa's board of directors resolved to distribute cash from additional paid-in-capital of $16,578 million, $2.14 per share, on March 25, 2014.

Information of 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 on the Market Observation Post System website.

d. Special reserves in accordance with local regulations

Under local regulation, on the first-time adoption of IFRSs, a company should appropriate a special reserve of an amount the same as that of unrealized revaluation increment and cumulative translation differences (gain) transferred to retained earnings as a result of the Company's use of exemptions under IFRS 1. However, at the date of transitions to IFRSs, if the increase in retained earnings that resulted from all IFRSs adjustments is not enough for this appropriation, only the increase in retained earnings that resulted from all IFRSs adjustments will be appropriated to special reserve. No appropriation of earnings shall be made until any shortage of the aforementioned special reserve is appropriated in subsequent years if the Company has earnings and the original need to appropriate a special reserve is not eliminated.

The adjustments of IFRSs adoption resulted in the decrease of retained earnings of the Company; therefore, the Company is not required to appropriate any amount to the special reserve.

e. Other equity items

1) Exchange differences arising from the translation of the foreign operations

The exchange differences arising from the translation of the foreign operations from their functional currency to New Taiwan dollars were recognized as exchange differences arising from the translation of the foreign operations in other comprehensive income.

2) Unrealized gain (loss) on available-for-sale financial assets

	Year Ended December 31	
	2012	2013
	NT$	NT$
	(In Millions)	
Beginning balance	$ 68	$ 258
Unrealized gain (loss) on available-for-sale financial assets	192	(560)
Income tax relating to unrealized gain (loss) on available-for-sale financial assets	-	(6)
Amount reclassified from equity to profit or loss on disposal	(26)	158
Amount reclassified from equity to impairment loss	24	-
Ending balance	$ 258	$ (150)

Unrealized gain (loss) on available-for-sale financial assets were accumulated gains and losses on the available-for-sale financial assets measured at fair value, which were recognized in other comprehensive income and were included in the calculation of the related disposal gain and loss or impairment loss of such financial assets upon reclassified to profits or losses.

f. Noncontrolling interests

	Year Ended December 31	
	2012	2013
	NT$	NT$
	(In Millions)	
Beginning balance	$ 4,181	$ 4,336
Attributable to noncontrolling interests		
Cash dividends paid by subsidiaries to noncontrolling interests	(893)	(811)
Net income of current period	1,125	1,124
Actuarial gains (loss) on the defined benefit plans	(20)	3
Income tax related to actuarial gains and losses	2	(1)
Exchange differences arising from the translation of the net investment in foreign operations	(7)	27
Share of exchange differences arising from the translation of the net investment in foreign operations of associates	(1)	3
Unrealized gain on available-for-sale financial assets	2	11
Income tax relating to unrealized loss on available-for-sale financial assets	-	(1)
Exercise of employee stock option of subsidiaries	38	44
Compensation cost of employee stock options of a subsidiary	-	70
Employee stock bonus issued by a subsidiary	-	2
Increase (decrease) in noncontrolling interests	(91)	39
Ending balance	$ 4,336	$ 4,846

29. REVENUE

The main source of revenue of the Company includes various telecommunications services in various different streams, and the related information were as discussed in Note 42.

30. NET PROFIT (LOSS) AND OTHER COMPREHENSIVE INCOME (LOSS)

a. Other income and expenses

	Year Ended December 31	
	2012	2013
	NT$	NT$
	(In Millions)	
Gain (loss) on disposal of property, plant and equipment, net	$ (2)	$ 85
Impairment loss on property, plant and equipment	(301)	(254)
Reversal gain (impairment loss) on investment properties	(1,261)	246
Impairment loss on intangible assets	(5)	(18)
	$ (1,569)	$ 59

b. Other income

	Year Ended December 31	
	2012	2013
	NT$	NT$
	(In Millions)	
Dividends income	$ 21	$ 79
Rental income	43	43
Others	377	234
	$ 441	$ 356

c. Other gains and losses

	Year Ended December 31	
	2012	2013
	NT$	NT$
	(In Millions)	
Net foreign currency exchange gains (losses)	$ 34	$ (100)
Gain on disposal of financial instruments, net	113	76
Gain on disposal of investments accounted for using equity method	-	13
Valuation loss on financial instruments at fair value through profit or loss, net	(1)	(1)
Loss arising on derivatives as designated hedging instruments in fair value hedges, net	-	(93)
Gain arising on adjustments for hedged item attributable to the hedged risk in a designated fair value hedge accounting relationship, net	-	93
Impairment losses on available-for-sale financial assets	(203)	(66)
Others	(82)	(46)
	$ (139)	$ (124)

d. Finance costs

	Year Ended December 31	
	2012	2013
	NT$	NT$
	(In Millions)	
Interest on bank borrowings	$ 20	$ 33
Other interest expenses	2	3
	$ 22	$ 36

e. Impairment loss (reversal gain) on financial instruments

	Year Ended December 31	
	2012	2013
	NT$	NT$
	(In Millions)	
Notes and account receivables	$ (1,473)	$ 239
Other receivables	$ 22	$ 14
Available-for-sale financial assets	$ 203	$ 66

f. Impairment loss (reversal gain) on non-fianacial assets

	Year Ended December 31	
	2012	2013
	NT$	NT$
	(In Millions)	
Inventories	$ 113	$ 203
Property, plant and equipment	$ 301	$ 254
Investment properties	$ 1,261	$ (246)
Intangible assets	$ 5	$ 18

g. Depreciation and amortization expenses

	Year Ended December 31	
	2012	2013
	NT$	NT$
	(In Millions)	
Property, plant and equipment	$ 31,021	$ 30,937
Investment properties	16	17
Intangible assets	1,123	1,238
Total depreciation and amortization expenses	$ 32,160	$ 32,192
Depreciation expenses summarized by functions		
Operating costs	$ 29,089	$ 28,813
Operating expenses	1,948	2,141
	$ 31,037	$ 30,954

(Continued)

	Year Ended December 31	
	2012	2013
	NT$	NT$
	(In Millions)	
Amortization expenses summarized by functions		
Operating costs	$ 865	$ 987
Operating expenses	258	251
	$ 1,123	$ 1,238

(Concluded)

h. Employee benefit expenses

	Year Ended December 31	
	2012	2013
	NT$	NT$
	(In Millions)	
Post-employment benefit		
Defined contribution plans	$ 311	$ 375
Defined benefit plans	2,785	2,882
	3,096	3,257
Share-based payment		
Equity-settled share-based payment	-	70
Other employee benefit		
Salaries	24,333	24,942
Insurance	2,288	2,450
Other	14,679	14,411
	41,300	41,803
Total employee benefit expenses	$ 44,396	$ 45,130
Summary by functions		
Operating costs	$ 24,928	$ 25,038
Operating expenses	19,468	20,092
	$ 44,396	$ 45,130

i. Components of others comprehensive income - unrealized gain (loss) on available-for-sale financial assets

	Year Ended December 31	
	2012	2013
	NT$	NT$
	(In Millions)	
Gains (losses) arising during the year	$ 209	$ (548)
Reclassification adjustments		
Upon disposal	(44)	156
Upon impairment	27	-
	$ 192	$ (392)

31. INCOME TAX

a. Income tax recognized in profit or loss

The major components of income tax expense are as follows:

	Year Ended December 31	
	2012	2013
	NT$	NT$
	(In Millions)	
Current tax		
Current tax expenses recognized for the current period	$ 7,960	$ 8,138
Income tax benefit of unappropriated earnings	(676)	(1,704)
Income tax adjustments on prior years	32	124
Others	24	21
	7,340	6,579
Deferred tax		
Deferred tax expense recognized for the current period	(4)	(101)
Income tax recognized in profit or loss	$ 7,336	$ 6,478

A reconciliation of income tax expense calculated at the statutory rate and income tax expense was as follows:

	Year Ended December 31	
	2012	2013
	NT$	NT$
	(In Millions)	
Income before income tax	$ 49,953	$ 49,096
Income tax expense calculated at the statutory rate (17%)	8,492	8,346
Nondeductible expenses in determining taxable income	221	(2)
Imputed income on tax	2	2
Temporary difference	(177)	67
Tax-exempt income	(321)	(265)
10% tax on unappropriated earnings	(676)	(1,704)
Investment credits	(400)	(233)
Loss carryforwards	107	129
Effect of different tax rates of group entities operating in other jurisdictions	(1)	(10)
Adjustments of tax expense on previous years	32	124
Others	57	24
Income tax expense recognized in profit or loss	$ 7,336	$ 6,478

b. Income tax recognized in other comprehensive income

	Year Ended December 31	
	2012	2013
	NT$	NT$
	(In Millions)	
Deferred tax benefit		
In respect of the current year:		
Unrealised loss on available-for-sale financial assets	$ -	$ 6
Actuarial gains and losses on defined benefit plan	(265)	(105)
Income tax recognized in other comprehensive incomes	$ (265)	$ (99)

c. Current tax assets and liabilities

	January 1, 2012	December 31, 2012	December 31, 2013
	NT$	NT$	NT$
		(In Millions)	
Current tax assets			
Tax refund receivable (included in other current asset-others)	$ 1	$ 1	$ 1
Current tax liabilities			
Income tax payable	$ 8,044	$ 7,139	$ 6,171

d. Deferred income tax assets and liabilities

The movements of deferred income tax assets and deferred income tax liabilities were as follows:

For the year ended December 31, 2012

Deferred Income Tax Assets	January 1, 2012	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	December 31, 2012
	NT$	NT$	NT$	NT$
Temporary differences				
Defined benefit obligation	$ 495	$ 13	$ 265	$ 773
Share of the profit of associates and joint venture accounted for using equity method	41	48	-	89
Deferred revenue	334	(102)	-	232
Impairment loss on property, plant and equipment	12	47	-	59
Valuation loss on inventory	62	(18)	-	44

(Continued)

Deferred Income Tax Assets	January 1, 2012	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	December 31, 2012
	NT$	NT$	NT$	NT$
Estimated warranty liabilities	$ 8	$ 18	$ -	$ 26
Accrued award credits liabilities	14	(2)	-	12
Unrealized foreign exchange loss (gain), net	-	19	-	19
Others	13	4	-	17
	979	27	265	1,271
Loss carryforwards	74	(42)	-	32
Investment credits	3	-	-	3
	$ 1,056	$ (15)	$ 265	$ 1,306

(Concluded)

Deferred Income Tax Liabilities	January 1, 2012	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	December 31, 2012
	NT$	NT$	NT$	NT$
Temporary differences				
Land value incremental tax	$ (95)	$ -	$ -	$ (95)
Unrealized foreign exchange loss (gain), net	(13)	13	-	-
Others	(3)	-	-	(3)
	$ (111)	$ 13	$ -	$ (98)

For the year ended December 31, 2013

Deferred Income Tax Assets	December 31, 2012	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	December 31, 2013
	NT$	NT$	NT$	NT$
Temporary differences				
Defined benefit obligation	$ 773	$ 50	$ 105	$ 928
Share of the profit of associates and joint venture accounted for using equity method	89	86	-	175
Deferred revenue	232	(45)	-	187

(Continued)

Deferred Income Tax Assets	December 31, 2012	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	December 31, 2013
	NT$	NT$	NT$	NT$
Impairment loss on property, plant and equipment	$ 59	$ -	$ -	$ 59
Valuation loss on inventory	44	12	-	56
Estimated warranty liabilities	26	(2)	-	24
Accrued award credits liabilities	12	9	-	21
Unrealized foreign exchange loss (gain), net	19	(8)	-	11
Others	17	1	-	18
	1,271	103	105	1,479
Loss carryforwards	32	(5)	-	27
Investment credits	3	(3)	-	-
	$ 1,306	$ 95	$ 105	$ 1,506

(Concluded)

Deferred Income Tax Liabilities	December 31, 2012	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	December 31, 2013
	NT$	NT$	NT$	NT$
Temporary differences				
Land value incremental tax	$ (95)	$ -	$ -	$ (95)
Valuation gain on financial instruments, net	-	-	(6)	(6)
Others	(3)	3	-	-
	$ (98)	$ 3	$ (6)	$ (101)

e. Items for which no deferred income tax assets have not been recognized

	January 1, 2012	December 31, 2012	December 31, 2013
	NT$	NT$ (In Millions)	NT$
Loss carryforwards			
Expire in 2016	$ -	$ 38	$ 38
Expire in 2017	-	65	65
Expire in 2018	-	-	130
Expire in 2019	-	-	-

(Continued)

	January 1, 2012	December 31, 2012	December 31, 2013
	NT$	NT$ (In Millions)	NT$
Expire in 2020	$ -	$ -	$ -
Expire in 2021	1	1	-
Expire in 2022	-	4	4
Expire in 2023	-	-	-
	$ 1	$ 108	$ 237
Investment credits			
Purchase of machinery and equipment	$ -	$ -	$ -
Research and development	3	-	-
Personnel training expenditures	-	-	-
	$ 3	$ -	$ -
Deductible temporary differences	$ 177	$ -	$ 67

(Concluded)

f. Information about unused loss carryforwards

As of December 31, 2013, unused loss carryforwards was comprised of:

Remaining Creditable Amount NT$ (In Millions)	Expiry Year
$ 38	2016
65	2017
130	2018
7	2019
8	2020
10	2021
4	2022
2	2023
$ 264	

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

Imputation credit account

All Chunghwa's earnings generated prior to June 30, 1988 have been appropriated.

	January 1, 2012	December 31, 2012	December 31, 2013
	NT$	NT$ (In Millions)	NT$
Balance of Imputation Credit Account ("ICA")	$ 4,899	$ 4,553	$ 4,038

The creditable ratio for distribution of earnings of 2012 and 2013 was 19.23% and 20.48% (expected ratio), respectively.

When Chunghwa appropriated the earnings generated in and after 1998, the imputation credit allocated to local shareholders' was based on the creditable rate as of the date of the dividends distribution date. The actual imputation credits allocated to shareholders of the Chunghwa was based on the balance of the Imputation Credit Accounts (ICA) as of the date of dividend distribution. Therefore, the expected creditable ratio for the 2013 earnings may differ from the actual creditable ratio to be used in allocating imputation credits to the shareholders.

According to legal interpretation No. 10204562810 announced by the Taxation Administration of the Ministry of Finance, when calculating imputation credits in the year of first-time adoption of IFRSs, the cumulative retained earnings include the net increase or net decrease in retained earnings arising from first-time adoption of IFRSs.

h. Income tax examinations

Chunghwa's income tax returns have been examined by the tax authorities through 2011 except for 2008. The following subsidiaries income tax returns have been examined by the tax authorities through 2011: SENAO, CHPT, CHSI, CHIEF, CHI, SHE, LED, CHIYP, YYRP, CEI and CHST. Unigate and SFDs' income tax returns have been assessed by the tax authorities through 2012.

Chunghwa's income tax returns for 2008 is still under discussion with the tax authorities; however, the disputed amount of $84 million was accrued in 2013.

32. EARNINGS PER SHARE

Net income and weighted average number of common stock used in the calculation of earnings per share were as follows:

Net Income

	Year Ended December 31	
	2012	2013
	NT$	NT$
	(In Millions)	
Net income used to compute the basic earnings per share		
Net income attributable to the parent	$ 41,492	$ 41,494
Assumed conversion of all dilutive potential common stock		
Employee stock options of subsidiaries	(4)	(3)
Net income used to compute the diluted earnings per share	$ 41,488	$ 41,491

Weighted Average Number of Common Stock

(Millions Shares)

	Year Ended December 31	
	2012	**2013**
Weighted average number of common stock used to compute the basic earnings per share	7,757	7,757
Assumed conversion of all dilutive potential common stock		
Employee stock bonus	12	20
Weighted average number of common stock used to compute the diluted earnings per share	7,769	7,777

If Chunghwa may settle the employee bonus in shares or cash, Chunghwa shall presume that it 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. The dilutive effect of the shares needs to be considered until the stockholders approve the number of shares to be distributed to employees in their meeting in the following year.

33. SHARE-BASED PAYMENT ARRANGEMENT

a. SENAO share-based compensation plans

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

Effective Date	**Grant Date**	**Stock Options (In Thousands)**	**Exercise Price NT$**
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)
2012.05.28	2013.04.29	10,000	$89.4 (Original price $93.0)
		26,181	

Each option is eligible to subscribe for one common stock of SENAO when exercisable. Under the terms of SENAO Plans, the options are granted at an exercise price at the closing price of the SENAO's common stocks listed on the TSE on the grant dates except when the closing price is lower than par value, the option exercise price would become par value. The SENAO Plans have exercise price adjustment formula upon the issuance of new common stocks, capitalization of retained earnings and/or capital reserves, stock split as well as distribution of cash dividends (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.

SENAO elected not to apply IFRS 2 retrospectively for the share-based payment transactions which were granted and vested before the transition date.

Stock options granted on May 7, 2013 applied IFRS 2. The recognized compensation cost was $70 million for the period from May 7 to December 31, 2013.

SENAO used the fair value method to evaluate the options using the Black-Scholes model and the related assumptions were as follows:

	Stock Options Granted on May 7, 2013
Dividends yield	-
Risk-free interest rate	0.91%
Expected life	4.375 years
Expected volatility	36.22%
Weighted-average fair value of grants (NT$)	$28.72

Information about SENAO's outstanding stock options for the years ended December 31, 2012 and 2013 were as follows:

	Year Ended December 31, 2012			
	Granted on May 5, 2006		**Granted on October 31, 2007**	
	Number of Options (In Thousands)	**Weighted-average Exercise Price NT$**	**Number of Options (In Thousands)**	**Weighted-average Exercise Price NT$**
Employee stock options				
Options outstanding at beginning of the year	280	$ 12.10	1,998	$ 42.60
Options exercised	(275)	12.10	(947)	42.60
Options forfeited	(5)	-	-	-
Options outstanding at end of the year	-	-	1,051	42.60
Options exercisable at end of the year	-	-	1,051	42.60

	Year Ended December 31, 2013			
	Granted on October 31, 2007		Granted on May 7, 2013	
	Number of Options (In Thousands)	Weighted-average Exercise Price NT$	Number of Options (In Thousands)	Weighted-average Exercise Price NT$
Employee stock options				
Options outstanding at beginning of the year	1,051	$ 42.60	-	$ -
Options granted	-	-	10,000	93.00
Options exercised	(980)	42.60	-	-
Options forfeited	(71)	-	(128)	-
Options outstanding at end of the year	-	-	9,872	89.40
Options exercisable at end of the year	-	-	-	-

As of December 31, 2012 information about employee stock options outstanding are as follows:

Options Outstanding				Options Exercisable	
Range of Exercise Price NT$	Number of Options (In Thousands)	Weighted-average Remaining Contractual Life (Years)	Weighted-average Exercise Price NT$	Number of Options (In Thousands)	Weighted-average Exercise Price NT$
$42.60	1,051	0.92	$42.60	1,051	$42.60

As of December 31, 2013 information about employee stock options outstanding are as follows:

Options Outstanding				Options Exercisable	
Range of Exercise Price NT$	Number of Options (In Thousands)	Weighted-average Remaining Contractual Life (Years)	Weighted-average Exercise Price NT$	Number of Options (In Thousands)	Weighted-average Exercise Price NT$
$89.40	9,872	5.35	$89.40	-	$-

Had SENAO used the fair value method to evaluate the options using the Black-Scholes model, the assumptions SENAO used and the fair value of the options would have been as follows:

	Stock Options Granted on October 31, 2007	Stock Options Granted on May 5, 2006
Dividends yield	1.49%	-
Risk-free interest rate	2.00%	1.75%
Expected life	4.375 years	4.375 years
Expected volatility	39.82%	39.63%
Weighted-average fair value of grants (NT$)	$13.69	$5.88

b. CHTP share-based compensation plan

CHTP granted one thousand options to some of its employees in December 2008. Under the terms of CHTP Plan, each option entitles the holder to subscribe for one thousand common shares at $12.6 per share when exercisable. The options are valid for 5 years and based on the graded vesting schedule, two tranches of 30% of the option will vest two and three years after the grant date, respectively, and the remaining 40% will vest four years after the grant date. There is an 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.

For the years ended December 31, 2012 and 2013 information about CHTP's outstanding stock options were as follows:

	Year Ended December 31			
	2012		2013	
	Number of Options	Weighted-average Exercise Price	Number of Options	Weighted-average Exercise Price
		NT$		NT$
Employee stock options				
Options outstanding at beginning of the period	920	$ 10.10	920	$ 10.10
Options exercised	-	-	(810)	10.10
Options expired	-	-	(110)	10.10
Options outstanding at end of the period	920	10.10	-	-
Options exercisable at end of the period	920	10.10	-	-

As of December 31, 2012, information about employee stock options outstanding is as follows:

Options Outstanding				Options Exercisable	
Range of Exercise Price	**Number of Options**	**Weighted-average Remaining Contractual Life**	**Weighted-average Exercise Price**	**Number of Options**	**Weighted-average Exercise Price**
NT$		**(Years)**	**NT$**		**NT$**
$10.10	920	1	$10.10	920	$10.10

CHPT used the fair value to evaluate the options using the Black-Scholes model, the assumptions of CHPT would have been as follows:

	Stock Options Granted on December 31, 2008
Dividends yield	-
Risk free interest rate	2.00%
Expected life	3.1 years
Expected volatility	20%
Weighted-average fair value of grants	$ 3.8

34. NON-CASH TRANSACTIONS

For the years ended December 31, 2012 and 2013, the Company entered into the following non-cash investing activities:

	Year Ended December 31	
	2012	**2013**
	NT$ (In Millions)	**NT$**
Increase in property, plant and equipment	$ 33,721	$ 36,727
Other payables	(441)	(345)
	$ 33,280	$ 36,382

35. OPERATING LEASE ARRANGEMENTS

a. The Company as lessee

Leasing arrangements

Except for the ST-2 satellite referred in Note 39 to the consolidated financial statement, the Company entered into several lease agreements with third parties for base stations located all over in Taiwan. The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	January 1, 2012	December 31, 2012	December 31, 2013
	NT$	NT$ (In Millions)	NT$
Within one year	$ 2,401	$ 2,837	$ 3,061
Longer than one year but within five years	5,750	5,842	6,389
Longer than five years	2,037	2,047	1,720
	$ 10,188	$ 10,726	$ 11,170

b. The Company as lessor

The Company lease out some land and buildings to third parties. The future aggregate minimum lease collection under non-cancellable operating leases are as follows:

	January 1, 2012	December 31, 2012	December 31, 2013
	NT$	NT$ (In Millions)	NT$
Within one year	$ 454	$ 430	$ 445
Longer than one year but within five years	962	684	659
Longer than five years	117	100	165
	$ 1,533	$ 1,214	$ 1,269

36. CAPITAL MANAGEMENT

The Company manages its capital to ensure that entities in the Company will be able to continue as going concerns while maximising the return to stakeholders through the optimisation of the debt and equity balance.

The capital structure of the Company consists of debt of the Company and the equity attributable to the parent.

The management reviews the capital structure of the Company as needed. As part of this review, the management considers the cost of capital and the risks associated with each class of capital.

At the management suggestion, the Company maintains a balanced capital structure through paying cash dividends, increasing its share capital, purchasing treasury stock, proceeds from new debt or repayment of debt.

37. FINANCIAL INSTRUMENTS

Categories of Financial Instruments

	January 1, 2012	December 31, 2012	December 31, 2013
	NT$	NT$ (In Millions)	NT$
Financial assets			
Measured at FVTPL			
Held for trading (Note d)	$ 6	$ 3	$ -
Designated as at FVTPL (Note d)	40	-	-
Held-to-maturity financial assets (Note e)	14,696	16,046	11,766
Loans and receivables (Note a)	92,888	80,786	43,192
Available-for-sale financial assets (Note b)	5,317	7,996	5,494
Financial Liabilities			
Measured at FVTPL			
Held for trading (Note d)	4	2	-
Measured at amortized cost (Note c)	30,340	30,998	33,576

Note a: The balances included cash and cash equivalents, trade notes and accounts receivable, accounts receivable from related parties, other current monetary assets and other financial assets (included in other assets). Please refer to Note 7, 11, 14, 20 and 39.

Note b: Please refer to Note 9.

Note c: The balances included short-term loans, trade notes and accounts payable, other payables, payables to related parties and long-term loans which were financial liabilities carried at amortized cost. Please refer to Notes 21, 22, 23, 24 and 39.

Note d: Please refer to Note 8.

Note e: Please refer to Note 10.

Financial Risk Management Objectives

The main financial instruments of the Company include equity and debt investments, accounts receivable, accounts payables and loans. The Company's Finance Department provides services to its business units, co-ordinates access to domestic and international capital markets, monitors and manages the financial risks relating to the operations of the Company through internal risk reports which analyze exposures by degree and magnitude of risks. These risks include market risk (including foreign currency risk, interest rate risk and other price risk), credit risk, and liquidity risk.

The Company seeks to manage the effects of these risks by using derivative financial instruments to hedge risk exposures. The use of financial derivatives is governed by the Company's policies approved by the board of directors. Those derivatives are used to hedge the risks of exchange rate and interest rate fluctuation arising from operating or investment activities. Compliance with policies and risk exposure limits is reviewed by the Company's Finance Department on a continuous basis. The Company does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

The Company reports the significant risk exposures and related action plans timely and actively for the risks to the audit committee and if needed to the board of directors.

a. Market risk

The Company is exposed to market risks of changes in foreign currency exchange rates, interest rates and the prices in equity investments. The Company uses currency swap and forward exchange contracts to hedge the exchange rate risk arising from assets and liabilities denominated in foreign currencies.

There were no changes to the Company's exposure to market risks or the manner in which these risks are managed and measured.

1) Foreign currency risk management

The carrying amounts of the Company's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are as follows:

	January 1, 2012	December 31, 2012	December 31, 2013
	NT$	NT$ (In Millions)	NT$
Assets			
USD	$ 5,324	$ 4,251	$ 4,234
EUR	7	19	5
JPY	1	6	2
SGD	4	6	142
Liabilities			
USD	4,051	3,561	3,612
EUR	1,099	1,311	1,298
JPY	5	5	11
SGD	83	21	1

The carrying amount of the Company's derivatives with exchange rate risk exposures at the end of the reporting period are as follows:

	January 1, 2012	December 31, 2012	December 31, 2013
	NT$	NT$ (In Millions)	NT$
Assets			
USD	$ 6	$ 3	$ -
Liabilities			
USD	4	2	-

Foreign currency sensitivity analysis

The Company is mainly exposed to the fluctuations of the currencies listed above.

The following table details the Company's sensitivity to a 5% increase and decrease in the functional currency against the relevant foreign currencies. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible changes in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items, forward foreign exchange contracts and currency swap contracts. A positive number below indicates an increase in pre-tax profit where the functional currency weakens 5% against the relevant currency. For a 5% strengthening of the functional currency against the relevant currency, there would be a comparable impact on the profit, and the balances below would be negative.

	Year Ended December 31	
	2012	**2013**
	NT$	**NT$**
	(In Millions)	
Profit or loss		
Monetary assets and liabilities (a)		
USD	$ 35	$ 31
EUR	(65)	(65)
JPY	-	-
SGD	(1)	7
Derivatives (b)		
USD	104	5

a) This is mainly attributable to the exposure on the outstanding foreign currency denominated receivables and payables in the Company at the end of the reporting period.

b) This is mainly attributable to the swaps and forward exchange contracts.

2) Interest rate risk

The carrying amount of the Company's exposures to interest rates on financial assets and financial liabilities at the end of the reporting period are as follows:

	January 1, 2012	**December 31, 2012**	**December 31, 2013**
	NT$	**NT$**	**NT$**
		(In Millions)	
Fair value interest rate risk			
Financial assets	$ 62,468	$ 47,128	$ 5,682
Financial liabilities	179	115	224
Cash flow interest rate risk			
Financial assets	4,403	5,445	10,609
Financial liabilities	1,656	2,054	1,730

Interest rate sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for non-derivative instruments at the end of the reporting period. A 25 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 25 basis points higher/lower and all other variables were held constant, the Company's pre-tax profit for the year ended December 31, 2012 would increase/decrease by $8 million. This is mainly attributable to the Company's exposure to floating interest rates on its financial assets and short-term and long-term loans; and other comprehensive income for the year ended December 31, 2012 would decrease/increase by $0.06 million, mainly as a result of the changes in the fair value of available-for-sale instruments with fixed rate.

If interest rates had been 25 basis points higher/lower and all other variables were held constant, the Company's pre-tax profit for the year ended December 31, 2013 would increase/decrease by $22 million. This is mainly attributable to the Company's exposure to floating interest rates on its financial assets and short-term and long-term loans.

3) Other price risks

The Company is exposed to equity price risks arising from listed equity investments. Equity investments are held for strategic rather than trading purposes. The management managed the risk through holding various risk portfolios. Further, the Company assigned finance and investment departments to monitor the price risk.

Equity price sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to equity price risks at the end of the reporting period.

If equity prices had been 5% higher/lower:

Other comprehensive income before income tax would increase/decrease by $270 million and $153 million as a result of the changes in fair value of available-for-sale assets for the years ended December 31, 2012 and 2013, respectively.

b. Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company. The maximum credit exposure of the aforementioned financial instruments is equal to their carrying amounts recognized in consolidated balance sheet as of the balance sheet date.

The Company has large trade receivables outstanding with its customers. A substantial majority of the Company's outstanding trade receivables are not covered by collateral or credit insurance.

The Company implemented some measures which have improved the collectability of our accounts receivable. These procedures, which include enhanced credit assessments, strengthened overall risk management and improvements in bill collection practices, have reduced the exposure to uncollected receivables.

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 Company maintains an allowance for doubtful accounts for estimated losses that result from the inability of our customers to make required payments. When determining the allowance, the Company considers the probability of recoverability based on past customer default experience and their credit status, and economic and industrial factors. Credit risks are assessed based on historical write-offs, net of recoveries, and an analysis of the aged accounts receivable balances with allowances generally increasing as the receivable ages. Accounts receivable may be fully reserved for when specific collection issues are known to exist, such as pending bankruptcy or catastrophes. The analysis of receivables is performed monthly, and the allowances for doubtful accounts are adjusted through expense accordingly.

As the Company serves a large consumer base, the concentration of credit risk was limited.

c. Liquidity risk management

The Company manages and contains sufficient cash and cash equivalent position to support the operations and reduce the impact on fluctuation of cash flow.

1) Liquidity and interest risk tables

The following table details the Company's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods. The tables had been drawn up based on the undiscounted cash flows of financial liabilities from the earliest date on which the Company can be required to pay.

	Weighted Average Effective Interest Rate (%)	Less Than 1 Month NT$	1-3 Months NT$	3 Months to 1 Year NT$ (In Millions)	1-5 Years NT$	Total NT$
January 1, 2012						
Non-derivative financial liabilities						
Non-interest bearing	-	$ 39,009	$ -	$ 2,346	$ -	$ 41,355
Floating interest rate instruments	1.10	5	1	600	1,050	1,656
Fixed interest rate instruments	1.72	91	80	-	8	179
		$ 39,105	$ 81	$ 2,946	$ 1,058	$ 43,190
December 31, 2012						
Non-derivative financial liabilities						
Non-interest bearing	-	$ 38,660	$ -	$ 1,793	$ -	$ 40,453
Floating interest rate instruments	1.32	4	-	-	2,050	2,054
Fixed interest rate instruments	1.75	48	-	67	-	115
		$ 38,712	$ -	$ 1,860	$ 2,050	$ 42,622
December 31, 2013						
Non-derivative financial liabilities						
Non-interest bearing	-	$ 41,958	$ -	$ 980	$ -	$ 42,938
Floating interest rate instruments	1.18	-	20	310	1,400	1,730
Fixed interest rate instruments	1.53	175	35	14	-	224
		$ 42,133	$ 55	$ 1,304	$ 1,400	$ 44,892

The following table detailed the Company's liquidity analysis for its derivative financial instruments. The table summarized the undiscounted contractual net cash inflows and outflows on derivative instruments that settle on a net basis and the undiscounted gross inflows and outflows on those derivatives that require gross settlement.

	Less Than 1 Month NT$	1-3 Months NT$	3 Months to 1 Year NT$ (In Millions)	1-5 Years NT$	Total NT$
January 1, 2012					
Net settled					
Index future contracts	$ -	$ -	$ -	$ -	$ -
Gross settled					
Currency swap contracts					
Inflow	$ 940	$ 937	$ -	$ -	$ 1,877
Outflow	938	937	-	-	1,875
	$ 2	$ -	$ -	$ -	$ 2
Forward exchange contracts					
Inflow	$ 60	$ -	$ -	$ -	$ 60
Outflow	60	-	-	-	60
	$ -	$ -	$ -	$ -	$ -
December 31, 2012					
Gross settled					
Currency swap contracts					
Inflow	$ 726	$ 1,194	$ -	$ -	$ 1,920
Outflow	727	1,192	-	-	1,919
	$ (1)	$ 2	$ -	$ -	$ 1
Forward exchange contracts					
Inflow	$ 154	$ -	$ -	$ -	$ 154
Outflow	154	-	-	-	154
	$ -	$ -	$ -	$ -	$ -
December 31, 2013					
Gross settled					
Forward exchange contracts					
Inflow	$ 90	$ -	$ -	$ -	$ 90
Outflow	90	-	-	-	90
	$ -	$ -	$ -	$ -	$ -

2) Financing facilities

	January 1, 2012	December 31, 2012	December 31, 2013
	NT$	NT$ (In Millions)	NT$
Unsecured bank loan facility			
Amount used	$ 475	$ 511	$ 254
Amount unused	8,525	8,639	8,475
	$ 9,000	$ 9,150	$ 8,729
Secured bank loan facility			
Amount used	$ 1,651	$ 2,050	$ 1,700
Amount unused	-	600	600
	$ 1,651	$ 2,650	$ 2,300

38. FAIR VALUE INFORMATION

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:

January 1, 2012

	Level 1	Level 2	Level 3	Total
	NT$	NT$ (In Millions)	NT$	NT$
Financial assets at FVTPL				
Derivative financial assets				
Currency swap contracts	$ -	$ 6	$ -	$ 6
Financial assets designated as at fair value through profit or loss				
Convertible bonds	-	40	-	40
	$ -	$ 46	$	$ 46

(Continued)

	Level 1 NT$	Level 2 NT$	Level 3 NT$	Total NT$
		(In Millions)		
Available-for-sale financial assets				
Domestic securities				
Equity investments	$ 528	$ -	$ -	$ 528
Corporate bonds	-	77	-	77
Foreign securities				
Equity investments	-	-	-	-
Open-end mutual funds	2,137	-	-	2,137
	$ 2,665	$ 77	$ -	$ 2,742
Financial liabilities at FVTPL				
Derivative financial assets				
Forward exchange	$ -	$ -	$ -	$ -
Currency swap contracts	-	4	-	4
Index future contracts	-	-	-	-
	$ -	$ 4	$ -	$ 4

(Concluded)

December 31, 2012

	Level 1 NT$	Level 2 NT$	Level 3 NT$	Total NT$
		(In Millions)		
Financial assets at FVTPL				
Derivative financial assets				
Forward exchange	$ -	$ -	$ -	$ -
Currency swap contracts	-	3	-	3
	$ -	$ 3	$ -	$ 3
Available-for-sale financial assets				
Domestic securities				
Equity investments	$ 3,278	$ -	$ -	$ 3,278
Corporate bonds	-	50	-	50
Foreign securities				
Equity investments	10	-	-	10
Open-end mutual funds	2,190	-	-	2,190
	$ 5,478	$ 50	$ -	$ 5,528
Financial liabilities at FVTPL				
Derivative financial assets				
Forward exchange	$ -	$ -	$ -	$ -
Currency swap contracts	-	2	-	2
	$ -	$ 2	$ -	$ 2

December 31, 2013

	Level 1	Level 2	Level 3	Total
	NT$	NT$	NT$	NT$
		(In Millions)		
Financial assets at FVTPL				
Derivative financial assets				
Forward exchange	$ -	$ -	$ -	$ -
Available-for-sale financial assets				
Domestic securities				
Equity investments	$ 3,046	$ -	$ -	$ 3,046
Corporate bonds	-	-	-	-
Foreign securities				
Equity investments	24	-	-	24
	$ 3,070	$ -	$ -	$ 3,070
Financial liabilities at FVTPL				
Derivative financial assets				
Forward exchange	$ -	$ -	$ -	$ -

There were no transfers between Level 1 and 2 for the years ended December 31, 2012 and 2013.

There were no Level 3 investments measured at fair value on a recurring basis.

Index future contracts are actively traded or have quoted prices. For derivative financial assets forward exchange and currency swap contracts, fair values are estimated using discounted cash flow model. The model uses 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.

Convertible bonds and corporate bonds are valued using discounted cash flow model which incorporates the market-based observable inputs including duration, yield rate and credit rating.

Assets and liabilities measured at fair value on a nonrecurring basis

The Company measures certain assets at fair value on a nonrecurring basis when they are deemed to be impaired. Due to the significant unobservable inputs used, the Company classified these measurements as Level 3.

	For the Year Ended December 31, 2012			
	Level 1	Level 2	Level 3	Total Losses
	NT$	NT$	NT$	NT$
		(In Millions)		
Available-for-sale financial assets				
Domestic stocks				
Equity investments	$ -	$ -	$ 103	$ 176

	For the Year Ended December 31, 2013			
	Level 1	Level 2	Level 3	Total Losses
	NT$	NT$ (In Millions)	NT$	NT$
Available-for-sale financial assets				
Domestic stocks	$ -	$ -	$ 20	$ 66

The AFS financial assets consisted of non-publicly stocks. 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, 2012 and 2013:

	For the Year Ended December 31, 2012			
	Fair Value	Valuation Methodology	Unobservable Inputs	Range of Inputs
	NT$ (In Millions)			
Assets				
AFS financial assets	$ 103	Discounted cash flow	Return on investment	7%
			Industrial risk	1%-3%
			Enterprise risk	1%-3%
			Sustainable growth rate	2%

	For the Year Ended December 31, 2013			
	Fair Value	Valuation Methodology	Unobservable Inputs	Range of Inputs
	NT$ (In Millions)			
Assets				
AFS financial assets	$ 20	Discounted cash flow	Return on investment	7%
			Industrial risk	3%
			Enterprise risk	2%-2.5%
			Sustainable growth rate	2%

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 are responsible for reporting to the 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 evaluated its unlisted stocks 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 2012 and 2013 to determine the fair value of unlisted AFS financial assets 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 the above investee. The return on investment is the assumption that most significantly affects the fair value determination. AFS financial assets 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 the year ended December 31, 2012. AFS financial assets held with a carrying amount of NT$86 million were written down to their fair value of NT$20 million, resulting in an impairment charge of NT$66 million, which was included in earnings for the year ended December 31, 2013.

Assets and liabilities not measured at fair value but for which fair value is disclosed

Except for the following table, the management considered that the carrying amounts of financial instruments approximate fair values or fair values of those instruments cannot be reliably measured.

	January 1, 2012			
	Carrying Amount	Estimated Fair Value		
		Level 1	Level 2	Level 3
	NT$	NT$	NT$	NT$
	(In Millions)			
Financial assets				
Held-to-maturity investments				
Corporate bonds	$ 13,790	$ -	$ 14,045	$ -
Bank debentures	906	-	904	-
	$ 14,696	$ -	$ 14,949	$ -

	December 31, 2012			
	Carrying Amount	Estimated Fair Value		
		Level 1	Level 2	Level 3
	NT$	NT$	NT$	NT$
	(In Millions)			
Financial assets				
Held-to-maturity investments				
Corporate bonds	$ 14,791	$ -	$ 16,131	$ -
Bank debentures	1,255	-	1,257	-
	$ 16,046	$ -	$ 17,388	$ -

	December 31, 2013			
	Carrying Amount	Estimated Fair Value		
		Level 1	Level 2	Level 3
	NT$	NT$	NT$	NT$
	(In Millions)			
Financial assets				
Held-to-maturity investments				
Corporate bonds	$ 10,513	$ -	$ 10,552	$ -
Bank debentures	1,253	-	1,256	-
	$ 11,766	$ -	$ 11,808	$ -

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

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

b. Held-to-maturity investments were corporate bonds valued using discounted cash flow model with market-based observable inputs including duration, yield rate and credit rating.

39. RELATED PARTIES TRANSACTIONS

Balances and transactions between Chunghwa and its subsidiaries, which are related parties of Chunghwa, have been eliminated on consolidation and are not disclosed in this note.

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 has not been provided because the ROC government has significant influence over Chunghwa.

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

Company	Relationship
Taiwan International Standard Electronics Co., Ltd. ("TISE")	Associate
So-net Entertainment Taiwan Co., Ltd. ("So-net")	Associate
Skysoft Co., Ltd. ("SKYSOFT")	Associate
KingWaytek Technology Co., Ltd. ("KWT")	Associate
Dian Zuan Integrating Marketing Co., Ltd. ("DZIM")	Associate
Viettel-CHT Co., Ltd. ("Viettel")	Associate
International Integrated System, Inc. ("IISI")	Associate
ST-2 Satellite Ventures Pte., Ltd. ("STS")	Associate
Huada Digital Corporation ("HDD")	Joint venture
Senao Networks, Inc. ("SNI")	Associate of SENAO
HopeTech Technologies Limited ("HopeTech")	Associate of SIS
Other related parties	
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
Sochamp Technology Co., Ltd. ("Sochamp")	Investor of significant influence over CHST
United Daily News Co., Ltd. ("UDN)	Investor of significant influence over SFD
E-Life Mall Co., Ltd	One of the directors of E-Life Mall and a director of SENAO are members of an immediate family
Cheng Fong Investment Co., Ltd.	The chairman of the board of directors of Cheng Fong is the general manager of SENAO

b. Term of the foregoing transactions with related parties were not significantly different from transactions with non-related parties. When no similar transactions with non-related parties can be referenced, terms were determined in accordance with mutual agreements. Details of transactions between the Company and related parties are disclosed below:

1) Operating transactions

	Revenues	
	Year Ended December 31	
	2012	2013
	NT$	NT$
	(In Millions)	
Associates	$ 416	$ 367
Joint ventures	$ 4	$ 4
Others	$ 4	$ 69

	Operating Costs and Expenses	
	Year Ended December 31	
	2012	2013
	NT$	NT$
	(In Millions)	
Associates	$ 1,471	$ 1,486
Joint ventures	$ -	$ 1
Others	$ 65	$ 74

2) Non-operating transactions

	Year Ended December 31	
	2012	2013
	NT$	NT$
	(In Millions)	
Associates	$ 32	$ 33
Others	$ -	$ -

3) Receivables

	January 1, 2012	December 31, 2012	December 31, 2013
	NT$	NT$	NT$
		(In Millions)	
Associates	$ 34	$ 44	$ 60
Joint ventures	-	-	-
Others	-	-	9
	$ 34	$ 44	$ 69

4) Payables

	January 1, 2012	December 31, 2012	December 31, 2013
	NT$	NT$ (In Millions)	NT$
Associates	$ 784	$ 833	$ 549
Others	4	4	8
	$ 788	$ 837	$ 557

5) Customers' deposits

	January 1, 2012	December 31, 2012	December 31, 2013
	NT$	NT$ (In Millions)	NT$
Associates	$ 2	$ 3	$ 1

6) Acquisition of property, plant and equipment

	Year Ended December 31	
	2012	2013
	NT$ (In Millions)	NT$
Associates	$ 747	$ 1,270

The above amount is mainly attributable to telecommunications equipment bought from TISE.

7) Prepayments

Chunghwa entered into a contract with STS on March 12, 2010 to lease capacity on the ST-2 satellite. This lease is for 15 years which should start from the official operation of ST-2 satellite and the total contract value is approximately $6,000 million (SG$261 million), including a prepayment of $3,068 million, and the rest of amount should 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, 2013 was $410 million, which consisted of an offsetting credit of the prepayment of $211 million and an additional accrual of $199 million. The prepayment was $2,567 million (classified as prepaid rents-current $204 million, and prepaid rents-noncurrent $2,363 million) as of December 31, 2013.

c. Compensation of key management personnel

The remuneration of directors and members of key management personnel for the years ended December 31, 2012 and 2013 was as follows:

	Year Ended December 31	
	2012	2013
	NT$	NT$
	(In Millions)	
Short-term benefits	$ 277	$ 257
Post-employment benefits	9	10
Share-based payment	-	6
	$ 286	$ 273

The remuneration of directors and key executives is determined by the compensation committee having regard to the performance of individual and market trends.

40. PLEDGED ASSETS

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

	January 1, 2012	December 31, 2012	December 31, 2013
	NT$	NT$	NT$
		(In Millions)	
Property, plant and equipment, net	$ 2,736	$ 2,694	$ 2,668
Land held under development and land held for development (included in inventories)	-	1,999	1,999
Restricted assets (included in other noncurrent assets - others)	9	10	10
	$ 2,745	$ 4,703	$ 4,677

41. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED COMMITMENTS

At the balance sheet date, the Company's remaining commitments under non-cancelable contracts with various parties, excluding those disclosed in other notes, were as follows:

a. Acquisitions of land and buildings of $3,650 million as of December 31, 2013.

b. Acquisitions of telecommunications equipment of $31,267 million as of December 31, 2013.

c. Unused letters of credit were of $202 million as of December 31, 2013.

d. Contract to print billing, envelopes and marketing gifts were of $29 million as of December 31, 2013.

e. A commitment to contribute $2,000 million to a Piping Fund administered by the Taipei City Government, of which $1,000 million was contributed by Chunghwa on August 15, 1996 (classified as other monetary assets - noncurrent). If the fund is not sufficient, Chunghwa will contribute the remaining $1,000 million upon notification from the Taipei City Government.

42. SEGMENT INFORMATION

The Company has the following reportable segments that provide different products or services. Segment information is provided to CEO who allocate resources and assess segment performance. The Company's reportable segments are as follows:

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

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

c. Internet business - the provision of HiNet services and related services;

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

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

The reportable segments are managed separately because each 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

Analysis by reportable segment of revenue and operating results of continuing operations are as follows:

	Domestic Fixed Communi-cations Business NT$	Mobile Communi-cations Business NT$	Internet Business NT$	International Fixed Communi-cations Business NT$	Others NT$	Total NT$
	(In Millions)					
Year ended December 31, 2012						
Revenue						
From external customers	$ 76,133	$ 100,794	$ 24,766	$ 15,319	$ 4,408	$ 221,420
Intersegment revenues	16,991	6,581	2,877	2,231	1,035	29,715
Segment revenues	$ 93,124	$ 107,375	$ 27,643	$ 17,550	$ 5,443	
Intersegment elimination						(29,715)
Consolidated revenues						$ 221,420
Segment income before income tax	$ 15,675	$ 25,827	$ 8,579	$ 1,316	$ (1,444)	$ 49,953
Year ended December 31, 2013						
Revenue						
From external customers	$ 73,502	$ 110,590	$ 25,447	$ 15,750	$ 2,692	$ 227,981
Intersegment revenues	18,447	5,702	4,354	2,107	1,232	31,842
Segment revenues	$ 91,949	$ 116,292	$ 29,801	$ 17,857	$ 3,924	
Intersegment elimination						(31,842)
Consolidated revenues						$ 227,981
Segment income before income tax	$ 17,339	$ 23,676	$ 9,432	$ 892	$ (2,243)	$ 49,096

b. Other segment information

Other information reviewed by the chief operating decision maker or regularly provided to the chief operating decision maker was as following:

For the year ended December 31, 2012

	Domestic Fixed Communi-cations Business	Mobile Communi-cations Business	Internet Business	International Fixed Communi-cations Business	Others	Total
	NT$	NT$	NT$	NT$	NT$	NT$
				(In Millions)		
Share of the profit of associates and joint venture accounted for using equity method	$ -	$ -	$ -	$ -	$ 520	$ 520
Interest revenue	$ 6	$ 12	$ 2	$ 4	$ 718	$ 742
Interest expense	$ -	$ -	$ 2	$ -	$ 20	$ 22
Operating costs and expenses	$ 69,327	$ 71,092	$ 10,280	$ 13,352	$ 7,389	$ 171,440
Depreciation and amortization	$ 19,230	$ 8,478	$ 2,685	$ 1,434	$ 333	$ 32,160
Capital expenditure	$ 19,551	$ 7,232	$ 3,441	$ 2,379	$ 677	$ 33,280

For the year ended December 31, 2013

	Domestic Fixed Communi-cations Business	Mobile Communi-cations Business	Internet Business	International Fixed Communi-cations Business	Others	Total
	NT$	NT$	NT$	NT$	NT$	NT$
				(In Millions)		
Share of the profit of associates and joint venture accounted for using equity method	$ -	$ -	$ -	$ -	$ 666	$ 666
Interest revenue	$ 12	$ 9	$ 6	$ 2	$ 534	$ 563
Interest expense	$ 1	$ 9	$ 1	$ -	$ 25	$ 36
Operating costs and expenses	$ 68,740	$ 79,074	$ 11,577	$ 14,333	$ 6,645	$ 180,369
Depreciation and amortization	$ 19,005	$ 8,147	$ 3,122	$ 1,549	$ 369	$ 32,192
Capital expenditure	$ 20,362	$ 9,245	$ 4,621	$ 1,559	$ 595	$ 36,382

c. Main products and service revenues from external customer information

The following is an analysis of the Company's revenue from its major products and services.

	Year Ended December 31	
	2012	2013
	NT$	NT$
	(In Millions)	
Mobile services revenue	$ 72,540	$ 76,709
Local telephone and domestic long distance telephone services revenue	44,629	41,278
Sales of product	27,649	33,103
Broadband access and domestic leased line services revenue	24,606	24,183
Internet services revenue	16,938	17,191
International network and leased telephone services revenue	12,749	12,675
Others	22,309	22,842
	$ 221,420	$ 227,981

d. Geographic information

The users of the Company's services are mainly from Taiwan, R.O.C. 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	
	2012	2013
	NT$	NT$
	(In Millions)	
Taiwan, R.O.C.	$ 213,837	$ 217,986
Overseas	7,583	9,995
	$ 221,420	$ 227,981

The Company has long-lived assets in U.S., Singapore, Hong Kong, China, Vietnam, and Japan and except for $1,415 million and $3,310 million as of December 31, 2012 and 2013, respectively, in the aforementioned areas, the other long-lived assets are located in Taiwan, R.O.C.

e. Major customers

For the years ended December 31, 2012 and 2013, the Company did not have any single customer whose net revenue exceeded 10% of the total net revenue.

43. DISCLOSURE FOR FIRST-TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

a. Basis of the preparation of financial information under International Financial Reporting Standards

The consolidated financial statements for the year ended December 31, 2013 are reported under IFRSs as issued by IASB. As the basis of the preparation, the Company not only follows the significant accounting policies stated in Note 3 but also applies IFRS 1 "First-time adoption of International Financial Reporting Standards".

b. Based on IFRS 1 "First-time adoption of International Financial Reporting Standards", when the Company first adopts IFRSs, the Company should apply the IFRSs to establish its accounting policies, to prepare its financial statements and make required adjustments retroactively to the transition date (January 1, 2012). IFRS 1 provides several optional exemptions. The main exemptions adopted by the Company were discussed as follows:

1) Business combination

The Company elected not to apply IFRS 3 retrospectively to business combinations which occurred before January 1, 2012.

2) Share-based payment transactions

The Company elected not to apply IFRS 2 retrospectively to the share-based payment transactions which were granted and vested before January 1, 2012.

3) Deemed costs

The Company elected to measure parcels of land it owned at the date of transition to IFRSs at its revalued amount determined under accounting principles generally accepted in the Republic of China (“ROC GAAP”) as its deemed cost. The other property, plant and equipment, investment properties and intangible assets were measured under a cost model under IFRSs.

4) Employee benefits

The Company elected to recognize all unrecognized cumulative actuarial gains and losses as retained earnings as of January 1, 2012.

The impacts of the aforementioned optional exemptions were included in the following part d. of “explanation for the adjustments of IFRSs transition”.

c. Impact after transition to IFRSs

The impact on the consolidated balance sheet and the consolidated statements of comprehensive income after transition to IFRSs are as follows:

1) Reconciliation of consolidated balance sheet as of January 1, 2012

ROC GAAP		Adjustments		IFRSs		
Items	Amount	Differences in Recognitions and Measurements	Differences in Presentations	Amount	Items	Notes
	NT$	NT$	NT$	NT$		
		(In Millions)				
Current assets	$ 106,539	$ (350)	$ (805)	$ 105,384	Current assets	4), 9), 15)
Investments accounted for using equity method	2,563	(43)	-	2,520	Investments accounted for using equity method	10), 14)
Financial assets carried at cost	2,760	-	(2,760)	-		15)
Available-for-sale financial assets	58	-	2,760	2,818	Available-for-sale financial assets	15)
Held-to-maturity financial assets	13,495	-	-	13,495	Held-to-maturity financial assets	
Other monetary assets	1,000	-	(1,000)	-		15)
Property, plant and equipment	302,612	-	(7,580)	295,032	Property, plant and equipment	1), 2), 15)
			9,060	9,060	Investment properties	1), 2)
Intangible assets	6,330	(65)	13	6,278	Intangible assets	15)
Other assets	7,563	569	329	8,461	Other noncurrent assets	1), 2), 4), 5), 6), 15)
Total	$ 442,920	$ 111	$ 17	$ 443,048	Total	
Current liabilities	$ 59,281	$ 5,073	$ (569)	$ 63,785	Current liabilities	7), 8), 9), 14)
Noncurrent liabilities	10,502	2,738	681	13,921	Noncurrent liabilities	4), 6), 7), 8)
Reserve for land value incremental tax	95	-	(95)	-		4)
Total liabilities	69,878	7,811	17	77,706	Total liabilities	
Common stock	77,574	-	-	77,574	Common stock	
Additional paid-in capital	169,536	(664)	-	168,872	Additional paid-in capital	6),8), 12), 13)
Retained earnings	115,866	(1,180)	-	114,686	Retained earnings	3), 5), 6), 7), 8), 9), 10), 11), 12), 13), 14)
Other adjustments	5,755	(5,726)	-	29	Other adjustments	3), 6), 10)
Total equity attributable to stockholders of the parent	368,731	(7,570)	-	361,161	Total equity attributable to shareholders of the parent	
Minority interests in subsidiaries	4,311	(130)	-	4,181	Noncontrolling interests	5), 6), 10), 11), 14)
Total stockholders’ equity	373,042	(7,700)	-	365,342	Total equity	
Total	$ 442,920	$ 111	$ 17	$ 443,048	Total	

2) Reconciliation of consolidated balance sheet as of December 31, 2012

ROC GAAP Items	ROC GAAP Amount	Adjustments: Differences in Recognitions and Measurements	Adjustments: Differences in Presentations	IFRSs Amount	IFRSs Items	Notes
	NT$	NT$	NT$	NT$		
		(In Millions)				
Current assets	$ 100,995	$ -	$ (1,048)	$ 99,947	Current assets	4), 9), 15)
Investments accounted for using equity method	2,250	(59)	-	2,191	Investments accounted for using equity method	10), 12), 14)
Financial assets carried at cost	2,550	-	(2,550)	-		15)
Available-for-sale financial assets	3,196	-	2,550	5,746	Available-for-sale financial assets	15)
Held-to-maturity financial assets	11,796	-	-	11,796	Held-to-maturity financial assets	
Other monetary assets	1,000	-	(1,000)	-		15)
Property, plant and equipment	303,650	-	(6,308)	297,342	Property, plant and equipment	1), 2), 15)
	-	-	7,789	7,789	Investment properties	1), 2)
Intangible assets	5,813	(65)	34	5,782	Intangible assets	15)
Other assets	8,197	722	537	9,456	Other noncurrent assets	1), 2), 4), 5), 6), 15)
Total	$ 439,447	$ 598	$ 4	$ 440,049	Total	
Current liabilities	$ 56,784	$ 3,883	$ (942)	$ 59,725	Current liabilities	7), 8), 9), 14)
Noncurrent liabilities	12,658	3,135	1,041	16,834	Noncurrent liabilities	4), 5), 6), 7), 8)
Reserve for land value incremental tax	95	-	(95)	-		4)
Total liabilities	69,537	7,018	4	76,559	Total liabilities	
Common stock	77,574	-	-	77,574	Common stock	
Additional paid-in capital	169,544	(667)	-	168,877	Additional paid-in capital	6), 8), 11), 12), 13)
Retained earnings	113,408	(866)	-	112,542	Retained earnings	3), 5), 6), 7), 8), 9), 10), 11), 12), 13), 14)
Other adjustments	4,916	(4,755)	-	161	Other adjustments	3),5), 6), 10)
Total equity attributable to stockholders of the parent	365,442	(6,288)	-	359,154	Total equity attributable to shareholders of the parent	
Minority interests in subsidiaries	4,468	(132)	-	4,336	Noncontrolling interests	5), 6), 10), 11), 14)
Total stockholders' equity	369,910	(6,420)	-	363,490	Total equity	
Total	$ 439,447	$ 598	$ 4	$ 440,049	Total	

3) Reconciliation of consolidated statement of comprehensive income for year ended December 31, 2012

ROC GAAP Items	ROC GAAP Amount	Adjustments: Differences in Recognitions and Measurements	Adjustments: Differences in Presentations	IFRSs Amount	IFRSs Items	Notes
	NT$	NT$	NT$	NT$		
		(In Millions)				
Net revenues	$ 220,131	$ 1,289	$ -	$ 221,420	Revenues	7), 8), 9)
Operating costs	(141,177)	(336)	-	(141,513)	Operating costs	6), 7), 9), 16)
Gross profits	78,954	953	-	79,907	Gross profit	
Operating expenses	(30,041)	78	36	(29,927)	Operating expenses	6), 7), 9), 11), 16)
Other income and expense	-	-	(1,569)	(1,569)	Other income and expense	16)
Income from operations	48,913	1,031	(1,533)	48,411	Income from operations	
Non-operating income and losses	(17)	(10)	1,569	1,542	Non-operating income and expenses	3), 10), 12), 14)
Income before income tax	48,896	1,021	36	49,953	Income before income tax	
Income tax expense	(7,858)	558	(36)	(7,336)	Income tax expenses	5), 14), 16)
Consolidated net income	$ 41,038	$ 1,579	$ -	42,617	Net income	
					Items that will not be reclassified to profit or loss:	
				(1,539)	Remeasurements of defined benefit pension plans	6)
				(18)	Share of remeasurements of defined benefit pension plans of associates	10)
				265	Income tax relating to items that will not reclassified	5)
				(1,292)		
					Items that may be reclassified subsequently to profit or loss:	
				(58)	Exchange differences arising from the translation of the foreign operations	
				(8)	Share of exchange differences arising from the translation of the foreign operations of associates	
				192	Unrealized gain on available-for-sale financial assets	
				126		
				(1,166)	Total other comprehensive income	
				$ 41,451	Total comprehensive income	

d. Explanation for the adjustments of IFRSs transition:

1) Classification of investment properties

Under ROC GAAP, properties for lease were classified as property, plant and equipment and other assets; after transition to IFRSs, owned-property for either rental revenue or capital appreciation should be classified as investment properties.

On January 1, 2012, the assets that met the definition of investment properties under IAS 40 "Investment Property" were reclassified from property, plant and equipment of $8,597 million, and other assets - idle assets of $463 million, to investment properties. The total amount of reclassification was $9,060 million. On December 31, 2012, the assets that met the definition of investment properties were reclassified from property, plant and equipment of $7,330 million, and other assets - idle assets of $459 million to investment properties. The total amount of reclassification was $7,789 million.

2) Classification of leased assets and idle assets

Under ROC GAAP, leased and idle assets were classified as other assets; after the transition to IFRSs, leased and idle assets were reclassified to property, plant and equipment or investment properties based on the nature of these assets.

The Company reclassified leased assets to property, plant and equipment and the amounts were $400 million and $390 million as of January 1, 2012 and December 31, 2012, respectively. Except for the abovementioned Item 1) which discussed the reclassification from idle assets to investment properties, the Company reclassified the remaining idle assets to property, plant and equipment amounting to $437 million and $415 million, as of January 1, 2012 and December 31, 2012, respectively.

3) Deemed cost of property, plant and equipment

The Company elected to apply the optional exemption in IFRS 1. The management measured land (classified as property, plant and equipment and investment properties under IFRSs) at its revalued amount, which was determined under ROC GAAP as deemed cost. On January 1, 2012, the Company reclassified the unrealized revaluation increment (classified as stockholders' equity) to retained earnings in the amount of $5,764 million. This reclassification did not affect total equity. Due to the disposal of some revalued assets and recognition of impairment loss of the revalued assets, the unrealized revaluation increment reclassified to retained earnings was decreased by $0.35 million and $2 million, respectively and revaluation increment as of December 31, 2012 was $5,760 million. As a result of the above adjustment, gain on disposal of property, plant and equipment decreased by $0.35 million, and impairment loss increased by $2 million for the year ended December 31, 2012.

4) Classification of deferred income tax asset and liability, and valuation allowance

Under ROC GAAP, a deferred income tax asset and liability should be classified as current and noncurrent in accordance with the classification of its related asset or liability. When a deferred income tax asset and liability does not relate to an asset or liability, then it is classified as either current or noncurrent based on the expected length of time before it is realized or settled. However, under IFRSs, a deferred income tax asset and liability should be classified as noncurrent, and could not be offset. Deferred income tax assets and liabilities are offset on the balance sheet when the entity has the legally enforceable right to offset current tax assets against current tax liabilities and they are levied by the same taxation authority on the same entity.

Under ROC GAAP, if it is more likely than not that deferred income tax assets will not be realized, the valuation allowances are provided to the extent. However, under IFRSs, deferred income tax assets are only recognized when it is more likely than not to be realized, and the valuation allowance is not used under IFRSs.

Based on the Guidelines Governing the Preparation of Financial Reports by Securities Issuers in ROC, the reserve for land value incremental tax caused by revaluation of land is classified as long-term liabilities. Under IFRSs, if the Company elects to apply the IFRS 1 exemption and measure the revalued land using the carrying amount determined under ROC GAAP as its deemed cost, the related reserve for land value incremental tax should be classified as deferred income tax liabilities.

The Company reclassified its deferred income tax assets - current to noncurrent assets and the amounts were $115 million and $143 million as of January 1, 2012 and December 31, 2012, respectively. Further, deferred income tax liabilities, which were netted with deferred income tax assets under ROC GAAP, were reversed. As a result of such reversal, deferred income tax liabilities - noncurrent and deferred income tax assets - noncurrent increased by $16 million and $4 million, respectively, and reserve for land value incremental tax of $95 million was also reclassified as deferred income tax liabilities - noncurrent under IFRSs.

5) Income tax

Based on IAS 12 “Income Taxes”, the income tax adjustments as a result of the transition to IFRSs are as follows: deferred income tax assets increased by $584 million and $721 million (including the tax effects of actuarial gains and losses from defined benefit plans of $265 million) as of January 1, 2012 and December 31, 2012, respectively; retained earnings increased by $576 million and $710 million as of January 1, 2012 and December 31, 2012, respectively; noncontrolling interests increased by $8 million and $11 million as of January 1, 2012 and December 31, 2012, respectively. Deferred income tax liabilities decreased by $0.02 million as of December 31, 2012. For the year ended December 31, 2012, due to the adjustment of deferred income tax assets and deferred income tax liabilities (decreased by $128 million in deferred tax assets and decreased by $0.02 million in deferred income tax liabilities), income tax expense increased by $128 million and the income tax relating to other comprehensive income increased by $265 million.

6) Employee benefits

Under ROC GAAP, net transition obligation that resulted from the first time adoption of SFAS No. 18, “Pension” should be amortized on a straight-line basis over the average remaining service life of active plan participants and recognized as net periodic pension cost. After the transition to IFRSs, the transitional rules in IAS 19, “Employee Benefits” (“IAS 19”) was not applicable, thus the related amounts of net transition obligation should be recognized at once and adjusted in retain earnings.

Under ROC GAAP, actuarial gains (losses) are recognized based on the corridor approach and the amounts are amortized over the average remaining service life of active plan participants. Under IFRSs, the Company recognized actuarial gains (losses) arising from defined benefit plans as other comprehensive income immediately and subsequent reclassification to earnings is not permitted.

Furthermore, under ROC GAAP, the prior service costs should be recognized as an expense on a straight-line basis over the average remaining service life of active plan participants until the benefits become vested. Under IFRSs, IAS 19 required entities to recognize past service costs in profit or loss immediately.

As a result of the aforementioned adjustments, other liabilities increased by $1,504 million and $2,038 million as of January 1, 2012 and December 31, 2012, respectively; other noncurrent assets decreased by $15 million and increased by $1 million as of January 1, 2012 and December 31, 2012, respectively; retained earnings decreased by $1,472 million and $2,954 million as of January 1, 2012 and December 31, 2012, respectively; unrecognized net losses of pension decreased by $0.22 million, and $956 million as of January 1, 2012 and December 31, 2012, respectively; noncontrolling interests decreased by 47 million and $39 million as of January 1, 2012 and December 31, 2012, respectively. For the year ended December 31, 2012, pension cost decreased by $39 million which increased $0.17 million in operating costs and decreased $39 million in operating expenses and actuarial losses arising from defined benefit plans (classified as other comprehensive income) decreased by $1,539 million.

In addition, prior to Chunghwa's privatization in 2005, the pension contributions were made according to the relevant regulations. Upon privatization, the pension obligations of retained employees that were civil employees and employees retired prior to privatization entitled to receive future monthly pension payments based on the "Labor Pension Act", "Act of Privatization of Government-Owned Enterprises", and "Enforcement Rules of Statute of Privatization of Government-Owned Enterprises" were borne by the government. The settlement impact upon privatization of $20,648 million derived according to the actuarial report under IAS 19 shall be retroactively adjusted from retained earnings to additional paid-in capital - privatization at the date of transition to IFRSs.

7) Award credits (often known as "points")

Under ROC GAAP, the Company used their best estimates to accrue the liability of the points when the points are granted and adjust the liability subsequently based on the actual redemption of the points. After the transition to IFRSs, Chunghwa applied IFRIC 13, "Customer Royalty Program" retroactively. The award credit should be measured at its fair value and defer the recognition of revenue. When the customers redeem the points, the deferred revenue is recognized as well as the corresponding cost of the points.

Accrued award credits liabilities (classified as other current liabilities) were decreased by $70 million, and $121 million as of January 1, 2012 and December 31, 2012, respectively; net deferred award credits revenue (classified as noncurrent liabilities - deferred revenue) were increased by $24 million, and $72 million as of January 1, 2012 and December 31, 2012, respectively; retained earnings were increased by $46 million and $49 million as of January 1, 2012 and December 31, 2012, respectively. The revenue was decreased by $48 million, the marketing expenses were decreased by $80 million and the operating cost was increased by $29 million for the year ended December 31, 2012.

8) Recognition of revenue from providing fixed line connection service

Prior to incorporation and privatization, Chunghwa was subject to the financial reporting requirements under the laws and regulations applicable to state-owned enterprises in Taiwan which differed from ROC GAAP as applicable to commercial companies. As such, Chunghwa recorded revenue from providing fixed line connection service upon the receipt of connection fees. 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 relating to 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 IFRSs, following the revenue recognition guidance, the above service revenue was deferred at the time of service performed and recognized as revenue over time as the service is continuously performed.

Chunghwa retrospectively adjusted the deferred income of $1,926 million and $1,286 million as of January 1, 2012 and December 31, 2012, respectively, by decreasing retained earnings and increasing the deferred revenue from providing fixed line connection service ($640 million and $185 million were classified as other current liabilities; $1,286 million and $1,101 million were classified as noncurrent liabilities - deferred revenue as of January 1, December 31 and December 31, 2012, respectively). Unappropriated earnings increased and the additional paid-in-capital decreased by $18,487 million as of December 31, 2012. For the year ended December 31, 2012, revenue from providing fixed line connection service increased by $640 million.

9) Recognition of construction contract revenue

The construction contracts did not meet the criteria in IFRIC 15"Agreements as the buyers are not able to specify the major structural elements of the design of the real estate before construction begins and/or specify major structural changes once construction is in progress for the Construction of Real Estate"; therefore IAS 11 "Construction Contracts" does not apply. The Company could only recognize the revenues when the projects are completed and sold based on IAS 18, "Revenue". Due to the reasons mentioned above, the Company reversed the revenue that was recognized based on percentage completion method, and recognize the related revenue, cost and expense when the project is completed in 2012.

Inventories decreased by $392 million and nil as of January 1, 2012 and December 31, 2012, respectively; prepaid expenses (classified as other current assets) increased by $42 million and nil as of January 1, 2012 and December 31, 2012, respectively; accrued expenses (classified as other current liabilities - accrued expense) decreased by $2 million and nil of January 1, 2012 and December 31, 2012, respectively; retained earnings decreased by $348 million and nil as of January 1, 2012 and December 31, 2012, respectively. The construction revenue increased by $697 million, the construction cost increased by $306 million and the marketing expenses increased by $43 million for the year ended December 31, 2012.

10) Equity method investments

Associates and joint venture are accounted for using the equity method. Upon the Company's transition to IFRSs, the main adjustment of equity method investments includes employee benefit and share-based payments, etc. As a result, long-term investments were decreased by $7 million and $10 million as of January 1, 2012 and December 31, 2012, respectively; retained earnings decreased by $40 million and $52 million as of January 1, 2012 and December 31, 2012, respectively; unrecognized net loss of pension decreased by $38 million and $49 million as of January 1, 2012 and December 31, 2012, respectively; noncontrolling interests decreased by $5 million and $7 million as of January 1, 2012 and December 31, 2012, respectively. Share of the profit of associates and joint venture accounted for using equity method increased by $4 million and share of other comprehensive income of associates and joint venture accounted for using equity method decreased $18 million for the year ended December 31, 2012.

11) Share-based payment transactions

A portion of the employee stock options granted by subsidiary CHPT was not vested on the transition date. Therefore, the subsidiary accounted for these stock options under IFRS 2, "Share-based Payment" from their respected grant dates. Under IFRSs, paid-in capital - employee stock option recognized by subsidiary does not belong to the equity attributable to parent company, instead it should be accounted as noncontrolling interests. As of January 1, 2012, retained earnings instead decreased by $2 million and noncontrolling interests increased by $2 million. As of December 31, 2012, noncontrolling interests increased by $2 million and paid-in capital - equity in additional paid-in capital reported by equity-method investees decreased by $2 million. For the year ended December 31, 2012, the compensation cost under general and administrative expense decreased by $2 million.

12) (a) Subscription of associates/subsidiaries new shares and (b) adjustments of paid-in capital reported related to equity-method investees

When an investee issues new shares and existing shareholders do not subscribe to the new shares at their respective proportion in share holdings, this would result in changes in the investor's shareholdings of the equity method investee. According to the Statements of Financial Accounting Standards ("SFAS") No. 5 "Long-term Investments under Equity Method" under ROC GAAP, as since there are changes in the net book value of the equity method investee attributable to the investor, the investor shall reflect such changes by adjusting additional paid-in capital and long-term investments. However, under IFRSs, if the changes do not cause the investor to lose significant influence over associates, the change shall be treated as a deemed disposal with the related gain or loss recognized in earnings. If the changes do not cause the investor to lose control over subsidiaries, the change shall be treated as equity transactions. The Company reclassified such paid-in capital of $27 million as of January 1, 2012 to retained earnings. As of January1, 2012 and December 31, 2012, the Company reclassified such paid-in capital of $27 million and $28 million to retained earnings and long-term investment decreased by $0.27 million. Gain on disposal of financial instruments increased by $1 million for the year ended December 31, 2012.

13) Prepaid cards

Prior to incorporation and privatization, Chunghwa 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 sale of prepaid phone cards was recognized at the time of sale by Chunghwa. Upon incorporation, net assets greater than the capital stock was credited as additional paid-in-capital and part of the additional paid-in-capital was from the 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 IFRSs, revenue from prepaid cards is deferred at the time of sale and recognized as revenue as consumed.

The amount of reclassification from additional paid-in capital to unappropriated earnings was $2,798 million as of January 1, 2012 and December 31, 2012.

14) 10% tax on unappropriated earnings

In the Republic of China ("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 the stockholders approve the appropriation of earnings which is the immediate following year

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

The aforementioned 10% tax on unappropriated earnings is also applicable to the underlying investees whom the Company invested and accounted for using equity method. And, as a result, investments accounted for using equity method decreased by $36 million and $49 million as of January 1, 2012 and December 31, 2012, respectively; current tax liabilities increased by $4,505 million and $3,819 million as of January 1, 2012 and December 31, 2012, respectively; retained earnings decreased by $4,442 million and $3,758 million as of January 1, 2012 and December 31, 2012, respectively; noncontrolling interests decreased by $99 million and $110 million as of January 1, 2012 and December 31, 2012, respectively. Income tax expenses decreased by $686 million and share of the profit of associates and joint ventures accounted for using the equity method decreased by $13 million for the year ended December 31, 2012.

15) Presentation of consolidated balance sheets

a) Piping fund

As part of the government's effort to upgrade the existing telecommunications infrastructure project, Chunghwa and other public utility companies were required by the ROC government to contribute a total of $1,000 million to a Piping Fund administered by the Taipei City Government. Based on the terms of Construction Funding Agreement, if the Piping Fund 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. In order to conform to the presentation of the financial statements under IFRSs, the fund was reclassified as other noncurrent assets.

b) Time deposits with maturities of more than three months

Under ROC GAAP, cash and cash equivalents includes time deposits that are cancellable but without any loss of principal. Under IFRSs, cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Therefore, an investment normally qualifies as a cash equivalent only when it has a short maturity of three months or less from the date of acquisition.

Time deposits and negotiable certificate of deposits with maturities of more than three months held by the Company were $40,982 million and $22,264 million as of January 1, 2012 and December 31, 2012, respectively. In order to conform to the presentation of the financial statements under IFRSs, such amounts were reclassified from cash to other monetary assets - current.

c) Deferred expense

The deferred expense, which was classified as other assets under ROC GAAP, was reclassified based on its nature under IFRSs. Deferred expenses relating to decoration construction projects and advertisement signboard, etc. were reclassified as prepaid expenses of nil and $1 million as of January 1, 2012 and December 31, 2012, respectively. Deferred expenses relating to decoration construction projects and advertisement signboard, etc. were reclassified as property, plant and equipment of $158 million and $216 million as of January 1, 2012 and December 31, 2012, respectively. Deferred expenses relating to computer software were reclassified as intangible assets of $13 million and $34 million as of January 1, 2012 and December 31, 2012, respectively.

d) Assets to be abandoned

The property, plant and equipment classified as held for disposal (included in other assets - others) under ROC GAAP, was reclassified based on its nature under IFRSs. Assets to be abandoned were reclassified as property, plant and equipment of $22 million and $1 million as of January 1, 2012 and December 31, 2012, respectively.

e) Reclassification of financial assets carried at cost

Based on the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, stocks held by the Company which were not listed in Taiwan Stock Exchange or were not trading in the GreTai Securities Market and the Company did not have significant influence over these investees were classified as financial assets carried at cost. After transition to IFRSs, financial assets carried at cost were designated as available-for-sale financial assets. Financial assets carried at cost were reclassified as available-for-sale financial assets of $2,760 million and $2,550 million as of January 1, 2012 and December 31, 2012, respectively.

16) Presentation of consolidated statements of comprehensive income

After the transition to IFRSs, the consolidated statement of comprehensive income includes net income and other comprehensive income. Further, certain accounts were reclassified to conform to the presentation of the financial statements under IFRSs.

17) Summary of material adjustments of cash flow statements

Under ROC GAAP, collection and payment of interest and collection of dividends were classified as operating activity; payment of dividends was classified as financing activity. Further, for cash flow statement prepared using the indirect method, cash payment of interest expense is required for supplemental disclosure. Based on IAS 7 “Cash Flow Statement”, collection and payment of interest and dividends were disclosed separately with consistency for each period and classified as operating activity, investing activity or financing activity. The Company classified the payment of interest as operating activity, collection of interest and dividends as investing activity, and payment of dividends as financing activity in its consolidated statements of cash flows.