Chunghwa Telecom Co., Ltd. and Subsidiaries

Consolidated Financial Statements as of December 31, 2013 and 2014 and for Each of the Three Years in the Period Ended December 31, 2014 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 December 31, 2013 and 2014, and the related consolidated statements of comprehensive income, changes in equity, and cash flows for each of the three years in the period ended December 31, 2014, 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 December 31, 2013 and 2014, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2014, 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, 2014, based on the criteria established in Internal Control Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated April 28, 2015 expressed an unqualified opinion on the Company’s internal control over financial reporting.

Deloitte & Touche
Taipei, Taiwan
The Republic of China

April 28, 2015

CHUNGHWA TELECOM CO., LTD. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2013 AND 2014
(In Millions of New Taiwan or U.S. Dollars)

ASSETS	Notes	2013 NT$	2014 NT$	2014 US$ (Note 6)
CURRENT ASSETS				
Cash and cash equivalents	3, 7	$ 14,585	$ 23,560	$ 746
Financial assets at fair value through profit or loss	3, 8	-	1	-
Available-for-sale financial assets	3, 9	24	-	-
Held-to-maturity financial assets	3, 10	4,264	3,457	109
Trade notes and accounts receivable, net	3, 4, 11	22,901	26,228	830
Accounts receivable from related parties	40	69	81	3
Inventories	3, 4, 12, 41	7,848	7,097	225
Prepayments	13, 40	2,224	2,444	77
Other current monetary assets	14, 28	4,636	3,325	105
Other current assets	20, 32	3,962	3,219	102
Total current assets		60,513	69,412	2,197
NONCURRENT ASSETS				
Available-for-sale financial assets	3, 9	5,470	6,281	199
Held-to-maturity financial assets	3, 10	7,502	4,028	127
Investments accounted for using equity method	3, 16	2,359	2,750	87
Property, plant and equipment	3, 4, 17, 40, 41	302,714	302,650	9,578
Investment properties	3, 4, 18	8,018	7,621	241
Intangible assets	3, 4, 19	44,399	42,825	1,355
Deferred income tax assets	3, 32	1,506	1,826	58
Prepayments	13, 40	3,608	3,504	111
Other noncurrent assets	20, 28, 41	4,883	5,601	177
Total noncurrent assets		380,459	377,086	11,933
TOTAL		$ 440,972	$ 446,498	$ 14,130

LIABILITIES AND EQUITY	Notes	2013 NT$	2014 NT$	2014 US$ (Note 6)
CURRENT LIABILITIES				
Short-term loans	22	$ 254	$ 564	$ 18
Financial liabilities at fair value through profit or loss	3, 8	-	-	-
Hedging derivative liabilities	3, 21	-	-	-
Trade notes and accounts payable	24	15,589	18,519	586
Payables to related parties	40	557	408	13
Current tax liabilities	3, 32	6,171	6,982	221
Other payables	25	26,792	24,335	770
Provisions	3, 26	129	179	6
Advance receipts	27	9,464	9,913	314
Current portion of long-term loans	23, 41	300	-	-
Other current liabilities		1,599	1,619	51
Total current liabilities		60,855	62,519	1,979
NONCURRENT LIABILITIES				
Long-term loans	23, 41	1,400	1,900	60
Deferred income tax liabilities	3, 32	101	132	4
Provisions	3, 26	123	93	3
Customers' deposits	40	4,835	4,759	151
Accrued pension liabilities	3, 4, 28	5,482	6,470	205
Deferred revenue		3,701	3,398	107
Other noncurrent liabilities		1,335	1,515	48
Total noncurrent liabilities		16,977	18,267	578
Total liabilities		77,832	80,786	2,557
EQUITY ATTRIBUTABLE TO STOCKHOLDERS OF THE PARENT				
Common stock		77,574	77,574	2,455
Additional paid-in capital		163,294	146,720	4,643
Retained earnings				
Legal reserve		74,819	76,893	2,433
Special reserve		2,676	2,820	89
Unappropriated earnings		40,075	55,895	1,769
Total retained earnings		117,570	135,608	4,291
Other adjustments		(144)	886	28
Total equity attributable to stockholders of the parent	15, 29	358,294	360,788	11,417
NONCONTROLLING INTERESTS	15, 29	4,846	4,924	156
Total equity		363,140	365,712	11,573
TOTAL		$ 440,972	$ 446,498	$ 14,130

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

CHUNGHWA TELECOM CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
YEARS ENDED DECEMBER 31, 2012, 2013 AND 2014
(In Millions of New Taiwan or U.S. Dollars, Except Earnings Per Share That Are in New Taiwan or U.S. Dollars)

		2012	2013	2014	
	Notes	**NT$**	**NT$**	**NT$**	**US$ (Note 6)**
REVENUES	30, 40	$ 221,420	$ 227,981	$ 226,609	$ 7,171
OPERATING COSTS	12, 40	141,513	147,289	148,380	4,696
GROSS PROFIT		79,907	80,692	78,229	2,475
OPERATING EXPENSES					
Marketing		22,208	25,164	26,145	827
General and administrative		4,021	4,190	4,414	140
Research and development		3,698	3,726	3,504	111
Total operating expenses	40	29,927	33,080	34,063	1,078
OTHER INCOME AND EXPENSES	31	(1,569)	59	631	20
INCOME FROM OPERATIONS		48,411	47,671	44,797	1,417
NON-OPERATING INCOME AND EXPENSES					
Interest income		742	563	288	9
Other income	31, 40	441	356	587	19
Other gains and losses	31, 40	(139)	(124)	124	4
Interest expense		(22)	(36)	(46)	(1)
Share of the profit of associates and joint ventures accounted for using equity method	16	520	666	802	25
Total non-operating income and expenses		1,542	1,425	1,755	56
INCOME BEFORE INCOME TAX		49,953	49,096	46,552	1,473
INCOME TAX EXPENSE	3, 32	7,336	6,478	8,985	284
NET INCOME		42,617	42,618	37,567	1,189
OTHER COMPREHENSIVE INCOME (LOSS)					
Items that will not be reclassified to profit or loss:					
Remeasurements of defined benefit pension plans		(1,539)	(617)	(492)	(16)
Share of remeasurements of defined benefit pension plans of associates		(18)	(39)	1	-
Income tax relating to items that will not be reclassified	32	265	105	84	3
		(1,292)	(551)	(407)	(13)
Items that may be reclassified subsequently to profit or loss:					
Exchange differences arising from the translation of the foreign operations		(58)	129	164	5
Share of exchange differences arising from the translation of the foreign operations of associates		(8)	4	4	-

(Continued)

CHUNGHWA TELECOM CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
YEARS ENDED DECEMBER 31, 2012, 2013 AND 2014
(In Millions of New Taiwan or U.S. Dollars, Except Earnings Per Share That Are in New Taiwan or U.S. Dollars)

		2012	2013	2014	
	Notes	**NT$**	**NT$**	**NT$**	**US$ (Note 6)**
Unrealized loss on cash flow hedges		$ -	$ -	$ -	$ -
Unrealized gain (loss) on available-for-sale financial assets		192	(392)	878	28
Income tax relating to items that may be reclassified subsequently	32	-	(6)	3	-
		126	(265)	1,049	33
Total other comprehensive income (loss), net of income tax		(1,166)	(816)	642	20
TOTAL COMPREHENSIVE INCOME		$ 41,451	$ 41,802	$ 38,209	$ 1,209
NET INCOME ATTRIBUTABLE TO					
Stockholders of the parent		$ 41,492	$ 41,494	$ 36,970	$ 1,170
Noncontrolling interests		1,125	1,124	597	19
		$ 42,617	$ 42,618	$ 37,567	$ 1,189
COMPREHENSIVE INCOME ATTRIBUTABLE TO					
Stockholders of the parent		$ 40,350	$ 40,636	$ 37,594	$ 1,190
Noncontrolling interests		1,101	1,166	615	19
		$ 41,451	$ 41,802	$ 38,209	$ 1,209
EARNINGS PER SHARE	33				
Basic		$5.35	$5.35	$4.77	$0.15
Diluted		$5.33	$5.34	$4.76	$0.15
EARNINGS PER EQUIVALENT ADS	33				
Basic		$53.49	$53.49	$47.66	$1.51
Diluted		$53.34	$53.40	$47.58	$1.51

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
YEARS ENDED DECEMBER 31, 2012, 2013 AND 2014
(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	Cash Flow Hedges	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$	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 additional paid-in capital	-	(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
Appropriation of 2013 earnings													
Legal reserve	-	-	2,074	-	(2,074)	-	-	-	-	-	-	-	-
Special reserve	-	-	-	144	(144)	-	-	-	-	-	-	-	-
Cash dividends paid by Chunghwa	-	-	-	-	(18,526)	(18,526)	-	-	-	-	(18,526)	-	(18,526)
Cash dividends paid by subsidiaries to noncontrolling interests	-	-	-	-	-	-	-	-	-	-	-	(797)	(797)
Cash distributed from additional paid-in capital	-	(16,577)	-	-	-	-	-	-	-	-	(16,577)	-	(16,577)
Change in additional paid-in capital from share subscription not based on original ownership of a subsidiary	-	3	-	-	-	-	-	-	-	-	3	-	3
Net income for the year ended December 31, 2014	-	-	-	-	36,970	36,970	-	-	-	-	36,970	597	37,567
Other comprehensive income for the year ended December 31, 2014	-	-	-	-	(406)	(406)	140	890	-	1,030	624	18	642
Total comprehensive income for the year ended December 31, 2014	-	-	-	-	36,564	36,564	140	890	-	1,030	37,594	615	38,209
Compensation cost of employee stock options of a subsidiary	-	-	-	-	-	-	-	-	-	-	-	93	93
Employee stock bonus issued by a subsidiary	-	-	-	-	-	-	-	-	-	-	-	5	5
Increase in noncontrolling interests	-	-	-	-	-	-	-	-	-	-	-	162	162
BALANCE, DECEMBER 31, 2014	$ 77,574	$ 146,720	$ 76,893	$ 2,820	$ 55,895	$ 135,608	$ 146	$ 740	$ -	$ 886	$ 360,788	$ 4,924	$ 365,712
BALANCE, DECEMBER 31, 2014 (IN MILLIONS OF US$ - Note 6)	$ 2,455	$ 4,643	$ 2,433	$ 89	$ 1,769	$ 4,291	$ 5	$ 23	$ -	$ 28	$ 11,417	$ 156	$ 11,573

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

CHUNGHWA TELECOM CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2012, 2013 AND 2014
(In Millions of New Taiwan or U.S. Dollars)

	2012	2013	2014	
	NT$	NT$	NT$	US$ (Note 6)
CASH FLOWS FROM OPERATING ACTIVITIES				
Income before income tax	$ 49,953	$ 49,096	$ 46,552	$ 1,473
Adjustments to reconcile income before income tax to net cash provided by operating activities:				
Depreciation	31,037	30,954	31,896	1,009
Amortization	1,123	1,238	2,218	70
Provision for (reversal of) doubtful accounts	(1,451)	253	326	10
Interest expenses	22	36	46	1
Interest income	(742)	(563)	(288)	(9)
Dividend income	(21)	(79)	(78)	(2)
Compensation cost of employee share options	-	70	93	3
Share of the profit of associates and joint venture accounted for using equity method	(520)	(666)	(802)	(25)
Impairment loss on available-for-sale financial assets	203	66	23	1
Provision for inventory and obsolescence	113	203	288	9
Impairment loss on property, plant and equipment	301	254	-	-
Impairment loss on (reversal of) investment properties	1,261	(246)	-	-
Impairment loss on intangible assets	5	18	-	-
Gain on disposal of financial instruments	(113)	(76)	(46)	(1)
Loss (gain) on disposal of property, plant and equipment	2	(85)	(26)	(1)
Gain on disposal of investment properties	-	-	(605)	(19)
Loss (gain) on disposal of investments accounted for using equity method	-	(13)	7	-
Valuation loss (gain) on financial instruments at fair value through profit or loss, net	1	1	(1)	-
Loss (gain) on foreign exchange	(18)	19	(164)	(5)
Changes in operating assets and liabilities:				
Decrease (increase) in:				
Financial assets held for trading	74	9	-	-
Trade notes and accounts receivable	(509)	1,219	(3,617)	(115)
Receivables from related parties	(10)	(25)	(12)	-
Inventories	(2,487)	(855)	463	15
Other current monetary assets	(118)	(1)	1,268	40
Prepayment	(104)	(287)	(116)	(4)
Other current assets	(1,518)	590	741	24
Increase (decrease) in:				
Trade notes and accounts payable	(804)	2,076	2,972	94
Payables to related parties	49	(280)	(149)	(5)
Other payables	(263)	447	(1,868)	(59)
Provisions	84	(14)	20	1
Advance receipts	(1,308)	(730)	449	14
Other current liabilities	(383)	88	13	-
Deferred revenue	(49)	(138)	(303)	(10)
Accrued pension liabilities	88	289	494	16
Cash generated from operations	73,898	82,868	79,794	2,525
Interest paid	(29)	(36)	(43)	(1)
Income tax paid	(8,213)	(7,544)	(8,373)	(265)
Net cash provided by operating activities	65,656	75,288	71,378	2,259

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CHUNGHWA TELECOM CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2012, 2013 AND 2014
(In Millions of New Taiwan or U.S. Dollars)

	2012	2013	2014	
	NT$	NT$	NT$	US$ (Note 6)
CASH FLOWS FROM INVESTING ACTIVITIES				
Acquisition 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)	(59)	(2)
Proceeds from disposal of available-for-sale financial assets	1,824	3,989	85	3
Acquisition of time deposits and negotiable certificate of deposit with maturities of more than three months	(32,934)	(18,199)	(411)	(13)
Proceeds from disposal of time deposits and negotiable certificate of deposit with maturities of more than three months	51,653	37,928	471	15
Acquisition of held-to-maturity financial assets	(3,865)	-	-	-
Proceeds from disposal of held-to-maturity financial assets	2,451	4,236	4,258	135
Capital reduction of available-for-sale financial assets	35	36	84	3
Proceeds from disposal of hedging derivative assets	-	15	-	-
Derecognition of hedging derivative liabilities	-	(108)	-	-
Acquisition of investments accounted for using equity method	(26)	(90)	(252)	(8)
Proceeds from disposal of investments accounted for using equity method	-	24	-	-
Capital reduction of investments accounted for using equity method	65	16	-	-
Acquisition of property, plant and equipment	(33,280)	(36,382)	(32,559)	(1,031)
Proceeds from disposal of property, plant and equipment	33	205	150	5
Proceeds from disposal of investment properties	-	-	1,215	38
Acquisition of intangible assets	(632)	(39,872)	(644)	(20)
Increase in noncurrent assets	(624)	(291)	(719)	(23)
Interest received	853	672	340	11
Cash dividends received	315	475	667	21
Net cash used in investing activities	(18,607)	(49,168)	(27,374)	(866)
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from short-term loans	857	1,399	895	28
Repayment of short-term loans	(821)	(1,256)	(585)	(19)
Proceeds from long-term loans	400	-	348	11
Repayment of long-term loans	(102)	(358)	(148)	(5)
Increase in repurchase agreement collateralized by bonds	-	2,925	13,000	411
Decrease in repurchase agreement collateralized by bonds	-	(2,925)	(13,000)	(411)
Increase (decrease) in customers' deposits	63	(50)	(69)	(2)
Increase in other liabilities	447	22	181	6
Cash dividends and cash distributed from additional paid-in capital	(42,362)	(41,502)	(35,103)	(1,111)
Proceeds from exercise of employee stock option granted by subsidiaries	43	50	-	-
Dividends paid to noncontrolling interests	(893)	(811)	(797)	(25)
Other change in noncontrolling interests	(102)	42	162	5
Net cash used in financing activities	(42,470)	(42,464)	(35,116)	(1,112)

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CHUNGHWA TELECOM CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2012, 2013 AND 2014
(In Millions of New Taiwan or U.S. Dollars)

	2012	2013	2014	
	NT$	NT$	NT$	US$ (Note 6)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	$ (48)	$ (9)	$ 87	$ 3
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	4,531	(16,353)	8,975	284
CASH AND CASH EQUIVALENTS, BEGINNING OF THE YEAR	26,407	30,938	14,585	462
CASH AND CASH EQUIVALENTS, END OF THE YEAR	$ 30,938	$ 14,585	$ 23,560	$ 746

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 as 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, 2015.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance

The consolidated financial statements have been prepared in conformity with International Financial Reporting Standards as issued by the International Accounting Standard Board (collectively, "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.

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. Income and expenses of subsidiaries acquired or disposed of during the period are included in the consolidated statements of comprehensive income from the effective date of acquisition up to the effective date of disposal, as appropriate.

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.

Allocation of comprehensive income to the noncontrolling interests

Profit or loss and each component of other comprehensive income are attributed to the stockholders of the parent and to the noncontrolling interests. Total comprehensive income of subsidiaries is attributed to the stockholders of the parent 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 parent.

b. The subsidiaries in the consolidated financial statements

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

Name of Investor	Name of Investee	Main Businesses and Products	Percentage of Ownership December 31 2013	Percentage of Ownership December 31 2014	Note
Chunghwa Telecom Co., Ltd.	Senao International Co., Ltd. (“SENAO”)	Selling and maintaining mobile phones and its peripheral products	28	28	1)
	Light Era Development Co., Ltd. (“LED”)	Housing, office building development, rent and sale services	100	100	
	Donghwa Telecom Co., Ltd. (“DHT”)	International telecommunications IP fictitious internet and internet transfer services	100	100	
	Chunghwa Telecom Singapore Pte., Ltd. (“CHTS”)	Telecommunication wholesale, internet transfer services international data and long distance call wholesales to carriers	100	100	
	Chunghwa System Integration Co., Ltd. (“CHSI”)	Providing communication and information aggregative services	100	100	
	Chunghwa Investment Co., Ltd. (“CHI”)	Investment	89	89	
	CHIEF Telecom Inc. (“CHIEF”)	Internet communication and internet data center (“IDC”) service	69	69	2)
	Chunghwa International Yellow Pages Co., Ltd. (“CHYP”)	Yellow pages sales and advertisement services	100	100	
	Prime Asia Investments Group Ltd. (B.V.I.) (“Prime Asia”)	Investment	100	100	
	Spring House Entertainment Tech. Inc. (“SHE”)	Network services, producing digital entertainment contents and broadband visual sound terrace development	56	56	
	Chunghwa Telecom Global, Inc. (“CHTG”)	International data and internet services and long distance call wholesales to carriers	100	100	
	Chunghwa Telecom Vietnam Co., Ltd. (“CHTV”)	Information and communications technology, international circuit, and intelligent energy network service	100	100	
	Smartfun Digital Co., Ltd. (“SFD”)	Software retail	65	65	
	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	
	Chunghwa Sochamp Technology Inc. (“CHST”)	License plate recognition system	51	51	
	Honghwa International Co., Ltd. (“HHI”)	Human resources service	100	100	3)
	New Prospect Investments Holdings Ltd. (B.V.I.) (“New Prospect”)	Investment	100	100	
Senao International Co., Ltd.	Senao International (Samoa) Holding Ltd. (“SIS”)	International investment	100	100	
CHIEF Telecom Inc.	Unigate Telecom Inc. (“Unigate”)	Telecommunication and internet service	100	100	
	Chief International Corp. (“CIC”)	Internet communication and IDC service	100	100	
Chunghwa System Integrated Co., Ltd.	Concord Technology Co., Ltd. (“Concord”)	Investment	100	100	
Spring House Entertainment Tech. Inc.	Ceylon Innovation Ltd. (“CEI”)	International trading, general advertisement and book publishing service	100	100	
Light Era Development Co., Ltd.	Yao Yong Real Property Co., Ltd. (“YYRP”)	Real estate management and leasing business	100	-	4)
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	51	48	5)
	Chunghwa Investment Holding Co., Ltd. (“CIHC”)	Investment	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	

(Continued)

Name of Investor	Name of Investee	Main Businesses and Products	Percentage of Ownership December 31 2013	2014	Note
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	
	CHPT Japan Co., Ltd. ("CHPT (JP)")	Sale and maintenance of electronic parts and machinery processed products, and design of printed circuit board	100	100	6)
	Chunghwa Precision Test Tech. International, Ltd. ("CHPT (International)")	Wholesale electronic materials, electronic materials and general retail investment industry	100	100	7)
Senao International (Samoa) Holding Ltd.	Senao International HK Limited ("SIHK")	International investment	100	100	
Chunghwa Investment Holding Co., Ltd.	CHI One Investment Co., Limited ("COI")	Investment	100	100	
Senao International HK Limited	Senao Trading (Fujian) Co., Ltd. ("STF")	Information technology services and sale of communication products	100	100	
	Senao International Trading (Shanghai) Co., Ltd. ("SITS")	Information technology services and sale of communication products	100	100	
	Senao International Trading (Shanghai) Co., Ltd. ("SEITS")	Information technology services and maintenance of communication products	100	100	
	Senao International Trading (Jiangsu) Co., Ltd. ("SITJ")	Information technology services and sale of communication products	100	100	
Prime Asia Investments Group, Ltd. (B.V.I.)	Chunghwa Hsingta Co., Ltd. ("CHC")	Investment	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	
	Jiangsu Zhenhua Information Technology Company, LLC. ("JZIT")	Intelligent energy conserving and intelligent building services	75	75	
	Hua-Xiong Information Technology Co., Ltd. ("HXIT")	Intelligent system and energy saving system services in buildings	51	51	
Chunghwa Precision Test Tech. International, Ltd.	Shanghai Taihua Electronic Technology Limited ("STET")	Design of printed circuit board and related consultation service	-	100	8)

(Concluded)

1) The Company owns approximately 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) The Company's equity ownership of CHIEF decreased from 73.02% to 72.51% as of December 31, 2014 due to CHIEF issued employee stock bonus in July 2014.

3) Chunghwa established 100% owned subsidiary of Honghwa Human Resources Co., Ltd. (HHR) in January 2013. HHR changed its name to Honghwa International Co., Ltd. from July 4, 2014.

4) LED merged YYRP by absorption in October 2014.

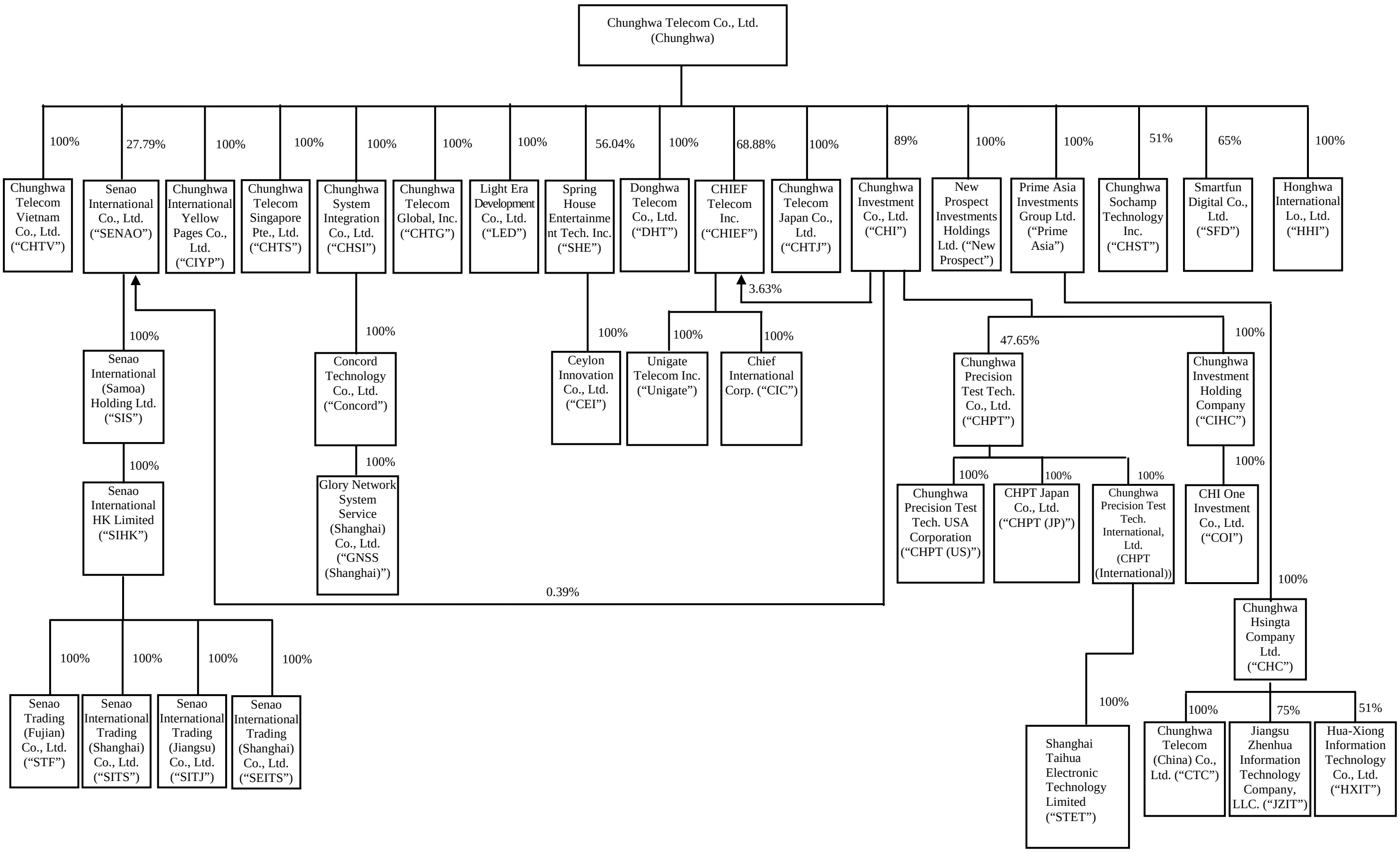
5) The decrease of the Company's equity ownership of CHPT was due to the exercise of options by CHPT's employees and CHPT issued employee stock bonus. CHI did not participate in the capital increase of CHPT in August and September 2014 and the ownership interest decreased after the capital increase of CHPT. The Company owned 50.62% and 47.65% equity shares of CHPT as of December 31, 2013 and 2014, respectively. However, the Company has three out of five seats of the board of directors of CHPT. Therefore, the Company has control over CHPT and the accounts of CHPT are included in the consolidated financial statements.

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

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

8) CHPT (International) established 100% owned subsidiary of STET in January 2014.

The following diagram presents information regarding the relationship and ownership percentages between Chunghwa and its subsidiaries as of December 31, 2014:



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 equivalents include commercial paper, time deposits and negotiable certificate of deposit with original maturities within three months from the date of acquisition, 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 Ventures

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 ventures 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 a 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 the Company 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 remeasurement 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.

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

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. If, in a subsequent period, the fair value of the financial assets can be reliably measured, the financial assets are remeasured at fair value. The difference between the carrying amount and the fair value is recognized in profit or loss.

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.

b. 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.

c. 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 derivatives instruments as fair value hedges and cash flow 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.

Hedge accounting is discontinued prospectively when the Company revokes the designated hedging relationship, or when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer meets the criteria for hedge accounting. The cumulative gain or loss on the hedging instrument that has been previously recognized in other comprehensive income from the period when the hedge was effective remains separately in equity until the forecast transaction occurs. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognized immediately in profit or loss.

<u>Fair value hedges</u>

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 profit or loss in line item relating to the hedged item.

<u>Cash flow hedges</u>

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in other comprehensive income. The gain or loss relating to the ineffective portion is recognized immediately in profit or loss.

The associated gains or losses that were recognized in other comprehensive income are reclassified from equity to profit or loss as a reclassification adjustment in the line item relating to the hedged item in the same period when the hedged item affects profit or loss. If a hedge of a forecast transaction subsequently results in the recognition of a non-financial asset or a non-financial liability, the associated gains and losses that were recognized in other comprehensive income are removed from equity and are included in the initial cost of the non-financial asset or non-financial liability.

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.

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 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.

Service revenue other than that from a project contract is recognized when service is provided.

Services revenue from a project contract 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. Under the premises that there is much chance economic benefit related to the transactions will flow to the Company and that the revenue can be reasonably measured.

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. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

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, 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.

Curtailment or settlement gains or losses on the defined benefit plan are recognized when the curtailment or settlement occurs.

Share-based Payments

Equity-settled share-based payments to employees 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.

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 and research and development expenditures.

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 end of each reporting period 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. A previously unrecognized deferred tax asset is also reviewed at the end of each reporting period and recognized to the to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax liabilities and assets 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. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

c. Current and deferred tax for the year

Current and deferred tax are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income, in which case, the current and deferred tax are also recognized in other comprehensive income.

4. CRITICAL ACCOUNTING JUDGMENTS 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

Amendments to IFRSs and the New Interpretation That Are Mandatorily Effective for the Current Year

In the current year, the Company has applied a number of amendments to IFRSs issued by the International Accounting Standards Board (IASB) that are mandatorily effective for an accounting period that begins on or after January 1, 2014.

a. Amendments to IAS 36 “Recoverable Amount Disclosures for Non-financial Assets”

The Company has applied the amendments to IAS 36 “Recoverable Amount Disclosure for Non-financial Assets” for the first time in the current year. The amendments to IAS 36 remove the requirement to disclose the recoverable amount of a cash-generating unit (CGU) to which goodwill or other intangible assets with indefinite useful lives had been allocated when there has been no impairment or reversal of impairment of the related CGU. Furthermore, the amendments introduce additional disclosure requirements applicable to when the recoverable amount of an asset or a CGU is measured at fair value less costs of disposal. These new disclosures include the fair value hierarchy, key assumptions and valuation techniques used which are in line with the disclosure required by IFRS 13 “Fair Value Measurements”.

The Company has included these new disclosures, as applicable, in Notes 17, 18 and 19.

b. Amendments to IAS 39 “Novation of Derivatives and Continuation of Hedge Accounting”

The Company has applied the amendments to IAS 39 “Novation of Derivatives and Continuation of Hedge Accounting” for the first time in the current year. The amendments to IAS 39 provide relief from the requirement to discontinue hedge accounting when a derivative designated as a hedging instrument is novated under certain circumstances. The amendments also clarify that any change to the fair value of the derivative designated as a hedging instrument arising from the novation should be included in the assessment and measurement of hedge effectiveness.

The amendments have been applied retrospectively. As the Group does not have any derivatives that are subject to novation, the application of these amendments has had no impact on the disclosures or on the amounts recognized in the Company's consolidated financial statements.

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 1)
IFRS 9	Financial Instruments	January 1, 2018
Amendments to IFRS 9 and IFRS 7	Mandatory Effective Date of IFRS 9 and Transition Disclosures	January 1, 2018
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	January 1, 2016 (Note 2)
Amendments to IFRS 10, IFRS 12 and IAS 28	Investment Entities: Applying the Consolidation Exception	January 1, 2016
Amendment to IFRS 11	Acquisitions of Interests in Joint Operations	January 1, 2016
IFRS 14	Regulatory Deferral Accounts	January 1, 2016
IFRS 15	Revenue from Contracts with Customers	January 1, 2017
Amendment to IAS 1	Disclosure Initiative	January 1, 2016
Amendments to IAS 16 and IAS 38	Clarification of Acceptable Methods of Depreciation and Amortization	January 1, 2016
Amendments to IAS 16 and IAS 41	Agriculture: Bearer Plants	January 1, 2016
Amendment to IAS 19	Defined Benefit Plans: Employee Contributions	July 1, 2014
Amendments to IFRSs	Annual Improvements to IFRSs 2010-2012 Cycle	July 1, 2014 (Note 3)
Amendments to IFRSs	Annual Improvements to IFRSs 2011-2013 Cycle	July 1, 2014
Amendments to IFRSs	Annual Improvements to IFRSs 2012-2014 Cycle	January 1, 2016 (Note 4)

Note 1: The aforementioned new, revised or amended standards or interpretations are effective after fiscal year beginning on or after the effective dates, unless specified otherwise.

Note 2: Prospectively applicable to transactions occurring in annual periods beginning on or after January 1, 2016.

Note 3: The amendment to IFRS 2 applies to share-based payment transactions for which the grant date is on or after July 1, 2014; the amendment to IFRS 3 applies to business combinations for which the acquisition date is on or after July 1, 2014; the amendment to IFRS 13 is effective immediately; the remaining amendments are effective for annual periods beginning on or after July 1, 2014.

Note 4: Except the amendment to IFRS 5 is applied prospectively, to changes in a method of disposal that occur in annual periods beginning on or after January 1, 2016, the remaining amendments are effective for annual periods beginning on or after January 1, 2016.

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 subsequently measured at amortized cost or fair value. Under IFRS 9, the requirement for the classification of financial assets is stated below.

For the Company’s debt instruments that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, their classification and measurement are as follows:

1) For debt instruments, if they are held within a business model whose objective is to collect the contractual cash flows, the financial assets are measured at amortized cost and are assessed for impairment continuously with impairment loss recognized in profit or loss, if any. Interest revenue is recognized in profit or loss by using the effective interest method;

2) For debt instruments, if they are held within a business model whose objective is achieved by both the collecting of contractual cash flows and the selling of financial assets, the financial assets are measured at fair value through other comprehensive income (FVTOCI) and are assessed for impairment. Interest revenue is recognized in profit or loss by using the effective interest method, and other gain or loss shall be recognized in other comprehensive income, except for impairment gains or losses and foreign exchange gains and losses. When the debt instruments are derecognized or reclassified, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss.

Except for above, all other financial assets are measured at fair value through profit or loss. 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. No subsequent impairment assessment is required, and the cumulative gain or loss previously recognized in other comprehensive income cannot be reclassified from equity to profit or loss.

The impairment of financial assets

IFRS 9 requires that impairment loss on financial assets is recognized by using the “Expected Credit Losses Model”. The credit loss allowance is required for financial assets measured at amortized cost, financial assets mandatorily measured at FVTOCI, lease receivables, contract assets arising from IFRS 15 “Revenue from Contracts with Customers”, certain written loan commitments and financial guarantee contracts. A loss allowance for the 12-month expected credit losses is required for a financial asset if its credit risk has not increased significantly since initial recognition. A loss allowance for full lifetime expected credit losses is required for a financial asset if its credit risk has increased significantly since initial recognition and is not low. However, a loss allowance for full lifetime expected credit losses is required for trade receivables that do not constitute a financing transaction.

For purchased or originated credit-impaired financial assets, the Company takes into account the expected credit losses on initial recognition in calculating the credit-adjusted effective interest rate. Subsequently, any changes in expected losses are recognized as a loss allowance with a corresponding gain or loss 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.

b. IFRS 15 "Revenue from Contracts with Customers"

IFRS 15 establishes principles for recognizing revenue that apply to all contracts with customers, and will supersedes IAS 18 "Revenue", IAS 11 "Construction Contracts" and a number of revenue related interpretation from January 1, 2017.

When applying IFRS 15, an entity shall recognize revenue by applying the following steps:

1) Identify the contract with the customer;
2) Identify the performance obligation in the contract;
3) Determine the transaction price;
4) Allocate the transaction price to the performance obligation in the contracts; and
5) Recognize revenue when the entity satisfies a performance obligation.

When IFRS 15 is effective, an entity may elect to apply this Standard either retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initially applying the Standard recognized at the date of initial application.

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, 2014, which was NT$31.60 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

	December 31	
	2013	2014
	NT$	NT$
	(In Millions)	
Cash		
Cash on hand	$ 236	$ 310
Bank deposits	10,592	5,590
	10,828	5,900

(Continued)

	December 31	
	2013	2014
	NT$	NT$
	(In Millions)	
Cash equivalents		
Commercial paper	$ 2,375	$ 14,000
Negotiable certificate of deposit with maturities of less than three months	-	3,100
Time deposits with maturities of less than three months	1,382	560
	3,757	17,660
	$ 14,585	$ 23,560

(Concluded)

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

	December 31	
	2013	2014
Bank deposits	0.00%-0.76%	0.00%-0.95%
Commercial paper	0.60%-0.65%	0.58%-0.65%
Negotiable certificate of deposit with maturities of less than three months	-	0.50%-0.80%
Time deposits with maturities of less than three months	0.05%-5.10%	0.38%-5.45%

8. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	December 31	
	2013	2014
	NT$	NT$
	(In Millions)	
Financial assets held for trading		
Derivatives (not designated for hedge)		
Forward exchange contracts	$ -	$ 1
Financial liabilities held for trading		
Derivatives (not designated for hedge)		
Forward exchange contracts	$ -	$ -

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

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

	Currency	Maturity Period	Contract Amount (In Millions)
December 31, 2013			
Forward exchange contracts - buy	NT$/US$	2014.01	NT$90/US$3
December 31, 2014			
Forward exchange contracts - buy	NT$/US$	2015.01	NT$219/US$7

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

9. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	December 31	
	2013	2014
	NT$	NT$
	(In Millions)	
Equity securities		
Domestic listed stocks and emerging stocks	$ 3,046	$ 3,914
Domestic non-listed stocks	2,224	2,105
Foreign non-listed stocks	200	262
Foreign listed stocks	24	-
	$ 5,494	$ 6,281
Current	$ 24	$ -
Non-current	5,470	6,281
	$ 5,494	$ 6,281

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, 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, $66 million and $23 million for the years ended December 31, 2012, 2013 and 2014, respectively.

10. HELD-TO-MATURITY FINANCIAL ASSETS

	December 31	
	2013	2014
	NT$	NT$
	(In Millions)	
Corporate bonds	$ 10,513	$ 6,534
Bank debentures	1,253	951
	$ 11,766	$ 7,485
Current	$ 4,264	$ 3,457
Non-current	7,502	4,028
	$ 11,766	$ 7,485

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

	December 31	
	2013	2014
	NT$	NT$
	(In Millions)	
Corporate bonds		
Par value	$ 10,473	$ 6,515
Nominal interest rate	1.15%-2.49%	1.15%-2.49%
Effective interest rate	1.00%-1.95%	1.15%-1.58%
Average expiry date	4 years	4 years
Bank debentures		
Par value	$ 1,250	$ 950
Nominal interest rate	1.25%-1.60%	1.25%-1.60%
Effective interest rate	1.15%-1.40%	1.15%-1.40%
Average expiry date	4 years	4 years

11. TRADE NOTES AND ACCOUNTS RECEIVABLE, NET

	December 31	
	2013	2014
	NT$	NT$
	(In Millions)	
Trade notes and accounts receivable		
Trade notes and accounts receivable	$ 23,823	$ 27,277
Less: Allowance doubtful accounts	(922)	(1,049)
	$ 22,901	$ 26,228

The average credit terms range from 30 to 90 days. In determining the recoverability of trade notes and accounts 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.

The aging of estimated recoverable amount of receivables that were past due but not impaired as of December 31, 2013 and 2014 was as follows:

	December 31	
	2013	2014
	NT$	NT$
	(In Millions)	
Less than 30 days	$ 132	$ 114
31-60 days	41	20

(Continued)

	December 31	
	2013	2014
	NT$	NT$
	(In Millions)	
61-90 days	$ 14	$ 20
91-120 days	85	19
121-180 days	2	1
More than 181 days	12	17
	$ 286	$ 191

(Concluded)

The above aging analysis was based on days overdue.

	Individually Assessed for Impairment	Collectively Assessed for Impairment	Total
	NT$	NT$	NT$
		(In Millions)	
Balance on January 1, 2012	$ 7	$ 2,416	$ 2,423
Add: Provision for (reversal of) doubtful accounts	157	(1,630)	(1,473)
Deduct: Amounts written off	-	(139)	(139)
Balance on December 31, 2012	164	647	811
Add: Provision for doubtful accounts	57	182	239
Deduct: Amounts written off	-	(128)	(128)
Balance on December 31, 2013	221	701	922
Add: Provision for doubtful accounts	55	237	292
Deduct: Amounts written off	-	(165)	(165)
Balance on December 31, 2014	$ 276	$ 773	$ 1,049

12. INVENTORIES

	December 31	
	2013	2014
	NT$	NT$
	(In Millions)	
Merchandise	$ 5,221	$ 4,164
Project in process	520	822
Work in process	26	13
Raw materials	26	52
	5,793	5,051
Land and building held for sale	8	-
Land held under development	1,999	1,999
Construction in progress	44	47
Land held for development	4	-
	$ 7,848	$ 7,097

The operating costs related to inventories were $44,150 million, $50,860 million and $51,341 million for the years ended December 31, 2012, 2013 and 2014, respectively.

For the years ended December 31, 2012, 2013 and 2014, the costs of valuation loss on inventories recognized as operating cost included the amount of $113 million, $203 million and $288 million, respectively.

The capitalized borrowing costs of construction in progress were not significant for 2012, 2013 and 2014.

As of December 31, 2013 and 2014, inventories of $2,057 million and $2,061 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 under development and construction in progress on December 31, 2013 and 2014 was for Qingshan Sec., Dayuan Township, Taoyuan County project.

Land and building held for sale on December 31, 2013 was sold in 2014.

Land held for development on December 31, 2013 was for Yucheng Sec., Nangang Dist., Taipei City which was sold in 2014.

13. PREPAYMENTS

	December 31	
	2013	2014
	NT$	NT$
	(In Millions)	
Prepaid rents	$ 3,389	$ 3,330
Others	2,443	2,618
	$ 5,832	$ 5,948
Current		
Prepaid rents	$ 953	$ 1,105
Others	1,271	1,339
	$ 2,224	$ 2,444
Non-current		
Prepaid rents	$ 2,436	$ 2,225
Others	1,172	1,279
	$ 3,608	$ 3,504

14. OTHER CURRENT MONETARY ASSETS

	December 31	
	2013	2014
	NT$	NT$
	(In Millions)	
Time deposits and negotiable certificates of deposit with maturities of more than three months	$ 2,535	$ 2,616
Receivables from the Fund for Privatization of Government - owned Enterprises under the Executive Yuan	1,318	19
Others	783	690
	$ 4,636	$ 3,325

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:

	December 31	
	2013	2014
Time deposits and negotiable certificate of deposit with maturities of more than three months	0.11%-3.30%	0.11%-4.95%

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	
		December 31	
		2013	2014
SENAO	Taiwan	72%	72%

	Profit Allocated to Noncontrolling Interests			Accumulated Noncontrolling Interests		
	Year Ended December 31			December 31		
	2012	2013	2014	2012	2013	2014
	NT$	NT$	NT$	NT$	NT$	NT$
			(In Millions)			
SENAO	$ 1,066	$ 1,022	$ 436	$ 3,811	$ 4,302	$ 4,013
Individually immaterial subsidiaries with noncontrolling interests				525	544	911
				$ 4,336	$ 4,846	$ 4,924

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.

Summarized 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.	December 31 2013 NT$ (In Millions)	December 31 2014 NT$ (In Millions)
Current assets	$ 8,134	$ 7,944
Non-current assets	$ 2,386	$ 2,480
Current liabilities	$ 4,439	$ 4,643
Non-current liabilities	$ 91	$ 94
Equity attributable to the parent	$ 1,688	$ 1,674
Noncontrolling interests	$ 4,302	$ 4,013

	Year Ended December 31 2012 NT$	2013 NT$ (In Millions)	2014 NT$
Revenue	$ 35,241	$ 43,033	$ 41,753
Expenses	33,758	41,610	41,146
Profit for the year	$ 1,483	$ 1,423	$ 607
Profit attributable to the parent	$ 417	$ 401	$ 171
Profit attributable to the noncontrolling interests	1,066	1,022	436
Profit for the year	$ 1,483	$ 1,423	$ 607
Other comprehensive income attributable to the parent	$ (9)	$ 12	$ 8
Other comprehensive income attributable to the noncontrolling interests	(24)	30	21
Other comprehensive income for the year	$ (33)	$ 42	$ 29
Total comprehensive income attributable to the parent	$ 408	$ 413	$ 179
Total comprehensive income attributable to the noncontrolling interests	1,042	1,052	457
Total comprehensive income for the year	$ 1,450	$ 1,465	$ 636
Dividends paid to noncontrolling interests	$ 827	$ 739	$ 742
Net cash inflow (outflow) from operating activities	$ 1,554	$ (240)	$ 1,233
Net cash outflow from investing activities	$ (196)	$ (274)	$ (106)
Net cash outflow from financing activities	$ (1,111)	$ (993)	$ (533)
Net cash inflow (outflow)	$ 247	$ (1,507)	$ 594

The Company's equity ownership of SENAO did not change for the year ended December 31, 2014. 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 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 50.62% as of December 31, 2013 to 47.65% as of December 31, 2014 due to CHI did not participate the CHPT's capital increase in August and September 2014, and the cash inflow from noncontrolling interests was $162 million. 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

	December 31	
	2013	2014
	NT$	NT$
	(In Millions)	
Associates	$ 2,131	$ 2,493
Joint venture	228	257
	$ 2,359	$ 2,750

a. Investments in associates

Investments in associates were as follows:

	Carrying Amount	
	December 31	
	2013	2014
	NT$	NT$
	(In Millions)	
Listed		
Senao Networks, Inc. ("SNI")	$ 484	$ 589
Non-listed		
ST-2 Satellite Ventures Pte. Ltd. ("STS")	520	558
International Integrated System, Inc. ("IISI")	290	291
Viettel-CHT Co., Ltd.	278	278
Taiwan International Standard Electronics Co., Ltd. ("TISE")	180	209
Skysoft Co., Ltd. ("SKYSOFT")	152	135
So-net Entertainment Taiwan Limited ("So-net")	92	99
Kingwaytek Technology Co., Ltd. ("KWT")	74	85
Taiwan International Ports Logistics Corporation ("TIPL")	-	79
Dian Zuan Integrating Marketing Co., Ltd. ("DZIM")	1	66

(Continued)

	Carrying Amount December 31	
	2013	2014
	NT$ (In Millions)	NT$
ClickForce Co., Ltd.	$ -	$ 39
HopeTech Technologies Limited ("HopeTech")	25	31
Alliance Digital Technology Co., Ltd. ("ADT")	29	20
MeWorks Limited (HK) ("Meworks")	-	9
Xiamen Sertec Business Technology Co., Ltd. ("Sertec")	6	5
Panda Monium Company Ltd.	-	-
	$ 2,131	$ 2,493

(Concluded)

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 December 31	
	2013	2014
Senao Networks, Inc. ("SNI")	34	34
ST-2 Satellite Ventures Pte., Ltd. ("STS")	38	38
International Integrated System, Inc. ("IISI")	33	33
Viettel-CHT Co., Ltd.	30	30
Taiwan International Standard Electronics Co., Ltd. ("TISE")	40	40
Skysoft Co., Ltd. ("SKYSOFT")	30	30
So-net Entertainment Taiwan Limited ("So-net")	30	30
Kingwaytek Technology Co., Ltd. ("KWT")	33	27
Taiwan International Ports Logistics Corporation ("TIPL")	-	27
Dian Zuan Integrating Marketing Co., Ltd. ("DZIM")	13	26
ClickForce Co., Ltd.	-	49
HopeTech Technologies Limited ("HopeTech")	45	45
Alliance Digital Tech Co., Ltd. ("ADT")	19	13
MeWorks LIMITED (HK) ("Meworks")	-	20
Xiamen Sertec Business Technology Co., Ltd. ("Sertec")	49	49
Panda Monium Company Ltd.	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	2014
	NT$	NT$ (In Millions)	NT$
The Company's share of the profit	$ 529	$ 680	$ 823
The Company's share of other comprehensive income (loss)	(26)	(35)	5
The Company's share of total comprehensive income	$ 503	$ 645	$ 828

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	2014
	NT$	NT$
	(In Millions)	
SNI	$ 2,545	$ 2,868

SENAO disposed of 245 thousand shares of SNI in December 2013 and the gain of disposal of SNI was recognized in profit or loss 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 did not participate in the capital increase of KWT in August and November 2014 and the ownership interest decreased from 33% to 27% after the capital increase of KWT.

Chunghwa and Taiwan International Ports Corporation, Ltd. established TIPL in October 2014. Chunghwa invested $80 million cash and held 27% ownership of TIPL. TIPL engages mainly in logistics service of increasing cargo movement efficiency.

Chunghwa, President Chain Store Corporation and EasyCard Corporation established DZIM in May 2011. 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 from 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. Chunghwa participated in the capital increase of DZIM by investing $49 million in April and June 2014. SENAO participated in the capital increase of DZIM by investing $24 million in April 2014. As of December 31, 2014, the Company held 26% ownership of DZIM. DZIM engages mainly in information technology service and general advertisement service.

Chunghwa International Yellow Pages participated in the capital increase of ClickForce Co., Ltd. by investing $39 million and held 49% ownership in December 2014. ClickForce Co., Ltd. engages mainly in advertisement services.

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. Chunghwa did not participate in the capital increase of ADT in April

2014 and the ownership interest decreased from 19% to 13% after the capital increase of ADT. Chunghwa still has one seat out of five seats in the board of directors; therefore it remains an investor with significant influence over ADT. ADT engages mainly in the development of mobile payments and information processing service.

Prime Asia participated in the capital increase of MeWorks by investing $10 million and held 20% ownership in May 2014. Based on the share of capital commitments, Prime Asia has two seats out of five seats in the board of directors; therefore it has significant influence over MeWorks. MeWorks engages mainly in investment business.

The Company's share of profit (loss) and other comprehensive income (loss) of associates was recorded based on audited financial statements of the associates for the years ended December 31, 2012, 2013 and 2014.

b. Investment in joint ventures

Investment in joint ventures was as follows:

	Carrying Amount December 31		% of Ownership and Voting Rights December 31	
	2013	2014	2013	2014
	NT$ (In Millions)	NT$		
Non-listed				
Huada Digital Corporation ("HDD")	$ 228	$ 219	50	50
Chunghwa Benefit One Co., Ltd. ("CBO")	-	38	-	50
	$ 228	$ 257		

Chunghwa invested in CBO in February 2014 at $50 million cash to acquire 50% of its shares and the rest of 50% ownership interest was held by Benefit One Asia Pte. Ltd. ("BOA"), and each obtained half of director seats. Thus, neither Chunghwa nor BOA obtained control over CBO. CBO engages mainly in e-commerce business for employees of corporate members.

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

	Year Ended December 31		
	2012	2013	2014
	NT$	NT$ (In Millions)	NT$
The Company's share of the loss	$ (9)	$ (14)	$ (21)
The Company's share of other comprehensive income	-	-	-
The Company's share of total comprehensive loss	$ (9)	$ (14)	$ (21)

The Company's share of loss of the joint venture was recorded based on audited financial statements for the years ended December 31, 2012, 2013 and 2014.

17. PROPERTY, PLANT AND EQUIPMENT

	December 31	
	2013	2014
	NT$	NT$
	(In Millions)	
Carrying amount		
Land	$ 102,263	$ 102,774
Land improvements	443	413
Buildings	45,586	44,398
Computer equipment	4,395	4,010
Telecommunications equipment	122,804	126,309
Transportation equipment	2,073	1,616
Miscellaneous equipment	2,297	2,200
Construction in progress and advances related to acquisition of equipment	22,853	20,930
	$ 302,714	$ 302,650

	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
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)
Cost									
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

(Continued)

	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$
Accumulated depreciation and impairment									
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)
Cost									
Balance on January 1, 2014	$ 102,263	$ 1,547	$ 67,558	$ 15,996	$ 683,118	$ 3,745	$ 8,415	$ 22,853	$ 905,495
Additions	308	-	136	30	130	1	266	31,213	32,084
Disposal	(26)	(12)	(14)	(1,805)	(19,208)	(76)	(539)	-	(21,680)
Effect of foreign exchange differences	-	-	-	2	102	-	5	-	109
Other	229	23	(80)	1,095	30,934	154	496	(33,136)	(285)
Balance on December 31, 2014	$ 102,774	$ 1,558	$ 67,600	$ 15,318	$ 695,076	$ 3,824	$ 8,643	$ 20,930	$ 915,723
Accumulated depreciation and impairment									
Balance on January 1, 2014	$ -	$ (1,104)	$ (21,972)	$ (11,601)	$ (560,314)	$ (1,672)	$ (6,118)	$ -	$ (602,781)
Depreciation Expenses	-	(53)	(1,252)	(1,473)	(27,704)	(599)	(799)	-	(31,880)
Disposal	-	12	13	1,800	19,194	76	461	-	21,556
Impairment losses	-	-	-	-	-	-	-	-	-
Effect of foreign exchange differences	-	-	-	(1)	(15)	-	(4)	-	(20)
Other	-	-	9	(33)	72	(13)	17	-	52
Balance on December 31, 2014	$ -	$ (1,145)	$ (23,202)	$ (11,308)	$ (568,767)	$ (2,208)	$ (6,443)	$ -	$ (613,073)

(Concluded)

The Company determined that some telecommunications equipment and miscellaneous equipment have become obsolete and their recoverable amount determined on the basis of value in use was nil. Accordingly, an impairment loss of $301 million, $254 million and $0.064 million was recognized for the years ended December 31, 2012, 2013 and 2014, respectively. These assets were used in the Company's mobile communications business reportable segment.

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	3-20 years
Computer equipment	2-8 years
Telecommunications equipment	
Telecommunication circuits	2-30 years
Telecommunication machinery and antennas equipment	2-30 years
Transportation equipment	3-10 years
Miscellaneous equipment	
Leasehold improvements	2-6 years
Mechanical and air conditioner equipment	3-16 years
Others	3-10 years

18. INVESTMENT PROPERTIES

	December 31 2013	December 31 2014
	NT$ (In Millions)	NT$ (In Millions)
Carrying amount		
Investment properties	$ 8,018	$ 7,621

	Investment Properties NT$ (In Millions)
Cost	
Balance on January 1, 2012	$ 9,249
Reclassification	11
Balance on December 31, 2012	$ 9,260
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)
Cost	
Balance on January 1, 2013 and December 31, 2013	$ 9,260
Accumulated depreciation and impairment	
Balance on January 1, 2013	$ (1,471)
Depreciation expense	(17)
Reversal of impairment loss	246
Balance on December 31, 2013	$ (1,242)
Cost	
Balance on January 1, 2014	$ 9,260
Disposal	(623)
Reclassification	246
Balance on December 31, 2014	$ 8,883

(Continued)

	Investment Properties
	NT$ (In Millions)
Accumulated depreciation and impairment	
Balance on January 1, 2014	$ (1,242)
Depreciation expense	(16)
Disposal	13
Reclassification	(17)
Balance on December 31, 2014	$ (1,262)

(Concluded)

The fair values of investment properties were determined by reference to the appraisal reports 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	
	2013	2014
	NT$ (In Millions)	NT$
Fair value	$ 17,501	$ 17,180
Overall capital interest rate	1.46%-2.20%	1.54%-2.36%
Profit margin ratio	12%-20%	10%-20%
Discount rate	1.36%	1.36%
Capitalization rate	0.68%-2.02%	0.44%-1.65%

After evaluating the investment properties, the Company determined that some land and buildings have recoverable amount of $2,681 million, which was calculated based on the fair value less disposal costs of the investment properties and based on the recent market prices of assets with similar age and obsolescence. These assets were used in the Company's domestic fixed communications business and mobile communications business. Impairment loss was recognized amounted to $1,261 million for the year ended December 31, 2012.

After evaluating the investment properties, the Company determined that some fair value of land and buildings increased during 2013 and have recoverable amount of $2,853 million, which was calculated based on the fair value, $2,858 million less disposal costs of the investment properties, $5 million and based on the recent market prices of assets with similar age and obsolescence. Therefore, the Company reversed a portion of previously recognized impairment losses amounted to $246 million for the year ended December 31, 2013. These assets were used in the Company's domestic fixed communications business and mobile communications business.

The fair values of impaired investment properties were determined by reference to the appraisal reports 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.

Key assumptions used for fair value of the investment properties with reversal of impairment loss were as follows:

	December 31, 2013
	NT$ (In Millions)
Overall capital interest rate	1.46%-2.20%
Profit margin ratio	12%-20%
Discount rate	1.36%

LED disposed its investment property in October 2014. The disposal price is $1,230 million, related cost is $625 million (including carrying value of $610 million and related disposal expense of $15 million), and the disposal gain was $605 million.

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	4-10 years

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

19. INTANGIBLE ASSETS

	December 31	
	2013	2014
	NT$ (In Millions)	NT$
Carrying amount		
3G and 4G concession	$ 42,818	$ 41,150
Computer software	1,331	1,399
Goodwill	163	163
Others	87	113
	$ 44,399	$ 42,825

	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

(Continued)

	3G and 4G Concession	Computer Software	Goodwill	Others	Total
	NT$	NT$	NT$ (In Millions)	NT$	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)
Cost					
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
Accumulated amortization and impairment					
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)
Cost					
Balance on January 1, 2014	$ 49,254	$ 2,637	$ 181	$ 118	$ 52,190
Additions-acquired separately	-	611	-	33	644
Disposal	-	(56)	-	-	(56)
Effect of foreign exchange difference	-	-	-	-	-
Balance on December 31, 2014	$ 49,254	$ 3,192	$ 181	$ 151	$ 52,778
Accumulated amortization and impairment					
Balance on January 1, 2014	$ (6,436)	$ (1,306)	$ (18)	$ (31)	$ (7,791)
Amortization expenses	(1,668)	(543)	-	(7)	(2,218)
Disposal	-	56	-	-	56
Effect of foreign exchange difference	-	-	-	-	-
Balance on December 31, 2014	$ (8,104)	$ (1,793)	$ (18)	$ (38)	$ (9,953)

(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.

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 1 to 10 years.

The 3G and 4G concession fee are 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, and 4G concession fee will be fully amortized by December 2030. 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 and 2014. Goodwill amounted to $18 million arising from the business combination of a subsidiary, CHI, which is classified in other reportable segment, was fully impaired for the year ended December 31, 2013 because CHI underwent organizational downsizing. The recoverable amount of the goodwill determined on the basis of value in use was nil.

20. OTHER ASSETS

	December 31	
	2013	2014
	NT$	NT$
	(In Millions)	
Spare parts	$ 3,008	$ 2,977
Refundable deposits	2,210	2,739
Other financial assets	1,000	1,000
Others	2,627	2,104
	$ 8,845	$ 8,820
Current	$ 3,962	$ 3,219
Noncurrent	4,883	5,601
	$ 8,845	$ 8,820
Current		
Spare parts	$ 3,008	$ 2,977
Others	954	242
	$ 3,962	$ 3,219
Noncurrent		
Refundable deposits	$ 2,210	$ 2,739
Other financial assets	1,000	1,000
Others	1,673	1,862
	$ 4,883	$ 5,601

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. HEDGING DERIVATIVE LIABILITIES

	December 31	
	2013	2014
	NT$	NT$
	(In Millions)	
Cash flow hedge - forward exchange contracts	$ -	$ -

a. Cash flow hedges

The Company's hedge strategy is to enter forward exchange contracts - buy to avoid its foreign currency exposure to certain foreign currency denominated payments in the following six months. In addition, the Company's management considers the market condition to determine the hedge ratio, and enters into forward exchange contracts with the banks to avoid the foreign currency risk.

The Company signed equipment purchase contracts with suppliers, and entered into foreign exchange forward contracts in 2014 to avoid foreign currency risk exposure to Euro-denominated purchase commitments. Those foreign exchange forward contracts were designated as cash flow hedges. For the year ended December 31, 2014, loss arising from changes in fair value of the hedged items recognized in other comprehensive income was $0.3 million. Upon the completion of the purchase transaction, the amount deferred and recognized in equity initially will be reclassified into equipment as its carrying value.

The outstanding foreign exchange forward contracts at the balance sheet date were as follows:

	Currency	Maturity Period	Contract Amount (Millions)
December 31, 2014			
Forward exchange contracts - buy	EUR/NT$	2015.3	EUR2/NT$91

The Company did not have any outstanding forward exchange contracts applied to hedge accounting for the year ended December 31, 2013.

Losses arising from the hedging derivative instruments reclassified from equity to initial cost of the non-financial asset in 2014 were $18 million.

b. Fair value hedges

The Company engages in fair vale hedge transactions to manage the foreign currency exposure of available-for-sale financial assets-foreign open-end mutual funds denominated in U.S. dollar.

There were no outstanding fair value hedge transactions as of December 31, 2013 and 2014.

22. SHORT-TERM LOANS

	December 31	
	2013	2014
	NT$	NT$
	(In Millions)	
Unsecured loans	$ 254	$ 564
Annual interest rates	1.18%-2.40%	1.25%-2.40%

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

	December 31	
	2013	2014
	NT$	NT$
	(In Millions)	
Secured loans (Note 41)	$ 1,700	$ 1,900
Less: Current portion of long-term loans	300	-
	$ 1,400	$ 1,900

The annual interest rates of loans were as follows:

	December 31	
	2013	2014
Secured loans	1.15%-2.10%	1.13%-2.35%

LED obtained a secured loan from Chang Hwa Bank in September 2010. Interest is paid monthly. $300 million and $1,350 million were originally due in December 2014 and September 2015, respectively. In October 2014, the bank borrowing mentioned above was extended to September 2018 for one time repayment. LED obtained another secured loan from Chang Hwa Bank in December 2012 for $400 million which will be due in December 2017; LED has made an early repayment of $300 million and $50 million in February 2013 and May 2013, respectively.

CHPT entered into a secured loan contract of $348 million with Bank of Taiwan in April 2014, interest will be paid monthly, amortization of principle will begin in June 2016, and the contract will expire in April 2029. By the end of 2014, the Company made early repayment of $148 million.

24. TRADE NOTES AND ACCOUNTS PAYABLE

	December 31	
	2013	2014
	NT$	NT$
	(In Millions)	
Trade notes and accounts payable	$ 15,589	$ 18,519

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

25. OTHER PAYABLES

	December 31	
	2013	2014
	NT$	NT$
	(In Millions)	
Other payables		
Accrued salary and compensation	$ 10,336	$ 9,122
Payables to contractors	2,733	2,629
Accrual amounts for bonuses to employees and remuneration to directors and supervisors	980	1,680
Accrued franchise fees	2,009	1,585
Amounts collected for others	1,326	1,330
Payables to equipment suppliers	1,820	1,182
Accrued maintenance costs	991	868
Others	6,597	5,939
	$ 26,792	$ 24,335

26. PROVISIONS

	December 31	
	2013	2014
	NT$	NT$
	(In Millions)	
Warranties	$ 201	$ 212
Employee benefits	47	55
Others	4	5
	$ 252	$ 272
Current	$ 129	$ 179
Noncurrent	123	93
	$ 252	$ 272

	Warranties	Employee Benefits	Others	Total
	NT$	NT$	NT$	NT$
		(In Millions)		
Balance on January 1, 2012	$ 148	$ 33	$ 1	$ 182
Additional provisions recognized	166	9	2	177
Used during the period	(92)	-	-	(92)
Unused amounts reversed	(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
Balance on January 1, 2014	$ 201	$ 47	$ 4	$ 252
Additional provisions recognized	192	8	1	201
Used during the period	(174)	-	-	(174)
Unused amounts reversed	(7)	-	-	(7)
Balance on December 31, 2014	$ 212	$ 55	$ 5	$ 272

(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.

27. 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 for advance receipts from selling prepaid cards amounting to $1,058 million and $1,022 million as of December 31, 2013 and 2014, respectively.

28. 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 amounts recognized as expenses for defined contribution plans were $311 million, $375 million and $441 million for the years ended December 31, 2012, 2013 and 2014, 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, 2014 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	
	December 31	
	2013	**2014**
Discount rates	2.00%	2.00%
Expected rates of salary increase	1.00%-2.75%	1.00%-2.00%

Components of defined benefit cost in respect of these defined benefit plans are as follows:

	Year Ended December 31		
	2012	**2013**	**2014**
	NT$	**NT$ (In Millions)**	**NT$**
Current service cost	$ 2,836	$ 2,906	$ 2,920
Net interest expense	26	53	94
Loss arising from settlements	-	-	76
Components of defined benefit costs recognized in profit or loss	2,862	2,959	3,090
Remeasurement on the net defined benefit liability:			
Return on plan assets	132	(226)	(52)
Actuarial gains and losses arising from changes in demographic assumptions	534	(3)	4
Actuarial gains and losses arising from changes in financial assumptions	300	(858)	(5)
Actuarial gains and losses arising from experience adjustments	573	1,704	545
Components of defined benefit costs recognized in other comprehensive income	1,539	617	492
	$ 4,401	$ 3,576	$ 3,582

(Continued)

	Year Ended December 31		
	2012	2013	2014
	NT$	NT$ (In Millions)	NT$
An analysis by function			
Operating cost	$ 1,719	$ 1,762	$ 1,849
Marketing expenses	803	858	888
General and administrative expenses	158	162	169
Research and development expenses	105	100	106
	$ 2,785	$ 2,882	$ 3,012

(Concluded)

The cumulative amount of actuarial gains and losses recognized in other comprehensive income as of December 31, 2012, 2013 and 2014 was $1,539 million, $2,156 million and $2,648 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:

	December 31	
	2013	2014
	NT$ (In Millions)	NT$
Present value of funded defined benefit obligation	$ 25,457	$ 27,958
Fair value of plan assets	(19,982)	(21,496)
Net liability arising from defined benefit obligation	$ 5,475	$ 6,462
Accrued pension liabilities	$ 5,482	$ 6,470
Prepaid pension cost (included in other noncurrent assets - others)	(7)	(8)
	$ 5,475	$ 6,462

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

	Year Ended December 31		
	2012	2013	2014
	NT$	NT$ (In Millions)	NT$
Balance, beginning of the year	$ 18,697	$ 22,100	$ 25,457
Current service cost	2,836	2,906	2,920
Interest cost	321	347	509
Remeasurement on the net defined benefit liability:			
Actuarial gains and losses arising from changes in demographic assumptions	534	(3)	4
Actuarial gains and losses arising from changes in financial assumptions	300	(858)	(5)

(Continued)

	Year Ended December 31		
	2012	**2013**	**2014**
	NT$	**NT$ (In Millions)**	**NT$**
Actuarial gains and losses arising from experience adjustments	$ 573	$ 1,704	$ 545
Benefits paid from plan assets	(1,026)	(632)	(454)
Benefits paid directly by the Company	(135)	(107)	(101)
Settlement	-	-	(917)
Balance, end of the year	$ 22,100	$ 25,457	$ 27,958

(Concluded)

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

	Year Ended December 31		
	2012	**2013**	**2014**
	NT$	**NT$ (In Millions)**	**NT$**
Balance, beginning of the year	$ 15,750	$ 17,528	$ 19,982
Interest income	295	294	415
Return on plan assets	(132)	226	52
Contributions from employer	2,641	2,566	2,486
Benefits paid from plan assets	(1,026)	(632)	(454)
Settlement	-	-	(985)
Balance, end of the year	$ 17,528	$ 19,982	$ 21,496

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 December 31	
	2013	**2014**
	NT$ (In Millions)	**NT$**
Stock and beneficiary certificates	$ 8,946	$ 10,681
Fixed income investments	6,310	6,096
Cash	4,568	4,110
Others	158	609
	$ 19,982	$ 21,496

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 $1,061 million. If the discount rate is 0.5% lower, the defined benefit obligation would increase by $1,131 million.

If the expected salary growth increases by 0.5%, the defined benefit obligation would increase by $1,134 million. If the expected salary growth decreases by 0.5%, the defined benefit obligation would decrease by $1,129 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 recognized in the consolidated balance sheets.

There is no change in the methods and assumptions used in preparing the sensitivity analyses from the previous period.

The average duration of the benefit obligation at December 31, 2014 is from 8 to 14 years.

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

Year	**Amount** **NT$** **(In Millions)**
2015	$ 1,395
2016	2,366
2017	3,751
2018	5,145
2019 and thereafter	36,388

The Company expects to make a contribution of $2,508 million to the defined benefit plans in the next twelve months starting from December 31, 2014.

29. EQUITY

a. Share capital

1) Common stock

	December 31	
	2013	**2014**
	NT$	**NT$**
	(In Millions)	
Number of authorized shares	12,000	12,000
Authorized shares	$ 120,000	$ 120,000
Number of shares issued and outstanding	7,757	7,757
Issued and outstanding shares	$ 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, 2014, there were 25 million ADSs outstanding, which represent 247 million common shares, representing 3.18% 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, 2013 and 2014 were as follows:

	Share Premium	Movements of Paid-in Capital Arising from Changes in Equities of Subsidiaries	Share-based Payment Transactions	Donated Capital	Stockholders' Contribution Due to Privatization	Total
	NT$	NT$	NT$ (In Millions)	NT$	NT$	NT$
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	$ -	$ 5	$ 13	$ 20,648	$ 168,877
Balance on January 1, 2013	$ 148,211	$ -	$ 5	$ 13	$ 20,648	$ 168,877
Cash distributed from additional paid-in capital	(5,589)	-	-	-	-	(5,589)
Exercise of employee stock option of subsidiaries	-	-	6	-	-	6
Employee stock bonus issued by a subsidiary	-	-	-	-	-	-
Balance on December 31, 2013	$ 142,622	$ -	$ 11	$ 13	$ 20,648	$ 163,294
Balance on January 1, 2014	$ 142,622	$ -	$ 11	$ 13	$ 20,648	$ 163,294
Cash distributed from additional paid-in capital	(16,577)	-	-	-	-	(16,577)
Change in additional paid-in capital from share subscription not based on original ownership of a subsidiary	-	3	-	-	-	3
Employee stock bonus issued by a subsidiary	-	-	-	-	-	-
Balance on December 31, 2014	$ 126,045	$ 3	$ 11	$ 13	$ 20,648	$ 146,720

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.

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, 2013 and 2014, 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. Starting from 2015, the allowed tax credit is adjusted to 50% of the income tax paid in the ROC by the Company for ROC resident shareholders.

The appropriations and distributions of the 2012 and 2013 earnings of Chunghwa have been approved by the stockholders on June 25, 2013 and June 24, 2014 as follows:

	Appropriation of Earnings		Dividends Per Share	
	For Fiscal Year 2012	For Fiscal Year 2013	For Fiscal Year 2012	For Fiscal Year 2013
	NT$ (In Millions)	NT$ (In Millions)	NT$	NT$
Legal reserve	$ 3,990	$ 2,074		
Special reserve	-	144		
Cash dividends	35,913	18,526	$4.63	$2.39

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 stockholders of Chunghwa resolved to distribute cash $2.14 per share and the total amount of $16,577 million from additional paid-in capital on June 24, 2014. Such amount was subsequently paid in August 2014.

The bonuses to the employees and remuneration to the directors and supervisors of the 2012 and 2013 approved by the board of directors and the stockholders on June 25, 2013 and June 24, 2014 were as follows:

	2012	2013
	Cash Bonus	Cash Bonus
	NT$ (In Millions)	NT$ (In Millions)
Bonus distributed to the employees	$ 1,533	$ 759
Remuneration paid to the directors and supervisors	37	19

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 25, 2013 and June 24, 2014.

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 2014 had been approved by Chunghwa's board of directors on February 13, 2015. The appropriations and dividends per share were as follows:

	For Fiscal Year 2014	
	Appropriation of Earnings	Dividends Per Share
	NT$ (In Millions)	NT$
Legal reserve	$ 681	
Reversal of special reserve	(144)	
Cash dividends	37,673	$4.86

The appropriations of earnings, the bonus to employees, and the remuneration to directors and supervisors for 2014 are subject to the resolution of the shareholders' meeting to be held on June 26, 2015.

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. 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	2014
	NT$	NT$ (In Millions)	NT$
Beginning balance	$ 68	$ 258	$ (150)
Unrealized gain (loss) on available-for-sale financial assets	192	(560)	926
Income tax relating to unrealized gain (loss) on available-for-sale financial assets	-	(6)	3
Amount reclassified from equity to profit or loss on disposal	(26)	158	(39)
Amount reclassified from equity to impairment loss	24	-	-
Ending balance	$ 258	$ (150)	$ 740

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.

e. Noncontrolling interests

	Year Ended December 31		
	2012	2013	2014
	NT$	NT$ (In Millions)	NT$
Beginning balance	$ 4,181	$ 4,336	$ 4,846
Attributable to noncontrolling interests			
Cash dividends paid by subsidiaries to noncontrolling interests	(893)	(811)	(797)
Net income of current period	1,125	1,124	597
Actuarial gains (loss) on the defined benefit plans	(20)	3	(3)

(Continued)

	Year Ended December 31		
	2012	2013	2014
	NT$	NT$ (In Millions)	NT$
Income tax related to actuarial gains and losses	$ 2	$ (1)	$ 1
Exchange differences arising from the translation of the net investment in foreign operations	(7)	27	24
Share of exchange differences arising from the translation of the net investment in foreign operations of associates	(1)	3	5
Unrealized gain (loss) on available-for-sale financial assets	2	11	(9)
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	93
Employee stock bonus issued by a subsidiary	-	2	5
Increase (decrease) in noncontrolling interests	(91)	39	162
Ending balance	$ 4,336	$ 4,846	$ 4,924

(Concluded)

30. 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 43.

31. NET INCOME AND OTHER COMPREHENSIVE INCOME (LOSS)

a. Other income and expenses

	Year Ended December 31		
	2012	2013	2014
	NT$	NT$ (In Millions)	NT$
Gain (loss) on disposal of property, plant and equipment, net	$ (2)	$ 85	$ 26
Gain on disposal of investment properties	-	-	605
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	$ 631

b. Other income

	Year Ended December 31		
	2012	2013	2014
	NT$	NT$ (In Millions)	NT$
Income from Piping Fund	$ -	$ -	$ 200
Dividends income	21	79	78
Rental income	43	43	45
Others	377	234	264
	$ 441	$ 356	$ 587

c. Other gains and losses

	Year Ended December 31		
	2012	2013	2014
	NT$	NT$ (In Millions)	NT$
Net foreign currency exchange gains (losses)	$ 34	$ (100)	$ 201
Gain on disposal of financial instruments, net	113	76	46
Gain (loss) on disposal of investments accounted for using equity method	-	13	(7)
Valuation gain (loss) on financial instruments at fair value through profit or loss, net	(1)	(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)	(23)
Others	(82)	(46)	(94)
	$ (139)	$ (124)	$ 124

d. Impairment loss (reversal gain) on financial instruments

	Year Ended December 31		
	2012	2013	2014
	NT$	NT$ (In Millions)	NT$
Notes and accounts receivable	$ (1,473)	$ 239	$ 292
Other receivables	$ 22	$ 14	$ 34
Available-for-sale financial assets	$ 203	$ 66	$ 23

e. Impairment loss (reversal gain) on non-financial assets

	Year Ended December 31		
	2012	2013	2014
	NT$	NT$ (In Millions)	NT$
Inventories	$ 113	$ 203	$ 288
Property, plant and equipment	$ 301	$ 254	$ -
Investment properties	$ 1,261	$ (246)	$ -
Intangible assets	$ 5	$ 18	$ -

f. Depreciation and amortization expenses

	Year Ended December 31		
	2012	2013	2014
	NT$	NT$ (In Millions)	NT$
Property, plant and equipment	$ 31,021	$ 30,937	$ 31,880
Investment properties	16	17	16
Intangible assets	1,123	1,238	2,218
Total depreciation and amortization expenses	$ 32,160	$ 32,192	$ 34,114
Depreciation expenses summarized by functions			
Operating costs	$ 29,089	$ 28,813	$ 29,682
Operating expenses	1,948	2,141	2,214
	$ 31,037	$ 30,954	$ 31,896
Amortization expenses summarized by functions			
Operating costs	$ 865	$ 987	$ 1,915
Operating expenses	258	251	303
	$ 1,123	$ 1,238	$ 2,218

g. Employee benefit expenses

	Year Ended December 31		
	2012	2013	2014
	NT$	NT$ (In Millions)	NT$
Post-employment benefit			
Defined contribution plans	$ 311	$ 375	$ 441
Defined benefit plans	2,785	2,882	3,012
	3,096	3,257	3,453
Share-based payment			
Equity-settled share-based payment	-	70	93

(Continued)

	Year Ended December 31		
	2012	2013	2014
	NT$	NT$ (In Millions)	NT$
Other employee benefit			
Salaries	$ 24,333	$ 24,942	$ 24,857
Insurance	2,288	2,450	2,565
Other	14,679	14,411	15,659
	41,300	41,803	43,081
Total employee benefit expenses	$ 44,396	$ 45,130	$ 46,627
Summary by functions			
Operating costs	$ 24,928	$ 25,038	$ 26,362
Operating expenses	19,468	20,092	20,265
	$ 44,396	$ 45,130	$ 46,627

(Concluded)

As of December 31, 2013 and 2014, the Company had 32,187 and 32,596 employees, respectively.

h. Components of others comprehensive income - unrealized gain (loss)

	Year Ended December 31		
	2012	2013	2014
	NT$	NT$ (In Millions)	NT$
Unrealized gain (loss) on available-for-sale financial assets arising during the year	$ 209	$ (548)	$ 925
Reclassification adjustments			
Upon disposal	(44)	156	(47)
Upon impairment	27	-	-
	$ 192	$ (392)	$ 878
Cash flow hedges			
Losses arising during the year	$ -	$ -	$ (18)
Adjusted against the carrying amount of hedged items	-	-	18
	$ -	$ -	$ -

32. 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	2014
	NT$	NT$ (In Millions)	NT$
Current tax			
Current tax expenses recognized for the current period	$ 7,960	$ 8,138	$ 7,516
Income tax expense (benefit) of unappropriated earnings	(676)	(1,704)	1,626
Income tax adjustments on prior years	32	124	4
Others	24	21	41
	7,340	6,579	9,187
Deferred tax			
Deferred tax expense recognized for the current period	(4)	(101)	(202)
Income tax recognized in profit or loss	$ 7,336	$ 6,478	$ 8,985

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

	Year Ended December 31		
	2012	2013	2014
	NT$	NT$ (In Millions)	NT$
Income before income tax	$ 49,953	$ 49,096	$ 46,552
Income tax expense calculated at the statutory rate (17%)	8,492	8,346	7,914
Nondeductible expenses in determining taxable income	221	(2)	47
Imputed income on tax	2	2	1
Unrecognized deductible temporary difference	(177)	67	(66)
Unrecognized loss carryforwards	107	129	161
Tax-exempt income	(321)	(265)	(399)
Income tax expense (benefit) of unappropriated earnings	(676)	(1,704)	1,626
Investment credits	(400)	(233)	(314)
Effect of different tax rates of group entities operating in other jurisdictions	(1)	(10)	(25)
Income tax adjustments on prior years	32	124	4
Others	57	24	36
Income tax expense recognized in profit or loss	$ 7,336	$ 6,478	$ 8,985

The applicable tax rate used above is the corporate tax rate of 17% payable by the entities subject to the Income Tax Law of the Republic of China, while the applicable tax rate used by subsidiaries in China is 25%. Tax rates used by other entities in the Company operating in other jurisdictions are based on the tax laws in those jurisdictions.

b. Income tax recognized in other comprehensive income

	Year Ended December 31		
	2012	2013	2014
	NT$	NT$ (In Millions)	NT$
Deferred tax benefit			
In respect of the current year:			
Unrealized (gain) loss on available-for-sale financial assets	$ -	$ 6	$ (3)
Actuarial gains and losses on defined benefit plan	(265)	(105)	(84)
Income tax recognized in other comprehensive incomes	$ (265)	$ (99)	$ (87)

c. Current tax assets and liabilities

	December 31	
	2013	2014
	NT$ (In Millions)	NT$
Current tax assets		
Tax refund receivable (included in other current assets-others)	$ 1	$ 333
Current tax liabilities		
Income tax payable	$ 6,171	$ 6,982

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$ (In Millions)	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

(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$
		(In Millions)		
Deferred revenue	$ 334	$ (102)	$ -	$ 232
Valuation loss on inventory	62	(18)	-	44
Impairment loss on property, plant and equipment	12	47	-	59
Accrued award credits liabilities	14	(2)	-	12
Estimated warranty liabilities	8	18	-	26
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$
		(In Millions)		
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$
		(In Millions)		
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
Allowance for doubtful receivables	2	-	-	2
Valuation loss on inventory	44	12	-	56
Impairment loss on property, plant and equipment	59	-	-	59
Accrued award credits liabilities	12	9	-	21
Estimated warranty liabilities	26	(2)	-	24
Unrealized foreign exchange loss (gain), net	19	(8)	-	11
Others	15	1	-	16
	1,271	103	105	1,479
Loss carryforwards	32	(5)	-	27
Investment credits	3	(3)	-	-
	$ 1,306	$ 95	$ 105	$ 1,506

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

For the year ended December 31, 2014

Deferred Income Tax Assets	December 31, 2013	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	December 31, 2014
	NT$	NT$	NT$	NT$
		(In Millions)		
Temporary differences				
Defined benefit obligation	$ 928	$ 84	$ 84	$ 1,096
Share of the profit of associates and joint venture accounted for using equity method	175	102	-	277
Deferred revenue	187	(31)	-	156
Allowance for doubtful receivables	2	112	-	114
Valuation loss on inventory	56	(15)	-	41
Impairment loss on property, plant and equipment	59	(27)	-	32
Accrued award credits liabilities	21	7	-	28
Estimated warranty liabilities	24	(5)	-	19
Unrealized foreign exchange loss (gain), net	11	(11)	-	-
Others	16	18	-	34
	1,479	234	84	1,797
Loss carryforwards	27	2	-	29
	$ 1,506	$ 236	$ 84	$ 1,826

Deferred Income Tax Liabilities	December 31, 2013	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	December 31, 2014
	NT$	NT$	NT$	NT$
		(In Millions)		
Temporary differences				
Land value incremental tax	$ (95)	$ -	$ -	$ (95)
Unrealized foreign exchange gain, net	-	(29)	-	(29)
Valuation loss (gain) on financial instruments, net	(6)	-	3	(3)
Others	-	(5)	-	(5)
	$ (101)	$ (34)	$ 3	$ (132)

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

	December 31	
	2013	2014
	NT$	NT$
	(In Millions)	
Loss carryforwards		
Expire in 2016	$ 38	$ 38
Expire in 2017	65	65
Expire in 2018	130	130
Expire in 2019	-	164
Expire in 2020	-	-
Expire in 2021	-	-
Expire in 2022	4	1
Expire in 2023	-	-
Expire in 2024	-	-
	$ 237	$ 398
Deductible temporary differences	$ 67	$ 1

f. Information about unused loss carryforwards

As of December 31, 2014, unused loss carryforwards was comprised of:

Remaining Creditable Amount NT$ (In Millions)	Expiry Year
$ 38	2016
65	2017
130	2018
170	2019
8	2020
10	2021
1	2022
2	2023
3	2024
$ 427	

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.

	December 31	
	2013	2014
	NT$	NT$
	(In Millions)	
Balance of Imputation Credit Account ("ICA")	$ 4,102	$ 7,845

The creditable ratio for distribution of earnings of 2013 and 2014 was 20.48% 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 2014 earnings may differ from the actual creditable ratio to be used in allocating imputation credits to the shareholders.

h. Income tax examinations

Chunghwa and the following subsidiaries income tax returns have been examined by the tax authorities through 2012: SENAO, CHPT, CHI, CHYP, CHIEF, SFD, CHSI, LED, SHE, YYRP and CEI. CHST, Unigate and HHR's income tax returns have been examined by the tax authorities through 2013.

33. 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	2014
	NT$	NT$ (In Millions)	NT$
Net income used to compute the basic earnings per share			
Net income attributable to the parent	$ 41,492	$ 41,494	$ 36,970
Assumed conversion of all dilutive potential common stock			
Employee stock options and bonus of subsidiaries	(4)	(3)	-
Net income used to compute the diluted earnings per share	$ 41,488	$ 41,491	$ 36,970

Weighted Average Number of Common Stock

(Millions Shares)

	Year Ended December 31		
	2012	2013	2014
Weighted average number of common stock used to compute the basic earnings per share	7,757	7,757	7,757
Assumed conversion of all dilutive potential common stock			
Employee bonus	20	12	13
Weighted average number of common stock used to compute the diluted earnings per share	7,777	7,769	7,770

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.

34. 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 Units (In Thousands)	Exercise Price NT$
2005.09.30	2006.05.05	10,000	$12.10 (Original price $16.90)
2007.10.16	2007.10.31	6,181	$42.60 (Original price $44.20)
2012.05.28	2013.05.07	10,000	$84.30 (Original price $93.00)

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 and $93 million for the years ended December 31, 2013 and 2014, respectively.

SENAO modified the plan terms of the outstanding stock options in July 2014 and June 2013 for 2013 Plan, the exercise price changed from $89.40 to $84.30 per share and $93.00 to $89.40 per share, respectively. The modification did not cause any incremental fair value.

Information about SENAO's outstanding stock options for the years ended December 31, 2012, 2013 and 2014 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	-	-	-	-

	Year Ended December 31, 2014	
	Granted on May 7, 2013	
	Number of Options (In Thousands)	Weighted-average Exercise Price NT$
Employee stock options		
Options outstanding at beginning of the year	9,872	$ 89.40
Options forfeited	(845)	-
Options outstanding at end of the year	9,027	84.30
Options exercisable at end of the year	-	-

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	-	$ -

As of December 31, 2014 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$
$84.30	9,027	4.35	$84.30	-	$ -

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

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. CHPT share-based compensation plan

CHPT granted 1,000 stock options to its qualified employees in December 2008. Under the CHPT option plan, each stock option entitles the holder to subscribe one thousand common shares at $12.60 per share. 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 CHPT's outstanding stock options was 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

The share registration of 810 thousand employee stock options exercised in 2013 has been completed. 110 thousand of unexercised employee stock options were expired in December 2013. As of December 31, 2013 and 2014, CHPT has no outstanding employee stock options.

CHPT used the fair value to evaluate the options using the Black-Scholes model, the assumptions and the fair value of the options 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	$ 3.80

35. NON-CASH TRANSACTIONS

For the years ended December 31, 2012, 2013 and 2014, the Company entered into the following non-cash investing activities:

	Year Ended December 31		
	2012	2013	2014
	NT$	NT$ (In Millions)	NT$
Increase in property, plant and equipment	$ 33,721	$ 36,727	$ 32,084
Other payables	(441)	(345)	475
	$ 33,280	$ 36,382	$ 32,559

36. OPERATING LEASE ARRANGEMENTS

a. The Company as lessee

Leasing arrangements

Except for the ST-2 satellite referred in Note 40 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:

	December 31	
	2013	2014
	NT$	NT$
	(In Millions)	
Within one year	$ 3,061	$ 3,050
Longer than one year but within five years	6,389	5,808
Longer than five years	1,720	1,514
	$ 11,170	$ 10,372

b. The Company as lessor

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

	December 31	
	2013	2014
	NT$	NT$
	(In Millions)	
Within one year	$ 445	$ 411
Longer than one year but within five years	659	525
Longer than five years	165	395
	$ 1,269	$ 1,331

37. CAPITAL MANAGEMENT

The Company manages its capital to ensure that entities in the Company will be able to continue as going concerns while maximizing the return to stakeholders through the optimization 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.

38. FINANCIAL INSTRUMENTS

Categories of Financial Instruments

	December 31	
	2013	2014
	NT$	NT$
	(In Millions)	
Financial assets		
Measured at FVTPL		
Held for trading	$ -	$ 1
Held-to-maturity financial assets	11,766	7,485
Loans and receivables (Note a)	45,401	56,933
Available-for-sale financial assets	5,494	6,281
Financial Liabilities		
Measured at FVTPL		
Held for trading	-	-
Hedging derivative financial liabilities	-	-
Measured at amortized cost (Note b)	38,411	39,683

Note a: The balances included cash and cash equivalents, trade notes and accounts receivable, accounts receivable from related parties, other current monetary assets, other financial assets and refundable deposits (classified as other assets) which were loans and receivables. Please refer to Notes 7, 11, 14, 20 and 40.

Note b: The balances included short-term loans, trade notes and accounts payable, payables to related parties, certain other payables, customer's deposits and long-term loans which were financial liabilities carried at amortized cost. Please refer to Notes 22, 23, 24, 25 and 40.

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 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 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

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:

	December 31	
	2013	2014
	NT$	NT$
	(In Millions)	
Assets		
USD	$ 4,234	$ 5,308
EUR	5	16
SGD	142	77
RMB	147	112
Liabilities		
USD	3,612	5,366
EUR	1,298	767
SGD	1	2

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

	December 31	
	2013	2014
	NT$	NT$
	(In Millions)	
Assets		
USD	$ -	$ 1
Liabilities		
USD	-	-
EUR	-	-

<u>Foreign currency sensitivity analysis</u>

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 and forward foreign exchange contracts. A positive number below indicates an increase in pre-tax profit or equity where the functional currency weakens 5% against the relevant currency.

	Year Ended December 31		
	2012	2013	2014
	NT$	NT$ (In Millions)	NT$
Profit or loss			
Monetary assets and liabilities (a)			
USD	$ 35	$ 31	$ (3)
EUR	(65)	(65)	(38)
SGD	(1)	7	4
RMB	-	7	6
Derivatives (b)			
USD	104	5	11
Equity			
Derivatives (c)			
EUR	-	-	(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 forward exchange contracts.

c) This is mainly attributable to the changes in the fair value of derivatives that are designated as cash flow hedges.

For a 5% strengthening of the functional currency against the relevant currency, there would be a comparable impact on the pre-tax profit or equity, and the balances above would be negative.

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:

	December 31	
	2013	2014
	NT$ (In Millions)	NT$
Fair value interest rate risk		
Financial assets	$ 5,682	$ 21,271
Financial liabilities	224	564
Cash flow interest rate risk		
Financial assets	10,609	4,625
Financial liabilities	1,730	1,900

<u>Interest rate sensitivity analysis</u>

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 would increase/decrease by $22 million and $6 million for the years ended December 31, 2013 and 2014, respectively. 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 would increase/decrease by $270 million, $153 million and $196 million as a result of the changes in fair value of available-for-sale financial assets for the years ended December 31, 2012, 2013 and 2014, 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 has implemented ongoing measures which have improved the collectability of our accounts receivable. These ongoing procedures include enhanced credit assessments, strengthened overall risk management and improvements in bill collection practices. As a result, the exposure to uncollected receivables has been reduced.

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 refer to principal only and 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	1-3 Months	3 Months to 1 Year	1-5 Years	More than 5 Year	Total
	NT$	NT$	NT$	NT$ (In Millions)	NT$	NT$	NT$
December 31, 2013							
Non-derivative financial liabilities							
Non-interest bearing	-	$ 41,958	$ -	$ 980	$ 4,835	$ -	$ 47,773
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	$ 6,235	$ -	$ 49,727
December 31, 2014							
Non-derivative financial liabilities							
Non-interest bearing	-	$ 41,582	$ -	$ 1,680	$ 4,759	$ -	$ 48,021
Floating interest rate instruments	1.22%	-	-	-	1,755	145	1,900
Fixed interest rate instruments	1.37%	-	500	64	-	-	564
		$ 41,582	$ 500	$ 1,744	$ 6,514	$ 145	$ 50,485

The following table detailed the Company's liquidity analysis for its derivative financial instruments. The table has been drawn up based on 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$
December 31, 2013					
Gross settled					
Forward exchange contracts					
Inflow	$ 90	$ -	$ -	$ -	$ 90
Outflow	90	-	-	-	90
	$ -	$ -	$ -	$ -	$ -
December 31, 2014					
Gross settled					
Forward exchange contracts					
Inflow	$ 220	$ 90	$ -	$ -	$ 310
Outflow	219	90	-	-	309
	$ 1	$ -	$ -	$ -	$ 1

2) Financing facilities

	December 31	
	2013 NT$	2014 NT$
	(In Millions)	
Unsecured bank loan facility		
Amount used	$ 254	$ 564
Amount unused	8,475	35,315
	$ 8,729	$ 35,879
Secured bank loan facility		
Amount used	$ 1,700	$ 1,900
Amount unused	600	818
	$ 2,300	$ 2,718

39. 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:

	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
Foreign securities				
Equity investments	24	-	-	24
	$ 3,070	$ -	$ -	$ 3,070
Financial liabilities at FVTPL				
Derivative financial assets				
Forward exchange	$ -	$ -	$ -	$ -

	December 31, 2014			
	Level 1	Level 2	Level 3	Total
	NT$	NT$	NT$	NT$
	(In Millions)			
Financial assets at FVTPL				
Derivative financial assets				
Forward exchange	$ -	$ 1	$ -	$ 1
Available-for-sale financial assets				
Domestic securities				
Equity investments	$ 3,914	$ -	$ -	$ 3,914
Hedging derivative liabilities				
Derivative financial liabilities	$ -	$ -	$ -	$ -
Financial liabilities at FVTPL				
Derivative financial liabilities	$ -	$ -	$ -	$ -

For assets and liabilities held as of December 31, 2013 and 2014 that are measured at fair value on a recurring basis, there were no transfers between Level 1 and Level 2 of the fair value hierarchy.

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

For derivative financial assets forward exchange contracts, fair values are estimated using discounted cash flow model. The model uses market-based observable inputs including foreign exchange rates, and forward and spot prices for currencies to project fair value.

Available-for-sale financial assets include domestic and foreign listed stocks that are actively traded or have quoted prices.

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$**	**NT$**	**NT$**
	(In Millions)			
Available-for-sale financial assets				
Domestic stocks	$ -	$ -	$ 20	$ 66

	For the Year Ended December 31, 2014			
	Level 1	**Level 2**	**Level 3**	**Total Losses**
	NT$	**NT$**	**NT$**	**NT$**
	(In Millions)			
Available-for-sale financial assets				
Domestic stocks	$ -	$ -	$ 20	$ 23

The AFS financial assets consisted of non-listed 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, 2013 and 2014:

	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%

	For the Year Ended December 31, 2014			
	Fair Value	**Valuation Methodology**	**Unobservable Inputs**	**Range of Inputs**
	NT$ (In Millions)			
Assets				
AFS financial assets	$ 2	Discounted cash flow	Return on investment	7%
			Industrial risk	2%
			Enterprise risk	1%
			Sustainable growth rate	(10%)
	$ 18	Market approach	80% of price to book ratio from listed companies in the same industry	1.12%
			80% of price to earnings ratio from listed companies in the same industry	2.93%
			Adjustment factor	20%

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, 2013 and 2014 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. In 2014, the Company also determined the fair value of unlisted AFS financial assets using market approach based on management's projections. Variables utilized in market approach require the use of unobservable inputs (Level 3), including 80% of price to book ratio from listed companies in the same industry, 80% of price to earnings ratio from listed companies in the same industry and adjustment factor. 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. AFS financial assets held with a carrying amount of NT$43 million were written down to their fair value of NT$20 million, resulting in an impairment charge of NT$23 million, which was included in earnings for the year ended December 31, 2014.

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.

	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	$ -

	December 31, 2014			
	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	$ 6,534	$ -	$ 6,564	$ -
Bank debentures	951	-	952	-
	$ 7,485	$ -	$ 7,516	$ -

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 and bank debentures valued using discounted cash flow model with market-based observable inputs including duration, yield rate and credit rating.

40. 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.	Associate
Skysoft Co., Ltd.	Associate
KingWaytek Technology Co., Ltd.	Associate
Dian Zuan Integrating Marketing Co., Ltd.	Associate
Viettel-CHT Co., Ltd.	Associate
Taiwan International Ports Logistics Corporation	Associate
Huada Digital Corporation	Joint venture
Chunghwa Benefit One Co., Ltd.	Joint venture
International Integrated System, Inc.	Associate
Senao Networks, Inc.	Associate
HopeTech Technologies Limited	Associate
ST-2 Satellite Ventures Pte., Ltd. ("STS")	Associate
Xiamen Sertec Business Technology Co., Ltd.	Associate
Other related parties	
Chunghwa Telecom Foundation	A nonprofit organization of which the funds donated by Chunghwa exceeds one third of its total funds
Senao Technical and Cultural Foundation	A nonprofit organization of which the funds donated by SENAO exceeds one third of its total funds
Sochamp Technology Co., Ltd.	Investor of significant influence over CHST
United Daily News Co., Ltd.	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

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	2014
	NT$	NT$ (In Millions)	NT$
Associates	$ 416	$ 367	$ 329
Joint ventures	$ 4	$ 4	$ 7
Others	$ 4	$ 69	$ 97

	Purchases		
	Year Ended December 31		
	2012	2013	2014
	NT$	NT$ (In Millions)	NT$
Associates	$ 1,471	$ 1,486	$ 1,663
Joint ventures	$ -	$ 1	$ 34
Others	$ 65	$ 74	$ 69

2) Non-operating transactions

	Year Ended December 31		
	2012	2013	2014
	NT$	NT$ (In Millions)	NT$
Associates	$ 32	$ 33	$ 34
Others	$ -	$ -	$ -

3) Receivables

	December 31	
	2013	2014
	NT$ (In Millions)	NT$
Associates	$ 60	$ 62
Joint ventures	-	-
Others	9	19
	$ 69	$ 81

4) Payables

	December 31	
	2013	2014
	NT$	NT$
	(In Millions)	
Associates	$ 549	$ 402
Others	8	6
	$ 557	$ 408

5) Customers' deposits

	December 31	
	2013	2014
	NT$	NT$
	(In Millions)	
Associates	$ 1	$ 9
Others	-	-
	$ 1	$ 9

6) Acquisition of property, plant and equipment

	Year Ended December 31		
	2012	2013	2014
	NT$	NT$	NT$
		(In Millions)	
Associates	$ 747	$ 1,270	$ 521

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, 2014 was $416 million, which consisted of an offsetting credit of the prepayment of $199 million and an additional accrual of $217 million. The prepayment was $2,368 million (classified as prepaid rents - current $205 million, and prepaid rents - noncurrent $2,163 million, respectively) as of December 31, 2014.

c. Compensation of key management personnel

The remuneration of directors and members of key management personnel for the years ended December 31, 2012, 2013 and 2014 was as follows:

	Year Ended December 31		
	2012	2013	2014
	NT$	NT$ (In Millions)	NT$
Short-term benefits	$ 277	$ 257	$ 222
Share-based payment	-	6	10
Post-employment benefits	9	10	8
	$ 286	$ 273	$ 240

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

41. PLEDGED ASSETS

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

	December 31	
	2013	2014
	NT$ (In Millions)	NT$
Property, plant and equipment, net	$ 2,668	$ 3,079
Land held under development (included in inventories)	1,999	1,999
Restricted assets (included in other noncurrent assets - others)	10	1
	$ 4,677	$ 5,079

42. 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 $2,184 million as of December 31, 2014.

b. Acquisitions of telecommunications equipment of $16,616 million as of December 31, 2014.

c. 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.

43. SEGMENT INFORMATION

The Company has the following reportable segments that provide different products or services. The reportable segments are managed separately because each segment represents a strategic business unit that serves different markets. Segment information is provided to CEO who allocates resources and assesses segment performance. The Company's measure of segment performance is mainly based on revenues and income before tax. 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.

There was no material differences between the accounting policies of the operating segments and the accounting policies described in Note 3.

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	251,135
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	259,823
Intersegment elimination						(31,842)
Consolidated revenues						$ 227,981
Segment income before income tax	$ 17,339	$ 23,676	$ 9,432	$ 892	$ (2,243)	$ 49,096

(Continued)

	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)			
Year ended December 31, 2014						
Revenue						
From external customers	$ 72,062	$ 110,665	$ 25,997	$ 15,314	$ 2,571	$ 226,609
Intersegment revenues	19,728	5,324	4,705	2,256	2,422	34,435
Segment revenues	$ 91,790	$ 115,989	$ 30,702	$ 17,570	$ 4,993	261,044
Intersegment elimination						(34,435)
Consolidated revenues						$ 226,609
Segment income before income tax	$ 19,535	$ 19,322	$ 9,547	$ 191	$ (2,043)	$ 46,552

(Concluded)

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 income	$ 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 income	$ 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

For the year ended December 31, 2014

	Domestic Fixed Communi-cations Business	Mobile Communi-cations Business	Internet Business	International Fixed Communi-cations Business	Others	Total
	NT$	NT$	NT$ (In Millions)	NT$	NT$	NT$
Share of the profit of associates and joint venture accounted for using equity method	$ -	$ -	$ -	$ -	$ 802	$ 802
Interest income	$ 24	$ 12	$ 10	$ 2	$ 240	$ 288
Interest expense	$ -	$ 13	$ 1	$ -	$ 32	$ 46
Operating costs and expenses	$ 66,465	$ 81,400	$ 11,975	$ 14,500	$ 8,103	$ 182,443
Depreciation and amortization	$ 18,540	$ 9,909	$ 3,422	$ 1,819	$ 424	$ 34,114
Capital expenditure	$ 16,165	$ 9,619	$ 4,425	$ 1,458	$ 892	$ 32,559

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	2014
	NT$	NT$ (In Millions)	NT$
Mobile services revenue	$ 72,540	$ 76,709	$ 77,469
Local telephone and domestic long distance telephone services revenue	44,629	41,278	38,905
Sales of product	27,649	33,103	34,795
Broadband access and domestic leased line services revenue	24,606	24,183	23,681
Internet services revenue	16,938	17,191	17,241
International network and leased telephone services revenue	12,749	12,675	11,951
Others	22,309	22,842	22,567
	$ 221,420	$ 227,981	$ 226,609

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	2014
	NT$	NT$ (In Millions)	NT$
Taiwan, R.O.C.	$ 213,837	$ 217,986	$ 216,173
Overseas	7,583	9,995	10,436
	$ 221,420	$ 227,981	$ 226,609

The Company has long-lived assets in U.S., Singapore, Hong Kong, China, Vietnam, and Japan and except for $3,310 million and $4,087 million as of December 31, 2013 and 2014, 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, 2013 and 2014, the Company did not have any single customer whose net revenue exceeded 10% of the total net revenue.