CHUNGHWA TELECOM CO LTD
Form 20-F
April 20, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F

(Mark One)

o	**Registration statement pursuant to Section 12(b) or 12(g) of the Securities Exchange Act of 1934**
	or
x	**Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934** **For the fiscal year ended December 31, 2011**
	or
o	**Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934** **For the transition period from to**
	or
o	**Shell company report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

Date of event requiring this shell company report

Commission file number 001-31731

Chunghwa Telecom Co., Ltd.
(Exact Name of Registrant as Specified in Its Charter)

Taiwan, Republic of China
(Jurisdiction of Incorporation or Organization)

21-3 Hsinyi Road, Section 1, Taipei, Taiwan, Republic of China
(Address of Principal Executive Offices)

Fufu Shen

21-3 Hsinyi Road, Section 1, Taipei,

Taiwan, Republic of China

Tel: +886 2 2344-5488

Fax: +886 2 3393-8188
(Name, Telephone, email and/or Facsimile number and Address of Company Contact Person)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Shares, par value NT$10 per share	New York Stock Exchange*
American Depositary Shares, as evidenced by American Depositary Receipts, each representing 10 Common Shares	New York Stock Exchange

Securities registered or to be registered pursuant to Section 12(g) of the Act:

None

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Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

None

Indicate the number of outstanding shares of each of the Issuer s classes of capital or common stock as of the close of the period covered by the annual report.

7,757,446,545 Common Shares

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

x Yes o No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

o Yes x No

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

x Yes o No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

o Yes o No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer x   Accelerated filer o   Non-accelerated filer o

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP o   International Financial Reporting Standards as issued by the International Accounting Standards Board o   Other x

If Other has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow.

o Item 17   x Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Securities Exchange Act of 1934).

o Yes   x No

* Not for trading, but only in connection with the listing on the New York Stock Exchange of the American Depositary Shares

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CHUNGHWA TELECOM CO., LTD.

FORM 20-F ANNUAL REPORT
FISCAL YEAR ENDED DECEMBER 31, 2011

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SUPPLEMENTAL INFORMATION

All references to we, us, our and our company in this annual report are to Chunghwa Telecom Co., Ltd. and our consolidated subsidiaries, unles the context otherwise requires. All references to shares and common shares are to our common shares, par value NT$10 per share, and to ADSs are to our American depositary shares, each of which represents ten of our common shares. The ADSs are issued under the deposit agreement, as amended, supplemented or modified from time to time, originally dated as of July 17, 2003, among Chunghwa Telecom Co., Ltd. and the Bank of New York, and amended and restated on November 14, 2007, among Chunghwa Telecom Co., Ltd. and JP Morgan Chase Bank, as depository, and the holders and beneficial owners of American Depositary Receipts issued thereunder. All references to Taiwan are to the island of Taiwan and other areas under the effective control of the Republic of China. All references to the government or the Republic of China government are to the government of the Republic of China. All references to the Ministry of Transportation and Communications are to the Ministry of Transportation and Communications of the Republic of China. All references to the Securities and Futures Bureau are to the Securities and Futures Bureau of the Republic of China or its predecessors, as applicable. R.O.C. GAAP means the generally accepted accounting principles of the Republic of China, and U.S. GAAP means the generally accepted accounting principles of the United States. Any discrepancies in any table between totals and sums of the amounts listed are due to rounding. Unless otherwise indicated, or the context otherwise requires, references in this annual report to financial and operational data for a particular year refer to the fiscal year of our company ending December 31 of that year.

When we refer to our privatization or our being privatized in this annual report, we mean our status as a non-state-owned entity after the government reduced its ownership of our outstanding common shares, including our common shares owned by entities majority-owned by the government, to less than 50%. We were privatized in August 2005.

We publish our consolidated financial statements in New Taiwan dollars, the lawful currency of the Republic of China. In this annual report, NT$ and NT dollars mean New Taiwan dollars, $, US$ and U.S. dollars mean United States dollars.

FORWARD-LOOKING STATEMENTS IN THIS ANNUAL REPORT MAY NOT BE REALIZED

This annual report contains forward-looking statements, including statements regarding:

- our business and operating strategy;
- our network expansion plans;
- our business, operations and prospects;

- our financial condition and results of operations;
- our dividend policy;
- the telecommunications industry regulatory environment in Taiwan; and
- future developments in the telecommunications industry in Taiwan.

These forward-looking statements are generally indicated by the use of forward-looking terminology such as believe, expect, anticipate, estimate, plan, aim, seek, project, may, will or other similar words that express an indication of actions or results of actions that may o expected to occur in the future. These statements reflect our current views with respect to future events and are subject to risks, uncertainties and assumptions, many of which are beyond our control. The forward looking statements are contained principally in the sections entitled Item 3. Key Information D. Risk Factors, Item 4. Information on the Company and Item 5. Operating and Financial Review and Prospects. These statements are made under the safe harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995. We have based these forward looking statements largely

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on our current expectations and projections about future events and financial trends that we believe may affect our financial condition, results of operations, business strategy and financial needs. You should not place undue reliance on these statements, which apply only as of the date of this annual report. These forward-looking statements are based on our own information and on information from other sources we believe to be reliable. Actual results may differ materially from those expressed or implied by these forward-looking statements. Factors that could cause differences include, but are not limited to, those discussed under Item 3. Key Information D. Risk Factors. In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this annual report might not occur and our actual results could differ materially from those anticipated in these forward-looking statements. The forward looking statements made in this annual report relate only to events or information as of the date on which the statements are made in this annual report. Except as required by law, we undertake no obligation to update or revise publicly any forward looking statements, whether as a result of new information, future events or otherwise, after the date on which the statements are made or to reflect the occurrence of unanticipated events. You should read this annual report completely and with the understanding that our actual future results may be materially different from what we expect.

PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

We were privatized as a result of a secondary ADS offering and concurrent domestic auction of our common shares on August 12, 2005. The privatization has enabled us to develop our business and respond to changing market conditions more rapidly and efficiently.

A. Selected Financial Data

The selected income statement data and cash flow data for the years ended December 31, 2009, 2010 and 2011, and the selected balance sheet data as of December 31, 2010 and 2011 set forth below are derived from our audited consolidated financial statements included elsewhere in this annual report and should be read in conjunction with, and are qualified in their entirety by reference to, our consolidated financial statements and the related notes. The selected income statement and cash flow data for the years ended December 31, 2007 and 2008, and the selected balance sheet data as of December 31, 2007, 2008 and 2009 set forth below, are derived from our audited consolidated financial statements not included in this annual report. The consolidated financial statements have been prepared and presented in accordance with accounting principles generally accepted in the Republic of China, or R.O.C. GAAP, which differ in some material respects from accounting principles generally accepted in the United States of America, or U.S. GAAP, as further explained under note 36 to our consolidated financial statements included herein.

	Year Ended December 31,					
	2007(1)	2008(1)	2009	2010	2011	
	NT$	NT$	NT$	NT$	NT$	US$
	(in billions, except for percentages and per share and per pro forma ADS data)					
Income Statement Data:						
R.O.C GAAP						
Net revenues	197.4	201.7	198.4	202.4	217.5	7.2
Operating costs(1)	(106.7)	(113.5)	(112.7)	(115.3)	(131.5)	(4.4)
Gross profit	90.7	88.2	85.7	87.1	86.0	2.8
Operating expenses(1)	(30.4)	(29.6)	(29.3)	(29.7)	(30.9)	(1.0)
Income from operations	60.3	58.6	56.4	57.4	55.1	1.8
Non-operating income and gains(2)	2.5	3.4	1.4	1.0	1.9	0.1
Non-operating expenses and losses(2)	(1.0)	(2.3)	(0.6)	(0.7)	(0.3)	
Income before income tax	61.8	59.7	57.2	57.7	56.7	1.9
Income tax expense	(13.1)	(13.9)	(12.7)	(9.1)	(8.6)	(0.3)
Consolidated net income	48.7	45.8	44.5	48.6	48.1	1.6
Attributable to:						
Stockholders of the parent	48.2	45.0	43.8	47.6	47.1	1.6
Minority interests	0.5	0.8	0.7	1.0	1.0	
	48.7	45.8	44.5	48.6	48.1	1.6

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	Year Ended December 31,					
	2007(1)	2008(1)	2009	2010	2011	
	NT$	NT$	NT$	NT$	NT$	US$
	(in billions, except for percentages and per share and per pro forma ADS data)					
Earnings per share:						
Basic	4.94	4.64	4.51	4.91	6.04	0.20
Diluted	4.93	4.63	4.50	4.89	6.03	0.20
Earnings per ADS equivalent:						
Basic	49.35	46.42	45.16	49.10	60.43	2.00
Diluted	49.35	46.31	45.01	48.95	60.25	1.99
US GAAP						
Net revenues	200.9	204.4	200.4	203.8	218.3	7.2
Operating costs and expenses	(138.1)	(147.1)	(141.8)	(145.2)	(161.2)	(5.3)
Income from operations	62.8	57.3	58.6	58.6	57.1	1.9
Non-operating income, net(2)	1.5	1.4	0.8	0.6	1.3	
Income before income tax	64.3	58.7	59.4	59.2	58.4	1.9
Income tax expense	(14.5)	(14.5)	(13.6)	(10.0)	(9.0)	(0.3)
Consolidated net income	49.8	44.2	45.8	49.2	49.4	1.6
Attributable to:						
Stockholders of the parent	49.5	43.7	45.1	48.3	48.4	1.6
Noncontrolling interests	0.3	0.5	0.7	0.9	1.0	
	49.8	44.2	45.8	49.2	49.4	1.6
Earnings per share:						
Basic	5.08	4.52	4.65	4.98	6.22	0.21
Diluted	5.08	4.51	4.64	4.96	6.20	0.20
Earnings per ADS equivalent:						
Basic	50.81	45.19	46.51	49.78	62.17	2.05
Diluted	50.80	45.09	46.36	49.64	62.00	2.05

	As of December 31,					
	2007(1)	2008(1)	2009	2010	2011	
	NT$	NT$	NT$	NT$	NT$	US$
	(in billions, except for percentages and per share and per pro forma ADS data)					
Balance Sheet Data:						
R.O.C GAAP						
Working capital	60.6	48.3	54.8	48.5	47.3	1.6
Long-term investments	5.6	8.9	9.1	13.9	19.9	0.7
Properties	330.8	323.0	313.0	305.7	302.6	10.0
Goodwill	0.2	0.2	0.3	0.3	0.2	
Total assets	469.6	463.6	449.0	454.3	442.9	14.6
Short-term loans		0.3	0.8	0.1	0.1	
Short-term bills payable				0.2		
Current portion of long-term loans			0.1	0.3	0.7	
Long-term loans(3)			0.2	3.1	1.1	
Deferred income	1.5	2.1	2.5	2.6	2.6	0.1
Other liabilities	11.0	11.8	7.5	7.5	6.9	0.2
Total liabilities	71.8	83.9	70.0	85.7	69.9	2.3
Capital stock	96.7	97.0	97.0	77.6	77.6	2.6
Cash dividend on common shares	34.6	40.7	37.1	39.4	42.9	1.4
Equity attributable to stockholders of the parent	395.0	376.6	375.2	364.6	368.7	12.2
Minority interests in subsidiaries	2.8	3.1	3.8	4.0	4.3	0.1
US GAAP						

Total assets	406.2	400.7	385.4	390.5	379.4	12.5
Total liabilities	85.7	94.8	78.9	94.4	78.0	2.6
Capital stock	96.7	97.0	97.0	77.6	77.6	2.6
Equity attributable to stockholders of the parent	317.8	302.8	302.8	292.2	297.3	9.8
Noncontrolling interests	2.7	3.1	3.7	3.9	4.1	0.1

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	Year Ended December 31,					
	2007(1)	2008(1)	2009	2010	2011	
	NT$	NT$	NT$	NT$	NT$	US$
	(in billions, except for percentages and per share and per pro forma ADS data)					
Cash Flow Data:						
R.O.C GAAP						
Net cash provided by operating activities	89.0	91.9	77.3	84.8	75.3	2.5
Net cash used in investing activities	(38.6)	(34.5)	(29.5)	(17.4)	(33.1)	(1.1)
Net cash used in financing activities	(44.3)	(52.3)	(56.5)	(47.0)	(65.7)	(2.2)
Net increase (decrease) in cash and cash equivalents	5.6	5.1	(8.0)	17.6	(23.5)	(0.8)
Other Financial Data:						
R.O.C GAAP						
Gross margin(4)	46%	44%	43%	43%	39%	39%
Operating margin(5)	31%	29%	28%	28%	25%	25%
Net margin(6)	24%	22%	22%	24%	22%	22%
Capital expenditures	25.1	30.1	25.5	24.6	26.9	0.9
Depreciation and amortization	39.8	38.2	36.3	34.1	32.3	1.1
Cash dividends declared per share	4.26(7)	3.83(7)	4.06(7)	5.52(7)	5.46(8)	0.18(8)
Stock dividends declared per share	2.10	1.00			(8)	(8)

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(1) As a result of the adoption of Interpretation 96-052 issued by the Accounting and Research Development Foundation, or ARDF, in the Republic of China, beginning from January 1, 2008, bonuses paid to employees, directors, and supervisors are recognized as an expense rather than an appropriation of earnings, and we accrued NT$1,891 million, NT$1,964 million, NT$2,358 million and NT$2,344 million (US$77.4 million) in 2008, 2009, 2010 and 2011, respectively. Some portion of the aforementioned amounts of NT$41 million, NT$39 million, NT$46 million and NT$49 million (US$1.6 million) were capitalized as part of property, plant and equipment. Interpretation 96-052 is effective for the financial statements beginning after January 1, 2008, thus we did not retrospectively restate our financial statements for the year of 2007.

(2) Includes interest income of NT$1,453 million, NT$1,916 million, NT$479 million, NT$475 million and NT$682 million (US$22.5 million) for the years ended December 31, 2007, 2008, 2009, 2010 and 2011 respectively, and interest expense of NT$15 million, NT$4 million, NT$15 million. NT$107 million and NT$31 million (US$1.0 million) for the years ended December 31, 2007, 2008, 2009, 2010 and 2011 respectively.

(3) Excludes current portion of long-term loans.

(4) Represents gross profits divided by net revenues.

(5) Represents income from operations divided by net revenues.

(6) Represents net income attributed to stockholders of the parent divided by net revenues.

(7) Dividends for 2007, 2008, 2009 and 2010, in U.S. dollars were US$0.13, US$0.12, US$0.14 and US$0.18, respectively. The amounts were calculated using the exchange rates of the subsequent years for convenience translation.

(8) Dividends for 2011 are expected to be declared at our 2012 annual general stockholders meeting scheduled for June 2012.

Currency Translations and Exchange Rates

For the convenience of readers, NT dollar amounts used in this annual report for, and as of, the year ended December 31, 2011 have been translated into U.S. dollar amounts using US$1.00=NT$30.27, set forth in the statistical release of the Federal Reserve Board on December 30, 2011. The U.S. dollar translation appears in parentheses next to the relevant NT dollar amount. We make no representation that any New Taiwan dollar amounts or U.S. dollar amounts referred to in this annual report could have been or could be converted into U.S. dollars or New Taiwan dollars, as the case may be, at any particular rate or at all. On April 13, 2012, the exchange rate was NT$29.48 to $1.00.

The following table sets forth, for each of the periods indicated, the low, average, high and period-end exchange rates of the New Taiwan dollar, expressed in New Taiwan dollar per U.S. dollar. These rates are provided

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solely for your convenience and are not necessarily the exchange rates that we used in this annual report or will use in the preparation of our periodic reports or any other information to be provided to you.

Year Ended December 31,	Average(1)	High	Low	At Period End
2007	32.41	33.41	32.26	32.43
2008	31.51	33.58	29.99	32.76
2009	33.02	35.21	31.95	31.95
2010	31.50	32.43	29.14	29.14
2011	29.42	30.67	28.50	30.27
October	30.26	30.67	29.86	29.91
November	30.22	30.43	30.02	30.31
December	30.25	30.28	30.10	30.27
2012 (through April 13)	29.49	30.28	29.37	29.48
January	29.99	30.28	29.61	29.61
February	29.53	29.65	29.37	29.37
March	29.52	29.61	29.37	29.50
April (through April 13)	29.50	29.55	29.45	29.48

Source: *Federal Reserve Statistical Release, Board of Governors of the Federal Reserve System.*

(1) Annual averages are calculated using the average of exchange rates on the last day of each month during the period. Monthly averages are calculated using the average of the daily rates during the relevant period.

B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

Our business and operations are subject to various risks, many of which are beyond our control. If any of the risks described below actually occurs, our business, financial condition or results of operations could be seriously harmed.

Risks Relating to Our Company and the Taiwan Telecommunications Industry

The recent global macroeconomic events could cause disruptions to our customers and their demand for telecommunications services. Demand for our products has been, and will continue to be, adversely affected by overall macroeconomic conditions.

The recent global macroeconomic events could have a negative impact on businesses around the world. For example, on August 5, 2011, Standard & Poor s lowered its long term sovereign credit rating on the United States of America from AAA to AA+. In addition, the ongoing European sovereign debt crisis that started in 2009 has also had a negative impact on the credit ratings of several European countries and general market sentiment. These downgrades could have material adverse impacts on financial markets and economic conditions throughout the world. In general, the recent global economic crisis has caused weak consumer confidence and diminished consumer and business spending, which have had a negative impact on the general market demand for telecommunications services around the world.. As exports account for a significant portion of Taiwan s economy, any global macroeconomic recessions could also have a significant impact on Taiwan s economy. These recent global macroeconomic events could have a material adverse effect on our results of operations and business prospects and cause the trading price of our common shares and ADSs to decline.

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As an internet service provider, we may not be able to protect our customers and their information from cyber attacks, nor protect our services from disruptions due to cyber security breaches. Since we also provide value-added services via the internet, we may also be subject to administrative penalties due to our failure to protect public interest from harmful content on the internet.

As an internet service provider, our system is susceptible to cyber security risks, including hijack attacks, phishing attacks, hacker s intrusions to steal customer s information and distributed denial-of-service (DDoS) attacks. Our online services such as e-bills and multiple payment options through the internet are also vulnerable to cyber attacks. These attacks may disrupt our services and cause leakage of our customers personal information, which may result in significant damages and material adverse effect to our customers and our operations. We cannot assure you that our data protection measures are sufficient to prevent any data leakage or disruption of our service due to cyber attacks. We may suffer negative consequences, such as remedial costs, increased cybersecurity protection costs, lost revenues, litigation and reputational damage due to cyber attacks.

Furthermore, the R.O.C. legislator may, from time to time, imposes obligations on us for protecting public interest from harmful content on the internet. For example, according to the newly amended R.O.C. Children and Youth Welfare Act that became effective on November 30, 2011, we are required to take precautionary measures to protect minor children from accessing to offensive or obscene content on internet that is harmful for their physical and mental health. If we fail to comply with these requirements, we may be subject to administrative fines ranging from NT$60,000 to NT$300,000.

Extensive regulation of our industry may limit our flexibility to respond to market conditions and competition, and our business may suffer.

As a telecommunications service provider in Taiwan, we are subject to extensive regulation. See Item 4. Information on the Company B. Business Overview Regulation for a discussion of the regulatory environment applicable to us. Any changes in the regulatory environment applicable to us may adversely affect our business, financial condition and results of operations.

Currently, our regulator is the National Communications Commission, or the NCC, which was formed on March 1, 2006 in accordance with the National Communications Commission Organization Law, or the NCC Organization Law, which was intended to transfer regulatory authority over the Taiwan telecommunications industry from the Ministry of Transportation and Communications and the Directorate General of Telecommunications to the National Communications Commission.

We have been designated by the government as a dominant provider of fixed communications and mobile services within the meaning of applicable telecommunications regulations, and as a result, we are subject to special additional requirements imposed by the National Communications Commission. For example, the regulation governing the setting and changing of tariffs allows non-dominant telecommunications service providers greater freedom to set and change tariffs within the range set by the government. If we are unable to respond effectively to tariff changes by our competitors, then our competitiveness, market position and profitability will be materially and adversely affected. According to the Fixed Network Regulations, we are still required to submit a report to the National Communications Commission within 20 days after our shareholders approves the entering into, modification or termination of any contracts regarding leasing of all business, outsourcing of operations or joint operations, the transfer of the whole or substantial part of our business or assets; taking over of the whole of the business or assets of any other company which would have significant impact on our operations. The National Communications Commission also amended the Wireless Regulations and the Third Generation Mobile Telecommunications on April 3, 2009 to impose a similar requirement requiring us to submit a report within 20 days after our shareholders approves one of the above matters or our capital reduction. We were subject to the Statute of Chunghwa Telecom Co., Ltd. prior to our privatization. Although we have been privatized, the Legislative Yuan has not yet abolished the Statute of Chunghwa Telecom Co., Ltd., and at this time, the Statute of Chunghwa Telecom Co., Ltd. is still applicable to us. Under the Statute of Chunghwa Telecom Co., Ltd., the Ministry of Transportation and Communications has the authority to regulate aspects of our business. Any such regulation could be burdensome or conflict with regulations of the National Communications Commission or may otherwise adversely affect our business, financial condition and results of operations. The regulatory framework within which we operate may limit our flexibility to respond to market conditions, competition or changes in our cost structure. In particular, future decreases in tariff rates could immediately and substantially decrease our revenues. In particular, as a Type I service provider under the Republic of China Telecommunications Act, or Telecommunications Act, we are constrained in our ability to raise prices. For instance, the National Communications Commission adopted a three-year price reduction plan from April 2007 to March 2010 and a second round three-year price reduction plan from April 2010 to March 2013, resulting in a number of price reductions in the tariff structures relating to our domestic fixed communications and mobile communications services. See Item 5. Operating and Financial Review and Prospects Overview Tariff Adjustments . We cannot assure you that we will not be required to further reduce our tariffs again in the future. Any mandatory tariff reductions could have a material adverse effect on our revenues. In addition, as requested by Legislative Yuan and National Communications Commission, we implemented a discounted tariff for telecommunication services from Kinmen, Matsu and Penghu Islands to Taiwan in April 1, 2011. We further applied one single tariff to all the telecommunication services for the entire country since January 2012. Due to such adjustment of tariff, telecommunication services which used to be charged as long-distance telecommunication are now charged at a lower rate. Such adjustment of our tariff may have material adverse effect on the revenues of our fixed communications business.

According to a domestic news article, an official from the NCC was publicly quoted saying that he believed that the Telecommunications Act should be amended to force us to implement network separation of the last mile network infrastructure to promote competition. Network separation would force us to divest our last-mile network infrastructure, so all telecommunications providers would have equal competition and access to the last-mile network infrastructure. Although there is no definitive proposal being discussed by the NCC yet, any type of forced network separation could have a material adverse effect on our business and results of operations.

If we are unable to obtain and maintain the licenses to operate our business, our business prospects and future results of operations would be adversely affected.

We operate our businesses with approvals and licenses granted by the government. If these approvals or licenses are revoked or suspended or are not renewed, or if we are unable to obtain any additional licenses that we may need to operate or expand our business in the manner we desire, then our financial condition and results of operations, as well as our prospects, will suffer. For example, there are currently three mobile network operators that offer 2G mobile services in Taiwan. The licenses granted by the R.O.C. government authorities for operating 2G mobile services on the 900MHz and 1800MHz spectrum can be extended to June 2017 based on operator s request for extension, according to Executive Yuan s announcement on November 22, 2010. We filed a request with the NCC to extend our 2G license to June 2017 on November 29, 2011, which is currently under review by the NCC. The Executive Yuan also announced that the rights to use the 2G frequency spectrum will be sold at an auction for technology neutral usage and further announced in November 2010 that the 4G license auction will be held before June 2015. However, according to a recent domestic media report, the timing for the 4G license auction could be advanced to June 2014. We cannot assure you that we will be able to extend the validity of our licenses or obtain the licenses that we need in the future. If we are unable to successfully acquire the rights to use the frequency spectrum that we need for our future business operations, our business prospects and future results of operations may be adversely affected which as a result may lead to a material impact on our business revenues.

We have been investigated and fined by the R.O.C. Fair Trade Commission in the past and may continue to be investigated and fined in the future.

As a provider of telecommunication products and services, our business operations are subject to the regulations of the R.O.C Fair Trade Act, or the FTA, which is administered and enforced by the R.O.C. Fair Trade Commission, or the FTC. The FTA requires, among other things, that the marketing and promotional materials of a business to be true and not misleading. The FTA also prohibits a business from participating or engaging in a cartel or other anti-competitive conduct. The FTC has the authority under the FTA to investigate and, where appropriate, impose fines and penalties on a business that violates the FTA. The consequences of violating the FTA, depending on the nature of the violation, could be severe. If the FTC holds a business accountable for making a false or misleading representation in any of its advertisements, it could order the business to stop the distribution or sale of the products or services in question and take other remedial or corrective measures, such as the imposition of monetary fines ranging from NT$50,000 to NT$25,000,000. If the FTC finds a business liable for participating in a

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cartel, the FTC could order the business to cease its anti-competitive practices and impose a monetary fine of up to 10% of the gross sales of the business for the most recent fiscal year.

In March 2012, the FTC found us liable for providing misleading representations on the speed of our 50Mbps fiber broadband products in certain advertisements. The FTC consequently ordered us to stop using the relevant advertisements immediately and pay a fine of NT$5 million. As the FTA provides the FTC broad discretion to interpret anti-competition actions and enforce the relevant clauses under the FTA, we are unable to predict whether the FTC would initiate investigation on any of our daily business activities or find us liable for violating the FTA in the future. The investigations of and penalties imposed by the FTC could interrupt our provision of products or services and have a negative impact on our reputation, business operations and results of operations.

Increasing market competition may adversely affect our growth and profitability by causing us to lose customers, charge lower tariffs or spend more on marketing.

Mobile service providers in Taiwan have been offering 3G mobile services for several years. Smart phones with mobile data packages are becoming popular in recent years. To attract more high-end data users, the other two major operators started to offer free intra-network calling packages bundled with mobile data service. We also adopted comparable promotion packages to attract and maintain our customers. We cannot assure you that the intensified market competition will not affect our growth and profitability.

We also face increased broadband competition from cable operators. Cable operators have been using low-priced internet access packages to attract new customers in specific areas and buildings in Taiwan. They have also been upgrading their networks to DOCSIS 3.0 in order to provide higher speed internet access. DOCSIS refers to Data Over Cable Service Interface Specification, which is an international telecommunications standard that permits the addition of high-speed data transfer to an existing cable TV system. To counter these developments, we keep migrating more of our ADSL customers to FTTx services and to provide even higher speed FTTH access. The government has mandated the digitization of cable television networks by 2014. In addition, the draft Cable Radio and Television Act proposes to remove the zoning restrictions on service area for cable operators, while cable operators remain subject to the restriction that the market share of any single cable operator cannot exceed one third. This draft has been approved by the Executive Yuan and submitted to the Legislative Yuan. As cable operators will be allowed to provide digital cable services throughout Taiwan and be able to provide high definition cable TV with more channels as well as high speed cable modem services, we could face increased competition for our broadband access services and multimedia on demand, or MOD IPTV services. If we are unable to compete successfully with the cable operators for broadband access services and MOD businesses, our results of operations could be impacted.

Many of our competitors are in alliances with leading international telecommunications service providers and have access to financial and other resources or technologies that may not be available to us. Moreover, as the government continues to liberalize the telecommunications market, such as through the issuance of new licenses or establishment of additional networks, our market position and competitiveness could be materially and adversely affected. We cannot guarantee that our measures to address competition will be effective and our business, financial condition and results of operations may be adversely affected by our competition.

Increasing competition may also cause the rate of our customer growth to reverse or decline, bring about further decreases in tariff rates and necessitate increases in our selling and promotional expenses. Any of these developments could adversely affect our business, financial condition and results of operations.

If we fail to maintain our service quality due to insufficient network capacity, our revenue growth, profitability and reputation may suffer.

In 2011, there were complaints from the general public about our mobile data network congestion. To address the situation, we adopted measures such as offering a 20% discount of the mobile data monthly fees until the end of 2012 for customers whose monthly data usage volume was less than one gigabyte, constructing additional base stations with HSPA+ capability and increasing the number of WiFi access points to offload data usage from our mobile data network. However, we cannot assure you that these measures will be able to adequately address the mobile data network congestion. Although we will continue to enhance our network quality and capacity in the

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future, data usage has been increasing as well, so we cannot assure you that we will be able to keep pace with the growth in data usage. If the quality of our service decreases due to insufficient network capacity, our business, results of operations and reputation could be materially and adversely affected. In addition, we may also be sanctioned by the regulatory authorities and may be forced to devote more capital expenditures to resolve these problems.

If we fail to maintain a good relationship with our labor union, work stoppages or labor unrest could occur and the quality of our services as well as our reputation could suffer.

In accordance with the articles of association of Chunghwa Telecom Workers Union, besides the chief manager of each department, all of our employees are members of our principal labor union, the Chunghwa Telecom Workers Union. Since our incorporation in 1996, we have experienced disputes with our labor union on such issues as employee benefits and retirement benefits in connection with our privatization as well as the right to protest. Despite having taken measures to improve relations, increase cooperation and ensure mutual benefit with our labor union, such as increasing channels of communications by holding periodic labor resource review meetings and guaranteeing a labor union seat on our board of directions, we cannot assure you that we will be able to maintain a good relationship with our labor union. Any deterioration of our relationship with our labor union could result in work stoppages, strikes or threats to take such an action, which could disrupt our business and operations, and materially and adversely affect the quality of our services and harm our reputation.

We may not realize the benefits we expect from our investments, and this may materially and adversely affect our business, financial condition, results of operations and prospects.

We have made significant capital investments in our network infrastructure and information technology systems to provide the services we offer. In 2011, we made capital expenditures for our domestic fixed communications of NT$16.6 billion (US$547.4 million), our mobile communications business of NT$4.3 billion (US$143.2 million), our internet business of NT$3.8 billion (US$123.7 million), our international fixed communications business of NT$1.5 billion (US$50.5 million) and our other businesses of NT$0.7 billion (US$23.1 million). In order to continue to develop our business and offer new and more sophisticated services, we intend to continue to invest in these areas as well as new technologies. The launch of new and commercially viable products and services is important to the success of our business. We expect to incur substantial capital expenditures to further develop our range of services and products. Commercial acceptance by consumers of new and more sophisticated services we offer may not occur at the rate or level expected, and we may not be able to successfully adapt these services to effectively and economically meet our customers demand, thus impairing our expected return from our investments.

We cannot assure you that services enabled by new technologies we are implementing, such as HSPA/ HSPA+ mobile technology, will be accepted by the public to the extent required to generate an acceptable rate of return. In addition, we could face the risk of unforeseen complications in the deployment of these new services and technologies, and we cannot assure you that we will not exceed our estimate of the necessary capital expenditure to offer such services. New services and technologies may not be developed and/or deployed according to expected schedules or may not achieve commercial acceptance or be cost effective. The failure of any of our services to achieve commercial acceptance could result in additional capital expenditures or a reduction in profitability to the extent we are required under applicable accounting standards to recognize a charge for impairment of assets. Any such charge could materially and adversely affect our financial condition and results of operations.

We may also from time to time make equity investments in companies, but we cannot assure you of their profitability. We cannot assure you that losses related to our equity investments will not have a material adverse effect on our financial condition or results of operations.

In 2011, we recognized an other-than-temporary impairment loss of NT$148 million (US$4.9 million) for financial assets carried at cost due to adverse changes in market conditions and operating performance that was below expectations. We may be required to record additional impairment charges in future periods, which may have a material adverse effect on our financial condition and future results of operations.

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Changes in technology may render our current technologies obsolete or require us to obtain licenses for introducing new services or make substantial capital investments, financing for which may not be available to us on favorable commercial terms or at all.

The Taiwan telecommunications industry has been characterized by rapid increases in the diversity and sophistication of the technologies and services offered. As a result, we expect that we will need to constantly upgrade our telecommunications technologies and services in order to respond to competitive industry conditions and customer requirements. Developments of new technologies have rendered some less advanced technologies unpopular or obsolete. If we fail to develop, or obtain timely access to, new technologies and equipment, or if we fail to obtain the necessary licenses to provide services using these new technologies, we may lose our customers and market share and become less profitable.

In addition, the cost of implementing new technologies, upgrading our networks or expanding capacity could be significant. In particular, we have made and will continue to make substantial capital expenditures in the near future in order for us to effectively respond to technological changes, such as the continued expansion of our fiber optic networks and High Speed Packet Access, or HSPA, and HSPA+ mobile network. Furthermore, the 4G licenses are scheduled to be awarded before June 2015. We expect to devote additional capital expenditure to the network building for Long Term Evolution, or LTE, network. In addition, to meet the increasingly robust high-bandwidth requirements of digital convergence services, we will expand construction of fiber optic networks, including passive optical networks, or PONs and optical distribution networks, or ODNs. To the extent these expenditures exceed our cash resources, we will be required to seek additional debt or equity financing. Our ability to obtain additional financing on favorable commercial terms will depend on a number of factors. These factors include our financial condition, results of operations, cash flows and the prevailing market conditions in the Taiwan and international telecommunications industry, the cost of financing and conditions in the financial markets, and the issuance of relevant government and other regulatory approvals. Any inability to obtain funding for our capital expenditures on commercially acceptable terms could jeopardize our expansion plans and materially and adversely affect our business prospects and future results of operations.

Our ability to deliver services may be disrupted due to a systems failure, shutdown in our networks, earthquakes or other natural disasters.

Taiwan is susceptible to earthquakes and typhoons. However, we do not carry any insurance to cover damages caused by earthquakes, typhoons or other natural disasters or any resulting business interruption. Our services are currently carried through our fixed and mobile communications networks, as well as through our transmission networks consisting of optical fiber cable, microwave, submarine cable and satellite transmission links, which could be vulnerable to damage or interruptions in operations due to natural disasters. For example, in 2011, losses on property, plant and equipment arising from natural disasters such as earthquakes and typhoons were approximately NT$1.0 million (US$0.03 million) as recorded in non-operating expenses under R.O.C GAAP. The occurrence of any natural disasters could impact our ability to deliver services and have a negative effect on our results of operations.

If new technologies adopted by us do not perform as expected, or if we are unable to effectively deliver new services based on these technologies in a commercially viable manner, our revenue growth and profitability will decline.

We are always evaluating new growth opportunities in the broader telecommunications industry and are expecting to be transformed into an Information and Communications Technology, or ICT, service provider. Some of these opportunities involve new services for which there are no proven markets, and may not develop as expected. Our ability to deploy and deliver these services will depend, in many instances, on new and unproven technologies. These new technologies may not perform as expected or generate an acceptable rate of return. In addition, we may not be able to successfully develop new technologies to effectively and economically deliver these services, or be able to compete successfully in the delivery of telecommunications services based on new technologies. Furthermore, the success of our mobile data services is substantially dependent on the availability of mobile data applications and devices that are being developed by third-party developers. These applications or devices may not be sufficiently developed to support the deployment of our mobile data services. If we are unable to

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deliver commercially viable services based on the new technologies that we adopt, our financial condition and results of operations may be materially and adversely affected.

We depend on select personnel and could be affected by the loss of their services.

We depend on the continued service of our executive officers and skilled technical and other personnel. Our business could suffer if we lose the services of any of these personnel and cannot adequately replace them. In particular, we are not insured against the loss of any of our personnel. Moreover, we may be required to increase substantially the number of these employees in connection with any expansion, and there is intense competition for experienced personnel in the Taiwan telecommunications industry. We may not be able to retain our present personnel or attract additional qualified personnel as and when needed. In addition, we may need to increase employee compensation levels in order to attract and retain personnel. We cannot assure you that the loss of the services of any of these personnel would not disrupt our business and operations and materially and adversely affect the quality of our services and harm our reputation.

Our largest stockholder may take actions that conflict with our public stockholders best interests.

As of December 31, 2011, the Republic of China government, through the Ministry of Transportation and Communications, owned approximately 35.29% of our outstanding common shares. Accordingly, the government, through its control over our board, as all non-independent board members were appointed by the Ministry of Transportation and Communications, may continue to have the ability to control our business, including matters relating to:

- any sale of all or substantially all of our assets;
- the approval of our annual operation and projects budget;
- the composition of our senior management;
- the timing and distribution of dividends;
- the election of a majority of our directors and supervisors; and

- our business activities and direction.

We cannot assure you that our largest shareholder will not take actions that impair our ability to conduct our business competitively or conflict with the best interests of our public stockholders.

Actual or perceived health risks related to mobile handsets and base stations could lead to decreased mobile service usage and difficulties in increasing network coverage and could expose us to potential liability.

According to some published reports, the electromagnetic signals from mobile handsets and cellular base stations may pose health risks or interfere with the operation of electronic equipment. Although the findings of those reports are disputed, actual or perceived risks of using mobile communications devices or of cellular base stations could have a material adverse effect on mobile service providers, including us. For example, our customer base could be reduced, our customers may reduce their usage of our mobile services, we could encounter difficulties in obtaining sites for additional cellular base stations required to expand our network coverage or we may be requested to reduce the number of existing cellular base stations. As a result, our mobile services business may generate less revenues and our financial condition and results of operations may be materially and adversely affected. In addition, we could be exposed to potential liability for any health problems caused by mobile handsets and base stations.

We are subject to litigation that could expose us to substantial liabilities.

We are from time to time involved in litigation, arbitration or administrative proceedings in the ordinary course of our business. See Item 4. Information on the Company B. Business Overview Legal Proceedings.

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We cannot predict the outcome of these proceedings, and we cannot assure you that if a judgment is rendered against us in any or all of these proceedings, our financial condition and results of operations would not be materially and adversely affected.

Investor confidence in us may be adversely impacted if we or our independent registered public accountants are unable to attest to or express an unqualified opinion on the effectiveness of our internal control over financial reporting.

We are subject to the reporting requirements of the SEC. The SEC, as directed by Section 404 of the U.S. Sarbanes-Oxley Act of 2002, adopted rules requiring U.S. public companies to include a report of management on our internal control over financial reporting in their annual reports that contain an assessment by management of the effectiveness of our internal control over financial reporting. The effectiveness of internal control over financial reporting has been audited by Deloitte & Touche, an independent registered public accounting firm, who has also audited our consolidated financial statements for the year ended December 31, 2011. Deloitte & Touche has issued an attestation report on the effectiveness of our internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board (United States). See Item 15. Controls and Procedures Attestation Report of the Registered Public Accounting Firm.

While the management report included in this annual report concluded that our internal control over financial reporting was effective, we cannot assure you that our management will be able to conclude that our internal control over financial reporting is effective in future years. If in future years we fail to maintain effective internal control over financial reporting in accordance with the Sarbanes-Oxley Act, we could suffer a loss of investor confidence in the reliability of our consolidated financial statements, which in turn could negatively impact the trading price of our ADSs, result in lawsuits being filed against us by our stockholders or otherwise harm our reputation.

Any further economic downturn or decline in the growth of the population in Taiwan may materially and adversely affect our financial condition, results of operations and prospects.

We conduct most of our operations and generate most of our revenues in Taiwan. As a result, any decline in the Taiwan economy or a decline in the growth of the population in Taiwan may materially and adversely affect our financial condition, results of operations and prospects. The current European debt crisis and related financial restructuring efforts, including in Greece, Italy, Spain, Portugal and Ireland, are contributing to instability in global financial markets, which adversely affects consumer confidence, the cost of borrowing and economic activity. The global slowdown in technology expenditures has also from time to time adversely affected the Taiwan economy, which is highly dependent on the technology industry. As our business is significantly dependent on economic growth, any uncertainty or further deterioration in economic conditions could have a material adverse effect on our financial condition and results of operations. We cannot assure you that economic conditions in Taiwan will continue to improve in the future or that our business and operations will not be materially and adversely affected by deterioration in the Taiwan economy.

We face substantial political risks associated with doing business in Taiwan, particularly due to domestic political events and the tense relationship between the Republic of China and the People s Republic of China, which could adversely affect our financial condition and results of operations.

Our principal executive offices and substantially all of our assets are located in Taiwan, and substantially all of our revenues are derived from our operations in Taiwan. Accordingly, our business, financial condition and results of operations and the market price of our common shares and the ADSs may be affected by changes in Republic of China governmental policies, taxation, inflation or interest rates and by social instability and diplomatic and social developments in or affecting Taiwan which are outside of our control. Taiwan has a unique international political status. Since 1949, Taiwan and the Chinese mainland have been separately governed. The People s Republic of China, or PRC, claims that it is the sole government in China and that Taiwan is part of China. Although significant economic and cultural relations have been established between the Republic of China and the PRC, such as the engagement of Economic Cooperation Framework Agreement (ECFA) in 2010, relations may become strained again. The PRC government has refused to renounce the use of military force to gain control over Taiwan. Past developments in relations between the Republic of China and the PRC have on occasion depressed the

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market prices of the securities of companies in the Republic of China. Relations between the Republic of China and the PRC and other factors affecting military, political or economic conditions in Taiwan could materially and adversely affect our financial condition and results of operations, as well as the market price and the liquidity of our securities. In addition, the complexities of the relationship between the R.O.C. and PRC require companies involved in cross-strait business operations to carefully monitor its actions and manage its relationships with both R.O.C. and PRC governments. In the past, companies in the R.O.C., including us, have received minor sanctions such as travel restrictions or minor monetary fines by the R.O.C. and/or PRC governments. We cannot assure you that we will be able to successfully manage our relationships with the R.O.C. and PRC governments for our cross-strait business operations, which could have an adverse effect on our ability to expand our business and conduct cross-strait business operations.

Any future outbreak of contagious diseases may materially and adversely affect our business and operations, as well as our financial condition and results of operations.

Any future outbreak of contagious diseases, such as severe acute respiratory syndrome or avian influenza, may disrupt our ability to adequately staff our business and may generally disrupt our operations. If any of our employees is suspected of having contracted any contagious disease, we may under certain circumstances be required to quarantine such employees and the affected areas of our premises. As a result, we may have to temporarily suspend part or all of our operations. Furthermore, any future outbreak may restrict the level of economic activity in affected regions, including Taiwan, which may adversely affect our business and prospects. As a result, we cannot assure you that any future outbreak of contagious diseases would not have a material adverse effect on our financial condition and results of operations.

Stockholders may have more difficulty protecting their interests under the laws of the Republic of China than they would under the laws of the United States.

Our corporate affairs are governed by our articles of incorporation, the Telecommunications Act, and by the laws governing corporations incorporated in the Republic of China. In addition, our corporate affairs may remain governed by the Statute of Chunghwa Telecom Co., Ltd. See Extensive regulation of our industry may limit our flexibility to respond to market conditions and competition, and our business may suffer. The rights of stockholders and the responsibilities of management and the members of the board of directors of Taiwan companies are different from those applicable to a corporation incorporated in the United States. For example, controlling or major stockholders of Taiwan companies do not owe fiduciary duties to minority stockholders. As a result, holders of our common shares and ADSs may have more difficulty in protecting their interests in connection with actions taken by our management or members of our board of directors than they would as public stockholders of a United States corporation.

Risks Relating to Ownership of Our ADSs and Common Shares

The value of your investment may be reduced by future sales of our ADSs or common shares by us, by the Republic of China government or by other stockholders.

The government may continue to sell our common shares. Sales of substantial amounts of ADSs or common shares by the government or any other stockholder in the public market, or the perception that future sales may occur, could depress the prevailing market price of our ADSs and common shares.

The market value of your investment may fluctuate due to the volatility of, and government intervention in, the Taiwan securities market.

Our common shares are traded on the Taiwan Stock Exchange, which has a smaller market capitalization and is more volatile than the securities markets in the United States and many European countries. The market value of our ADSs may fluctuate in response to the fluctuation of the trading price of our common shares on the Taiwan Stock Exchange. The Taiwan Stock Exchange has experienced substantial fluctuations in the prices and trading volumes of listed securities, and there are currently limits on the range of daily price movements. In recent years, the Taiwan Stock Exchange Index reached a peak of 10,202.20 in February 2000 and subsequently fell to a low of

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3,446.26 in October 2001. During 2011, the Taiwan Stock Exchange Index peaked at 9,145.35 on January 28, 2011, and reached a low of 6,633.33 on December 19, 2011. On April 13, 2012, the Taiwan Stock Exchange Index closed at 7,788.27. The Taiwan Stock Exchange has experienced certain problems, including market manipulation, insider trading and payment defaults. The recurrence of these or similar problems could have a material adverse effect on the market price and liquidity of the securities of Taiwan companies, including our ADSs and common shares, in both the domestic and the international markets.

In response to declines and volatility in the securities markets in Taiwan, the Republic of China government formed the National Financial Stabilization Fund to support these markets through open market purchases of shares in Taiwan companies from time to time. The details of the transactions of the National Financial Stabilization Fund have not been made public. In addition, the government s Labor Insurance Fund and other funds associated with the government have in the past purchased, and may from time to time purchase, shares of Taiwan companies listed on the Taiwan Stock Exchange or other markets. As a result of these activities, the market price of common shares of Taiwan companies may have been and may currently be higher than the prices that would otherwise prevail in the open market. Market intervention by government entities, or the perception that such activity is taking place, may take place or has ceased, may cause sudden movements in the market prices of the securities of Taiwan companies, which may affect the market price and liquidity of our common shares and ADSs.

We may be sanctioned or lose our licenses for violations of limits on foreign ownership of our common shares, and these limits may materially and adversely affect our ability to obtain financing.

The laws of the Republic of China limit foreign ownership of our common shares. Prior to March 1, 2006, the Ministry of Transportation and Communications, as the competent authority under the Telecommunications Act, had the power to prescribe the limits on foreign ownership of our common shares. After the formation of the National Communications Commission on March 1, 2006, the National Communications Commission replaced the Ministry of Transportation and Communications as the competent authority under the Telecommunications Act pursuant to the NCC Organization Law. The National Communications Commission and the Ministry of Transportation and Communications reached an agreement on foreign ownership of Chunghwa Telecom. An announcement issued by the Ministry of Transportation and Communications on December 28, 2007 stipulated that direct holdings by foreign investors in Chunghwa Telecom cannot exceed 49% of our outstanding share capital and the total direct and indirect holdings by foreign investors cannot exceed 55% of our outstanding share capital. As of April 13, 2012, foreign direct holdings of our outstanding share capital is at 17.22%. If we fail to comply with the applicable foreign ownership limitations, our licenses to operate some of our businesses could be revoked. Moreover, we cannot predict the manner in which the National Communications Commission will exercise its authority over us, and the National Communications Commission could decline to raise, or determine to reduce, this foreign ownership limitation.

If we are deemed to be in violation of our foreign ownership limitations, any consequences arising from such violation may materially and adversely affect us. Moreover, since we are unable to control ownership of our common shares or ADSs representing our common shares, and because we have no ability to stop transfers among stockholders, or force particular stockholders to sell their shares, we may be subject to monetary fine or lose our licenses through no fault of our own. In that event, our business could be disrupted, our reputation could be damaged and the market price of our ADSs and common shares could decline. These limitations may also materially and adversely affect our ability to obtain adequate financing to fund our future capital requirements or to obtain strategic partners, and alternate forms of financing may not be available on terms favorable to us or at all.

Restrictions on the ability to deposit our common shares into our ADS program may adversely affect the liquidity and price of the ADSs.

The ability to deposit shares into our ADS program is restricted by Republic of China law, under which no person or entity, including you and us, may deposit our common shares into our ADS program unless the Securities and Futures Bureau has not objected within a prescribed period following the filing with it of an application to do so, except for the deposit of the common shares into our ADS program and for the issuance of additional ADSs in connection with:

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- distribution of share dividends or free distribution of our common shares;

- exercise of preemptive rights of ADS holders applicable to the common shares evidenced by our ADSs in the event of capital increases for cash; or

- purchases of our common shares in the domestic market in Taiwan by the investor directly or through the depositary and delivery of such shares or delivery of our common shares held by such investors to the custodian for deposit into our ADS program, subject to the following conditions: (a) the depositary may accept deposit of those shares and issue the corresponding number of ADSs with regard to such deposits only if the total number of ADSs outstanding after the deposit does not exceed the number of ADSs previously approved by the Securities and Futures Bureau, plus any ADSs issued pursuant to the events described above; and (b) this deposit may only be made to the extent previously issued ADSs have been cancelled.

As a result of the limited ability to deposit common shares into our ADS program, the prevailing market price of our ADSs on the New York Stock Exchange may differ from the prevailing market price of the equivalent number of our common shares on the Taiwan Stock Exchange.

You will be more restricted in your ability to exercise voting rights than the holders of our common shares, which may diminish your influence over our corporate affairs and may reduce the value of your ADSs.

Holders of American depositary receipts evidencing our ADSs may exercise voting rights with respect to the common shares represented by these ADSs only in accordance with the provisions of our deposit agreement. The deposit agreement provides that, upon receipt of notice of any meeting of holders of our common shares, the depositary bank will, as soon as practicable thereafter if requested by us in writing, mail to ADS holders the notice of the meeting sent by us, voting instruction forms and a statement as to the manner in which instructions may be given by the holders.

ADS holders will not generally be able to exercise voting rights attaching to the deposited securities on an individual basis. Under the deposit agreement, the voting rights attaching to the deposited securities must be exercised as to all matters subject to a vote of stockholders collectively in the same manner, except in the case of an election of directors and supervisors. The election of our directors and supervisors is by means of cumulative voting. In the event the depositary does not receive voting instructions from ADS holders in accordance with the deposit agreement, our chairman or his or her designee will be entitled to vote the common shares represented by the ADSs in the manner he or she deems appropriate at his or her discretion, which may not be in your interest.

Your right to participate in any future rights offerings may be limited, which may cause dilution to your holdings.

We may from time to time distribute rights to our stockholders, including rights to acquire our securities. Under the deposit agreement, the depositary will not offer you those rights unless the distribution to ADS holders of both the rights and any related securities are either registered under the U.S. Securities Act of 1933, as amended, or the Securities Act, or exempt from registration under the Securities Act. We are under no obligation to file a registration statement with respect to any such rights or securities or to endeavor to cause such a registration statement to be declared effective. Moreover, we may not be able to establish an exemption from registration under the Securities Act. Accordingly, you may be unable to participate in our rights offerings and may experience dilution in your holdings.

If the depositary is unable to sell rights that are not exercised or not distributed or if the sale is not lawful or reasonably practicable, it will allow the rights to lapse, in which case you will receive no value for these rights.

Changes in exchange controls that restrict your ability to convert proceeds received from your ownership of ADSs may have an adverse effect on the value of your investment.

Your ability to convert proceeds received from your ownership of ADSs depends on existing and future exchange control regulations of the Republic of China. Under the current laws of the Republic of China, an ADS

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holder or the depositary, without obtaining further approvals from the Central Bank of the Republic of China (Taiwan) or any other governmental authority or agency of the Republic of China, may convert NT dollars into other currencies, including U.S. dollars, in respect of:

- the proceeds of the sale of common shares represented by ADSs or received as share dividends with respect to the common shares and deposited into the depositary receipt facility; and

- any cash dividends or distributions received from the common shares represented by ADSs.

In addition, the depositary may also convert into NT dollars incoming payments for purchases of common shares for deposit in the depositary receipt facility against the creation of additional ADSs. If you withdraw the common shares underlying your ADSs and become a holder of our common shares, you may convert into NT dollars subscription payments for rights offerings. The depositary may be required to obtain foreign exchange approval from the Central Bank of the Republic of China (Taiwan) on a payment-by-payment basis for conversion from NT dollars into foreign currencies of the proceeds from the sale of subscription rights of new common shares. Although it is expected that the Central Bank of the Republic of China (Taiwan) will grant approval as a routine matter, required approvals may not be obtained in a timely manner, or at all.

Under the Republic of China Foreign Exchange Control Law, the Executive Yuan of the Republic of China may, without prior notice but subject to subsequent legislative approval rendered within ten days from such imposition, impose foreign exchange controls or other restrictions in the event of, among other things, a material change in domestic or international economic conditions which might threaten the stability of the domestic economy in Taiwan.

You are required to register with the Taiwan Stock Exchange and appoint several local agents in Taiwan if you withdraw common shares from our ADS facility and become our stockholder, which may make your ownership burdensome.

If you are a non-Republic of China person and wish to withdraw common shares represented by your ADSs from our ADS facility and hold those common shares, you are required under the current laws and regulations of the Republic of China to appoint an agent, also referred to as a tax guarantor, in the Republic of China for filing tax returns and making tax payment. A tax guarantor must meet certain qualifications set by the Ministry of Finance of the Republic of China and, upon appointment, becomes a guarantor of your Republic of China tax obligations. If you wish to repatriate profits derived from the sale of withdrawn common shares or cash dividends or interest on funds derived from the withdrawn common shares, you will be required to submit evidence of your appointment of a tax guarantor and the approval of the appointment by the Republic of China tax authorities. You may not be able to appoint and obtain approval for a tax guarantor in a timely manner.

In addition, under the current laws of the Republic of China, you will be required to be registered as a foreign investor with the Taiwan Stock Exchange for making investments in the Republic of China securities market prior to your withdrawal and holding of common shares represented by the ADSs. You will be required to appoint a local agent in Taiwan to, among other things, open a securities trading account with a local securities brokerage firm and a bank account to remit funds, exercise stockholders rights and perform other functions as holders of ADSs may designate. You must also appoint a local bank to act as custodian for handling confirmation and settlement of trades, safekeeping of securities and cash proceeds and reporting and declaration of information. Without the relevant registration and appointment of the local agent and custodian and the opening of a securities trading account and bank account, you will not be able to hold, subsequently sell or otherwise transfer our common shares withdrawn from the ADSs facilities on the Taiwan Stock Exchange.

Our actual financial results may differ materially from our published yearly guidance.

Before 2009, we voluntarily published operating results guidance for the current fiscal year prepared in accordance with R.O.C. GAAP. In 2009 and 2010, we published operating results guidance on a quarterly basis. Beginning in 2011, we reverted to publishing our operating results guidance on an annual basis again and no longer publish operating results guidance on a quarterly basis. These projections are based on a number of estimates and

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assumptions and are inherently subject to significant uncertainties and contingencies, including the risks factors described in this annual report. In particular, projections are forward-looking statements that are necessarily speculative in nature, and it can be expected that one or more of the estimates on which the projections were based will not materialize or will vary significantly from actual results, and such variances will likely increase over time.

ITEM 4. INFORMATION ON THE COMPANY

A. History and Development of the Company

Our legal and commercial name is Chunghwa Telecom Co., Ltd. We were officially established on July 1, 1996 as part of the Republic of China government privatization efforts. Prior to our formation, we were operating as a business unit of the Directorate General of Telecommunications. The common shares of the Company have been listed on the Taiwan Stock Exchange under the number 2412 since October 2000 and its ADSs have been listed on the New York Stock Exchange under the symbol CHT since July 2003. In August 2005, we became a privatized company as the ownership of the Taiwan government was reduced to less than 50%. Today, we are the largest full telecommunication service provider in Taiwan. Our principal executive offices are located at 21-3 Hsinyi Road, Section 1, Taipei, Taiwan, Republic of China, and our telephone number is (886) 2-2344-5488. Our website address is *http://www.cht.com.tw*. The information on our website does not form a part of this annual report.

We are the largest telecommunications service provider in Taiwan and one of the largest in Asia in terms of revenues. As an integrated telecommunications service provider, our principal services include:

- domestic fixed communications services, including local and domestic long distance telephone services, broadband access services, local and domestic long distance leased line services, MOD services, domestic data services and domestic other services;

- mobile communications services, including mobile services, sales of mobile handsets and data cards and mobile other services;

- internet services, including HiNet, our Internet service provider, Internet value-added services, data communication services, Internet data center services, and Internet other services;

- international fixed communications services, including international long distance telephone services, international leased line services, international data services, satellite services and international other services; and

- other services, including non-telecom services.

In addition to these traditional telecommunication services, we also focus on selected ICT services and advanced development, such as cloud computing.

For each of our key services, we enjoy leading positions across a number of areas in terms of both revenues and customers:

- we are Taiwan s largest provider of fixed communications services; we are Taiwan s largest mobile communications service provider;
- we are Taiwan s largest broadband access provider; and
- we are Taiwan s largest internet service provider.

In 2011, our revenues under R.O.C. GAAP were NT$217.5 billion (US$7.2 billion), our consolidated net income was NT$48.1 billion (US$1.6 billion) and our basic earnings per share was NT$6.04 (US$0.20).

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In 2011, we made capital expenditures totaling NT$26.9 billion (US$0.9 billion), of which 62 % was related to our domestic fixed communications business, 16% was related to our mobile communications business, 14% was related to our internet business, 6% was related to our international fixed communications business and 2% was related to our other businesses. See Item 5. Operating and Financial Review and Prospects B. Liquidity and Capital Resources Capital Expenditures for a discussion of our capital expenditures.

Competitive Strengths

We believe that we are well positioned to take advantage of growth opportunities in the telecommunications market in Taiwan as new technologies evolve. In particular, we have maintained our leading market share in mobile communications and internet services since the opening of the Taiwan telecommunications market to competition in 1996. Furthermore, we have enjoyed greater flexibility in making purchasing and other business decisions after we were privatized in August 2005.

We believe that further deregulation and market liberalization will continue to drive the growth of the overall market for telecommunications services in Taiwan, as well as the development of new products and services. We expect to benefit from additional opportunities as the telecommunications market in Taiwan continues to grow.

We believe that our primary competitive strengths are:

- our broad customer base in Taiwan;

- our position as an integrated, full-service telecommunications provider in Taiwan; and

- our capital resources and technology, which we believe we can build on to expand our leading position in the mobile communications and internet services markets, including through our continued construction of our existing 3G/HSPA/HSPA+ mobile network, our expansion of FTTx broadband access services, IP-based MOD services, fixed/mobile value added and cloud computing related services, and our future construction of a fourth generation long term evolution mobile network if we win the technology neutral license in 2015.

We have a broad customer base in Taiwan.

We are the largest telecommunications service provider in Taiwan with a broad customer base across all of our service offerings. Despite deregulation and an increase in competition in the Taiwanese telecommunications industry, we have maintained a market leading position in our primary service offerings of fixed communications, mobile communications and internet services. We believe our broad customer base in each of our service offerings grants us a distinct competitive advantage to maintain our existing customers and attract new customers and increases the chance of success for the launch and popularization of new products. As the telecommunications industry continues its trend of converging fixed communications, mobile communications and internet services, we believe that our comprehensive service offerings places us in a strong position to offer converged products and services to our customers.

We are an integrated full-service telecommunications provider in Taiwan.

We are the largest telecommunications service provider in Taiwan with a leading position in fixed communications services, mobile communications services and internet services.

Broad range of communications products and services. We believe that our ability to provide an attractive and comprehensive range of telecommunications services positions us to provide bundled and value-added services to our business and residential customers. In addition, we are able to offer innovative integrated services and tariff packages to meet the specific needs of our customers.

Broad network coverage. The breadth of our network and our ownership of the so called last mile infrastructure in Taiwan, which comprises the connection between the local telephone service provider s switching

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centers to the end-users buildings or homes, provide us with access to existing and potential customers and creates a platform for expanding our services. As of December 31, 2011, substantially all of our installed telephone lines were capable of delivering ADSL services and network coverage of ADSL was approximately 99%. In order to provide higher bandwidth services for our customers, we are constructing our FTTx network. As of December 31, 2011, network coverage of FTTx with speed of 50 Mbps and 100 Mbps was approximately 75% and 24.6 %, respectively. In addition, our mobile communications network provides nationwide coverage. Our large cellular spectrum allocation together with our network of 17,973 base stations position us well for the continued expansion of our mobile services in Taiwan.

Brand awareness, distribution channels and customer service. Our principal brands Chunghwa Telecom , emome and HiNet have a reputation for quality and reliability. We serve our large and well-established customer base through our extensive customer service network in Taiwan, including 17 operations offices, 326 service centers, 223 exclusive service stores and 6 customer service call centers. We also offer comprehensive and high-quality point of sale and after sale services in our service centers, stores and over the internet. Our extensive sales and distribution channels help us attract additional customers and develop new business opportunities. In 2011, we also obtained several domestic and international awards which recognized our service quality, corporate governance and corporate social responsibility. In the Reader s Digest Trusted Brands Award, we have stood out and won the Platinum Award of Telecom Company in Taiwan for eight consecutive years since 2004. We were also awarded the Best Companies in Asia by Euromoney, Excellence in Corporate Social Responsibility Award by the Common Wealth Magazine, Excellent Service Award 2011 by Global Views, Best Financial Disclosure in Asia-Pacific and Greater China, and Bronze Award of Investor Relations Website in Taiwan by IR Global Rankings.

Operational expertise. Our management and employees have extensive operating experience and technical knowledge, which we believe cannot be easily replicated by competitors. We also believe we will continue to attract and retain high quality employees.

Comprehensive customer billing infrastructure. As Taiwan s leading telecommunications services provider, we have extensive resources and infrastructure relating to billing services. In particular, we issue, in the aggregate, approximately 17 million invoices, including integrated bills, every month. We intend to continue taking advantage of this unique attribute by offering bill collection services to internet content providers and other entities that lack the necessary resources and infrastructure for effective customer billing.

We have the capital resources and technology to enhance our leading position in the growing mobile communications and internet services markets.

Enhancing position in our leading markets. We expect our mobile value-added service, fixed broadband value-added and information and communication technologies services to continue to be the key drivers of our future growth. With our leading market share, we enjoy substantial economies of scale in equipment procurement as well as the marketing of our products and services.

Strong capital structure. We believe we have greater financial resources than other telecommunications operators in Taiwan. Our relatively low debt-to-equity capital structure, together with our high levels of cash and operating cash flows, provides us with the flexibility and resources to invest in capital intensive and growing businesses. In particular, we continue to invest in broadband internet protocol networks, fiber-optic networks, and 3G/HSPA, HSPA+ mobile communications networks and services. We also have begun making investments in or acquiring other companies which provide complementary telecommunications and internet-related services to further expand our business and offer new products and services.

Advanced network technology. Since 2003, we have developed and upgraded our existing infrastructure for both mobile and fixed line networks. We developed a high-speed internet protocol backbone network, expanded the coverage of our ADSL network and deployed a 3G network. In 2008, we launched a long-term next generation network construction project that will upgrade our local fixed line networks to high-speed packet-based digital networks with FTTx technologies, including FTTC/N, FTTB and FTTH, in order to provide high speed internet, VoIP, MOD and high definition television, or HDTV, services. We have also upgraded our 3G network to HSPA and HSPA+. In 2011, we expanded HSPA/HSPA+ coverage to provide better mobile internet services with speeds of up to 21 Mbps. Our investment in network infrastructure places us in a position to capture a significant share of the internet and high-speed data transmission market.

Research and development expertise. As of March 31, 2012, we employ over 2,213 research professionals and engineers whose principal focus is to develop advanced network services and operations support systems and to build selected core technologies. In 2011, our research and development expenses accounted for 1.6% of our revenues under R.O.C. GAAP. We believe our focus on research and development will allow us to efficiently develop and deploy new technologies and services ahead of our competitors.

Business Strategy

Taiwan has one of the highest fixed line penetration rates in Asia and has also experienced rapid adoption of wireless communications and internet services, including broadband access services. We believe that telecommunications services will evolve over the coming years, driven by a number of technological innovations, including cloud computing, mobile value-added services and Internet of Things. We also believe that the convergence trend of communications technologies will provide a significant competitive advantage to integrated telecommunications service providers that are able to design and construct sophisticated and scalable networks capable of serving as a common platform for a broad range of services.

Our key strategic objectives are to maintain our position as a leading integrated telecommunications services provider in Taiwan and to enhance our leadership position in growing markets, such as the mobile services and internet services markets, including fixed/mobile broadband access services and value-added services.

Consistent with our strategic objectives, we have developed the following business strategies:

Focus on our core strengths while expanding our scope of services to capture new growth opportunities

Our core strengths are the management of telecommunication networks and the provision of services over these networks. We currently operate several networks linked by a core backbone infrastructure consisting of public switched telephone, cellular, ADSL, FTTx and internet protocol networks. Our strategy for each network differs depending on the market dynamics and future growth prospects of services delivered over these networks. In general, we endeavor to maintain our strong market position in each of our business lines and seek to expand the scope of our business beyond network services by offering value-added services to generate growth and new opportunities.

Fixed communications: Our strategy is to maintain our position as the market leader in domestic fixed communications. In addition to our Public Switched Telephone Network, or PSTN, we are working on NGN projects to facilitate network migration into IP Multimedia Subsystem, or IMS. The first stage of our IMS network was completed in March 2009. This is the largest ever NGN deployment that has been constructed in Taiwan, with more than 500,000 subscriber facilities. As of December 31, 2011, the IMS network capacity has been expanded to nearly one million subscribers. To enhance business efficiency and reduce operational expenditures, we constructed a new Multi-Protocol Label Switching-, or MPLS-, based IP backbone to consolidate existing IP networks in September 2008. Based on these facilities, we will collaborate with the third parties to develop new integrated services to retain our customers and generate new revenue streams. For provision of new services, we launched our multimedia value-added services in October 2010. These services include provision of home-based surveillance cameras and daily life information, entertainment and phone services.

Broadband services: We also plan to continue to build on the success of our broadband access services.

- We provided ADSL and FTTx services to 4.5 million customers, which represented more than 79.2% of Taiwan s fixed line broadband customers by the end of 2011. We have successfully migrated many of our customers from low-speed to higher-speed internet access services and upgraded ADSL subscribers to FTTx, which offers an even higher speeds by using fiber optic technology. Approximately 87% of our broadband customers subscribe for downlink speeds of over 2 Mbps, and 53% were with FTTx as of December 31, 2011.

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- We are continuing the build-out of our FTTx infrastructure. Because we typically realize higher average revenue per user for our FTTx internet services, we plan to continue offering various incentives for our ADSL and other internet customers to switch to our FTTx services. In 2011, FTTx revenue has reached 65.4% of our total broadband revenue.

Mobile Communications: We offer our mobile services via both 2G and 3G networks. For 2G, we are using standard of Global System for Mobile Communications or GSM while for 3G, wideband code division multiple access, or WCDMA is adopted. In order to meet the demand from our customers for high-speed mobile data access, we upgraded our 3G mobile service to High-Speed Packet Access, or HSPA technology on September 12, 2006 and to HSPA+ services in 2010. The prevalence of smart devices, such as smart phones and tablet PCs that utilize large amounts of mobile data, has become a challenging task for all mobile operators. We are continuing to develop Heterogeneous Network, or HetNet, to meet such demand. HetNet incorporates macrocell for large area coverage, and small cells including micro cells, pico cells, femtocells and Wi-Fi to increase our data capacity. Our strategy for mobile service includes the following initiatives:

- Focusing on maintaining our average revenue per user by promoting increased use of wireless value-added services, such as our emome service, Java games, ring-back tone services, Hami music, Hami books, Hami Apps, and online shopping;

- Encouraging our customers to use our 3G and HSPA/HSPA+ services by offering customized mobile handsets combined with attractive value-added services and product packages;

- Expanding our HSPA+ coverage and enhancing the base station bandwidth up to 42 Mbps to attract more mobile internet customers;

- Catering for the high bandwidth usage of smart phone and tablet PCs, we have constructed more than 20,000 Wi-Fi Hotspot in 2011 to share some of the data traffic from the mobile network. We are continuing the construction of an additional 10,000 Wi-Fi Hotspot and 100 hot zones in 2012, especially for highly commercial areas and special events, as a cost-effective technology to help offload the 3G/HSPA+ data traffic;

- Converging fixed communications and mobile communications services to provide customers with access to personalized information through personal computers or mobile handsets; and

- Taking advantage of our superior brand and network quality to attract our competitors customers.

Internet services: Our strategy for internet services is to continue to build on the success of our HiNet internet services and enhance our internet value-added services.

- We are developing new media to provide both higher-speed access as well as attractive content to our customers. We are also continually enhancing our internet value-added services, such as online games, internet music, internet banking and internet protocol video services, including hiChannel, an internet platform where customers can view videos and multimedia content.

Emerging services: Our emerging services include ICT, cloud computing and convergence services. We have been providing ICT services since 2009, including Intelligent Energy Network, or iEN, and Intelligent Transporation System, or ITS, services. Our experience with ICT services positions us well to develop and offer cloud computing services, and we anticipate that cloud computing services could become an important area of growth for telecom operators in the near future. We started to offer hicloud CaaS (Compute as a Service) and provide customers 24-hour installation services in 2010. We started to offer hicloud Mall in 2011, which allows ISV (Independent Software Vendors) to offer their application software in the hicloud Mall for sale**.** In 2012 we also introduced cloud-based multi-screen services providing music, media, news, weather, traffic information, personal information (Hami+ Cloud) and payment services. The integration of platform and network enables our customers to use and purchase the service through their PCs, IPTV (MOD), tablet PCs and smart phones, and cater to users needs to utilize value-added services

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anytime, anywhere with any device. We are continuing to expand the scope and variety of our convergence services to create more value for our customers.

Emphasize quality of service and customer satisfaction

Quality of service is critical in attracting and retaining customers and enhancing our long-term profitability. In order to continually enhance and improve the quality of our services, we have, in addition to the quality assurance function of our regular operating units, established a number of dedicated task forces to monitor our network performance. Our senior management sets our quality evaluation criteria and regularly reviews the quality of our performance.

In order to ensure that our quality of service will translate into strong customer loyalty, we plan to continue to focus on and invest in the provision of a full range of services that emphasize customer care from the point of sale onward. For example, we have extended the focus of our corporate customer services from major accounts to include small and medium-sized enterprises and in January 2007 established our Enterprise Business Group. As of December 31, 2011, our Enterprise Business Group is staffed by approximately 379 professionals and offers packaged and customized services, customer-oriented solutions and integrated information and communications services. We have completed the integration of our call centers, all of which can now be reached by calling a single number 123. We offer 24-hour customer service, including the handling of service and billing inquiries with the assistance of an Interactive Voice Response, or IVR, system. To improve the quality of our customer services, we implemented a customer relationship management system, which encompass, among other things, a customer complaint system, a business information database for the use of our call centers, and a data mining system to enhance our sales and market analysis efforts.

Improve operational efficiency and cost structure

We have historically been focused, and will continue to focus, on cost control, particularly in the areas of network efficiencies and personnel costs. We expect to be able to further improve our operational efficiency and cost structure by migrating to more advanced networks and sophisticated operational support systems, and efficiently managing our workforce.

Capital expenditures. Our long-term goal is to optimize our capital expenditures by focusing on investing in innovative products and services with attractive return profiles. We have commenced a project for gradually upgrading our entire public switched telephone network to a next-generation network. Next-generation internet protocol switches will have substantially more capacity and greater upgrade flexibility and should result in savings from a reduced number of switching centers and a reduction in related property, materials and personnel costs. We have also devoted resources toward the expansion of our 3G mobile network and the continuing build-out of our FTTx infrastructure.

Personnel costs. We seek to improve our operational efficiency by reducing our personnel costs. For example, we offered voluntary retirement programs once each year since 2005, which resulted in reductions of 5,696 employees. We also hired more than 3,565 new employees after our privatization in August 2005. Since then, we continued to align our organizational structure by integrating various operating units and departments. We will also continue to reallocate our personnel from traditional fixed line services to our growing businesses and to our marketing and customer services departments, as well as exploring outsourcing opportunities where we deem appropriate.

Expand our business through alliances, acquisitions and investments

We plan to expand our business in high-growth areas, such as interactive multimedia broadband services, content delivery services and value-added services, through alliances, acquisitions and investments. We believe that our experience, operational scale and large customer base make us an attractive ally for other service providers.

Alliances. We have formed and will continue to pursue alliances with information content providers, multimedia service platform providers, customer premises equipment providers, internet portal operators, information and communication technology solutions partners to diversify our business operations and enhance our service offerings. As of the date of this annual report, we have collaborated with more than 600 information content providers, more than 130 customer premises equipment providers, more than 14 internet service providers, more than four internet portal operator and more than 90 information and communication technology solution partners. In 2010, we signed MOUs with some international companies such as Trend Micro, Intel Corporation, Quanta Computer, Sky Cloud Technology and Inventec Corporation to cooperate on ICT and cloud computing businesses. We believe that our experience in running internet data centers and our ability to serve retail customers coupled with the technologies offered by these partners will position us advantageously in this new area. In February 2011, we signed an MOU with HTC to form a strategic partnership to work on customized handsets and share marketing resources. In February 2012, we subscribed for shares of China Airlines in an equity offering and signed an MOU with the airline to form a strategic alliance; please refer to Acquisitions and Investments for further information.

Acquisitions and Investments. We have focused our acquisition strategy on making acquisitions of companies that we believe to be complementary to our long-term strategic goals. In addition, after our privatization, we have focused our investment strategy on the development of new businesses and the enhancement of our operation efficiency. Recently we have entered into the following notable transactions:

To further our expansion into the international telecommunications market overseas, we established two wholly owned subsidiaries, Chunghwa Telecom Singapore Pte., Ltd. and Chunghwa Telecom Japan Co., Ltd., in July and September 2008, respectively. The core businesses of these subsidiaries include data wholesale, IP transiting services, international private leased circuit, or IPLC, IP VPN and voice wholesale. Both companies have successfully obtained all the necessary and relevant local telecommunication licenses and permits to operate. Through these subsidiaries, we hope to strengthen our overseas sales channels, generate sales from Taiwanese and other multinational corporations, increase international incoming voice traffic and IP transiting services and increase our overseas revenues.

In September 2008, to reinforce our satellite capabilities by replacing the ST-1 telecommunications satellite, we established ST-2 Satellite Ventures Pte., Ltd. in Singapore with our partner SingTelSat Pte., Ltd. Our ownership in ST-2 Satellite Ventures Pte., Ltd. is 38%.

In January 2009, we became a 49% stockholder in InfoExplorer Co., Ltd., a company whose core businesses include IT solution provision, IT application consultation, system integration and package solution. The combination of InfoExplorer s IT expertise with our communication technology capabilities will boost our information and communication technology profile. The stockholders of InfoExplorer Co., Ltd., at the special meeting of stockholders held on February 25, 2011, approved the merger with International Integrated System Inc. and e-ToYou International, Inc. in accordance with the Business Mergers and Acquisitions Act. Upon the merger on April 1, 2011, InfoExplorer Co., Ltd. became the surviving company and International Integrated System, Inc, or IISI. and e-ToYou International, Inc. were dissolved. The name of the surviving company is International Integrated System, Inc. and our shareholding is 33.47%. After the stockholders meeting of IISI held on June 24, 2011, we lost control of the board of directors, and IISI was deconsolidated and going forward the investment is accounted for as an equity method investment.

In April 2009, we acquired a 30% equity interest in So-net Entertainment Taiwan Limited, or So-net, the fourth largest ISP in Taiwan. We acquired the equity interest in So-net to transform So-net into one of our sub-brands in order to compete against other cable internet service providers.

In September 2009, we increased our stake in Chunghwa Investment from 49% to 89% and became the parent company of Chunghwa Investment.

In 2010, we acquired a 6.67% equity interest in Innovation Works Limited, or IW. Our shareholding decreased to 1.93% in 2011 due to issuance of employee options. In June 2010, we invested 13.3% in Innovation Works Development Fund, or IWDF, which was established to support the development of Innovation Works Limited. After IWDF s US$180 million capital increase in 2011, our shareholding in IWDF decreased to 4.4%. We believe our investment in IW and IWDF, which mainly conduct or invests in mobile internet industry in mainland China, will help open up our business opportunities in e-commerce, mobile internet and cloud computing services in the mainland.

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In June 2010, we became a 18.2% stockholder of CQi Energy Infocom Inc., or CQi, which engages mainly in intelligent energy network management services.

In September 2010, we established Chunghwa Precision Test Tech. USA Corporation, that engages in the testing service of semi-conductor components and printed circuit boards.

In March 2011, we established a wholly owned subsidiary Chunghwa Telecom (China) Co., Ltd., which engages mainly in providing services of planning, design, and intergration of information systems.

In May 2011, we established a wholly owned subsidiary Chunghwa Telecom Vietnam Co., Ltd. in Vietnam, which engages mainly in providing International Private Leased Circuit, or IPLC, and Intelligent Energy Network, or iEN, services to Taiwanese enterprises in Vietnam.

In May 2011, we, together with President Chain Store Corporation and EasyCard Corporation established Dian Zuan Integrating Marketing Co., Ltd., or DZIM. As of December 31, 2011, we owned 40% of DZIM. DZIM engages mainly in information technology services and general advertising services.

In July 2011, we established Chunghwa Sochamp Technology Inc., which mainly engages in license plate recognition systems. As of December 31, 2011, we owned 51% of Chunghwa Sochamp Technology Inc.

In August 2011, we and United Daily News established a joint venture, Smartfun Digital Co., Ltd., which mainly engages in sales of educational software and providing digital parenting education. As of December 31, 2011, we owned 65% of Smartfun Digital Co., Ltd.

In September 2011, we invested in Huada Digital Corporation and owned 50% of this company as of December 31, 2011. Huada Digital Corporation mainly engages in providing software services.

In February 2012, we subscribed for shares of China Airlines in an equity offering and became a 5.1% stockholder of China Airlines Ltd. We expect to leverage the airline s expertise and operational experience within the tourism and transportation industries to develop relevant Information and Communications Technology services, including intelligent tourism and transportation cloud services. We plan to develop and offer cloud-based tourism services to address the needs of the tourism industry, and we expect China Airlines Ltd. to facilitate the development and penetration of our cloud-based tourism service by introducing our service to potential users.

Please also see notes 1 and 13 to our consolidated financial statements included elsewhere in this annual report for our current strategic investments.

Going forward, we may consider making other equity investments and acquisitions that we believe are complementary to our business and strategic goals. Our future investment will be aimed at expanding our business scale and scope, making better use of our research and development resources and operational experience and increasing our revenues through investing in core telecom businesses as well as value-added services. We expect to target the markets of our overseas investments from Southeast Asia to China while carefully evaluating the risks involved.

Maintain focus on maximizing stockholder value

We are committed to maximizing stockholder value and intend to maintain our high dividend payout policy. Following our privatization, we have more flexibility to implement capital management initiatives, including possible repurchases of our outstanding common shares and increases in our leverage through debt financing. We bought back 121,075,000 shares between August 29, 2007 and October 25, 2007 and cancelled those shares on December 29, 2007 and February 21, 2008, respectively.

We continued our capital reduction plan from 2007 to 2010. We effected the last capital reduction plan in 2010 by reducing 20% capital stock in the amount of NT$19.4 billion. The cash payment of NT$19.4 billion was made on January 25, 2011 to our stockholders.

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B. Business Overview

Our Principal Lines of Business

Our core business segments are our domestic fixed communications business, mobile communications business, internet business and international fixed communications business.

Domestic Fixed Communications Business

The provision of domestic fixed communications services is one of our principal business activities. Our domestic fixed communications business includes local and domestic long distance telephone services, broadband access services, local and domestic long distance leased line services, multimedia on demand services, and domestic other services. We are the largest provider of local and domestic long distance telephone services in Taiwan. We also provide interconnection with our fixed line network to other mobile and fixed line operators. Since June 2001, three new operators have begun offering fixed line services. Our revenues from domestic fixed communications services were NT$71.5 billion or 36.0% of our revenues in 2009, NT$70.7 billion, or 34.9% of our revenues in 2010 and NT$79.4 billion, or 36.5% of our revenues, in 2011. In general, we expect that revenues from our domestic fixed communications business as a percentage of our total revenues will continue to decline primarily due to the expansion of our mobile communications services and the general trend of a continued decline in fixed line voice traffic. In 2011, however, our domestic fixed communications business increased as a percentage of our total revenues due to the change in pricing and collections policies for fixed line-to-mobile phone calls. Since January 1, 2011, the fixed line operator now sets and collects the tariffs for fixed line-to-mobile phone calls, whereas prior to January 1, 2011, these functions were performed by the mobile operator. Please see Item 4. Information on the Company B. Business Overview Regulation Interconnection Arrangements .

Local Telephone

The following table sets forth our revenues from local telephone services for the periods indicated.

	Year ended December 31,			
	2009	2010	2011	
	NT$	NT$	NT$	US$
		(in billions)		(in millions)
Local telephone revenues:				
Usage	10.6	10.0	21.0	693.0
Subscription	17.2	17.0	16.7	552.2
Interconnection	2.5	2.4	1.4	43.8
Pay telephone	0.6	0.5	0.4	14.6
Other	2.3	2.9	2.2	88.5
Total	33.2	32.3	41.7	1,392.1

We provide local telephone services to approximately 12.08 million customers in Taiwan. Our fixed line network reaches virtually all homes and businesses in Taiwan. Revenues from local telephone services comprised 16.7%, 15.9% and 19.2% of our total revenues in 2009, 2010 and 2011, respectively. Approximately 74.1 % of our local telephone customers as of December 31, 2011 were residential customers. We are currently the leader of the local telephone service market, with an average market share of approximately 97.1%, 96.9% and 95.3% in 2009, 2010 and 2011, respectively.

The following table sets forth information with respect to our local telephone customers and penetration rates as of the dates indicated.

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	As of December 31,		
	2009	2010	2011
	(in thousands, except percentages and per household data)		
Taiwan population(1)	23,120	23,162	23,225
Fixed line customers:			
Residential	9,328	9,165	8,948
Business	3,120	3,142	3,133
Total	12,448	12,307	12,081
Growth rate (compared to the same period in the prior year)	(2.2)%	(1.1)%	(1.8)%
Penetration rate (as a percentage of the population)	53.8%	53.1%	52.0%
Lines in service per household	1.19	1.15	1.11

(1) Data from the Department of Population, Ministry of the Interior, Republic of China.

Demand for local customer lines has historically been driven by population growth. However, with the development of mobile technologies, this trend has been declining. The number of fixed line customers decreased by 1.1% in 2010 compared to 2009 due to customers replacing fixed lines with mobile services and also as a result of the adverse economic conditions. The number of fixed line customers decreased by 1.8% in 2011 compared to 2010. We attribute the decrease in fixed line customers to a general industry-wide trend of migrating from fixed line services to mobile and internet telephony services. In adherence to a ruling by Supreme Administrative Court, starting from September 2011, we no longer require our ADSL service subscribers to apply for our fixed line services. We also allow our existing ADSL subscribers to unsubscribe their fixed line service. The foregoing factors also caused the decrease in our fixed line customers.

The following table sets forth information with respect to local telephone usage for the periods indicated.

	Year ended December 31,		
	2009	2010	2011
	(in millions, except percentages)		
Minutes from local calls(1)(2)	14,602	13,671	15,569
Growth rate (compared to the same period in the prior year)	(8.0)%	(6.4)%	13.9%

(1) Includes minutes from local calls made on pay telephones. It also includes minutes from fixed line-to-mobile calls due to the change in policy starting from 2011.

(2) Calls to our HiNet internet service, which are recorded as part of our internet services, are not included in our local call minutes or revenues.

Minutes from local calls increased in 2011 due to the inclusion of minutes from fixed line-to-mobile calls in this category starting from 2011 as a result of the NCC s change in policy for collecting the tariffs of fixed-to-mobile phone calls by our fixed communications business.

We charge our local telephone service customers a monthly fee and a usage fee. We also charge separate fees for some value-added services. The monthly fees for our primary tariff plans are NT$70 with a deductible on usage fees of NT$25 for residential customers and NT$295 for business customers. Our primary peak time usage fee is NT$1.6 for three minutes or NT$2.7 for ten minutes, depending on the tariff plan selected by the customer, and our off-peak usage fee is NT$1.0 for ten minutes. Our usage fees are the same for residential and business customers.

The following table sets forth information with respect to the average local telephone usage charge per minute for the periods indicated.

	Year ended December 31,		
	2009	**2010**	**2011**
	NT$	**NT$**	**NT$**
Average local telephone usage fee (per minute)	0.74	0.74	1.36
Growth rate (compared to the same period in the prior year)	0.4%	0.5%	83.8%

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Average per minute usage charges remained flat at around NT$0.74 per minute in 2009 and 2010, and around NT$1.36 per minute in 2011. The increase in average per minute usage charges in 2011 was mainly due to the change in policy for collecting the tariffs of fixed-to-mobile calls from mobile service providers to fixed communications service providers since January 1, 2011, which granted our fixed communications business the right to set and collect the tariffs for fixed line-to-mobile phone calls. Part of our competitive strategy is to offer customers innovative products and services intended to both secure customer loyalty and enhance revenues. In particular, our value-added services are designed to increase our call revenues by increasing the number of calls our customers make and by receiving fees for usage of the value-added services. These services include call waiting, caller identification, call forwarding, three-party calls, ring back tone and voicemail.

Domestic Long Distance Telephone

We provide domestic long distance telephone services in Taiwan. Total revenues from domestic long distance telephone services comprised 3.7%, 3.3% and 2.7% of our revenues in 2009, 2010 and 2011, respectively. Our average market share in the domestic long distance market was approximately 82.9%, 76.1% and 74.1% in 2009, 2010 and 2011, respectively.

The following table sets forth information with respect to usage of our domestic long distance telephone services for the periods indicated.

	Year ended December 31, 2009	2010	2011
	(in millions, except percentages)		
Domestic long distance telephone service usage (minutes)	3,649	3,415	3,202
Growth rate (compared to the same period in the prior year)	(8.8)%	(6.4)%	(6.2)%

Minutes of use for domestic long distance calls have been declining as a result of traffic migration to mobile services, competition from other fixed line operators and increased use of VoIP. We expect declines in minutes of use for fixed line services to continue in the future for the same reasons.

The following table sets forth information with respect to the average domestic long distance telephone usage charge per minute for the periods indicated.

	Year ended December 31, 2009		2010		2011	
Average domestic long distance telephone usage fee (per minute)	NT$	1.68	NT$	1.61	NT$	1.53
Growth rate (compared to the same period in the prior year)		0.3%		(4.2)%		(5.0)%

All domestic long distance calls, regardless of the distance between the calling parties, have the same tariff. We changed the unit of billing from a per-minute basis to a per-second basis effective February 1, 1999. In addition, we reduced our peak hour domestic long distance rate in April 2001 from NT$0.045 per second to our current rate of NT$0.033 per second. Our current domestic long distance rate for off-peak hours is NT$0.0235 per second. The rates for both peak hours and off-peak hours are the same for residential and business customers. The unit price of domestic long distance calls decreased by 4.2% from 2009 to 2010 because of the resolution of mandatory tariff reduction passed by the National Communications Commission. Our average domestic long distance usage charge per minute decreased 5.0% in 2011 due to a mandatory tariff reduction. For more details of the NCC mandated tariff reduction, please see Item 5. Operating and Financial Review and Prospects Overview Tariff Adjustments .

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We provide so-called intelligent network services over our domestic long distance network, including toll-free calling, personal number, televoting, premium rate service and VPNs. We also focus on offering our customers an increasing number of value-added services and flexible tariff packages.

Broadband (ADSL+ and FTTx) Access

We provide broadband internet access through connections based on ADSL and our FTTx technology. FTTx generally offers a faster access medium for our internet customers compared to ADSL by using fiber optic technology. We are continuing the build-out of our FTTx infrastructure. The majority of our FTTx deployments consist of fiber-to-the-node with some fiber-to-the-building deployments. The majority of the local loops still use copper wires, and we do not have any present plans to upgrade the local loops to fiber optic lines. Because we typically realize higher average revenue per user for our FTTx internet services, we are offering various incentives for our ADSL and other internet customers to switch to our FTTx services.

We provide broadband access services to other internet service providers that do not have their own network infrastructure, and as a result, our broadband customers also include some customers that use us only for the broadband data access line and choose another provider for ISP services. We began providing our ADSL service in August 1999 and had approximately 2.1 million customers as of December 31, 2011. Our ADSL service allows for transmission of data at high access rates and offers high-speed broadband internet access services. As of December 31, 2011, approximately 74.2%, or 1.6 million, of our ADSL customers were also our HiNet subscribers. As a result of increased migration to our higher-bandwidth FTTx services, the number of our ADSL customers declined in 2010 and 2011.

The following table sets forth our revenues from our broadband access services for the periods indicated.

	Year ended December 31,		
	2009	**2010**	**2011**
	NT$	**NT$**	**NT$**
		(in billions)	
Broadband access revenues:			
Broadband access (ADSL and FTTx)	19.9	20.3	20.4

We provide FTTx internet services, with downlink speeds of 10, 20, 50 and 100 Mbps, in 2011. The number of our FTTx customers increased significantly in 2009, 2010 and 2011 as prices became more affordable, coverage areas expanded and customer demand for higher bandwidth heightened. Many of new FTTx customers have migrated from using our ADSL internet services. We also provide FTTx access services to other internet service providers that do not have their own network infrastructure, and as a result, our FTTx customers also include some customers that only use us for the FTTx data access line and choose another ISP to provide internet services. Of the approximately 2.40 million FTTx customers as of December 31, 2011, approximately 2.13 million were also our HiNet subscribers. We currently offer various promotional packages to encourage more migration of our ADSL subscribers to our FTTx service. As of December 31, 2011, 51.0% of HiNet subscribers accessed the internet through our FTTx service, and we expect this ratio to increase in the future as a result of these promotional measures.

Our market share of Taiwan s broadband market was approximately 83.0%, 80.5% and 79.2% in 2009, 2010 and 2011, respectively.

The following table sets forth our broadband service customers as of each of the dates indicated.

	As of December 31,		
	2009	**2010**	**2011**
ADSL service customers (in thousands)	2,666	2,329	2,101
FTTx service customers (in thousands)	1,638	2,045	2,398
Average downlink speed (Mbps)	5.1	6.1	11.2

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Our ADSL service offers downlink speeds that range from 1 Mbps to 8 Mbps and uplink speeds that range from 64 kilobits per second to 640 Kbps. Our FTTx service offers downlink speeds of 10, 20, 50 and 100 Mbps matched with uplink speeds of 3, 4, 5 and 10 Mbps, respectively. As of December 31, 2011, approximately 87% of our customers had subscribed for downlink speeds of over 2 Mbps, and our average downlink speed was 11.2 Mbps.

We have experienced competition in the ADSL and FTTx service market from other fixed line operators and cable operators. Our strategy is to continue the migration of ADSL subscribers to FTTx so as to increase the average revenue per user. In addition, in order to strengthen customer loyalty, we have provided free speed upgrades for ADSL customers who were using lower speed services since August 2010. In June 2011, we further reduced our broadband tariff, especially for higher speed services such as 20 Mbps and 50 Mbps, in order to speed up the migration to fiber solutions and facilitate the take-up of relevant applications. Although the lower broadband tariff had a temporary impact on our revenue, we believe the speed upgrade will have a positive effect on our promotion of broadband value-added services in the long run.

Charges for our HiNet dial-up service include a monthly fee entitling the customer to a fixed number of minutes of service, with an additional charge per minute when the fixed number of minutes is exceeded. Alternatively, we offer our customers an unlimited number of minutes for a fixed monthly fee. Charges for our ADSL and FTTx services include one-time installation charges and monthly subscription fees. These charges for our ADSL and FTTX services vary based on connection speed.

The following table sets forth our average revenue per user for each of the periods indicated.

	Year ended December 31,		
	2009	**2010**	**2011**
	NT$	**NT$**	**NT$**
Average revenue per user for HiNet dial-up services per month(1)	24	17	16
Average revenue per user for ADSL services per month(2)	638	598	569
Average revenue per user for FTTx services per month(3)	1,022	1,019	945

(1) Average revenue per user for HiNet dial-up services per month is calculated by dividing the sum of local telephone usage revenues generated by HiNet dial-up subscribers and internet access revenues by the average of the number of our HiNet dial-up subscribers on the first and last days of the period and dividing the result by the number of months in the relevant period.

(2) Average revenue per user for ADSL service services per month is calculated as the sum of (a) ADSL access revenues for the relevant period divided by the average of the number of our ADSL customers on the first and last days of the period divided by the number of months in the relevant period and (b) HiNet ADSL service revenues divided by the average of the number of HiNet ADSL subscribers on the first and last days of the period divided by the number of months in the relevant period.

(3) Average revenue per user for FTTx service services per month is calculated as the sum of (a) FTTx access revenues for the relevant period divided by the average of the number of our FTTx service customers on the first and last days of the period divided by the number of months in the relevant period and (b) HiNet FTTx internet service provider revenues divided by the average of the number of HiNet FTTx subscribers on the first and last days of the period divided by the number of months in the relevant period.

The decline of our ADSL average revenue per user over the last three years was due to the National Communications Commission mandated tariff reduction and the decline of FTTx average revenue per user was due to the promotional packages and discounts provided for existing customers. However, we expect our average revenue per user for broadband services to remain stable going forward as many customers will continue to migrate towards more expensive and higher speed FTTx services which will offset the declining average revenue per user of ADSL and FTTx themselves. For more details of the National Communications Commission mandated tariff reduction, please see Item 5. Operating and Financial Review and Prospects Overview Tariff Adjustments .

Leased Line Services Local and Domestic Long Distance

We are the leading provider of domestic leased line services in Taiwan. Leased line services involve offering exclusive lines that allow point-to-point connection for voice and data traffic. Leased lines are used by

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business customers to assemble their own private networks and by telecommunications service providers to establish networks to offer telecommunications services.

We provide data transmission services to major corporate customers in Taiwan. We also provide leased lines to other mobile and fixed line service operators for interconnection with our fixed line network and for connection within their networks.

The following table shows the bandwidth of local and domestic long distance lines leased to third parties as of each of the dates indicated.

	As of December 31,		
	2009	2010	2011
	(in gigabits per second, or Gbps)		
Total bandwidth	1,069.4	1,486.4	1,705.7

Rental fees for local leased lines are generally based on transmission speed while domestic long distance leased line rental fees are generally based on transmission speed and distance.

We continue to experience a decline in rental fees for all of our leased line products. The decline in rental fees since 2000 has been substantial partly as a result of broadband services substitution and other service providers constructing their own lines. In response, we continue to implement marketing and service campaigns to retain our high-value corporate customers.

Wi-Fi Services

We launched our wireless local area network service in May 2002. As of December 31, 2011, we had a total of approximately 657,007 residential and business customers that lease our access points. In addition, we have established 21,216 hot spots in public areas, such as convenience stores, airports and international convention centers, where individuals can access our wireless local area network.

Multimedia on Demand Services

We launched our multimedia-on-demand, or MOD, service in Taipei County and Keelung City in March 2004. We have expanded this service to all 18 counties and cities of Taiwan in December 2007. Using video streaming technology through a set top box that connects to our FTTx and ADSL data connections, our customers can access TV programs, VOD and other services. We had over 133 broadcasting channels and over 12,000 hours worth of on-demand programs and served approximately 1.05 million customers as of December 31, 2011. In addition, our video-on-demand service provides movies, dramas, animations, documentaries, e-learning and music programs for home entertainment. Also, we currently offer 43 high definition, or HD, channels and other HD video-on-demand programming, such as sports, movies and knowledge materials. We offered family package channels in 2010 to enhance our service content and satisfy our customers needs. MOD revenues accounted for NT$0.9 billion, NT$1.1 billion and NT$1.4 billion (US$47.4 million) in 2009, 2010 and 2011, respectively.

Domestic Other Services

Our domestic other services include information and communication technology services, corporate solution and bill handling services.

Mobile Communications Business

Mobile communications services are one of our principal business activities. Our mobile communications services include mobile services, sales of mobile handsets and data cards and mobile other services.

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Mobile Services

We are Taiwan s largest provider of mobile services in terms of both revenues and customers. In 2009, we generated revenues of NT$71.4 billion, or 35.9% of our total revenues, from mobile services. In 2010, we generated revenues of NT$73.1 billion, or 36.1% of our total revenues, from mobile services. In 2011, we generated revenues of NT$70.9 billion (US$2.3 billion), or 32.6% of our total revenues, from mobile services. The decrease of mobile services revenues in 2011 was primarily due to the NCC s change in policy for collecting the tariffs for fixed-to-mobile calls from mobile service providers to fixed communications service providers since January 1, 2011. As a result, our fixed communications business now has the right to set and collect the tariffs for fixed line-to-mobile phone calls. However, the interconnection and transition fees paid by our fixed communication business and received by our mobile segment deems as internal revenue and not recognized as external revenue of our mobile segment, while the aforementioned fees received by the alternative mobile operators were recognized as external revenue.

	Year ended December 31,			
	2009	**2010**	**2011**	
	NT$	**NT$**	**NT$**	**US$**
		(in billions)		**(in millions)**
Mobile services revenues:				
Usage(1)	54.4	53.0	45.6	1,505.5
Interconnection	7.0	7.2	7.5	249.1
Mobile data	8.4	11.1	15.2	502.9
Other	1.6	1.8	2.6	84.6
Total mobile services	71.4	73.1	70.9	2,342.1

(1) Includes monthly fees.

As the market for mobile services has continued to expand, we have experienced growth in our mobile customer base. We are the largest mobile operator in Taiwan in terms of revenues and number of customers. We had 10.07 million mobile customers, for a market share of approximately 34.9% of total mobile customers and approximately 32.6% of total mobile services revenues in Taiwan, as of December 31, 2011.

We offer digital mobile service through our dual band GSM network. We are one of the three national licensed providers of GSM services. We have been allocated 15 MHz in the 900 MHz frequency band and 11.25 MHz in the 1800 MHz frequency band for GSM services and general packet-switched radio services, or GPRS, and 15 MHz paired spectrum plus 5 MHz unpaired spectrum in the 2 GHz frequency band for 3G mobile services. This is the largest frequency spectrum allocation to any mobile operator in Taiwan. In February 2002, the Ministry of Transportation and Communications granted 3G mobile services concessions to five companies, including us. In March 2002, we paid NT$10.2 billion to the government for our concession. Our 3G mobile services license is valid until December 31, 2018. In July 2005, we launched our 3G mobile services using WCDMA technology. We also offer the largest international roaming network among Taiwan mobile service providers. In particular, our 2G customers have access to 366 networks in 188 countries through our GSM service roaming network and 277 networks in 134 countries through our GPRS roaming network. In addition, our 3G service system includes 158 networks in 75 countries.

As of December 31, 2011, we had 17,973 cellular base stations (including both GSM base stations and 3G cellular base stations) covering substantially all of Taiwan s population. We use these base stations to support both our GSM network and 3G networks. In 2011, we upgraded more than 8,113 3G cellular base stations with HSDPA capacity and 2,444 GSM base stations with EDGE capacity in the larger metropolises of

Taiwan. We will continue this process of implementing HSDPA and EDGE upgrades in the major areas of Taiwan.

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The following table sets forth information regarding our mobile service operations and our mobile customer base for the periods indicated.

	As of or for the year ended December 31,		
	2009	**2010**	**2011**
Taiwan population (in thousands)(1)	23,120	23,162	23,225
Total mobile customers in Taiwan (in thousands)(2)	26,959	27,840	28,862
Penetration (as a percentage of the population)(2)	116.6%	120.2%	124.3%
Total mobile revenues in Taiwan (in billions)(3)	NT$ 215.2	NT$ 213.2	NT$ 217.0
Number of our mobile customers (in thousands)(2)(4)	9,269	9,679	10,072
Our market share by customers	34.4%	34.8%	34.9%
Our market share by revenues	33.1%	34.2%	32.6%
Number of our prepaid customers (in thousands)(4)	839	945	1,052
Our prepaid customers as a percentage of our total customers	9.0%	9.8%	10.4%
Annualized churn rate(5)	11.21%	10.35%	11.52%
Minutes of usage (in millions of minutes)			
Incoming	10,500	11,063	11,368
Outgoing	9,702	10,190	10,897
Average minutes of usage per user per month(2)(6)	185	187	188
Average revenue per user per month(2)(7)	NT$ 653	NT$ 643	NT$ 598

(1) Data from the Department of Population, Ministry of the Interior, Republic of China

(2) The number of mobile customers is based on the number of subscriber identification module, or SIM, cards. Since 2006, the total number of mobile customers in Taiwan included personal handy-phone system, PHS and 3G customers.

(3) Data from the statistical monthly release by the National Communications Commission in the Republic of China, which include mobile revenues 2G, 3G and PHS.

(4) Includes GSM, GPRS and 3G services.

(5) Measures the rate of customer disconnections from mobile service, determined by dividing (a) our aggregate voluntary and involuntary deactivations (excluding deactivations due to customers switching from one of our mobile services to another) during the relevant period by (b) the average number of customers during the period (calculated by averaging the number of customers at the beginning of the period and the end of the period), and multiplying the result by the fraction where (c) the numerator is 12 and (d) the denominator is the number of months in that period.

(6) Average minutes of usage per user per month is calculated by dividing the total minutes of usage during the period by the average of the number of our mobile customers on the first and last days of the period and dividing the result by the number of months in the relevant period.

(7) Average revenue per user per month is calculated by dividing our aggregate mobile services revenues during the relevant period by the average of the number of our mobile customers on the first and last days of the period and dividing the result by the number of months in the relevant period.

Total mobile customers in Taiwan have reached approximately 29 million as of December 31, 2011. Mobile penetration was approximately 124.3% on the same date. The overall mobile services market experienced a slight increase of 1.8% in revenues in 2011 mainly due to the growth in mobile data service as a result of our smart phone promotions.

We began offering prepaid card services in October 2000 and prepaid 3G card services in February 2008. As of December 31, 2011, we had approximately 1.1 million prepaid customers representing approximately 10.4% of our total mobile customers. Prepaid customers do not pay monthly fees but pay a higher usage charge on a per second basis. Once the prepayment has been fully utilized, a prepaid customer can make additional prepayments to continue the service. Alternatively, the customer may convert to become a post-paid customer while retaining the same telephone number.

We offer incentives, such as mobile handset subsidies, when new customers agree to sign a service contract with us or when existing customers renew their contracts with us ranging from 12 months to 30 months. We generally offer subsidies on mobile handsets equipped with more advanced data functions to promote the expansion of our 3G mobile services. Smart phones accounted for 48% of the total handsets we offered in 2011, and we expect that the percentage to reach more than 70% in 2012. We expect our average subsidy per handset in 2012 will be less than that in 2011.

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While pricing has declined, the number of post-paid customers has increased which had a positive impact on traffic volume. We have also experienced a significant increase in the mobile internet service. The average minutes of usage per customer slightly increased in both 2010 and 2011 since the economy in Taiwan started to improve in 2010.

Our tariffs for post-paid mobile customers primarily consist of usage fees and monthly fees. When our customers are outside Taiwan, they pay roaming charges plus international long distance charges and, where applicable, local charges in roaming destinations. We negotiated with Vodafone, the largest telecommunications service provider in Europe, in November 2009 to join their global telecommunications alliance. As a result, we began offering our customers discounts on their roaming charges starting December 1, 2009. However, we expect our strategic alliance with Vodafone to be terminated in April 2013 after our current agreement expires, as Vodafone has already entered into another strategic alliance with one of our competitors. We are negotiating with other providers for cooperation in roaming business. We also offer discounts on usage fees for calls made between our mobile customers to encourage subscription to our mobile service. Our 3G service provides a monthly flat rate service to our customers using our 3G service for internet purposes.

Our average revenue per user per month decreased from NT$643 in 2010 to NT$598 in 2011 mainly due to the change in policy for collecting the tariffs for fixed line-to-mobile calls from mobile service providers to fixed communications service providers, so these revenues are now collected by and recognized as revenues of fixed communications service providers. The strong promotion of our mobile internet services leads to the rapid growth in value added service revenues and helps to cover for the decline in the voice call revenues. In order to alleviate the impact of the decline in average revenue per user, we intend to continue introducing new value-added services and promote our 3G and wireless internet services.

In addition to our basic mobile services, we also offer a broad range of value-added telecommunications and information services. In August 2001, we introduced a platform of integrated mobile value added services under the brand name emome. Our emome services offer a broad range of value-added services, including financial information, transaction services, emergency services access numbers, directory information, time, weather and traffic reports. In addition, we launched other mobile value-added services, such as JAVA games, unstructured supplementary service data, mobile internet and multimedia messaging services. After the launch of our 3G mobile services, we began providing video phone, video-on-demand and other related 3G mobile value-added services as well. In 2009, we successfully created a business model integrating smart phones with customer-tailored services, promoted our mobile internet service business, created the Hami value-added service platform and led the industry in providing e-book service and Hami Apps service. In addition to creating additional sources of revenues, we believe these services enhance customer loyalty and satisfaction and increase mobile traffic. Revenues from mobile data services represented 11.8%, 15.1% and 21.5% of our total mobile services revenues in 2009, 2010 and 2011, respectively.

Paging Services

Due to substitution by mobile services and a decline in demand for our paging services in recent years, beginning in February 2007, we started downsizing our paging services by limiting access to certain telephone prefixes. We ceased providing paging services since September 2011 as approved by the NCC.

Sales of Mobile Handsets

We engage in the distribution and sales of mobile handsets for use on our mobile network to customers through our directly-owned stores and also through third-party retailers. See Marketing Strategy Distribution Channels and Sales and Distribution in Marketing, Sales and Distribution

In January 2007, we acquired 31.33% equity ownership of Senao, a major distributor of mobile handsets in Taiwan. Senao has been listed on the Taiwan Stock Exchange under the number 2450 since May 2001. We obtained majority board representation in April 2007 through support from the largest beneficial shareholder, upon which it became a consolidated subsidiary of ours. At general annual stockholder meeting of Senao in June 2010, we continued to maintain control of a majority of the board of directors through the continued support of the largest beneficial shareholder. Our equity ownership of Senao decreased from 31.33% as of January 15, 2007 to 28.33% as

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of March 31, 2012 due to the exercise of options by employees that were previously granted before 2007. Please refer to note 1 of our consolidated financial statements included elsewhere in this annual report for description about the control relationship between the parent company and Senao. Our investment in Senao enhanced our mobile handset distribution and sales capabilities. See Item 7. Major Stockholders and Related Party Transactions B. Related Party Transactions for a discussion of the agreement between the parent company and Senao about our business cooperation.

Other Mobile Services

Our mobile other services include information and communication technology services, corporate solution and bill handling services.

Internet Business

We have experienced continued growth in our internet services. Our internet business includes HiNet, our internet service provider, internet value-added services, or VAS, data communication services, internet data center services, and internet other services. Our internet revenues represented 11.9%, 12.1% and 11.4% of our revenues in 2009, 2010 and 2011, respectively.

HiNet Internet Service

We are the largest internet service provider, or ISP, in Taiwan, with a market share of 68.6% as of December 31, 2011. As of December 31, 2011, HiNet had approximately 4.2 million subscribers. Our HiNet internet service generated revenues of NT$17.3 billion, NT$18.2 billion and NT$18.0 billion (US$0.6 billion) in 2009, 2010 and 2011, respectively.

The following table sets forth HiNet s subscribers as of each of the dates indicated.

	As of December 31,		
	2009	2010	2011
	(in thousands, except percentages)		
Total internet subscribers in Taiwan	5,668	5,888	6,092
HiNet subscribers:			
HiNet dial-up subscribers	534	507	487
HiNet ADSL subscribers	2,043	1,768	1,559
HiNet FTTx subscribers	1,486	1,818	2,132
Other access technology subscribers	4	3	4
Total HiNet subscribers	4,067	4,096	4,182
Market share(1)	71.8%	69.6%	68.6%

(1) Based on data provided by the National Communications Commission.

We have maintained our leading market position despite a highly competitive market with over 183 internet service providers in Taiwan. We expect the competitive conditions currently prevailing in the internet service provider market to continue to intensify.

Internet Value-added Services

Our HiNet portal at *www.hinet.net* provides value-added services to our customers, such as network security, Blog, travel, games, e-learning, financial information, music, video, anti-virus and links to other portals. We charge fees for some of these services. We also receive commissions for transactions completed on some of these other portals. Our internet video portal at *www.hichannel.hinet.net* offers online entertainment services through the internet. In particular, our HiNet broadband (ADSL and FTTx) subscribers can access music, television programs, movies and other multi-media content on demand. We charge access fees for some of this content. We

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expect the revenues generated from these value-added services to grow as a percentage of our total internet services revenues.

Data Communication Services and Internet Data Center Services

We provide a wide range of managed data services, including frame relay services, asynchronous transfer mode services, and VPN services. Frame relay services provide high-speed data communications linking remote sites. Asynchronous transfer mode services are used to handle high-bandwidth, integrated voice, video, data and internet traffic between sites.

Internet data centers are facilities providing the physical environment necessary to keep computer network servers running at all times. These facilities are custom-designed with high-volume air conditioning temperature control systems, secure access, reliable electricity supply and connections to high-bandwidth internet networks. Data centers house, protect and maintain network server computers that store and deliver internet and other network content, such as web pages, applications and data. We currently have the greatest number of internet data centers in Taiwan compared to our competitors in Taiwan. We offer co-location, web hosting and application service provider services.

Internet Other Services

Our internet other services include government services, corporate solution and Information and Communications Technology, or ICT, services.

International Fixed Communications Business

Our international fixed communications business include international long distance telephone services, international leased line services, international data services, satellite services and international other services.

International Long Distance Telephone

We provide international long distance telephone services in Taiwan. Total revenues from international long distance telephone services comprised 6.5%, 6.4% and 5.7% of our revenues in 2009, 2010 and 2011, respectively. In addition, we provide wholesale international long distance services to international simple resale operators that do not possess their own telephone network or infrastructure.

Since international fixed communication services have been open for competition since 2001, we expect competition in this line of business will continue to intensify. Our average market share of the international long distance market was approximately 60.3%, 58.4% and 54.9% in 2009, 2010 and 2011, respectively. Our market share decreased in 2011 primarily because of the intense competition in the international telecommunications business, including a loss of business due to other VoIP providers and service providers using unauthorized routers to carry long distance voice traffic. Our international long distance services consist primarily of international direct dial services and our discounted Super eCall services, which we introduced in April 2000. Under Super eCall, we use VoIP technology through international dedicated circuits which connect to our major correspondent carriers that route calls internationally. Super eCall customers are offered rates that are approximately 30% lower than those for our international direct dial service. Calls made over Super eCall represented 4.7%, 4.1% and 3.8% of our total outgoing international traffic in 2009, 2010 and 2011, respectively.

We commenced the wholesale of international long distance minutes to licensed international resale operators and other international carriers in 2001. International resale operators require a fixed line operator in Taiwan to complete their long distance telephone services originating in Taiwan. In addition, other international carriers often find it less expensive to route international calls through Taiwan. These resale operators and carriers purchase from us large numbers of minutes at discounted rates. In 2009, 2010 and 2011, we sold 1,291.6 million, 1,360.0 million and 1,206 million of wholesale outgoing minutes, which represented approximately 51.1%, 50.1% and 47.1% of our total outgoing international long distance minutes, respectively. Revenues from the wholesale of international long distance minutes increased by 11.8% from NT$2,536 million in 2009 to 2,836 million in 2010, but

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only increased by 3.2% from NT$2,836 million in 2010 to NT$2,927 million in 2011. We primarily attribute the decrease in the growth rate to intensified market competition.

International calls to our top five destinations represented 68.0% of our outgoing international long distance call traffic in 2011. International calls from our top five destinations represented 51.4% of our incoming international long distance call traffic in 2011.

The following table shows the percentage of total outgoing international long distance minutes for our top five outgoing destinations in 2011.

Destination	**Percentage of total outgoing minutes**
Mainland China	34.8%
Indonesia	13.0
Philippines	7.9
Vietnam	7.3
United States	5.0
Total of top five destinations	68.0%

The following table shows the percentage of total incoming international long distance minutes for our top five incoming destinations in 2011.

Destination	**Percentage of total incoming minutes**
Mainland China	20.8%
United States	12.6
Malaysia	6.2
Indonesia	5.9
Japan	5.9
Total of top five destinations	51.4%

The following table sets forth information with respect to usage of our international long distance services for the periods indicated.

	As of December 31,		
	2009	**2010**	**2011**
	(in thousands, except percentages and incoming/outgoing ratio)		
Incoming minutes	1,865	1,915	1,737
Growth rate (compared to the same period in the prior year)	(4.3)%	2.7%	(9.3)%
Outgoing minutes	2,527	2,715	2,560
Growth rate (compared to the same period in the prior year)	6.4%	7.4%	(5.7)%
Total minutes	4,392	4,630	4,297
Incoming/outgoing ratio	0.74	0.71	0.68

Total outgoing international long distance minutes increased 7.4% from 2009 to 2010 primarily due to an increase in our international long distance wholesale and transit businesses. Our outgoing call volume decreased by 5.7% from 2010 to 2011 primarily due to intensified market competition, including a loss of business due to other VoIP providers and service providers using unauthorized routers to carry long distance voice traffic. Our incoming call volume increased by 2.7% from 2009 and 2010 primarily due to the general recovery of the economy in the R.O.C. and our incoming call volume decreased by 9.3% from 2010 to 2011 primarily due to the competition mentioned above.

Outgoing calls made by customers in Taiwan and by customers from foreign destinations using Taiwan direct service are billed in accordance with our international long distance rate schedule for the destination called.

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Rates vary depending on the time of day at which a call is placed. Customers are billed on a per minute basis for Super eCall services, whereas customers are billed on a six second unit basis for international direct dial services.

The following table sets forth information with respect to the average international long distance usage charge per minute that we received for outgoing international calls during the periods indicated:

	Year Ended December 31,					
	2009		2010		2011	
Average international long distance usage charge (per minute)	NT$	3.6	NT$	3.4	NT$	3.6
Growth rate (compared to the same period in the prior year)		(15.0)%		(3.9)%		3.8%

Since we offered significant promotional packages and discounts in 2010, the international long distance minutes increased but total revenue declined, so the average charge per minute declined in 2010 compared with that in 2009. We changed our strategy in 2011 and did not continue to offer aggressive discounts. As a result, the average charge per minute increased in 2011 compared with that in 2010 because the decrease in the international long distance revenues was relatively smaller than the decrease in the number of minutes.

We pay for the use of networks of carriers in foreign destinations for outgoing international calls and receive payments from foreign carriers for the use of our network for incoming international calls. Traditionally, these payments have been made pursuant to settlement arrangements under the general auspices of the International Telecommunications Union. Settlement payments are generally denominated in U.S. dollars and are made on a net basis.

The following table sets forth information with respect to our gross international settlement receipts and payments during the periods indicated.

	Year Ended December 31,			
	2009	2010	2011	
	NT$	NT$	NT$	US$
		(in billions)		(in millions)
Gross international settlement receipts	3.5	3.2	2.8	92.7
Gross international settlement payments	4.3	4.2	5.1	167.0

Our payments on an aggregate basis to international carriers have been more than our receipts from these carriers primarily because our customers outgoing minutes exceeded incoming minutes.

In order to compete more effectively in the international long distance market, we have implemented innovative and customized discount calling plans and marketing campaigns directed at high-usage business customers. We also continue to promote our intelligent network services, including international VPNs, international toll free calling and calling card services, and our international long distance minutes wholesale business. Our subsidiary, Chief Telecom, launched its 070 phone-to-phone VoIP service in April 2009. In addition to the change in policy for collecting the tariffs for fixed line-to-mobile calls starting from 2011, we are also required to pay transition fees to the mobile operators, which as a whole caused negative impact on our revenues. As currently we do not have the right to set and collect the tariffs for our 070 service, we filed with NCC to return 30 thousand 070 numbers assigned by the NCC to Chunghwa Telecom, until the NCC give us the right to set and collect the tariffs for outbound calls from 070 numbers. The application was approved by the NCC on July 1, 2011.

Leased Line Services International

We are a leading provider of international leased line services in Taiwan. Leased line services involve offering exclusive lines that allow point-to-point connection for voice and data traffic. Leased lines are used by business customers to assemble their own private networks and by telecommunications service providers to establish networks to offer telecommunications services.

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We provide data transmission services to major corporate customers in Taiwan. Since August 2001, licenses have been awarded to four undersea cable operators to engage in leased line services. Demand for high-speed data transmission services has been growing rapidly, as a result of growing consumer demand and lower tariffs due to increased competition. In particular, the total bandwidth of our lines leased increased by 115% in 2011.

The following table shows the bandwidth of international lines leased to third parties as of each of the dates indicated.

	As of December 31,		
	2009	2010	2011
	(in gigabits per second, or Gbps)		
Total bandwidth	63.1	113.4	243.9

Rental fees for international long distance leased line are generally based on transmission speed and distance.

We continue to experience a decline in rental fees for all of our leased line products. The decline in rental fees since 2000 has been substantial, particularly for international leased lines, partly as a result of competition from new international leased line service providers. In response, we continue to implement marketing and service campaigns to retain our high-value corporate customers.

International Data Services

Our international data services include international IP VPN services and Taiwan internet gateway services. Total revenues for international data services were NT$0.8 billion, NT$1.0 billion and NT$1.1 billion (US$37.4 million) for 2009, 2010 and 2011 respectively. Due to growth of the international corporations in Taiwan, we expect demand for IP VPN and Taiwan internet gateway services to continue to increase and our revenues from our international data services to continue to grow.

Satellite Services

We entered into a contract with ST-2 Satellite Ventures Pte., Ltd. on March 12, 2010 to lease capacity on the ST-2 satellite. The lease term is 15 years starting from the official start of operations of the ST-2 satellite, and the total contract value is approximately NT$6.0 billion (US$198.2 million). This contract requires a prepayment of NT $3.1 billion (US$101.4 million), and the remaining amount will be paid annually when ST-2 satellite starts its official operation. The ST-2 telecommunications satellite launched on May 21, 2011 and began commercial operation in August 2011. We stopped commercial operation of the ST-1 telecommunications satellite at the end of 2011 when the ST-2 satellite began commercial operations. Please refer to note 29 of our consolidated financial statements included elsewhere in this annual report for further details.

In addition, we have two satellite communication centers that enable us to provide satellite value-added services and backup systems for use in major emergencies. We also provide satellite services to Southeast Asia.

International Other Services

Our international other services include corporate solution services.

Others

Our others business segment include revenues from our non-telecom services, including property sales made by our subsidiary Light Era Development Co., Ltd..

Interconnection

We provide interconnection of our fixed line network and mobile network with other operators.

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The following table sets forth our interconnection fee revenues and costs for the periods indicated. These revenues and costs are included, depending on the nature of the call made, in domestic fixed communications or mobile communications revenues and expenses, respectively.

	Year Ended December 31,			
	2009	2010	2011	
	NT$	NT$	NT$	US$
		(in billions)		(in millions)
Interconnection fee revenues:				
Fixed line (1)	2.9	2.7	1.6	50.5
Mobile (2)	7.5	7.9	8.3	273.8
Interconnection costs:				
Fixed line(1)(3)	0.2	0.2	5.9	196.7
Mobile	7.2	7.4	8.4	277.0

(1) Includes local and domestic long distance telephone services.

(2) Includes SMS air time charges.

(3) The interconnection costs increased in 2011 due to the change in policy for collecting the tariffs for fixed line-to-mobile calls starting from 2011.

Tariffs for telephone calls between our fixed line customers and mobile customers of other mobile operators were set by the mobile operators before January 1, 2011. The mobile operators pay us interconnection fees based on minutes of usage, regardless of who initiated the call. However, the National Communications Commission made amendments on August 4, 2010, stipulating the fixed line network that initiated the call has the right to set and collect the tariffs for these fixed-line to mobile calls from January 1, 2011 onwards. Since we are the market leader of the local call services, in addition to the interconnection fees, we are also required to pay transition fees to the mobile operators for a period of six years. The transition fees will decrease gradually over the period and we will stop paying for them in 2017. The foregoing reasons caused the increase in our interconnection costs in 2011.

The interconnection rate for calls initiated by mobile customers to fixed line customers is NT$0.5219 per minute during peak times and NT$0.2718 per minute during off-peak times. The interconnection rate between fixed line customers and other fixed line customers is NT$0.32 per minute during peak times and NT$0.09 per minute during off-peak times. The interconnection rate for fixed line customers to domestic or international long distance is NT$0.32 per minute.

In accordance with governmental regulations, the contracts governing our interconnection arrangements must specifically address a number of prescribed issues. For example, our interconnection charge should reflect our costs with respect to the network elements used. In addition, cost increases are subject to approval by the regulatory authorities. We expect that our interconnection contracts will generally be reviewed annually, although we may also enter into long-term contracts.

Emerging Services

Our ICT services includes integrated services such as our Intelligent Energy Network, or iEN, and our Intelligent Transportation System, or ITS, services. Our iEN service helps companies and corporations implement energy saving measures through computer analysis of data. Our ITS service provides navigation, real-time traffic information and infotainment through mobile devices for cars and drivers. In addition to developing ICT businesses, such as iEN, ITS, IS, Call Center, IDC, we also pursue and bid for government projects aiming to boost economic development, for example, we had won the bid for The New Generation Reform Project of Taxation Information Systems launched by the Financial Data Center, Ministry of Finance in February 2010, Mobile Police (M-Police) Project , Backbone Network and Backup Service Project for Air Navigation & Weather Services, Civil Aeronautics Administration, and Broadband Network Installation Project for monitoring equipment of Suhua Highway in 2011.

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Cloud Computing is also one of our key new business initiatives, as it is expected to be one of the main long-term growth platforms for telecom operators in the coming years. We have made advances in this segment throughout 2011 which we believe will position us as an industry leader over the long run. We continue to cooperate with the government network communication entities and independent software vendors to promote innovative cloud services and applications. We have already begun to offer Software as a Service Customer relationship management, or SaaS CRM, hicloud CaaS, and hicloud Apps mall to small and medium sized enterprises and public users. We have also made over 130 SaaS in hicloud Apps mall, and the number of our cloud customers exceeded 1,000 small and medium sized enterprises as of the December 31, 2011. Underpinning the rollout of our cloud computing services is our capability and experience in offering datacenter services to enterprise customers, including our ongoing initiative to build the largest cloud computing data center in Taiwan in anticipation of growing demand for this service. We believe the strength and reliability of our technology and services provide us with competitive advantages to continue expanding our cloud computing services in the future.

As an integrated telecom service provider, we are providing and continuing to develop convergence services. For example, we have integrated our internal resources to offer cross-platform services over our broadband, mobile and internet platforms. These convergence services allow our customers to access our services, such as our multi-media programs, through a variety of terminals and devices.

Marketing, Sales and Distribution

Marketing Strategy

In order to retain and expand our large customer base and to encourage our customers to increase their use of our services and products, we continue to focus our marketing strategy on the following areas.

- Services, Products and Bundled Offerings. We continually develop new value-added services and products, and bundle our services and products based on different market segments, with the aim of increasing our high-usage customers and enhancing customer loyalty. For example, we entered into an agreement with Apple Inc. and are currently a reseller of the iPhone in Taiwan. The iPhone combined with our mPro service helps retain existing customers and generate revenues through the increased use of our value-added services.

- Pricing and Promotions. We design flexible pricing packages that allow customers to select structures best tailored to their usage patterns, and design special promotional packages to encourage usage. For example, we have provided our Friends and Family , Genki Plan , Let s Talk and My Hotline promotion package to attract mobile customers.

- Distribution Channels. We seek to facilitate customer subscription by adding more service points. In addition, we seek to broaden our distribution reach by strengthening our cross-industry alliances and marketing relationships. Furthermore, we seek to expand our sales channels by implementation of a sales agent system. In 2009, we began a collaboration with Tsann Kuen Trans-Nation Group, allowing the registration of mobile numbers at electronics stores for the first time, effectively increasing our points of sale. We also developed staff incentive programs to better motivate our sales staff.

- Business Customers. We expanded our customer focus to include small and medium-sized enterprises in addition to large corporations. We seek to serve the needs of large corporate customers by devoting a project manager or project engineer to service these customers. These account managers are responsible for developing customized solutions and tariff packages to meet the specific needs of our customers. We continually update and expand our service offerings so that we can remain a one-stop telecommunications services provider to our corporate customers and provide for all of their telecommunications needs. Our dedicated local teams serve the needs of small and medium-sized enterprises. These teams also use our data bank to identify and target potential clients for promoting our e-commerce and mobile services. In addition, we help our corporate customers improve their efficiency and competitiveness by creating information systems for them.

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- Advertising. We are committed to further strengthening the Chunghwa Telecom brand and image as well as strengthening and expanding market recognition of our specialized product brands, such as HiNet and emome. We plan to leverage our leading market position and status to strengthen the overall advantage of our product brands.

Sales and Distribution

Our marketing department at our corporate headquarters in Taipei is responsible for central business planning and formulating our marketing strategies and objectives. We have multiple marketing departments for our various businesses which are responsible for business and marketing planning.

We also have 17 operations offices, 326 service centers and 223 exclusive service stores located throughout Taiwan that are responsible for operations, sales and customer service in their respective local areas.

Customer Service and Billing

We believe our reputation for quality customer service has helped us attract new customers and maintain customer loyalty. We regularly survey our customers to improve our service and better understand market demand and customer preferences, and seek to develop products and services accordingly.

We provide the following services to our customers:

- 24-hour customer service and technical support through our service centers, call centers and website;

- English billing documents available upon request;

- free of charge itemized billing for international and domestic long distance calls;

- bill payment services at 24-hour convenience stores, bank service counters, automatic teller machines, and service centers throughout Taiwan, via direct debit, over the phone, online at our website (www.cht.com.tw), on MOD, and on mobile handset emome or Hami;

- online information and bill payment services at our website (www.cht.com.tw) and customer service hotline for telephone payment; and
- consolidated and automated billing for all services.

Network Infrastructure

Our network infrastructure consists of transmission networks that convey voice and data traffic, switching networks that route traffic between networks, and mobile, internet, leased line and data switching networks.

We purchase most of our network equipment from well-known international suppliers. As part of the purchase contract, these suppliers deliver and install the equipment for us. We also purchase from local suppliers a variety of components such as transmission lines, switches, telephone sets, MOD set-top boxes, and radio transmitters.

Approximately 13,959 of our employees were engaged in network infrastructure development, maintenance, operation and planning as of December 31, 2011.

Internet Protocol Broadband Backbone Network

Our internet protocol broadband backbone network consists of an inner core network and an outer core network. We completed the construction of our high-speed internet protocol backbone network at the end of 2011 with 16 sets of 4.5 Tbps/2.5Tbps/1.6 Tbps/1.2 Tbps/640 Gbps switch routers for the inner core network and more

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than 50 sets of 1.2Tbps /640 Gbps/320 Gbps/80 Gbps switch routers for the outer core network. We believe this network will enable us to meet the increasing demand for broadband access and broadband multimedia services.

Transmission Networks

As of December 31, 2011, our transmission networks consisted of approximately 1.32 million fiber kilometers of fiber optic cable for trunking and approximately 4.19 million fiber kilometers of fiber optic cable for local loop.

Synchronous digital hierarchy, or SDH, architecture is an advanced technology that allows for instantaneous rerouting and eliminates downtime in the event of a fiber cut. In addition, SDH offers better reliability and performance for optical fiber transmissions at a lower operating cost. In December 2002, we installed synchronous transport module 64 or STM 64, multiplexer and 32-wavelength dense wavelength division multiplexing, or DWDM, equipment on our long-haul backbone network. Our STM 64 multiplexer can multiplex several low speed signals into a 10 gigabits per second, or Gbps, high-speed signal. DWDM equipment uses a technology that puts data from different sources together on an optical fiber with each signal carried on its own separate wavelength. Both STM 64 multiplexer and DWDM equipment can increase our network capacity. Furthermore, between 2003 and 2007, we deployed 32-wavelength optical add-drop multiplexer rings in Taipei, Taichung, Tainan and Kaohsiung. Between 2007 and 2011, we deployed 40/80-wavelength Re-configurable Optical Add-Drop Multiplexer, or ROADM, for backbone transmission network in order to provide new data services such as gigabit Ethernet, fiber channel, 2.5 gigabit and 10 gigabit packet over SDH and 10 gigabit Ethernet. We have already completed the deployment of 397 wavelength ROADM by the end of 2011. To meet the demand for broadband services, we will install an optical cross-connect, or OXC, network and a next generation synchronous digital hierarchy, or NG SDH, network, which provides gigabit Ethernet over SDH service, between 2009 and 2013. We have already completed the deployment of 3,514 GbE OXC/NG SDH by the end of 2011.

Based on the transmission network described above, we have been providing connection circuit service of 10 gigabit packet over SDH and 10 gigabit Ethernet to the government s Taiwan Advanced Research and Education Network since November 2006 and continued the service until November 2012.

As part of our strategic focus on the internet and data markets, our local loop connections use ADSL technology. This enables us to deliver high-speed internet, multimedia and other data services to our customers. Substantially all of our installed telephone lines are capable of delivering ADSL services. As of December 31, 2011, we had approximately 4.21 million lines of ADSL and had 2.1 million ADSL customers. In addition, the Ethernet-based FTTx system is also introduced into our access network to provide broadband services, such as MOD, high speed internet access and VPN. As of December 31, 2011, we have constructed approximately 4.05 million FTTx ports and had 2.4 million FTTx customers. Our FTTx service can offer high-speed broadband internet access rates up to 1Gbps.

Switching Networks

Domestic telecommunications network. Our domestic public switched telephone network consists of 19 message areas connected by a long distance network. As of December 31, 2011, we had 38 long distance exchanges, which are interconnection points between our telecommunications network.

As of December 31, 2011, our NGN core network consisted of 798,100 local telephone subscribers, comprising of 448,000 Session Initiation Protocol-based, or SIP-based, and 350,100 Access Gateway-based, or AG-based, subscribers. In 2011, we initiated a new extension of 349,000 AG-based subscribers. AG-based subscribers will be provided with the original services. SIP-based subscribers access the NGN core network through broadband circuits and will have access to innovative value-added services in the future along with the original services.

Our NGN Managed IP backbone network consists of an inner core network and an outer core network. We completed the construction of our high-speed NGN Managed IP backbone network at the end of 2011 with 12 sets of 1.6 Tbps/640 Gbps switch routers for the inner core network and more than 24 sets of 640 Gbps switch routers for the outer core network. The bandwidth of the network is approximately 715 Gbps as of the end of 2011. We believe

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this network will enable us to meet the increasing demand for NGN services, such as VoIP, and all managed services, including MOD and VPN.

We currently have intelligent networks installed over our public switched telephone networks for our domestic long distance and international networks, as well as a local intelligent network in the Taipei, Taichung and Kaohsiung metropolitan areas. Our intelligent network is designed to facilitate the use of value-added services by providing more information about calls and allowing greater management of those calls.

As of December 31, 2011, our domestic network included 17.6 million installed telephone lines, and reached virtually all homes and businesses in Taiwan.

International network. Our international transmission infrastructure consists of both submarine cable and satellite transmission systems, which link our national network directly to 101 telecommunications service providers in 45 international destinations.

International calls are routed between Taiwan and international destinations through one of our two international switching centers, one located in Taipei and the other in Kaohsiung. Each center had two time-division multiplexing, or TDM, international gateway switches and two NGN international gateway switch. We had a trunk capacity of 143,040 channels in total as of December 31, 2011.

As of December 31, 2011, we have invested in 16 submarine cables, seven of which land in Taiwan. After the number of submarine cables we invest in has increased from 14 in 2010 to 16 in 2011, we have increased the capacity of each of our current submarine cables, increasing our aggregate total capacity from 774 Gbps in 2010 to 1,058 Gbps in 2011.

Mobile Services Network

Our mobile services network consists of:

- cell sites, which are physical locations equipped with a base station consisting of transmitters, receivers and other equipment used to communicate through radio channels with customers   mobile handsets within the range of a cell;

- BSC (base station controllers) for GSM or RNC (radio network controller) for 3G, which connect to, and control , the base station within each cell site;

- cellular switching service centers, which control the base station controllers and the processing and routing of telephone calls;

- GGSN (gateway GPRS support nodes), which connect our GPRS network to the internet;

- SGSN (serving GPRS support nodes), which connect the GPRS network to the base station controllers; and

- transmission lines, which link (i) with respect to the GSM or 3G network, the mobile switching service centers, base station controllers, base stations and the public switched telephone network, and (ii) with respect to the GPRS network, the base station controllers, the support nodes and the internet.

The following table sets forth selected information regarding our mobile networks as of the dates indicated.

	As of December 31,		
	2009	**2010**	**2011**
GSM system			
GSM base stations	9,384	9,336	9,531
Switches	49	44	44
Lines of capacity (in thousands)	7,700	6,500	6,500
Taiwan population coverage	99.9%	99.9%	99.9%

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	As of December 31,		
	2009	2010	2011
3G system			
3G base stations	6,243	6,879	8,442
Servers / gateways	8/15	8/16	8/16
Lines of capacity (in thousands)	3,000	3,450	4,400
Taiwan population coverage	93.1%	94.5	95.8
System (Home Location Register) capacity (in thousands)	5,400	7,200	7,200

	As of December 31, 2011
Packet-switched system after consolidation of GSM and 3G	
GPRS gateway support nodes	14
Direct IP access locations / capacity (in Gbps)	15.5/46.6
Serving support nodes	12

We provide mobile services based on the GSM network standards. We have the 900 MHz and 1800 MHz frequency bands paired with spectrums of 15 MHz and 11.25 MHz, respectively, for our GSM services. We began providing mobile communications services based on the GPRS network standards in August 2001, using emome as the portal name. We completed a system expansion of our mobile services network to accommodate more than 8.5 million customers, including 2.0 million GPRS customers, at the end of 2003. As of December 31, 2011, we have constructed 9,531 base stations, providing up to 99.9% population coverage. Since the launch of our 3G mobile services, we have gradually transitioned GSM subscribers to 3G and have started to consolidate our GSM network. As a result, the number of switches and network capacity has reduced to 44 and 6.5 million lines, respectively, as of the end of 2010 and 2011.

We have installed an intelligent network on our mobile services network infrastructure to enable us to provide prepaid services as well as a wide range of advanced call features and value-added services. As of the end of 2011, our intelligent network capacity is 1.55 million prepaid customers and 1.2 million mobile virtual private network customers.

We have 15 MHz paired spectrum plus 5 MHz unpaired spectrum in the 2 GHz frequency band for our 3G mobile services, which was launched in July 2005. We contracted Nokia Siemens Networks to provide the core network, radio access network, service network, transmission network and maintenance network for our 3G network. To promote mobile internet use, we upgraded our network to 3.5G in September 2006, with downlink and uplink speeds of 7.2 Mbps and 2.0 Mbps, respectively. To meet the high growth in mobile data traffic, we have upgraded our existing High-Speed Packet Access (HSPA with capability of 14.4 Mbps and 5.76 Mbps each for Down-link and Up-link) Network to HSPA+ (with capability of 21.6 Mbps and 11.5 Mbps each for Down-link and Up-link). As of December 31, 2011, we have completed the construction of 8,442 3G base stations with a network capacity of 4.4 million lines and 7.2 million subscribers.

In order to operate our packet-switched network more efficiently, we have consolidated GSM and 3G serving GPRS support nodes (SGSN) into a single core network. We have also introduced the Direct Tunnel technology to flatten the packet-switched network to enhance the user s experience. With the introduction of high speed networks and terminals to promote our mobile internet business, we added direct local IP access to eight locations and expanded the capacity to 46.6 Gbps as of the end of 2011.

Internet Network

HiNet, our internet service provider, has the largest internet access network in Taiwan, with 33 points of presence, approximately 1,808 dial-up ports, approximately 5,518,000 broadband remote access server ports and a

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backbone bandwidth of approximately 1,740 Gbps as of December 31, 2011. We plan to increase HiNet s points of presence and backbone bandwidth to approximately 2,290 Gbps by the end of 2012.

HiNet s total international connection bandwidth is 315 Gbps as of December 31, 2011. As we expect thatinternet traffic flows to and from the United States will continue to increase, we plan to expand our bandwidth to the United States. We also plan to increase our links to other countries, including Japan, Korea, Hong Kong, Singapore, Mainland China, Malaysia and Thailand.

Leased Line and Data Switching Networks

We operate leased line networks on both a managed and unmanaged basis. In addition, we operate a number of switched digital networks used principally for the provision of packet-switched, frame relay, asynchronous transfer mode technology and a multi protocol label switching internet protocol VPN. We have completed the construction of a digital cross connect system for provisioning and managing voice-grade data services throughout Taiwan with a total of 50 nodes. As of December 31, 2011, we had 3,168 frame relay ports, 150 X.25 ports, 2,686 asynchronous transfer mode ports and approximately 66,655 multi protocol label switching internet protocol VPN virtual ports.

Our data networks support a variety of transmission technologies, including X.25 protocol, frame relay and asynchronous transfer mode technology. We have also built up our HiLink VPN that combines internet protocol and asynchronous transfer mode technologies. The advantage of a HiLink VPN based on multi protocol label switching technology is that it can carry different classes of services, such as video, voice and data together to provide services with various qualities of service, high performance transmission and fast forward solution in an enhanced security network. A HiLink VPN can be accessed by an ADSL and can include built-in mechanisms that can deal with overlapping internet protocol addresses. Therefore, the network potentially is less costly and requires less management for business applications.

Competition

We face competition in virtually all aspects of our business.

Domestic Fixed Communications

We are the largest domestic fixed communications service provider in Taiwan, with a market share of approximately 95.3% in terms of customers for local telephone services, approximately 74.1% in terms of traffic for domestic long distance telephone services in 2011, and approximately 79.2% share of the broadband internet access market in terms of customers. Three new providers, namely, Taiwan Fixed Network, New Century Infocomm Tech. Co., Ltd. and Asia Pacific Telecom Co. Ltd., have provided fixed communication services since June 2001. Our domestic long distance services compete with mobile services as people increasingly use mobile handsets. We believe that the fixed line competition in Taiwan will be primarily based on price, quality of service, network coverage and customer services, such as call centers and unified billing.

We are required by Republic of China regulations to provide number portability and unbundled local loop access.

Our primary competitors in leased line services and broadband services include:

- Leased line service providers: Taiwan Fixed Network, New Century Infocomm Tech. Co., Ltd., Asia Pacific Telecom Co. Ltd., East Asia Netcom Taiwan, Reach Global Services Ltd., FLAG Telecom and Taiwan International Gateway Corporation.

- Broadband internet access providers: kbro Co., Ltd., Taiwan Fixed Network and New Century Infocomm Tech. Co., Ltd., China Network System Co., Ltd.; and

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- Cable operators: kbro Co., Ltd., China Network Systems Co., Ltd., Taiwan Broadband Communications Co., Ltd., Pacific Broadband Co., Ltd., and Taiwan Infrastructure Technology Co., Ltd.

Mobile Communications

There are currently three major GSM mobile operators in Taiwan, namely, Taiwan Mobile Co., Ltd., FarEasTone Telecommunications Co., Ltd. and us. Based on data provided by the National Communications Commission, as of December 31, 2011, we were the largest mobile operator in Taiwan, with a 56.0% market share in terms of 2G customers. Smart phones with 3G mobile data packages are becoming popular in recent years. To attract more high-end data users, the other two major operators started to offer free intra-network calling packages bundled with mobile data service. Also, there are two 3G mobile operators in Taiwan in addition to us, namely Asia Pacific Telecom Co., Ltd. and Vibo Telecom Inc., as well as one personal handyphone system operator, First International Telecom. Furthermore, the government issued a total of 15 mobile virtual network operator, or MVNO, licenses, which allow operators without a spectrum allocation to provide mobile services by leasing the capacity and facilities of a mobile service network from a licensed mobile service provider. We are currently cooperating with Carrefour Telecom Co., Ltd. We may cooperate with other mobile virtual network operators in the future. As of the end of 2011, there were also six WiMAX service providers in Taiwan, providing services to approximately 133,067 customers in total according to the data provided by the National Communications Commission. We compete in the wireless services market primarily on the basis of price, quality of service, network reliability and attractiveness of service packages.

Internet

Our primary competitors in internet services are other internet services providers, including SeedNet, Asia Pacific Online.

We are the largest provider of internet services in Taiwan. As of December 31, 2011, we had a 68.6% share of the Taiwanese internet service market in terms of customers. We compete in the internet services market primarily on the basis of price, technology, speed of transmission, amount of bandwidth available for use, network coverage and value-added services.

International Fixed Communications

We are the largest international fixed communications service provider in Taiwan, with a market share of approximately 54.9% in terms of traffic for international long distance telephone services in 2011. Three new providers, namely, Taiwan Fixed Network, New Century Infocomm Tech. Co., Ltd. and Asia Pacific Telecom Co. Ltd., have provided fixed line services since June 2001. We believe these operators are primarily focused on international long distance services. In addition, we anticipate that these operators will focus on corporate customers, which typically generate higher profit margins than residential customers. Since August 2001, four undersea cable services licenses have been granted. These undersea cable operators, as well as internet service providers and international simple resale operators, have begun offering international leased line services to other fixed line operators, internet service providers and international simple resale operators.

Our international long distance services compete with international long distance resale services and alternative mediums for making international calls, including VoIP technologies, such as those provided by Skype.

Cybersecurity and Personal Information Protection

To prevent increasing cyber risks and threats, recently we have implemented the following mechanisms:

- We have built an online service system which enables Certificate Authority s Secure Socket Layer functions that performs as a secure tunnel to transmit encrypted customer s information. In addition, we offered the Global Trust Secure Site Seal to protect from phishing attacks on payment web sites**.**

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• The High-Availability systems in our data centers deploy firewall and Intrusion Prevention System, or IPS, to defend against hacker attacks, and the web application programs enforce penetration test to ensure the security of our customers information.

• The network equipments in our data centers could distinguish DDoS threats and reject or block the attacks. In the future, we could even block the DDoS traffic over the backbone network.

On April 27, 2010, the R.O.C. legislature passed the Personal Information Protection Act. or PIPA, which may become fully effective in 2012 and will be applied to all individuals, legal entities and enterprises that collect, process and use personal information. Furthermore, PIPA will have a significant impact on the banking and service industries in Taiwan. Under the amendments, the level of responsibility and liability on personal information protection of a company will be raised. We need to conduct inventory checks of personal information that we currently hold, establish standard operating procedures, or SOP, to comply with the requirements under PIPA, and take information security measures to protect the data.

To comply with the PIPA, we implemented a series of measures to avoid the customer s information leakage:

• The customer information systems have been enforced on firewall and IPS to avoid hacker s attacks.

• Regular internal audit: Our auditing department completes an annual audit plan and regularly audits information circulation in each department on customer information management and protection.

• External consulting: We, in accordance with the PIPA, request accounting firms not performing audit service for us to conduct external consulting every year on customer information management and protection.

• Documents containing customer s personal information are labeled highly confidential. All levels of managers shall monitor the usage of customers personal information by employees.

Properties

Our properties consist mainly of land, land improvements and buildings located throughout Taiwan. We own approximately 411 hectares of land and 3.5 million square meters of building floor space. In January 2008, we established Light Era Development Co., Ltd. for the purpose of developing our real estate properties. As of December 31, 2011, we have transferred six properties to Light Era. Five of these properties are under development. The Wan-Xi project, Li-Shui B project and LightEra-Covent Project have been completed in 2011 and the Guang-Dian project and Li-Shui A project are expected to be completed in 2012. Following the gradual completion of land rezoning, we have focused our real estate development more towards multiuse and diverse projects. Hence, besides the six properties we transferred to Light Era, we have developed more properties for commercial use and participated in government urban redevelopment plans. We have received approximately NT$696 million (US$22.7 million) in rental income in 2011 from such properties, and expect to receive approximately NT$515 million (US$15.6 million) in 2012.

Insurance

We do not carry comprehensive insurance for our properties or any insurance for business disruptions. We do, however, maintain in-transit insurance for key materials, such as cables, equipment and equipment components. We carried insurance for the ST-1 satellite until July 1, 2011 when it ceased business operation. We do not carry insurance for the ST-2 satellite since we only lease capacity for our operations instead of owning the satellite.

Employees

Please refer to Item 6. Directors, Senior Management and Employees D. Employees for a discussion of our employees.

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Our Pension Plans

Currently, we offer two types of employee retirement plans our defined contributions plan and defined benefits plan which are administered in accordance with the Republic of China Labor Standards Act and the Republic of China Labor Pension Act.

Legal Proceedings

A portion of the land used by us during the period between July 1, 1996 and December 31, 2004 was jointly owned by us and Chunghwa Post Co., Ltd., Directorate General of Postal Service. In accordance with the claims process in Taiwan, on July 12, 2005, the Taiwan Taipei District Court sent a claim notice to us requiring us to reimburse Chunghwa Post Co., Ltd. in the amount of NT$768.0 million for land usage compensation due to the portion of land usage area in excess of our ownership, along with interest calculated at 5% interest rate from June 30, 2005 to the payment date. However, we believe that both parties have the right to use co-managed land without consideration and thus Chunghwa Post Co., Ltd. does not have the right to request land compensation payments. Furthermore, we also believe that the computation used to derive the land usage compensation amount is inaccurate because most of the compensation amount has expired as a result of the expiration clause. On March 30, 2009, the Taiwan Taipei District Court rendered its judgment that we only need to pay approximately NT$17 million (US$0.5 million), along with interest calculated at 5% per annum from July 23, 2005, and 4% of Chunghwa Post Co., Ltd. s court fees as compensation. Chunghwa Post Co., Ltd. appealed to the Taiwan High Court on April 22, 2009. We also filed an appeal to the Taiwan High Court within the statutory period. On April 7, 2010, the Taiwan High Court rendered its judgment, ruling that we need to pay approximately NT$23 million (US$0.7 million), in addition to the approximately NT$17 million from the Taiwan Taipei District Court judgment, along with interest calculated at 5% per annum from July 23, 2005, and 12.5% of Chunghwa Post Co., Ltd. s court fees from its original suit and subsequent appeal as compensation. We filed an appeal with the Supreme Court on April 22, 2010 and the Supreme Court reversed and remanded the judgment for a new trial at Taiwan High Court in June 2011. On January 6, 2012, the Taiwan High Court ruled that we need to pay NT$4 million (US$0.1 million) to Chunghwa Post Co., Ltd., in addition to the amount as demanded by court in the Taipei District Court judgment, along with interest calculated at 5% per annum from July 23, 2005. After further evaluation, we decided not to appeal the judgment.

On September 30, 2008, the Taiwan Kaohsiung Administrative High Court ruled that we are required to pay NT$428 million in land usage fees to the Kaohsiung City Government. During the three month period ending December 31, 2009, we recognized the maximum possible amount of NT$428 million in connection with this litigation as an expense under operating costs. On June 22, 2010, the Supreme Administrative Court judged that we should pay the land usage fees to the Kaohsiung City Government, and we have made the payment accordingly.

We are involved in various legal proceedings of a nature considered in the ordinary course of our business. It is our policy to provide for reserves related to these legal matters when it is probable that a liability has been incurred and the amount is reasonably estimable.

We believe that the various asserted claims and litigation in which we are involved will not materially affect our financial condition or results of operations although no assurance can be given with respect to the ultimate outcome of any such claim or litigation.

Capital Expenditures

See Item 5. Operating and Financial Review and Prospects B. Liquidity and Capital Resources Capital Expenditures for a discussion of our capital expenditures.

Enforceability of Judgments in Taiwan

We are a company limited by shares and incorporated under the Republic of China Company Act and the Statute of Chunghwa Telecom Co., Ltd. All of our directors and executive officers, our supervisors and some of the experts named in this annual report are residents of Taiwan and a substantial portion of our assets and the assets of those persons are located in Taiwan. As a result, it may not be possible for investors to effect service of process

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upon us or those persons outside of Taiwan, or to enforce against them judgments obtained in courts outside of Taiwan. We have been advised by our Republic of China counsel that in their opinion any final judgment obtained against us in any court other than the courts of the Republic of China in connection with any legal suit or proceeding arising out of or relating to the ADSs will be enforced by the courts of the Republic of China without further review of the merits only if the court of the Republic of China in which enforcement is sought is satisfied that:

- the court rendering the judgment has jurisdiction over the subject matter according to the laws of the Republic of China;

- the judgment and the court procedure resulting in the judgment are not contrary to the public order or good morals of the Republic of China;

- if the judgment was rendered by default by the court rendering the judgment, we were served within a reasonable period of time in accordance with the laws and regulations of the jurisdiction of the court or process was served on us with judicial assistance of the Republic of China; and

- judgments at the courts of the Republic of China are recognized and enforceable in the court rendering the judgment on a reciprocal basis.

A party seeking to enforce a foreign judgment in the Republic of China would be required to obtain foreign exchange approval from the Central Bank of the Republic of China (Taiwan) for the payment out of Taiwan of any amounts recovered in connection with the judgment denominated in a currency other than NT dollars if a conversion from NT dollars to a foreign currency is involved.

Regulation

Overview

We were subject to the Statute of Chunghwa Telecom Co., Ltd. prior to our privatization. Although we have been privatized, the Legislative Yuan has not yet abolished the Statute of Chunghwa Telecom Co., Ltd., and at this time, the Statute of Chunghwa Telecom Co., Ltd. is still applicable to us.

Regulatory Authorities

Prior to March 1, 2006, we were under the supervision of the Ministry of Transportation and Communications and the Directorate General of Telecommunications. On March 1, 2006, the National Communications Commission was formed in accordance with the National

Communications Commission Organization Law, or the Organization Law, which was intended to transfer regulatory authority over the Taiwan telecommunications industry from the Ministry of Transportation and Communications and the Directorate General of Telecommunications to the National Communications Commission. The National Communications Commission was comprised of nine commissioners who were recommended by the government and opposition political parties in the Legislative Yuan, as well as recommended by the Executive Yuan and approved by the Legislative Yuan. However, the Executive Yuan considered the composition of the National Communications Commission unconstitutional and petitioned the Grand Justices of the Republic of China, or the Grand Justices, to interpret the constitutionality of the formation of the National Communications Commission and the procedure for nominating commissioners to serve on the National Communications Commission. On July 21, 2006, the Grand Justices rendered an interpretation and held that the relevant provisions under the Organization Law as to the nomination procedures for the commissioners of the National Communications Commission were unconstitutional. However, the Grand Justices granted a grace period allowing such provisions of the Organization Law to remain in effect until December 31, 2008.

On January 9, 2008, an announcement issued by the President amended the Organization Law, or New Amendment, amending the unconstitutional formation articles and reducing the total number of commissioners to seven with a term of four years, but three of the commissioners appointed after the New Amendment are with a term

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of two years. The commissioners will be nominated by the premier of the Executive Yuan and approved and appointed by the Legislative Yuan.

The new nomination method under the New Amendment became effective on February 1, 2008 when the Legislative Yuan started its new term. The nine incumbent commissioners continued to serve until July 31, 2008, when their terms ended. The premier of the Executive Yuan nominated seven commissioners on July 1, 2008, and they were approved and appointed by the Legislative Yuan on July 18, 2008. The new commissioners took office on August 1, 2008. Thereafter, upon the resignation of one commissioner and the expiry of the term for the three commissioners, four new commissioners were nominated by the premier of the Executive Yuan, approved and appointed by the Legislative Yuan and began serving as commissioners on August 1, 2010. The Organization Law was further amended on December 28, 2011 by adding the removal of the commissioners, delegation of power and other administrative matters. The Executive Yuan is authorized to determine the effective date of the new amendment.

In accordance with the National Communications Commission Organization Law, the National Communications Commission is responsible for:

- formulating, implementing and interpreting telecommunications laws and regulations;
- issuing telecommunications licenses and regulating the operation of telecommunications industry participants;
- assessing and testing telecommunication systems and equipment;
- drafting and promulgating technical standards for telecommunications and broadcasting;
- classifying and censoring the contents of telecommunications and broadcasting;
- managing telecommunications and media resources in Taiwan;
- maintaining competition order in the telecommunication and broadcasting industries;
- governing technical standards in connection with the safety of information communications;

- managing and facilitating the resolution of disputes pertaining to the Taiwan telecommunications and broadcasting industries;
- managing offshore matters relating to Taiwan s telecommunications and broadcasting industries including matters of international cooperation;
- managing funds allocated for the development of Taiwan s telecommunications and broadcasting industries;
- monitoring, investigating and determining matters in relating to Taiwan s telecommunications and broadcasting industries;
- enforcing restrictions under telecommunications and broadcasting laws and punishing violators; and
- supervising other matters in relation to communications and media.

Telecommunications Act

The Telecommunications Act and the regulations under the Telecommunications Act establish the framework and govern the various aspects of the Taiwan telecommunications industry, including:

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- licensing of telecommunications services;
- telecommunication numbers;
- restrictions on dominant telecommunications service providers;
- tariff control and price cap regulation;
- accounting separation system;
- interconnection arrangements;
- bottleneck facilities;
- spectrum allocation;
- provision of universal services;
- equal access;
- number portability;
- local loop unbundling;

- co-location; and
- ownership limitations.

Each of these aspects is described below. The Telecommunications Act also establishes a non-auction pricing system for assignment of radio frequencies.

Licensing of Telecommunications Services

Type I and Type II Service Providers

Under the Telecommunications Act, telecommunications service providers are classified into two categories:

Type I. Type I service providers are providers that install network infrastructure, such as network transmission, switching and auxiliary equipment for the provision of telecommunications services. Type I services include fixed line services such as local, domestic long distance and international long distance services, as well as interconnection, leased line, ADSL and satellite services and wireless services such as mobile, including 3G mobile, paging, mobile data and trunked radio services.

Type II. Type II service providers are defined as all telecommunications service providers other than Type I service providers. Type II services are divided into special services and general services. Special services include simple resale, VoIP international leased circuit and other services specified by the Ministry of Transportation and Communications before March 1, 2006 or by the National Communications Commission from March 1, 2006. General services include any Type II service other than special services.

Until 1996, we were the sole provider of Type I services in Taiwan. In 1996, the government opened the market for mobile, paging and trunked radio, mobile data and digital low power cordless telephone services. In 1998, the government opened the market for fixed line and mobile satellite services. In June 2001, the government granted licenses to three operators for establishing fixed line services,

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thereby opening the market for fixed line services. Since August 2000, the government has permitted four undersea cable operators to engage in the undersea cable leased-circuit business.

Commencing in 2007, the National Communications Commission began accepting applications for licenses to provide fixed line services in March, June, September and December of each year. The National Communications Commission started to accept applications for fixed line services on a daily basis beginning in 2008. There is no limit on the number of fixed line licenses that they may decide to issue.

Granting of Licenses

Type I

Type I service providers are more closely regulated than Type II service providers. The government has broad powers to limit the number of providers and their business scope and to ensure that they meet their facilities roll-out obligations. Under the Telecommunications Act, Type I service providers are subject to pre-licensing merit review of their business plans and tariff rates.

Before March 1, 2006, licenses for Type I services were granted by the Ministry of Transportation and Communications through a three-step procedure. Applicants obtained a concession from the Ministry of Transportation and Communications. After obtaining a concession, the applicant obtained a network construction permit and an assignment of spectrum, in the case of mobile telephone services and satellite services, from the Directorate General of Telecommunications or the Ministry of Transportation and Communications prior to applying for a license. Upon completion of construction of its network and review by the Directorate General of Telecommunications, the applicant was granted a Type I license. The Ministry of Transportation and Communications had the authority to grant Type I licenses for each of fixed line services, wireless services and satellite services. Type I licenses have different minimum paid-in capital requirements for applicants and varying durations depending on the particular type of service.

Since March 1, 2006, the same procedure applies except that the licenses are granted by the National Communications Commission.

The Telecommunications Act further authorizes the competent authority, now the National Communications Commission, to promulgate separate regulations governing each Type I service, including the business scope of the Type I service provider, as well as the procedures and conditions for granting special permits and the length of the period of the special permits of each Type I service. Each holder of a Type I license will pay a fee ranging from 0.5% to 2% of or their bid price ratio (Article 2 of the Type I Service Provider Special Tariff Standards) multiplied by their annual revenues generated from the particular Type I service for which a license has been granted.

Fixed Line Services. Under the Telecommunications Act, the Fixed Network Regulations govern the issuance of fixed line service licenses and the business scope of fixed line providers. Fixed line service licenses are subdivided into the following categories:

- integrated services, including local, domestic long distance, international long distance telephone services;

- local telephone services;

- domestic long distance telephone services;

- international long distance telephone services; and

- local, domestic long distance and international long distance leased line services. We conduct our fixed line services through a license for integrated services.

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Licenses for local telephone and integrated services are valid for 25 years. Licenses for domestic long distance and international long distance telephone services are valid for 20 years. Licenses for leased line services are valid for 15 years. If the service provider wishes to continue operating, the service provider needs to apply for a license renewal to the National Communications Commission between nine months and six months before the expiration of their license. The minimum paid-in capital requirements for integrated services providers that applied for a license before June 30, 2004, between July 1, 2004 and January 31, 2008 and on or after February 1, 2008 are NT$21 billion, NT$8.4 billion and NT$6.4 billion, respectively. The minimum paid-in capital requirements for both domestic and international long distance telephone service providers that applied for a license between July 1, 2004 and January 31, 2008 and on or after February 1, 2008 are NT$1.05 billion and NT$800 million, respectively. The minimum paid-in capital requirements for international undersea leased cable service providers that applied for a license before June 30, 2004, between July 1, 2004 and January 31, 2008 and on or after February 1, 2008 are NT$420 million, NT$420 million and NT$320 million, respectively. The minimum paid-in capital requirement for local telephone service providers that applied for a license between July 1, 2004 and January 31, 2008 and on or after February 1, 2008 are NT$6.3 billion and NT$4.8 billion, respectively, multiplied by the Local Network Operation Weights for the regions in which local network managerial rights have been granted to the service provider. The Local Network Operation Weights are calculated as the population of the region as a proportion of the entire population of Taiwan and are announced by the competent authority every three years. If an applicant for license is also a Type I service provider, they will need to combine the minimum paid-in-capital requirements for all relevant services.

In March 2000, the government granted three new concessions to fixed line services providers for integrated services. Recipients of these concessions are required to apply for a network construction permit to deploy broadband local access networks. Each recipient of these concessions is required to have capacity for 150,000 customers before they are able to apply for a fixed line license to launch their proposed services. The three fixed line service providers have since obtained fixed line licenses and are required to achieve capacity for one million customers by the sixth year following the date of the grant of the network construction permit awarded. Operators that applied for integrated service provider licenses before June 30, 2004, between July 1, 2004 and January 31, 2008 and on or after February 1, 2008 must achieve a capacity for 1.0 million, 0.4 million and 0.3 million customers, ports or a combination of both, respectively, by the fourth year following the date of the grant of the network construction permit.

Wireless Services. Under the Telecommunications Act, the Wireless Regulations promulgated by the Ministry of Transportation and Communications before March 1, 2006 or by the National Communications Commission from March 1, 2006 continue to govern the issuance of wireless services licenses and the business scope of wireless service providers. Wireless service licenses are subdivided into the following categories:

- mobile services;
- paging services;
- mobile data services;
- digital low-power cordless telephone services; and

- trunked radio services.

Wireless service licenses are granted to both regional and national service providers through review and bidding procedures.

Wireless services licenses for mobile and paging services are valid for 15 years, and licenses for mobile data, digital low-power cordless telephone and trunked radio are valid for ten years. The minimum paid-in capital requirement for regional mobile service providers and national mobile service providers is NT$2 billion and NT$6 billion, respectively.

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We are licensed to provide mobile services in Taiwan.

Third Generation Mobile Services. The Ministry of Transportation and Communications promulgated the Third Generation Mobile Telecommunications Services Regulations on October 15, 2001. The National Communications Commission amended the above regulations on July 5, 2007, designating itself as the authority in charge of the third generation, or 3G, mobile services regulations and further amended such regulations on December 30, 2008 for the establishment of base stations. The regulations govern voice and non-voice telecommunications services provided using the spectrum assigned by the Ministry of Transportation and Communications, and now governed by the National Communications Commission, that utilizes the IMT-2000 technical standards as announced by the International Telecommunications Union. Licenses for 3G mobile services were granted by the Ministry of Transportation and Communications and are now granted by the National Communications Commission. We have received our 3G mobile services license, which is valid from May 26, 2005 to December 31, 2018.

Under the *Third Generation Mobile Telecommunications Services Regulations*, a company holding a 3G mobile license and having 200 or more shareholders is required to become a public company, which is subject to the stringent disclosure requirements under the securities regulations of the R.O.C. A company holding a 3G mobile license is also required to submit a report to the National Communications Commission within 20 days after its shareholders approves the capital reduction of such company, the entering into, modification or termination of any contracts regarding leasing of all business, outsourcing of operations or joint operations, the transfer of the whole or substantial part of business or assets of such company, taking over of the whole of the business or assets of any other company which would have significant impact on such company s operations. The National Communications Commission revised the *Third Generation Mobile Telecommunications Services Regulations* on January 20, 2010 to add additional regulations regarding audio-visual content and provision, including requiring service providers who set up a platform for audio-visual content providers to sell content, duly notify customers the costs and charges of using these audio-visual content and limit access of inappropriate content to minors. The National Communications Commission further amended the Third Generation Mobile Telecommunications Service Regulations on December 28, 2010 to remove the clauses in relation to base station which have been regulated by the new enacted Regulations Governing Base Stations for Wireless Services.

Satellite Services. Under the Telecommunications Act, the Satellite Regulations promulgated by the Ministry of Transportation and Communications govern the issuance of satellite services licenses and the business scope of satellite service providers. The National Communications Commission amended the above regulations on July 20, 2007, designating itself as the authority in charge of the Satellite Regulation. Satellite services licenses are subdivided into fixed satellite services licenses and mobile satellite services licenses.

Satellite services licenses are valid for 10 years. Minimum paid-in capital requirements for fixed satellite services providers and mobile satellite services providers are NT$100 million and NT$500 million, respectively.

We currently hold a fixed satellite services license, valid from December 10, 2008 to December 9, 2018.

Type II

The Telecommunications Act was amended in 1996 to open the market for all Type II services. Under the Type II Services Regulations as last amended on November 5, 2010, Type II services are divided into special services and general services. Special services include simple resale, VoIP, network telephone service of E.164 and non-E.164 user numbers (IP Phone Numbers), international leased circuit and other services specified by governing authority. General services include any Type II service other than special services. The policy for granting a Type II service license is as follows:

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- there is no limit on the number of licenses to be issued;
- licenses were granted by the Directorate General of Telecommunications before March 1, 2006 and are now granted by the National Communications Commission; and
- no bidding procedure is required.

We hold a license to operate all Type II services. Type II service licenses issued before November 15, 2005 are valid for ten years and may be renewed by application made two months prior to the expiration date. Type II service licenses issued or renewed on or after November 15, 2005 are valid for three years and may be renewed during the period commencing two months prior to the expiration date. There is no minimum paid-in capital requirement for Type II service providers. Our license to operate Type II services is included in our license to operate integrated services, and is valid from July 29, 2000 to July 28, 2025.

Under regulations governing the fees payable for Type II licenses, operators of simple resale or network telephone services of E.164 or non-E.164 user numbers must pay an annual license fee equal to 1% of annual revenues generated from these services during the previous year. Type II service operators providing services other than simple resale or network telephone services of E.164 or non-E.164 user numbers must pay license fees ranging from NT$6,000 to NT$150,000 depending on their respective paid-in capitals. The regulations do not apply to integrated services providers who are permitted to provide Type II services without additional Type II Licenses. The annual license fee for an integrated services provider operating Type II businesses is 1% of its annual revenues generated from its Type II services.

The Directorate General of Telecommunications started to process the applications for allocating E.164 and non-E.164 user numbers (IP phone numbers) on November 15, 2005. A few operators, including our company, have applied for IP phone numbers. We applied to the National Communications Commissions for E.164 user numbers and as of January 30, 2008, we have received approval to build a network with a capacity of 30,000 numbers. As we are governed by fixed line regulations, we need to receive approval from the National Communications Commission for our operation rules, tariff and service agreement for IP phone numbers before we can commence E.164 service.

Telecommunications Numbers

According to the Telecommunications Act, numbering codes, subscriber numbers, identification numbers and other telecommunication numbers will be distributed and managed by the National Communications Commission. These telecommunication numbers may not be used or changed without approval by the National Communications Commission. In order to maintain effective use of available telecommunication numbers, the Telecommunications Act empowers the National Communications Commission to reallocate and retrieve and to collect a usage fee for distributed telecommunication numbers. The National Communications Commission promulgated the *Fee Standards for Special Telecommunication Numbers* on March 18, 2010, effective immediately, requiring telecommunications service providers to pay 70% of revenues collected from the auctioning off and selection of golden numbers and the standard usage rates for special identification numbers in use.

Restrictions on Dominant Telecommunications Services Providers

Under the Telecommunications Act, the regulations governing dominant telecommunications services providers apply only to Type I service providers. A Type I service provider is deemed to be dominant if it meets any of the following criteria and was declared by the Ministry of Transportation and Communications or now the National Communications Commission as dominant:

- controls key basic telecommunications infrastructure;
- has dominant power over market price; or

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- has more than a 25% market share in terms of customers or revenues.

We have been declared by the former competent authority Ministry of Transportation and Communications as a dominant Type I service provider for fixed line and mobile services.

Under the Telecommunications Act, a dominant Type I service provider must not engage in the following activities:

- directly or indirectly hinder a request for interconnection with its proprietary technology by other Type I service providers;
- refuse to release to other Type I service providers the calculation methods of its interconnection fees and other relevant materials;
- improperly determine, maintain or change its tariffs or means of services;
- reject, without due cause, a request for leasing network components by other Type I service providers;
- reject, without due cause, a request for leasing lines by other service providers or customers;
- reject, without due cause, a request for negotiation or testing by other service providers or customers;
- reject, without due cause, a request for negotiation for co-location by other service providers;
- discriminate, without due cause, against other service providers or customers; or
- abuse its position as a dominant provider, or engage in other unfair competition activities as determined by the regulatory authorities.

In addition, a dominant Type I service provider is subject to special regulations limiting its tariff changes.

Tariff Control and Price Cap Regulation

In order to promote competition in the telecommunications market, and as part of the government s overall policy toward deregulation, the Telecommunications Act was amended in 1999 to abolish the former rate of return system on tariff setting in favor of price cap regulation of Type I services.

Under the Regulations Governing Tariffs of Type I Service Providers, a dominant Type I service provider must submit its proposed adjustment in primary tariffs and promotional packages to the National Communications Commission from for approval at least 14 days prior to the date of the proposed tariff changes and announce such change on media, website and business locations on the next day after the National Communications Commission grants the approval. The tariff change will come into effect seven days after the announcement.

Primary tariffs include:

- for fixed line local telephone services: monthly fees, usage fees, monthly rental fees of leased lines and pay telephone usage fees;

- for fixed line domestic long distance telephone services: usage fees and monthly rental fees of leased lines;

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- for fixed line international long distance telephone services: usage fees and leased line monthly rental fees;
- for wireless services, including 3G mobile services: monthly rental fees and usage fees;
- for internet services provided by dominant Type I service providers: connection and usage fees; and
- other fees or tariffs announced by the Directorate General of Telecommunications before March 1, 2006 or by the National Communications Commission from March 1, 2006.

In addition, a dominant Type I service provider is required to set wholesale prices for the provision of its telecommunication services to other telecommunication enterprises. These telecommunication services and their suitable targets, all of which are subject to annual reviews by the National Communications Commission, include:

- interface circuits (local and long distance) between internet access service providers and customers for Type I and Type II service providers
- interface circuits (local and long distance) between internet access service providers for Type I and Type II service providers that are internet access service providers
- interconnection circuits between Type I service providers and between Type I and Type II service providers of international simple resale, or ISR, and E.164 VoIP services
- DSL-family (xDSL) circuits for fixed line service providers and internet service providers
- other local and long distance data circuits for Type I and Type II service providers
- broadband internet interconnection for Type I and Type II service providers that are internet access service providers.

The initial wholesale prices set by a dominant Type I service provider may be the retail price less fees and expenses which need not be incurred, but shall not be higher than its promotional pricing. Changes in the wholesale price charged by a dominant Type I service provider may not be greater than (i) the retail price less fees and expenses which need not to be incurred but not greater than the promotional pricing; or (ii) the annual growth rate of the consumer price index in Taiwan minus the constant set by the National Communications Commission, whichever is the lower. The Regulations Governing Tariffs of Type I Service Providers further prohibits a dominant Type I service provider from practicing unfair competition against other telecommunication enterprises.

In comparison, all non-dominant Type I service providers are required to notify the National Communications Commission and the public of their proposed tariff adjustments seven days prior to the date of the proposed tariff change with respect to all tariffs. In addition, changes in tariffs charged by Type I service providers (notwithstanding the type of their respective services) may not, in any event, be greater than the annual growth rate of the consumer price index in Taiwan adjusted by a set constant, which will be periodically determined and announced by the National Communications Commission. For example, if:

- the annual growth rate of the consumer price index in Taiwan minus the set constant is positive, the increased percentage of tariffs must not exceed such positive figure;

- the annual growth rate of the consumer price index in Taiwan minus the set constant is negative, the decreased percentage of tariffs must be at least the absolute value of such negative figure, and the tariffs used in the given year must not be higher than the decreased tariff; and

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- the annual growth rate of the consumer price index in Taiwan minus the set constant equals to zero, no increase in tariffs is allowed to be made by any Type I service providers.

On January 29, 2010, the National Communications Commission announced that effective from April 1, 2010 to March 31, 2013:

- the set constant to be applied to the tariff adjustment for the fixed line integrated services is 4.816% and covers the following:

- dominant providers of fixed line services

- tariffs of the following:

- the monthly fee for ADSL leased line and the usage fee for domestic long distance telephone services (excluding public pay phones)

- wholesale prices of the following:

- the monthly fee for leased lines services (including local and domestic long distance leased lines) between internet service providers and their customers

- the monthly fee for leased lines services (including local and domestic long distance leased lines) between an internet service provider and another internet service provider

- the monthly fee for the interconnection (including local and domestic long distance lines) between a Type 1 telecommunication service provider and another Type 1 telecommunication service provider; the monthly fee for the interconnection (including local and domestic long distance lines) between a Type 1 telecommunication service provider and a Type 2 telecommunication service provider who provides simple resale and network telephone service of E.164 user numbers.

- the monthly fee for other local and domestic long distance leased lines

- the interconnection fee for internet bandwidth interconnection

- no set constant to be applied to the call charges for the domestic fixed communication services during the following periods:

- the integrated services operators and the domestic telephone services operators can determine the tariff adjustment for the domestic telephone services during the specific period and seek National Communications Commission s approval or recognition

- the specific periods include 11.00pm to 8.00am from Monday to Friday, 12.00am Saturday to 8.00am Monday, and the whole day of a national holidays

- the set constant to be applied to the tariff adjustment for the mobile services and the 3G mobile services is 5% and covers the following:

- 2G mobile service and 3G mobile service operators

- tariffs of the following:

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- domestic short messaging services
- calls made from a 2G mobile services customer or from a 3G service network to a domestic fixed communication network
- calls made from a 2G mobile services customer or from a 3G service network to a 2G mobile service network, a 3G mobile service network, a 1900MHz Digital Low-Tier Cordless Telephone Services, or PHS, or WiMAX services
- the set constant to be applied to the cellular voice access charge will be announced separately after the amendment to the relevant regulations.
- the set constant to be applied to the tariff adjustment for other Type 1 telecommunication services is the annual growth rate of the consumer price index in Taiwan

The National Communications Commission required the service operators which are subject to the above tariff restrictions shall submit their tariff adjustment plans by March 12, 2010 to the National Communications Commission for approval. The National Communications Commission approved our tariff adjustment plan on March 24, 2010.

Type II service providers are free to establish their own tariff schemes, but are required to notify the National Communications Commission and the public upon adoption and upon any subsequent adjustments. The National Communications Commission approved our tariff adjustment plan on March 24, 2010.

Accounting Separation System

The Telecommunications Act requires that a Type I service provider, including one who concurrently offers Type II services, separately calculate the profits and losses for its different services and prohibits any cross-subsidization among services that will impede fair competition.

Interconnection Arrangements

The Telecommunications Act requires all Type I service providers to allow other Type I service providers access to their networks. It further requires Type I service providers, within three months upon request by the other Type I service provider, to reach an agreement on the relevant terms for the interconnection. Prices charged for interconnection must be based on cost. If the parties fail to reach an agreement within three months, the National Communications Commission may, either at the request of the parties or on its own accord, arbitrate and determine the interconnection terms for the parties. The Telecommunications Act authorizes the Directorate General of Telecommunications or, from March 1, 2006, the National Communications Commission to issue rules and regulations pertaining to interconnection.

When a Type I service provider leases unbundled network components to another Type I service provider, the parties are required to negotiate the rental fee. Unbundled network components include:

- local loops;
- local switch transmission equipment;
- local trunks;
- toll switch transmission equipment;
- long distance trunks;

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- international switch transmission equipment;
- network interfaces;
- directory equipment and services; and
- signaling network equipment.

Under the Administrative Rules for Network Interconnection, we, as a dominant telecommunication service provider for fixed line and mobile services, are required to unbundle our network and provide cost-based interconnection charges calculated with reference to the total element long-run incremental cost incurred by us. We are required to submit our proposed calculations of the total element long-run incremental cost to the National Communications Commission, for its approval each year. Local loop unbundling for both voice and data have been completed.

The Administrative Rules for Network Interconnection Between Telecommunication Service Providers was further amended by the National Communications Commission on November 2011 specifying the charges for network interconnection among Type I service providers as follow:

- Before January 1, 2011, except for international communications, tariffs for communications between a mobile telecommunications network and a fixed-line network were collected from the call-originating subscribers by the call-originating service provider pursuant to the tariff schedules set by the mobile communication service provider, and revenues or any uncollectible accounts from such tariffs went to the mobile service provider. However, from January 1, 2011, although the tariffs shall still be paid by the call-originating subscribers, the tariff schedules are set by the call-originating network service provider, and revenues or any uncollectible accounts from such tariff shall go to the call-originating service provider. During the transition period from January 1, 2011 to December 31, 2016, we, as a dominant Type I fixed-line service provider, shall pay extra transition fee in addition to access charges to the mobile communications service providers.

- Tariffs for communications between mobile telecommunications networks shall be paid by the call-originating subscribers pursuant to the tariff schedules set by the call-originating service providers, and the revenues or any uncollectible accounts from such tariffs shall go to the call-originating service providers.

- Tariffs for communications between fixed-line network will be determined by the following principles:

- tariffs for communications between the local telephone networks shall be paid by the call- originating subscribers pursuant to the tariff schedules set forth by the call-originating service providers, and revenues or any uncollectible accounts from such tariffs shall go to the call-originating service providers;

- tariffs schedules for the local telephone network subscribers using domestic long-distance telephone services shall be set by the domestic long-distance telephone services provider and tariffs shall be collected from the local telephone network subscribers using domestic long-distance telephone services. Revenues or any uncollectible accounts from such tariffs shall go to the domestic long-distance telephone services providers; and

- tariffs schedules for the local telephone network subscribers using international long-distance telephone services shall be set by the international long-distance telephone services provider and collected from the local telephone network subscribers using international long-distance telephone services. Revenues or any uncollectible accounts from such tariffs shall go to the international long-distance telephone service providers.

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- Tariffs schedules for communications between satellite mobile networks and between satellite mobile networks and fixed-line communications networks or mobile communications networks shall both be set by the call-originating service providers. Revenues or any uncollectible accounts from such the tariffs shall go to the call-originating service providers.

- Tariffs schedules for communications between the E. 164 VoIP networks provided by the Type I service providers and mobile telecommunications networks, or local telephone networks, or satellite mobile networks shall be set by the call-originating service providers. Revenues or any uncollectible accounts from such tariffs shall go to the call-originating service providers.

Bottleneck Facilities

Under the Telecommunications Act, when a Type I service provider cannot construct bottleneck facilities within a reasonable period of time or substitute those facilities with other available technologies, it may request for co-location on a fee basis from the owner of the facilities located at the bottleneck of the relevant telecommunications network. The owner of the facilities so requested may not reject these requests without due cause. The Ministry of Transportation and Communications had the authority, now held by the National Communications Commission, to prescribe facilities as bottleneck facilities, and has prescribed bridges, tunnels, lead-in tubes and telecommunications chambers located within buildings and horizontal and vertical telecommunications cables and lines as bottleneck facilities in relation to fixed line telecommunications networks. The National Communications Commission, in an announcement on December 21, 2006, has defined local loop facilities as the bottleneck of the telecommunications network and amended the Administrative Rules for Network Interconnection Between Telecommunication Service Providers in April 2007, providing that we, as a Type I service provider, can only charge other local telephone service providers at cost for local loop services. The rental tariff is derived from a cost basis and must be approved by the National Communications Commission each year.

Spectrum Allocation

The Ministry of Transportation and Communications is responsible for allocating all telecommunications related frequencies primarily according to the standards set by the International Telecommunications Union. The National Communications Commission is responsible for the licensing of operators to use these frequencies. The 900 MHz and 1,800 MHz frequency bands have been allocated for mobile applications. A total of 40 MHz of FDD spectrum around the 850 MHz frequency band and a total of 110 MHz of FDD spectrum and 20 MHz of TDD spectrum around the 2 GHz band have been allocated for 3G mobile services.

Frequency allocation for fixed wireless platforms, such as wireless local loop and local multipoint distribution system, has already been set. Only some bands of the spectrum made available for these services are completely clear and there is partial usage in all other bands. The cost of frequency usage will be based on quantity, bandwidth and the transmitting power.

Provision of Universal Services

Under the Telecommunications Act, a Type I service provider may be required by the National Communications Commission, previously the Ministry of Transportation and Communications, to provide universal telecommunications services in remote or unprofitable areas. These services include voice communication services, such as public phones, and data communication services, such as internet provision for libraries and public primary and secondary schools. All Type I service providers and certain Type II service providers designated by the National Communications Commission, previously the Ministry of Transportation and Communications, will be required to contribute a fixed portion of their annual revenues to a universal services fund. Such a fund will be used to compensate for any losses, bad debts and management fees incurred by the relevant Type I service provider in providing the universal

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services. All providers of universal services cannot refuse any request for service, unless for legitimate reasons, and cannot charge more than the predetermined tariffs.

Equal Access

As a result of the liberalization of Taiwan s telecommunications industry, a Type I service provider, including a 3G mobile services provider and a WiMax service operator, is required to provide its customers with equal access to the domestic and international long distance telephone services provided by other service providers. A Type I service provider may provide equal access through pre-selection or call-by-call selection. Before July 1, 2005, all Type I service providers, including us, provide equal access only through call-by-call selection. When a customer makes a call using call-by-call selection, such customer has the option to select a service provider by dialing the network identification prefix assigned to the service provider of his choice. This will result in the automatic selection of the preferred service provider for the provision of relevant telecommunication services. Starting from July 1, 2005, all Type I service providers also provide equal access through pre-selection in Keelung City, Taipei City/ County, Taichung City/County and Kaohsiung City/County. Equal access through pre-selection is available throughout Taiwan since January 1, 2006. The pre-selection function allows any customer to select in advance a long distance or international service provider of his or her choice. When such customer makes a call using this function, the communications network will automatically interconnect to the long distance or international network previously selected by such customer.

Number Portability

According to the Telecommunications Act and the Administration Rules Governing Number Portability, Type I service providers shall provide number portability service which enables customers to retain their existing local and toll free fixed line telephone numbers or mobile phone numbers when they switch from the original Type I service provider to other Type I service provider. Meanwhile, Type I service providers shall mutually grant each other number portability services on a reciprocal basis, and shall conform in accordance with the principle of impartiality and reasonableness, and shall not be discriminatory.

Under the regulation, we are required to provide number portability service for fixed line customers in Taipei City, New Taipei City, Keelung City, Taichung City, Kaohsiung City and other areas where there are two or above fixed line service providers. We have also provided number portability service for mobile communication customers since October 15, 2005. Pursuant to the regulation, we shall compile and submit related information of number portability for the previous six months to NCC by January 10 and July 10 of each year.

Local Loop Unbundling

In December 2006, the National Communications Commission defined the local loop as facilities at the bottleneck of telecommunications networks in accordance with the Regulations Governing Fixed Network Telecommunications Businesses. The National Communications Commission requires us to unbundle the local loops and allow other telecommunications operators to use these connections. The local loop or last mile connections are the physical wire connections between the telephone exchange s central office to the customer s premises usually owned by the incumbent telephone company. The National Communications Commission further amended the Administrative Rules for Network Interconnection between Telecommunication Service Providers in April 2007 which provides that we can only charge other local telephone service providers at cost for local loop services instead of on the basis of commercial negotiations.

Co-location

We have been declared by the former competent authority Ministry of Transportation and Communications as a dominant Type I service provider for fixed line and mobile services. According to the

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Telecommunication Act, the Regulations Governing Fixed Network Telecommunications Businesses and the Administrative Rules for Network Interconnection Between Telecommunication Service Providers, if any other service provider requests for co-location, we must negotiate with them, unless otherwise provided by laws or regulations. As of the end of 2011, we are currently co-locating 29 POI sites and two cable stations with other Type I fixed line service providers and 9 POI sites with other Type I mobile service providers.

Ownership Limitations

The laws of the Republic of China limit foreign ownership of our common shares. Prior to March 1, 2006, the Ministry of Transportation and Communications, as the competent authority under the Telecommunications Act, had the power to prescribe the limits on foreign ownership of our common shares. After the formation of the National Communications Commission on March 1, 2006, the National Communications Commission replaced the Ministry of Transportation and Communications as the competent authority under the Telecommunications Act pursuant to the Organization Law. On July 18, 2006, the Ministry of Transportation and Communications and the National Communications Commission reached an agreement where the Ministry of Transportation and Communications will have the authority to adjust foreign ownership limits only after negotiations with the National Communications Commission. On June 14, 2007, we applied to both the National Communications Commission and the Ministry of Transportation and Communications, asking for an increase in the limitation of direct and indirect foreign ownership of our common shares. After consultation with the National Communications Commission, the Ministry of Transportation and Communications increased our foreign ownership limitation of and total direct and indirect shareholdings from 49% to 55%. Our foreign ownership limitation of total direct shareholdings remained at 49%.

Under the current Telecommunications Act, the Chairman of a Type I service provider is required to be a citizen of the Republic of China.

Administrative Fee Law

According to the Administrative Fee Law, central and local governments, government agencies and schools are empowered to collect administrative fees from us and other telecommunications services providers for the telecommunications facilities built on public roads and properties. Under the Administrative Fee Law, Urban Road Act and Local Road Act, road authorities of municipal governments may collect usage fees from users of local roads, including us, for establishing lines along with the local roads. The fee schedule is set up in the Standard for Usage Fees of Local Roads.

Under the Public Road Law, administrative authorities of public roads may collect usage fees from the users of public roads. According to the Rules Governing Collection of Usage Fees on Public Roads, the relevant collection agencies, including agencies designated by the Ministry of Transportation and Communications and municipal governments, depending on the types of public roads, may collect usage fees from users, including us, for establishing lines along with the public roads.

Personal Data Protection

Under the Computer-Processed Personal Data Protection Act, or CPPDPA, every entity regulated by the CPPDPA, such as government agencies or departments, credit investigation companies, hospitals, telecommunications companies and financial institutions shall register with the relevant regulatory authorities and obtain a license pursuant to the CPPDPA for collecting, processing by computer or transmitting internationally and using personal data. In addition, before the collection or process by computers of individual s personal data, we, as one of the regulated entity, are also required to obtain such individual s prior written consent or have contractual or quasi-contractual relationship with such individual.

The CPPDPA requires that personal data shall be collected or used with due respect for the rights and interests of the data subject in an honest and credible manner which does not overstep the necessary scope of

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registered specific purposes. If an individual suffers any monetary or non-monetary losses due to a regulated entity s violation of the CPPDPA, the amount of damages that can be claimed by such individual is up to NT$100,000 unless such individual could prove that his/her losses are higher than that amount. The ceiling of the aggregate amount of damages payable by a violator for a single violation is NT$20 million regardless of how many persons have suffered such losses. In addition, the violator will be subject to an administrative fine of NT$20,000 to NT$100,000. Serious violation could cause the regulated entity s license obtained pursuant to the CPPDPA being cancelled.

The CPPDA has been largely amended and renamed as the Personal Information Protection Act, or PIPA, on May 26, 2010. Under the PIPA, which may become fully effective in 2012, the major amendments include: (i) extension of protection area: protection area has been extended to all personal data (not only limited to computer-processed personal data, hard copy personal information such as written or hand-copied material is also included); and (ii) more serious punishment for civil claims, criminal offenses and administrative liabilities: the ceiling of the aggregate compensation amount for damages payable in a single case has increased to NT$200 million; the defendant may be subject to an imprisonment of up to five years; and the ceiling of the penalty for administrative liabilities has also increased to NT$500,000.

Statute of Chunghwa Telecom Co., Ltd.

The Executive Yuan, on February 26, 2008, proposed a motion for the abolishment of the Statute of Chunghwa Telecom Co., Ltd. for legislative approval. We cannot determine when this motion will be approved by the Legislative Yuan. Under Republic of China law, the Statute of Chunghwa Telecom Co., Ltd will continue in effect until the Legislative Yuan formally approves the motion and the President of the Republic of China pronounces the abolishment of the law.

Approval of Ministry of Transportation and Communications

While the continued application of the Statute of Chunghwa Telecom Co., Ltd. remains unclear and it may be abolished in the near future, under that statute we are required to obtain approval of the Ministry of Transportation and Communications for:

- the adoption of and any changes to our articles of incorporation and board of directors organization rules;
- any changes to our authorized capital and any issuance of our common shares;
- any changes to primary tariffs for Type I services; and
- any changes to operational procedures of Type I services.

Employee Subscription Rights for New Issues of Our Common Shares

In accordance with the Statute of Chunghwa Telecom Co., Ltd., our employees have rights to subscribe for not more than 10% of a new issuance of our common shares in accordance with subscription rules which were to be announced by the Ministry of Transportation and Communications. However, no such rules were ever announced. In addition, under the Republic of China Company Act, unless exempted by the relevant government authorities, a Republic of China company must give its employees pre-emptive rights to subscribe for between 10-15% of any new issue of shares by us. The pre-emptive subscription rights do not apply to issuance of restricted shares by a public company to its employees.

C. Organizational Structure

Set forth below is a diagram indicating our organization structure as of March 31, 2012.

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D. Property, Plant and Equipment

Please refer to B. Business Overview for a discussion of our property, plant and equipment.

ITEM 4A. UNRESOLVED STAFF COMMENTS

None.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

You should read the following discussion of our financial condition and results of operations together with the consolidated financial statements and the notes to such statements included in this annual report.

For the convenience of readers, NT dollar amounts used in this section for, and as of, the year ended December 31, 2011 have been translated into U.S. dollar amounts using US$1.00=NT$30.27, set forth in the statistical release of the Federal Reserve Board on December 30, 2011. The U.S. dollar translation appears in parentheses next to the relevant NT dollar amount.

Overview

A number of recent and expected future developments have had, and in the future may have, a material impact on our financial condition and results of operations. These developments include:

- changes in our revenue composition and sources of revenue growth;
- tariff adjustments;
- capital expenditures as a result of technological improvements and changes in our business;

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- provisions for pension payments to our employees; and
- taxation.

Each of these developments is discussed below.

Changes in our revenue composition and sources of revenue growth

Our domestic fixed communications business revenues are derived primarily from the provision of local, domestic long distance, broadband access, leased line service, MOD, domestic data services and domestic other services including information and communication technologies, corporate solution services, billing handling services and the leasing of real estate properties. In addition, we also derive fixed line revenues from providing interconnection services to other carriers. Our revenues from mobile communications business are principally derived from the provision of mobile services, paging services, sales of mobile handsets and data cards and mobile other services. Our revenues from internet business are generated principally from HiNet internet service, internet VAS, data communication services, internet data center, and internet other services including government services and corporate solution services. Our revenues from international fixed communications business derived primarily from international long distance, international leased line, international data services, satellite services, and international other services. Our other revenues are principally derived from non-telecom services.

The table below sets forth the revenues from our principal lines of business as a percentage of total revenues for the periods indicated.

	Year ended December 31,		
	2009	2010	2011
Revenues:			
Domestic fixed communications business	36.0%	34.9%	36.5%
Mobile communications business	43.6	44.0	42.8
Internet business	11.9	12.1	11.4
International fixed communications business	7.7	7.7	7.0
Others	0.7	1.3	2.3
Total	100.0%	100.0%	100.0%

Our domestic fixed communications business has been an important source of revenues over the last three years. We derive domestic fixed communications from the provision of ADSL and FTTx access services that provides customers with data access lines. The percentage of revenues from domestic fixed communications within total revenues decreased in 2010 compared to 2009. It was mainly due to the greater decreases in domestic long distance calls because of mobile services substitution and the mandatory tariff reduction imposed by the National Communications Commission and the decline in local call service revenue. The increase in 2011 was mainly due to the change in policy for collecting the tariffs for fixed-to-mobile calls from mobile service providers to fixed communications service providers since January 1, 2011, which gave our fixed communications business the right to set and collect the tariffs for fixed line-to-mobile phone calls. We believe that domestic fixed communications business will continue to generate a significant portion of our revenues.

Revenues from our mobile communications business made a major contribution to our revenues over the last three years. While the change in policy for collecting the tariffs for fixed-to-mobile calls has caused a decline in our mobile communications business revenues, we have experienced a significant increase in revenues generated by our mobile value-added services due to increased smart phone and mobile internet use by our subscribers. As a result, we believe that our mobile communications business will continue to generate a significant portion of our revenues.

Our internet business was another important source of revenues over the last three years. We derived internet business revenues from the provision of HiNet Internet service and Internet value-added services. The

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percentage of revenues from Internet services within total revenues decreased in 2011 compared to 2010, mainly due to the the discounts we offered in June 2011.

Our international fixed communications business was also an important source of our revenues over the last three years. We derived our international fixed communications revenues mainly from international long distance telephone services, international leased line services and international data services. The revenues from our international fixed communications business as a percentage of our total revenues decreased from 2010 to 2011, primarily because the decrease in international long distance service revenue as a result of intensified market competition. We believe that our international fixed communications business will continue to contribute to our revenues.

Other revenue grew primarily due to the increase in property sales.

Tariff adjustments

We adjust our tariffs and offer promotional packages from time to time primarily in response to market conditions. We also from time to time are required to adjust our pricing in line with domestic regulations.

The National Communications Commission passed a resolution on December 21, 2006 adopting a price reduction plan requiring the continuous reduction in telecommunication tariffs over three years. Minimum reductions of 4.88% for fixed line to mobile call tariffs, 4.88% for the tariffs of our highest monthly rate plan, 4.88% for mobile prepaid calling card tariffs and 5.35% for ADSL tariffs must be made each year. The price reduction plan also required us to stop collecting a NT$5.0 monthly maintenance fee from our fixed line customers who have paid at least 20 years worth of tariffs and those who chose self-maintenance customers starting January 1, 2008 and a NT$70.0 fixed line basic charge from our ADSL customers who only use data services. On January 29, 2010, the National Communications Commission announced a new tariff reduction plan starting on April 1, 2010 to March 31, 2013. The percentage of decrease set by National Communications Commission was ΔCPI- 4.816% for IP Peering fees, domestic leased-line fees, ADSL access fees and long distance tariffs, and ΔCPI- 5.00% for fees for mobile calls to local fixed lines and other networks and domestic mobile SMS, where ΔCPI is the year-over-year change of the consumer price index of previous year released by the Directorate-General of Budget, Accounting and Statistics of the Executive Yuan. ΔCPI for 2009 that is used for the tariff reduction starting from April 1, 2010 is -0.87%; ΔCPI for 2010 that is used for the tariff reduction starting from April 1, 2011 is 0.96%; ΔCPI for 2011 that is used for the tariff reduction starting from April 1, 2012 is 1.42%.

On January 1, 2011, we implemented the NCC s change in policy for collecting the tariffs of fixed line-to-mobile calls from mobile service providers to fixed communications service providers. As a result, our fixed communications business now has the right to set and collect the tariffs for fixed line-to-mobile phone calls.

On June 22, 2011, we implemented a discounted tariff along with broadband speed upgrade for our broadband service, under which we provided a 30% or more discount to subscribers of 20 Mbps, 50 Mbps or 100 Mbps broadband access services. Moreover, we reduced our ADSL tariffs by approximately 20% starting from 2012 in order to attract more broadband customers.

In addition, in 2011, there were complaints from the general public regarding our mobile data network congestion. To address the situation, we adopted measures such as offering a 20% discount of the mobile data monthly fees from August 2011 to the end of 2012 for customers whose monthly data usage volume was less than one gigabyte.

As requested by the Legislative Yuan and National Communications Commission, we implemented a discounted tariff for telecommunication services from Kinmen, Matsu and Penghu Islands to Taiwan in April 1, 2011. We further applied one single tariff to all the telecommunication services for the entire country since January 2012.

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We expect to continue to adjust tariffs and offer a variety of promotional packages from time to time in response to increasing competition and in order to take advantage of our pricing power from economies of scale. We may also be required to adjust our pricing due to changes in domestic regulations.

Capital expenditures as a result of technological improvements and changes in our business

In recent years, we have focused on modernizing and upgrading our mobile services network and on developing our FTTx network, which enables transmission of digital information at a high bandwidth over fiber loops. In particular, we have enhanced our telecommunications services through:

- the introduction of a IP-based exchange system in our long distance telephone network;
- the implementation of a network modernization program, including a gradual transfer from our public switched telephone network to a system based on internet protocol, to remain at the forefront of new technologies;
- the deployment of an intelligent NGN network for fixed line and multimedia services;
- the development and deployment of Green IDC for meeting the new demands of cloud computing services;
- the deployment of a high-capacity long-haul reconfigurable optical add drop multiplexing system and a nationwide internet protocol backbone network with hundreds of Gbps switching routers for internet and managed IP services; and
- the expansion and upgrade of our mobile services network as well as WiFi/Femtocell to improve indoor 3G mobile network coverage and transmission speed for mobile internet.

As a result, we made aggregate capital expenditures of NT$132.2 billion over the period from January 1, 2007 to December 31, 2011.

Our long-term goal is to optimize our capital expenditures by focusing on investing in innovative products and services with attractive return profiles. We evaluate our investment opportunities by benchmarking them against internal return requirements. We are currently finalizing plans for the gradual upgrade of our entire public switched telephone network to a next-generation network. Next-generation internet protocol switches will have substantially more capacity and greater upgrade flexibility and should result in increased operational efficiencies from reduced switching centers and related property, materials and personnel costs. We have also devoted resources toward the effective upgrade of our 3G mobile network to 3.5G and HSPA+ and the continuing build-out of our FTTx infrastructure. In addition, we are planning to deploy green internet Data Centers and service delivery network for the innovative services, such as cloud computing, fixed mobile convergence services and four-screen digital convergence services.

Provisions for pension payments to our employees

Personnel expenses constitute a significant portion of our operating costs and expenses. In 2009, 2010 and 2011, personnel expenses represented 29.4%, 30.4% and 27.6% of our total operating costs and expenses, respectively, and pension costs represented 1.9%, 2.0% and 1.8% of our total operating costs and expenses, respectively. The table below sets forth information regarding our personnel expenses and as a percentage of our total operating costs and expenses for the periods indicated.

	For the year ended December 31,					
	2009		**2010**		**2011**	
	(in billions of NT$, except percentages)					
Personnel expenses:						
Salaries	22.4	15.8%	22.9	15.8%	23.6	14.6%
Insurance	1.8	1.3	1.9	1.3	2.0	1.2
Pension	2.7	1.9	2.9	2.0	3.0	1.8
Other	14.8	10.4	16.4	11.3	16.2	10.0
Total personnel expenses	41.7	29.4%	44.1	30.4%	44.8	27.6%
Total operating costs and expenses	142.0	100.0%	145.0	100.0%	162.4	100.0%

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At the time of our privatization, our then existing defined benefit pension obligations were settled in full. After completion of our privatization, our continuing employees were deemed to have commenced employment as of the date our privatization was completed for seniority purposes under our pension plans in effect after privatization. Under applicable Republic of China regulations, upon our privatization, the Ministry of Transportation and Communications assumed the obligation to make annuity payments to our employees who retired before our privatization.

Taxation

In May 2009, the Legislative Yuan passed an amendment to Article 5 of the Income Tax Law, which reduces the income tax rate of profit-seeking enterprises from 25% to 20% effective in 2010. Furthermore, in May 2010, the Legislative Yuan passed the amendment of Article 5 of the Income Tax Law, which reduced the income tax rate of profit-seeking enterprises from 20% to 17%, effective on January 1, 2010. We benefit from tax incentives generally available to technology companies in the Republic of China, including tax credits of up to 30% of the amount of some of our research and development, automation and employee training expenditures in accordance with the Statute for Upgrading Industries. We also qualify for tax benefits at a rate of 5% to 15% of our investment amount for qualified equipment and technology. However, due to the expiration of the Statute for Upgrading Industries at the end of 2009, we will no longer receive tax credits for new investments in automation, employee training expenditures incurred, and equipment and technology purchased after January 2010. In addition, tax credit rate for research and development expenditures incurred after January 1, 2010 has been reduced to 15% from 30%, under the Statute for Innovating Industries enacted on May 12, 2010. As a result, though our effective tax rate was 22.3%, 15.8% and 15.2% in 2009, 2010 and 2011, respectively, the smaller scope of tax credits and lower tax credit rate will reduce the tax credits amount that we could benefit from in the future. Therefore, we expect that our effective tax rate in the future will not be lower compared to that of 2011.

In 1997, the Income Tax Law of the Republic of China was amended to integrate corporate income tax and stockholder dividend tax to eliminate the double taxation effect for resident stockholders of Taiwan companies. Under the amendment, all retained earnings generated from January 1, 1998 and not distributed to stockholders as dividends in the following year are assessed with a 10% retained earnings tax. See Item 10. Additional Information E. Taxation Republic of China Taxation Dividends. This has not had an impact on our financial results of operations because of our high dividend payout policy.

Critical Accounting Policies

Summarized below are our accounting policies that we believe are both important to the portrayal of our financial results and involve the need for management to make estimates about the effect of matters that are uncertain in nature. Actual results may differ from these estimates, judgments and assumptions. Certain accounting policies are particularly critical because of their significance to our reported financial results and the possibility that future events may differ significantly from the conditions and assumptions underlying the estimates used and judgments made by our management in preparing our financial statements. The following discussion should be read in conjunction with the consolidated financial statements and related notes, which are included in this annual report.

Revenue Recognition

We recognize revenues when we have persuasive evidence of an arrangement, the goods have been delivered or the services have been rendered to the customer, the sales price is fixed or determinable and collectability is reasonably assured. We measure revenues at the fair value of the consideration received or receivable and represents amounts agreed between us and the customers for goods sold in the normal course of business, net of sales discounts and volume rebates. The costs of providing services are recognized as incurred.

Usage revenues from fixed-line services (including local, domestic long distance and international long distance), cellular services, internet and data services and interconnection and call transfer fees from other

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telecommunications companies and carriers are billed in arrears and are recognized based upon minutes of traffic processed when the services are provided in accordance with contract terms.

We recognize other revenues as follows: (i) one-time subscriber connection fees (on fixed-line services) are deferred and recognized over the average expected customer service periods, (ii) monthly fees (on fixed-line services, mobile and internet and data services) are accrued every month, and (iii) prepaid services (fixed line, mobile and internet and data services) are recognized as income based upon actual usage by customers or when the right to use those services expires. Where we enter into transactions which involve both the provision of air time bundled with products such as 3G data card and handset, total consideration received from handsets in these arrangements is allocated and measured using units of accounting within the arrangement based on relative fair values limited to the amount that is not contingent upon the delivery of other items or services. Relative fair values are based on the selling prices of 3G data cards and handsets sold on a standalone basis and the monthly fees on the subscription contracts.

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

Impairment of Accounts Receivable

We maintain allowances for doubtful accounts for estimated losses that result from the inability of our customers to make required payments before January 1, 2011. We assesses the probability of collections of accounts receivable by examining the aging analysis of the outstanding receivables and assessing the value of the collateral provided by customers.

On January 1, 2011, we adopted the third-time revised Statement of Financial Accounting Standards No. 34, Financial Instruments: Recognition and Measurement. One of the main revisions is that the impairment of receivables originated by us should be covered by No. 34. Accounts receivable are assessed for impairment at the end of each reporting period and considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the accounts receivable, the estimated future cash flows of the asset have been affected. There was no effect on the net income and after-tax basic earnings per share for the year ended December 31, 2011 as a result of the adoption of SFAS No. 34.

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

Estimated Useful Lives of Long-Lived Assets

A significant portion of our total assets consists of long-lived assets, primarily property, plant and equipment and definite-lived intangibles. We estimate the useful lives of property, plant and equipment and other long-lived assets with finite lives in order to determine the period of time over which depreciation and amortization expense should be recorded. The useful lives are estimated at the time assets are acquired and are based on historical experience with similar assets as well as the anticipated technological evolution or other environmental changes. If technological changes were to occur more rapidly than anticipated or in a different form than anticipated, the useful lives assigned to these assets may need to be shortened, resulting in the recognition of increased depreciation and amortization in the relevant periods. Alternatively, technological obsolescence could result in a write-down in the value of the assets to reflect impairment. We review these types of assets for impairment quarterly, or when events or circumstances indicate that the carrying amount may not be recoverable over the remaining life of an asset. In assessing impairments, we use estimated cash flows that take into account management s estimates of future operations. We did not have significant impairment losses of long-lived assets in 2009 and 2011, but had NT$66 million impairment loss in 2010.

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Investments in Unconsolidated Companies

We hold investments in other companies that we account for under the equity method or cost method of accounting, depending on our ability to exert significant influence over the investee company. The amounts for our equity method investments generally represent our cost of the initial investment adjusted for our share of the investee company s income or loss and any dividends received. The amounts for our investments carried at cost where the securities are not publicly traded generally represent our cost of the initial investment less any adjustments we make when we determine that an investment s net realizable value is less than its carrying cost. Estimating the net realizable value of investments in privately held companies can be inherently subjective and may contribute to significant volatility in our reported results of operations.

We assess the impairment of investments accounted for using the equity method whenever triggering events or changes in circumstances indicate that an investment may be impaired and carrying value may not be recoverable. We measure the impairment based on the projected future cash flow of the investees, the underlying assumptions for which had been formulated by such investees internal management team, taking into account sales growth and capacity utilization.

The process of assessing whether a particular cost method investment s net realizable value is less than its carrying cost requires a significant amount of judgment. We periodically evaluate these long-term investments based on quoted market prices, if available, the financial condition of the investee company, economic conditions in the industry and our intent and ability to hold the investment for a long period of time. If quoted market prices are not available, we estimate the fair value using the net asset values as well as the financial condition of the investee company. This information may be based on information that we request from the investee companies and may not be subject to the same disclosure and audit requirements as required of U.S. companies, and as such, the reliability and accuracy of the information may vary. If we deem the fair value of an investment to be less than the book value based on the above factors, and the decline in value is deemed to be other than temporary, we record the difference as impairment in the period of occurrence. In 2009, we recognized impairment losses of NT$10 million for Essence Technology Solution and NT$10 million for Digimax Inc. due to poor operating performance. In 2010, we recognized impairment losses of NT$21 million for Digimax Inc., NT$13 million for ChipSip Technology Co., Ltd. due to poor operating performance, NT$9 million for Crystal Media Inc. and NT$16 million for A2peak Power Co., Ltd. due to adverse changes in market conditions. In 2011, we recognized impairment losses of NT$50 million (US$1.7 million) for Global Mobile Corp., NT$34 million (US$1.1 million) for RPTI International Ltd., NT$14 million (US$0.5 million) for CQi Energy Infocom Inc. and NT$10 million (US$0.3 million) for A2peak Power Co., Ltd.due to poor operating performance, and NT$21 million (US$0.7 million) for Aide Energy (Cayman) Holding Co., Ltd., NT$10 million (US$0.3 million) for Procrystal Technology Co., Ltd., NT$5 million (US$0.2 million) for OptiVision Technology, Inc., and NT$4 million (US$0.1 million) for Tatung Fine Chemicals Co., Ltd. due to adverse changes in the market.

Valuation of long-lived assets, intangible assets

We assess the impairment of long-lived assets and intangible assets whenever triggering events or changes in circumstances indicate that the asset may be impaired and carrying value may not be recoverable. Indications we consider important which could trigger an impairment review include, but are not limited to, the following:

- External sources of information:

- during the period, an asset s market value has declined significantly more than would be expected as a result of the passage of time or normal use.

- significant changes with an adverse effect on the entity have taken place during the period, or will take place in the near future, in the technological, market, economic or legal environment in which the entity operates or in the market to which an asset is dedicated.

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- market interest rates or other market rates of return on investments have increased during the period, and those increases are likely to affect the discount rate used in calculating an asset s value in use and decrease the asset s recoverable amount materially.

- the carrying amount of the net assets of the entity is more than its market capitalization.

- Internal sources of information:

- evidence is available of obsolescence or physical damage of an asset.

- significant changes with an adverse effect on the entity have taken place during the period, or are expected to take place in the near future, in the extent to which, or manner in which, an asset is used or is expected to be used.

- evidence is available from internal reporting that indicates that the economic performance of an asset is, or will be, worse than expected.

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

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

Pension Benefits

The amounts recognized in our consolidated financial statements related to defined benefit pension are determined on an actuarial basis that utilizes several different assumptions in the calculation of such amounts. Significant assumptions used in determining our pension benefits are the discount rate, the expected long-term rate of return on plan assets, the rate of increase in compensation levels, and the average remaining years of service for employees.

We use long-term historical actual return information and estimate future long-term investment returns by reference to external sources to develop the expected long-term return on plan assets. The discount rate is assumed based on the rates available on high-quality fixed-income debt instruments with the same period to maturity as the estimated period to maturity of the pension benefit. We assume the rate of increase in compensation levels and average remaining years of service based on historical data. Any changes in one or more of these assumptions could impact our pension benefits.

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

Accounting for Income Taxes

Deferred income taxes represent the effect of temporary differences between the amounts of assets and liabilities recognized for financial reporting purposes and the amounts recognized for income tax purposes. We measure deferred tax assets and liabilities using statutory tax rates that, if changed, would result in either an increase or a decrease in the provision for income taxes in the period of change.

We record a valuation allowance to reduce our deferred tax assets to the amount of future tax benefit that is more likely than not to be realized. While we have considered future taxable income and ongoing prudent and

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feasible tax planning strategies in assessing the need for the valuation allowance, we cannot assure you that we would not need to increase the valuation allowance to cover additional deferred tax assets that may not be realizable. Any increase in the valuation allowance could have a material adverse effect on our income tax provision and net income in the period in which such determination is made.

We had a valuation allowance of NT$182 million (US$6.0 million) on our deferred tax asset balance as of December 31, 2011. We do not have a full valuation allowance on the deferred tax asset, as we believe these benefits will be partially realizable based on our projection of future operating income. If we experience a significant decrease in our future operating income, our ability to realize the deferred tax assets could be negatively impacted, and thus an increase in the valuation allowance might be required.

Any tax credits arising from purchases of machinery, equipment and technology, research and development expenditures, personnel training, and investments in important technology based enterprises are recognized using the flow through method. Adjustments of prior years tax liabilities are added to or deducted from the current year s tax provision. Under R.O.C. GAAP, income taxes of 10% on undistributed earnings are recorded in the year of stockholders approval which is the year subsequent to the year the earnings are generated. Under US GAAP, the 10% tax on unappropriated earnings is accrued during the period the earnings arise and adjusted to the extent that distributions are approved by the stockholders in the following year.

Effective from January 1, 2007, we adopted a guidance prescribing the recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return under U.S. GAAP. This guidance also provides guidance on derecognition, classification, interest and penalties, disclosure and transition. The evaluation of a tax position in accordance with this guidance is a two step process. The first step is recognition, where we evaluate whether an individual tax position has a likelihood of greater than 50% of being sustained upon examination based on the technical merits of the position, including resolution of any related appeals or litigation processes. For tax positions that are currently estimated to have a less than 50% likelihood of being sustained, zero tax benefit is recorded. For tax positions that have met the recognition threshold in the first step, we perform the second step of measuring the benefit to be recorded. The actual benefits ultimately realized may differ from the estimates. The adoption of this guidance did not have a material impact on our results of operation, financial position and cash flows. We did not identify significant unrecognized tax benefits for the year ended December 31, 2009, 2010 and 2011. It is highly unlikely that we will incur any interests or penalties related to potential underpaid income tax expenses.

Our Financial Reporting Obligations

Our ongoing financial reporting in our Form 20-F annual reports and interim financial reporting furnished to the SEC on Form 6-K had been based on U.S. GAAP through fiscal year 2007. Beginning with our first quarter interim financial report furnished on Form 6-K and our Form 20-F annual report for fiscal year 2008, we prepared our financial statements under R.O.C. GAAP, with reconciliations to U.S. GAAP.

A. Operating Results

The following table sets forth our revenues, operating costs and expenses, income from operations and other financial data for the periods indicated.

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	For the year ended December 31,			
	2009	2010	2011	
	NT$	NT$	NT$	US$
	(in billions)			
Revenues:				
Domestic fixed communications	71.5	70.7	79.4	2.6
Mobile communications	86.5	89.0	93.0	3.1
Internet	23.7	24.5	24.8	0.8
International fixed communications	15.2	15.5	15.2	0.5
Others	1.5	2.7	5.1	0.2
Net revenues	198.4	202.4	217.5	7.2
Operating costs and expenses:				
Operating costs	112.7	115.3	131.5	4.4
Operating expenses:				
Marketing	22.3	22.5	23.2	0.8
General and administrative	3.8	4.0	4.2	0.1
Research and development	3.2	3.2	3.5	0.1
Total operating costs and expenses	142.0	145.0	162.4	5.4
Income from operations	56.4	57.4	55.1	1.8
Other income, net	0.8	0.3	1.6	0.1
Income before income tax expense	57.2	57.7	56.7	1.9
Income tax expense	12.7	9.1	8.6	0.3
Consolidated net income	44.5	48.6	48.1	1.6
Attributable to:				
Stockholders of the parent	43.8	47.6	47.1	1.6
Minority interests	0.7	1.0	1.0	

The following table sets forth our revenues, operating costs and expenses, income from operations and other financial data as a percentage of our total revenues for the periods indicated.

	For the year ended December 31,		
	2009	2010	2011
	(as percentages of total revenues)		
Revenues:			
Domestic fixed communications	36.0%	34.9%	36.5%
Mobile communications	43.6	44.0	42.8
Internet	11.9	12.1	11.4
International fixed communications	7.7	7.7	7.0
Others	0.7	1.3	2.3
Total revenues	100.0%	100.0%	100%
Operating costs and expenses:			
Operating costs	56.8%	57.0%	60.5%
Operating expenses:			
Marketing	11.2	11.1	10.7
General and administrative	1.9	2.0	1.9
Research and development	1.6	1.6	1.6
Total operating costs and expenses	71.5	71.7	74.7
Income from operations	28.5	28.3	25.3
Other income, net	0.4	0.2	0.8
Income before income tax expense	28.9	28.5	26.1

Income tax expense	6.4	4.5	4.0
Consolidated net income	22.5%	24.0%	22.1%
Attributable to:			
Stockholders of the parent	22.1	23.5	21.6
Minority interests	0.4	0.5	0.5

Each of our operating segments is managed separately because each represents a strategic business unit that serves a different market. We measure our segment performances mainly based on revenues and income before tax.

Due to the change in policy for collecting the tariffs for fixed line-to-mobile calls starting from 2011 as discussed in Domestic Fixed Communications Business , Interconnection and Regulation Interconnection Arrangements of Item 4. Information on the Company Business Overview , our domestic fixed communications revenues and cost of revenues increased in 2011, while mobile communications revenues for the same period decreased.

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The year ended December 31, 2011 compared with the year ended December 31, 2010

Revenues

Our revenues increased by 7.4% from NT$202.4 billion in 2010 to NT$217.5 billion (US$7.2 billion) in 2011. This increase was primarily due to increase in revenues generated from domestic fixed communications, mobile communications, and other business sectors.

Domestic fixed communications

Domestic fixed communications revenues comprised 34.9% and 36.5% of our revenues in 2010 and 2011, respectively. Our domestic fixed line revenues increased by 12.3% from NT$70.7 billion in 2010 to NT$79.4 (US$2.6 billion) in 2011.

Local telephone services. Our local telephone revenues increased from NT$32.3 billion in 2010 to NT$41.7 billion (US$1.4 billion) in 2011. This reflects the shift in policies for collecting the tariffs for fixed-to-mobile calls from mobile service providers to fixed communications service providers since January 1, 2011, which gave our fixed communications business the right to set and collect the tariffs for fixed line-to-mobile phone calls. Traffic volume increased from 13.7 billion minutes in 2010 to 15.6 billion minutes in 2011. We primarily attribute the increase in traffic volume to the inclusion of fixed-line to mobile calls under this category as a result of the NCC s change in policy for collecting the tariffs from fixed-line to mobile calls starting from 2011. For the same reason, our local interconnection revenues decreased by NT$1.0 billion from NT$2.4 billion in 2010 to NT$1.4 billion (US$0.05 billion) in 2011 because fixed communications service providers received less interconnection charges from mobile service providers.

Domestic long distance telephone services. Our domestic long distance telephone revenues decreased by 12.9% from NT$6.6 billion in 2010 to NT$5.8 billion (US$0.2 billion) in 2011. This decrease was mainly due to a decrease in traffic volume from 3.4 billion minutes in 2010 to 3.2 billion minutes in 2011. The decrease in traffic volume was primarily due to the continued traffic migration from fixed line services to mobile services and VoIP.

Broadband access. The number of our ADSL customers decreased from 2.3 million in 2010 to 2.1 million in 2011 due to customer migration to our FTTx services. There was an increase in the number of FTTx customers from approximately 2.0 million in 2010 to approximately 2.4 million in 2011. Broadband access revenue increased from NT$20.3 billion for 2010 to NT$20.4 billion (US$0.7 billion) for 2011.

Domestic leased line. While demand for higher speed leased lines continues to increase, our overall leased line tariffs have continued to be adversely affected by competition from other fixed line operators, as well as the continued migration of domestic leased line customers to broadband services. Domestic leased line revenue decreased from NT$6.1 billion for 2010 to NT$5.7 billion (US$0.2 billion) for 2011.

MOD. Our MOD revenues increased by 31.2% from NT$1.1 billion in 2010 to NT$1.4 billion (US$0.05 billion) in 2011. This increase was mainly due to an increase in the number of subscribers.

Others. Other revenues increased by 0.4% from NT$4.3 billion in 2010 to NT$4.4 billion (US$0.1 billion) in 2011. This increase was mainly due to an increase in corporate solution ICT business.

Mobile communications

Revenues from our mobile communications business segment comprised 44.0% and 42.8% of our revenues in 2010 and 2011, respectively. Revenues from our mobile communications business segment increased by 4.4 % from NT$89.0 billion in 2010 to NT$93.0 billion (US$3.1 billion) in 2011. This increase was principally due to the growth of mobile VAS revenue and handset sales revenue offsetting the decline of mobile voice revenue since 2008. The growth of mobile voice traffic due to the general recovery of the economy in the R.O.C. was partially offset by the mandatory tariff reduction and the impact from the change in policy for collecting the tariffs for fixed-to-mobile calls from mobile service providers to fixed communications service providers since January 1, 2011,

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which gave our fixed communications business the right to set and collect the tariffs for fixed line-to-mobile phone calls.

Mobile services. Revenues from our mobile services comprised 36.1% and 32.6% of our revenues in 2010 and 2011, respectively. Revenues from our mobile services decreased by 3% from NT$73.1 billion in 2010 to NT$70.9 billion (US$2.3 billion) in 2011 due to the decline of mobile voice revenue as a result of the change in policy for collecting the tariffs for fixed line-to-mobile phone calls from mobile service providers to fixed communications service providers, and the mandatory tariff reduction, which was partially offset by the growth of mobile VAS revenue from NT$ 11.1 billion in 2010 to NT$15.2 billion (US$0.5 billion) in 2011.

Sales of mobile handsets and data cards. Revenues from our sales of mobile handsets and data cards comprised 7.9% and 10.1% of our revenues in 2010 and 2011, respectively. Revenues from our sales of mobile handsets and data cards increased by 38.4% from NT$15.9 billion in 2010 NT$22.0 billion (US$0.7 billion) in 2011. This increase was principally due to the strong sales of mobile smart phones and the general recovery of the economy in the R.O.C.

Internet

Internet revenues comprised 12.1% and 11.4% of our revenues in 2010 and 2011, respectively. Our revenues attributable to our internet business increased by 1.4 % from NT$24.5 billion in 2010 to NT$24.8 billion (US$0.8 billion) in 2011. The increase was mainly due to a 3% increase in the number of our total HiNet broadband subscribers from approximately 3.6 million as of December 31, 2010 to approximately 3.7 million as of December 31, 2011. Our HiNet subscribers remained at approximately 4.1 and 4.2 million subscribers as of December 31, 2010 and 2011, respectively. As of December 31, 2011, approximately 82% of our broadband access customers were also HiNet subscribers, using HiNet as their ISP.

International fixed communications

International fixed communications revenues comprised 7.7% and 7.0% of our revenues in 2010 and 2011, respectively. Our international fixed communications revenues decreased by 2% from NT$15.5 billion in 2010 to NT$15.2 billion (US$0.5 billion) in 2011. This decrease was mainly due to the decrease in international long distance service revenue as a result of intensified market competition.

International long distance telephone services. Our international long distance telephone revenues decreased by 3.4% from NT$12.9 billion in 2010 to NT$12.4 billion (US$0.4 billion) in 2011 because of the decline in traffic volumes as a result of intensified market competition.

International leased line and international data services. Our international leased line and international data revenues increased by 6% from NT$2.0 billion in 2010 to NT$2.1 billion (US$70.1 million) in 2011. The increase was mainly because of the overseas market expansion and the increased demand of multinational corporations.

Others

Other revenues comprised 1.3% and 2.3% of our revenues in 2010 and 2011, respectively. Our other revenues increased by 90.0% from NT$2.7 billion in 2010 to NT$5.1 billion (US$0.2 billion) in 2011. The increase was mainly due to higher property sales by our subsidiary Light Era Development Co., Ltd.

Operating Costs and Expenses

Our operating costs and expenses increased by 12.0% from NT$145.0 billion in 2010 to NT$162.4 billion (US$5.4 billion) in 2011. This increase was primarily due to the higher cost of handsets sold, interconnection costs and transition fees resulting from the change in policy for collecting the tariffs of fixed line-to-mobile phone calls.

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Operating Costs

Operating costs include depreciation and amortization expense, personnel expenses, cost of goods sold, interconnection and service expense, costs of materials and maintenance and spectrum usage and license fees.

Our operating costs increased by 14.0% from NT$115.3 billion in 2010 to NT$131.5 billion (US$4.4 billion) in 2011. This increase was principally a result of an increase of NT$8.1 billion (US$266.1 million) in cost of goods sold, an increase of NT$7.1 billion (US$232.9 million) in interconnection and service expenses mainly due to the change in policy for collecting the tariffs of fixed line-to-mobile phone calls, an increase of NT$1.0 billion (US$34.5 million) in maintenance and material expenses due to expansion of broadband facilities, a NT$1.0 billion (US$33.2 million) increase in corporate solution ICT costs due to the increase in revenue, partially offset by a decrease of NT$1.8 billion (US$61.1 million) in depreciation.

Marketing

Our marketing expenses, which include personnel expenses, expenses relating to advertising and marketing-related activities and provision for bad debt increased by 3.1% from NT$22.5 billion in 2010 to NT$23.2 billion (US$0.8 billion) in 2011. This increase was principally a result of a NT$0.3 billion (US$11.5 million) increase in salary expenses due to headcount growth, and NT$0.2 billion (US$7.0 million) in expenses relating to human resource outsourcing services for the sales division.

General and administrative

Our general and administrative expenses increased by 4.2% from NT$4.0 billion in 2010 to NT$4.2 billion (US$0.1 billion) in 2011. This increase was principally a result of new business in mobile industry in Mainland China and an increase in personnel expenses mainly due to salary increases, additional employees and bonuses.

Research and development

Our research and development expenses increased by 8.5% from NT$3.2 billion in 2010 to NT$3.5 billion (US$0.1 billion) in 2011. This increase was principally a result of an increase in research professionals and engineers.

Operating Costs and Expenses by Business Segment

	Domestic Fixed Communications	Mobile Communications	Internet	International Fixed Communications	Others	Adjustment	Total
For the year ended December 31, 2011							
Operating costs and expenses	76.7	72.3	17.2	15.8	8.0	(27.6)	162.4
Depreciation and amortization	20.1	8.3	2.3	1.3	0.3		32.3
For the year ended December 31, 2010							
Operating costs and expenses	67.0	62.1	15.8	14.5	6.1	(20.5)	145.0
Depreciation and amortization	21.9	8.2	2.2	1.4	0.3		34.0

Domestic fixed communications

Our domestic fixed communications costs and expenses increased by 14.5% from NT$67.0 billion in 2010 to NT$76.7 billion (US$2.5 billion) in 2011, primarily due to an increase of NT$9.7 billion (US$321.4 million) in interconnection and service expenses mainly due to the change in policy for collecting the tariffs of fixed line-to-mobile phone calls. Since we are the market leader of the local call services, in addition to the interconnection fees, we are required to pay transition fees to the mobile operators for a period of six years.

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Mobile communications

Our mobile communications operating costs and expenses increased by 16.4% from NT$62.1 billion in 2010 to NT$72.3 billion (US$2.4 billion) in 2011. This increase was primarily due to an increase of NT$7.9 billion (US$262.6 million) in cost of handsets sold and an increase of NT$1.6 billion (US$53.5 million) in leased line and internet access expenses.

Internet

Our internet operating costs and expenses increased by 9.1% from NT$15.8 billion in 2010 to NT$17.2 billion (US$0.6 billion) in 2011. This increase was primarily due to an increase of NT$0.8 billion (US$27.4 million) in leased line expenses for broadband services and an increase of NT$0.4 billion (US$12.9 million) in corporate solution services and ICT costs.

International fixed communications

Our international fixed communications costs and expenses increased by 9.2% from NT$14.5 billion in 2010 to NT$15.8 billion (US$0.5 billion) in 2011. The increase was primarily due to an increase of NT$0.9 billion (US$28.4 million) in international interconnection expenses.

Others

The costs and expenses from our other business increased by 32.0 % from NT$6.1 billion in 2010 to NT$8.0 billion (US$0.3 billion) in 2011. The increase was primarily due to an increase of NT$1.4 billion (US$46.5 million) in construction costs and an increase of NT$0.5 billion (US$16.5 million) in research and development expense.

Income from operations and Operating Margin

As a result of the foregoing, our income from operations decreased by 4.0% from NT$57.4 billion in 2010 to NT$55.1 billion (US$1.8 billion) in 2011. Our operating margin decreased from 28.3% in 2010 to 25.3% in 2011.

The following table sets forth certain information regarding our operating income by business segment for the periods indicated.

	Domestic Fixed Communications	Mobile Communications	Internet	International Fixed Communications	Others	Adjustment	Total
				(in billions of NT$)			
For the year ended December 31, 2011							
Revenues from external customers	79.4	93.0	24.8	15.2	5.1		217.5
Intersegment service revenues	15.4	7.0	1.9	2.6	0.7	(27.6)	
Interest income					0.7		0.7
Other income	0.4	0.1		0.1	0.6		1.2
	95.2	100.1	26.7	17.9	7.1	(27.6)	219.4
Segment income before tax	18.5	27.8	9.6	2.0	(1.2)		56.7
For the year ended December 31, 2010							
Revenues from external customers	70.7	89.0	24.5	15.5	2.7		202.4
Intersegment service revenues	14.7	2.1	1.1	1.7	0.7	(20.3)	
Interest income					0.5		0.5
Other income		0.3		0.1	0.3	(0.2)	0.5
	85.4	91.4	25.6	17.3	4.2	(20.5)	203.4
Segment income before tax	18.1	29.3	9.8	2.7	(2.2)		57.7

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As a result of the foregoing, the segment income before tax for our domestic fixed communications business increased by 2.4% from NT$18.1 billion in 2010 to NT$18.5 billion (US$0.6 billion) in 2011; segment income before tax for our mobile communications business decreased by 5.1% from NT$29.3 billion in 2010 to NT$27.8 billion (US$0.9 billion) in 2011; segment income before tax for our internet business decreased by 2.8% from NT$9.8 billion in 2010 to NT$9.6 billion (US$0.3 billion) in 2011; segment income before tax for our international fixed communications business decreased by 23.1% from NT$2.7 billion in 2010 to NT$2.0 billion (US$0.1 million) in 2011; and segment loss for our others business segment decreased by 43.7% from NT$2.2 billion in 2010 to NT$1.2 billion (US$ 40.5 million) in 2011.

Other Income, Net

Our other income, net increased by 402.8% from NT$0.3 billion in 2010 to NT$1.6 billion (US$53.3 million) in 2011. This increase was primarily due to a NT$0.5 billion (US$17.0 million) increase in net gain on disposal of property, plant and equipment, a NT$0.2 billion (US$7.0 million) increase in equity in earnings of equity method investees, a NT$0.3 billion (US$9.3 million) increase in net interest income, and a NT$0.2 billion (US$5.0 million) decrease in net loss on valuation and disposal of financial instruments.

Income Tax

Our income tax was NT$9.1 billion in 2010, compared to NT$8.6 billion (US$0.3 billion) in 2011. Our effective tax rate was 15.8% in 2010 and 15.2% in 2011, primarily due to lower income from operations. Please refer to Item 5. Operating and Financial Review and Prospects Taxation for a discussion of the change in tax rate.

Net Income

As a result of the foregoing, our net income attributable to stockholders of the parent decreased by 1.1% from NT$47.6 billion in 2010 to NT$47.1 billion (US$1.6 billion) in 2011. Our net margin was 23.5% in 2010 and 21.6 % in 2011.

The year ended December 31, 2010 compared with the year ended December 31, 2009

Revenues

Our revenues increased by 2.1% from NT$198.4 billion in 2009 to NT$202.4 billion in 2010. This increase was primarily due to increase in revenues generated from mobile communications, internet, international fixed communications and other business sectors.

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Domestic fixed communications

Domestic fixed communications revenues comprised 36.0% and 34.9% of our revenues in 2009 and 2010, respectively. Our domestic fixed line revenues decreased by 1.1% from NT$71.5 billion in 2009 to NT$70.7 billion in 2010.

Local telephone services. Our local telephone revenues decreased from NT$33.2 billion in 2009 to NT$32.3 billion in 2010. This reflects a 6.4% decline in traffic volume from 14.6 billion minutes in 2009 to 13.7 billion minutes in 2010, offset by a 0.5% increase in average local usage fees. The decline in traffic volume was primarily due to the traffic migration from fixed line services to mobile and internet telephone services. We expect this trend to continue as broadband and mobile services become more widely adopted in Taiwan. However, we believe the rate of such migration is slowing down. Our local interconnection revenues decreased by NT$77 million (US$2.6 million) from 2009 to 2010 because of the decrease in fixed line to mobile voice traffic volume of calls terminating on mobile networks of alternative operators.

Domestic long distance telephone services. Our domestic long distance telephone revenues decreased by 10.2% from NT$7.4 billion in 2009 to NT$6.6 billion in 2010. This decrease was mainly due to a decrease in traffic volume from 3.6 billion minutes in 2009 to 3.4 billion minutes in 2010 and domestic long distance interconnection tariff decreases mandated by the National Communications Commission. The decrease in traffic volume was primarily due to the continued traffic migration from fixed line services to mobile services and VoIP. Our interconnection revenues also decreased primarily because the telecommunications operators construct their own interconnection circuit.

Broadband access. The number of our ADSL customers decreased from 2.7 million in 2009 to 2.3 million in 2010 due to customer migration to our FTTx services. There was an increase in the number of FTTx customers from approximately 1.6 million in 2009 to approximately 2.0 million in 2010. Broadband access revenue increased from NT19.9 billion for 2009 to NT$20.3 billion for 2010.

Domestic leased line. While demand for higher speed leased lines continues to increase, our overall leased line tariffs have continued to be adversely affected by competition from other fixed line operators, as well as the continued migration of domestic leased line customers to broadband services. Domestic leased line revenue decreased from NT$6.7 billion for 2009 to NT$6.1 billion for 2010.

MOD. Our MOD revenues increased by 9.9% from NT$0.9 billion in 2009 to NT$1.1 billion in 2010. This increase was mainly due to an increase in the average revenue per user. In addition, since 2010, MOD revenues include billing fees and advertising revenues, which was previously accounted for under domestic other services.

Mobile communications

Revenues from our mobile communications business segment comprised 43.6% and 44.0% of our revenues in 2009 and 2010, respectively. Revenues from our mobile communications business segment increased by 2.9% from NT$86.5 billion in 2009 to NT$89.0 billion in 2010. This increase was principally due to the growth of mobile VAS revenue and handset sales revenue offsetting the decline of mobile voice revenue over years. The growth of mobile voice traffic due to the general recovery of the economy in the R.O.C. partially offset the impact from the mandatory tariff reduction, which helped slow down the decline of the mobile voice revenue in 2010.

Mobile services. Revenues from our mobile services comprised 36.0% and 36.1% of our revenues in 2009 and 2010, respectively. Revenues from our mobile services increased by 2.3% from NT$71.4 billion in 2009 to NT$73.1 billion in 2010 due to the growth of mobile VAS revenue from NT$8.4 billion in 2009 to NT$ 11.1 billion in 2010, offsetting the decline of mobile voice revenue. The growth of mobile traffic volume due to the general recovery of the economy in the R.O.C. also helped slow down the decline in mobile voice revenue.

Sales of mobile handsets and data cards. Revenues from our sales of mobile handsets and data cards comprised 7.6% and 7.9% of our revenues in 2009 and 2010, respectively. Revenues from our sales of mobile handsets and data cards increased by 6.1% from NT$15.0 billion in 2009 to NT$15.9 billion in 2010. This increase

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was principally due to the strong sales of mobile smart phones and the general recovery of the economy in the R.O.C.

Internet

Internet revenues comprised 11.9% and 12.1% of our revenues in 2009 and 2010, respectively. Our revenues attributable to our internet business increased by 3.5% from NT$23.7 billion in 2009 to NT$24.5 billion in 2010. The increase was mainly due to a 1.6% increase in the number of our total HiNet broadband subscribers from approximately 3.5 million as of December 31, 2009 to approximately 3.6 million as of December 31, 2010. Our HiNet subscribers remained at approximately 4.1 million subscribers as of December 31, 2009 and 2010 because the increase of our HiNet broadband subscribers was offset by the decrease of HiNet dial-up subscribers. As of December 31, 2010, approximately 82.0% of our broadband customers were also HiNet subscribers, using HiNet as their ISP.

International fixed communications

Our international fixed communications revenues increased by 1.9% from NT$15.2 billion in 2009 to NT$15.5 billion in 2010. This increase was mainly due to the increase in revenues from our international leased line services and international data services.

International long distance telephone services. Our international long distance telephone revenues remained constant at NT$12.9 billion in 2009 and 2010 because the decrease of the unit price was offset by the growth in both the traffic volume of calls using calling cards and the wholesale of the traffic from 2009 to 2010. Our international settlement revenues decreased from NT$3.5 billion in 2009 to NT$3.2 billion in 2010. This decrease was primarily due to the appreciation of NT dollars.

International leased line and international data services. Our international leased line and international data revenues increased by 19.1% from NT$1.68 billion in 2009 to NT$2.00 billion in 2010. The increase was mainly because of the overseas market expansion and the increased demand of multinational corporations.

Operating Costs and Expenses

Our operating costs and expenses increased by 2.2% from NT$142.0 billion in 2009 to NT$145.0 billion in 2010. This increase was primarily due to the increases in costs of handsets sold. As a percentage of revenues, operating costs and expenses increased from 71.5% in 2009 to 71.7% in 2010.

Operating Costs

Operating costs include depreciation and amortization expense, personnel expenses, cost of goods sold, interconnection and service expense, costs of materials and maintenance and spectrum usage and license fees.

Our operating costs increased by 2.3% from NT$112.7 billion in 2009 to NT$115.3 billion in 2010. This increase was principally a result of an increase of NT$3.0 billion in cost of goods sold, an increase of NT$1.2 billion in personnel expenses mainly due to increase in bonus expense because of net income growth, and a NT$0.6 billion increase in ICT costs due to the increase in revenue, partially offset by a decrease of NT$2.2 billion in depreciation.

Marketing

Our marketing expenses, which include personnel expenses, expenses relating to advertising and marketing-related activities and provision for bad debt increased by 0.8% from NT$22.3 billion in 2009 to NT$22.5 billion in 2010. This increase was principally a result of a NT$0.5 billion increase in bonus, partially offset by a decrease of NT$0.3 billion in expenses relating to advertising and other marketing-related activities.

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General and administrative

Our general and administrative expenses increased by 6.6% from NT$3.8 billion in 2009 to NT$4.0 billion in 2010. This increase was principally a result of a NT$0.1 billion increase due to the consolidation of our subsidiaries previously accounted for under the equity method, and a NT$0.1 billion increase in bonus.

Research and development

Our research and development expenses remained flat at NT$3.2 billion in 2009 and 2010.

Operating Costs and Expenses by Business Segment

	Domestic Fixed Communications	Mobile Communications	Internet	International Fixed Communications	Others	Adjustment	Total
For the year ended December 31, 2010							
Operating costs and expenses	67.0	62.1	15.8	14.5	6.1	(20.5)	145.0
Depreciation and amortization	21.9	8.2	2.2	1.4	0.3		34.0
For the year ended December 31, 2009							
Operating costs and expenses	67.6	58.3	15.1	14.2	4.6	(17.8)	142.0
Depreciation and amortization	24.0	8.4	2.3	1.4	0.2		36.3

Domestic fixed communications

Our domestic fixed communications costs and expenses decreased by 0.9% from NT$67.6 billion in 2009 to NT$67.0 billion in 2010, primarily due to a NT$2.1 billion decrease in depreciation and amortization expenses reflecting a slowdown in capital expenditures, partially offset by a NT$0.9 billion increase in corporate solution services and ICT costs and a NT$0.8 billion increase in bonus.

Mobile communications

Our mobile communications operating costs and expenses increased by 6.6% from NT$58.3 billion in 2009 to NT$62.1 billion in 2010. This increase was primarily due to an increase of NT$2.4 billion in cost of handsets sold, and an NT$1.0 billion increase in leased line and internet access expenses.

Internet

Our internet operating costs and expenses increased by 4.5% from NT$15.1 billion in 2009 to NT$15.8 billion in 2010. This increase was primarily due to a NT$0.4 billion increase in leased line expenses.

International fixed communications

Our international fixed communications costs and expenses increased by 1.9% from NT$14.2 billion in 2009 to NT$14.5 billion in 2010. The increase was primarily due to an increase of NT$0.1 billion in equipment rental expense and an increase of NT$0.1 billion in corporate solution services and ICT costs.

Others

The costs and expenses from our other business increased by 31.7% from NT$4.6 billion in 2009 to NT$6.1 billion in 2010. The increase was primarily due to the consolidation of our subsidiaries.

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Income from operations and Operating Margin

As a result of the foregoing, our income from operations increased by 1.7% from NT$56.4 billion in 2009 to NT$57.4 billion in 2010. Our operating margin decreased from 28.5% in 2009 to 28.3% in 2010.

The following table sets forth certain information regarding our operating income by business segment for the periods indicated.

	Domestic Fixed Communications	Mobile Communications	Internet	International Fixed Communications	Others	Adjustment	Total
			(in billions of NT$)				
For the year ended December 31, 2010							
Revenues from external customers	70.7	89.0	24.5	15.5	2.7		202.4
Intersegment service revenues	14.7	2.1	1.1	1.7	0.7	(20.3)	
Interest income					0.5		0.5
Other income		0.3		0.1	0.3	(0.2)	0.5
	85.4	91.4	25.6	17.3	4.2	(20.5)	203.4
Segment income before tax	18.1	29.3	9.8	2.7	(2.2)		57.7
For the year ended December 31, 2009							
Revenues from external customers	71.5	86.5	23.7	15.2	1.5		198.4
Intersegment service revenues	13.7	1.9	0.7	1.5		(17.8)	
Interest income					0.5		0.5
Other income		0.1	0.1		0.7		0.9
	85.2	88.5	24.5	16.7	2.7	(17.8)	199.8
Segment income before tax	17.4	30.2	9.3	2.6	(2.3)		57.2

As a result of the foregoing, segment income before tax for our domestic fixed communications business increased by 3.4% from NT$17.4 billion in 2009 to NT$18.1 billion in 2010; segment income before tax for our mobile communications business decreased by 2.8% from NT$30.2 billion in 2009 to NT$29.3 billion in 2010; segment income before tax for our internet business increased by 5.1% from NT$9.3 billion in 2009 to NT$9.8 billion in 2010; segment income before tax for our international fixed communications business increased by 4.0% from NT$2.6 billion in 2009 to NT$2.7 billion in 2010; and segment loss for our others business segment decreased by 5.5% from NT$2.3 billion to NT$2.2 billion.

Other Income, Net

Our other income, net decreased by 62.1% from NT$0.8 billion in 2009 to NT$0.3 billion in 2010. This decrease was primarily to a NT$0.2 billion loss on disposal of property, plant, and equipment, and a NT$0.1 billion net loss on valuation and disposal of financial instruments, and a NT$0.1 billion net loss on foreign exchange.

Income Tax

Our income tax was NT$12.7 billion in 2009, compared to NT$9.1 billion in 2010. Our effective tax rate was 22.3% in 2009 and 15.8% in 2010, primarily due to the reduction of the corporate income tax rate in the R.O.C. from 25% to 17% effective from 2010. Please refer to Item 5. Operating and Financial Review and Prospects Taxation for a discussion of the change in tax rate.

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Net Income

As a result of the foregoing, our net income attributable to stockholders of the parent increased by 8.8% from NT$43.8 billion in 2009 to NT$47.6 billion in 2010. Our net margin was 22.1% in 2009 and 23.5% in 2010.

B. Liquidity and Capital Resources

Liquidity

The following table sets forth the summary of our cash flows for the periods indicated:

	For the year ended December 31,			
	2009	2010	2011	
	NT$	NT$	NT$	US$
	(in billions)			
Net cash provided by operating activities	77.3	84.8	75.3	2.5
Net cash used in investing activities	(29.5)	(17.4)	(33.1)	(1.1)
Net cash used in financing activities	(56.5)	(47.0)	(65.7)	(2.2)
Effect of exchange rate changes			0.1	
Effect of change on consolidated subsidiaries	0.7	(2.8)	(0.1)	
Net increase (decrease) in cash and cash equivalents	(8.0)	17.6	(23.5)	(0.8)
Cash and cash equivalents at end of year	73.3	90.9	67.4	2.2

Our primary source of liquidity is cash flow from operations, which represents operating profit adjusted for non cash items, primarily depreciation and amortization and changes in current assets and liabilities. We believe that our working capital is sufficient to meet our present cash flow requirements.

In 2011, we generated NT$75.3 billion (US$2.5 billion) net cash from operating activities as compared to NT$84.8 billion in 2010. The decrease was primarily due to a NT$6 billion (US$0.2 billion) decrease in cash flow from accounts receivable because starting from 2011, we brought our billing period for monthly fees in line with that for connection charges, and due to a NT$2.3 billion (US$0.1 billion) decrease in income from operations owing to the increased operating cash outflow which outnumbered the revenue in 2011.

In 2010, we generated NT$84.8 billion net cash from operating activities as compared to NT$77.3 billion in 2009. The increase was primarily due to a NT$4.1 billion increase in consolidated net income and the decrease in pension fund contribution described below.

Historically, net cash from operating activities has been sufficient to cover our capital expenditures, including ongoing expansion and modernization of our networks.

In 2011, net cash used in investing activities was NT$33.1 billion (US$1.1 billion), an increase from NT$17.4 billion in 2010. The change was primarily due to the decrease in cash flow from disposal of available-for-sale financial instruments.

In 2010, net cash used in investing activities was NT$17.4 billion, a decrease from NT$29.5 billion in 2009. The change was primarily due to the increase in cash inflow from disposal of available-for-sale financial instruments.

In 2011, our net cash used in financing activities totaled NT$65.7 billion (US$2.2 billion), which mainly reflected NT$42.9 billion (US$1.4 billion) of payment of dividends during that period and NT$19.4 billion (US$0.6 billion) of cash distribution to our stockholders for a capital reduction plan.

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In 2010, our net cash used in financing activities totaled NT$47.0 billion, which mainly reflected NT$39.4 billion of payment of dividends during that period and NT$9.7 billion of cash distribution to our stockholders for a capital reduction plan.

Capital Resources

We have historically financed our capital expenditure requirements with our cash flows from operations. In future years, we expect to have capital expenditure requirements for the ongoing expansion and upgrade of our networks, including 3G/HSPA/HSPA+,FTTx, Wi-Fi/femtocell and service platforms, and future construction of LTE to migrate mobile and data service customers to higher contribution platforms. We also expect to make dividend payments on an ongoing basis. See Item 8. Financial Information A. Consolidated Statements and Other Financial Information. Furthermore, we may require working capital from time to time to finance purchases of materials for our maintenance and other overhead expenses. We expect to primarily rely on cash generated from operations and, to a lesser extent, loans from commercial banks to meet our planned capital expenditures, make our planned dividend payments, repay debts and fulfill other commitments over the next twelve months.

As of December 31, 2011, our primary source of liquidity was NT$67.4 billion (US$2.2 billion) in cash and cash equivalents.

Our subsidiary, Spring House Entertainment Inc. applied for a secured loan from the Industrial Development Bureau of the Ministry of Economic Affairs for research and development purposes and obtained the loan from Taiwan Business Bank. This secured loan was early repaid in full in April 2010.

As of December 31, 2009, 2010 and 2011, our subsidiary Chief Telecom had short-term unsecured loans in the amount of NT$235 million, NT$75 million, and NT$70 million (US$2.3 million) at interest rates at 1.15%, 1.10% and 1.25%, respectively. As of December 31, 2009, 2010 and 2011, Chief Telecom had long-term unsecured loans in the amount of NT$310 million, NT$209 million and NT$109 million (US$3.6 million), respectively, all with interest rates ranging from 2.01% to 2.04%.

As of December 31, 2009, our subsidiary Light Era Development Co., Ltd. had a short-term secured loan from First Commercial Bank in the amount of NT$488 million at an interest rate of 0.81%. In September 2010, Light Era Development renewed this short-term loan to a long-term secured loan, and obtained another long-term secured loan in the amount of NT$2,750 million from Chang Hwa Bank. As of December 31, 2010 and 2011, Light Era Development Co., Ltd. had secured loans in the amount of NT$3,238 million with interest rates ranging from 0.80% to 1.01%, and NT$1,650 million (US$54.5 million) with interest rate at 1.10%, respectively.

As of December 31, 2010 and 2011, Chunghwa Precision Test Technology Co., Ltd., a subsidiary of Chunghwa Investment Co., Ltd. had short-term unsecured loans of NT$40 million and NT$5 million(US$0.17 million) at interest rates ranging from 1.29% to 1.33% and 1.53% from the Bank of Taiwan and E.SUN Bank, respectively, and a long-term secured loan of NT$10 million and NT$1.42 million (US$0.05 million) from E.SUN Bank at an interest rate of 1.60% and 1.83%, respectively.

As part of the government s effort to upgrade the existing telecommunication infrastructure, we and other public utility companies were required by the R.O.C. government to contribute a total of NT$1.0 billion to a Piping Fund, administered by the Taipei City Government. This fund is used to finance various telecommunications infrastructure projects. We accounted for the contribution as other monetary assets on our consolidated balance sheets.

Note 30 to our audited consolidated financial statements included elsewhere in this annual report provides a description of the assets are pledged as collateral for short-term and long-term bank loans and contract deposits.

Capital Expenditures

The following table sets forth a summary of our capital expenditures for the periods indicated.

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	For the year ended December 31,					
	2009		2010		2011	
	(NT$ in billions, except percentages)					
Capital Expenditures:						
Domestic fixed communications business	15.9	62%	14.2	58%	16.6	62%
Mobile communications business	5.0	20	5.3	21	4.3	16
Internet business	2.1	8	1.9	8	3.8	14
International fixed communications business	1.3	5	1.8	7	1.5	6
Others	1.2	5	1.4	6	0.7	2
Total capital expenditures	25.5	100%	24.6	100%	26.9	100%

The following table sets forth a summary of our planned capital expenditures for the year ending December 31, 2012.

	For the year ending December 31, 2012 (NT$ in billions, except percentages)	
Capital Expenditures:		
Domestic fixed communications business	19.3	58.3%
Mobile communications business	6.9	20.9
Internet business	4.5	13.6
International fixed communications business	1.6	4.8
Others	0.8	2.4
Total capital expenditures	33.1	100.0%

We expect our total capital expenditures to be approximately NT$ 33.1 billion in 2012. In future periods, we expect our total capital expenditures to rise due to the launch of new businesses, FTTx network expansion, access bandwidth enhancement, service platforms, cloud computing and 3G/HSPA/HSPA+ mobile network expansion. We expect to finance these capital expenditures with our cash flows from operations.

Inflation

We do not believe that inflation in Taiwan has had a material impact on our results of operations in 2009, 2010 and 2011.

Recent Accounting Pronouncements

The ARDF of the R.O.C revised statement of Financial Accounting Standards No. 34, Financial Instruments: Recognition and Measurement on December 4, 2008. One of the main revisions is that the impairment of receivables originated by us should be covered by SFAS No. 34. Accounts receivable are assessed for impairment at the end of each reporting period and considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the accounts receivable, the estimated future cash flows of the asset have been affected. The revised SFAS No. 34 should be applied to financial statements for the fiscal years beginning on and after January 1, 2011. The adoption of the accounting standard did not have a material effect on our results of operations, financial position and cash flows.

On May 14, 2009, the Financial Supervisory Commission announced the Framework for Adoption of International Financial Reporting Standards, or IFRSs, by Companies in the R.O.C. In this framework, starting 2013, companies with shares listed on the TSE or traded on the Taiwan GreTai Securities Market or Emerging Stock Market should prepare their financial statements in accordance with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers and the International Financial Reporting Standards, International Accounting Standards, and the Interpretations as well as related guidance translated by the ARDF and issued by the FSC. Note 35 to our audited consolidated financial statements included elsewhere in this annual report provides a description of our plans, status of execution and the material differences between the existing accounting policies and the accounting policies to be adopted under IFRSs.

In September 2009, the FASB issued an accounting standard update which provides guidance on how to separate consideration in multiple-deliverable arrangements and significantly expands disclosure requirements. The

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standard establishes a hierarchy for determining the selling price of a deliverable, eliminates the residual method of allocation and requires that arrangement consideration be allocated at the inception of the arrangement to all deliverables using the relative selling price method. The update is effective for annual reporting periods beginning on or after June 15, 2010. The adoption of the guidance did not have a material effect on our results of operations, financial position and cash flows.

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

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

In April 2010, the FASB issued an accounting update that provides guidance on defining a milestone and determining when it may be appropriate to apply the milestone method of revenue recognition for certain research and development transactions. Under this new standard, a company can recognize as revenue consideration that is contingent upon achievement of a milestone in the period in which it is achieved, only if the milestone meets all criteria to be considered substantive. This standard is effective for us on a prospective basis as of January 1, 2011. The adoption of the guidance did not have a material effect on our results of operations, financial position and cash flows.

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

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

In December 2010, the FASB issued an accounting update to modify Step 1 of the goodwill impairment test for reporting units with zero or negative carrying amounts. For those reporting units, an entity is required to perform Step 2 of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. In determining whether it is more likely than not that a goodwill impairment exists, an entity should consider whether there are any adverse qualitative factors indicating that an impairment may exist. For public entities, this guidance is effective for impairment tests performed during entities fiscal years that begin after December 15, 2010. Early

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application will not be permitted. The adoption of the accounting standard did not have a material effect on our consolidated financial statements.

In May 2011, the FASB issued an accounting update to amend the fair value measurement guidance and include some enhanced disclosure requirements. The most significant change in disclosures is an expansion of the information required for Level 3 measurements based on unobservable inputs. The standard is effective for fiscal years beginning after December 15, 2011. Early adoption is not permitted. Since this standard impacts disclosure requirements only, its adoption is not expected to have a material impact on our results of operations, financial condition or cash flows.

In June and December 2011, the FASB issued accounting updates to eliminate the current option to report other comprehensive income and its components in the statement of stockholders   equity. Instead, an entity will be required to present items of net income and other comprehensive income in one continuous statement or in two separate, but consecutive, statements. The new requirements do not change which components of comprehensive income are recognized in net income or other comprehensive income, or when an item of other comprehensive income must be reclassified to net income. This guidance must be applied retroactively and is effective for fiscal years beginning after December 15, 2011. Earlier application is permitted. Based on our analysis, we currently do not anticipate that the new guidance will have a material effect on our result of consolidated financial statements.

In September 2011, the FASB issued an accounting update, which is intended to reduce the cost and complexity of the annual goodwill impairment test by providing entities an option to perform a   qualitative   assessment to determine whether further impairment testing is necessary. Specifically, an entity has the option to first assess qualitative factors to determine whether it is necessary to perform the current two-step test. If an entity believes, as a result of its qualitative assessment, that it is more-likely-than-not that the fair value of a reporting unit is less than its carrying amount, the quantitative impairment test is required. Otherwise, no further testing is required. This standard is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Earlier adoption is permitted. We are currently evaluating the impact on the adoption of the update.

In December 2011, the FASB issued an accounting update, which creates new disclosure requirements regarding the nature of an entity s rights of setoff and related arrangements associated with its financial instruments and derivative instruments. Certain disclosures of the amounts of certain instruments subject to enforceable master netting arrangements or similar agreements would be required, irrespective of whether the entity has elected to offset those instruments in the statement of financial position. The disclosure requirements are effective for annual reporting periods beginning on or after January 1, 2013 with retrospective application required. Since this standard impacts disclosure requirements only, its adoption is not expected to have a material impact on our results of operations, financial condition or cash flows.

U.S. GAAP Reconciliation

Our consolidated financial statements are prepared in accordance with R.O.C. GAAP, which differ in certain material respects from U.S. GAAP. The following table sets forth a comparison of our net income and stockholders   equity in accordance with R.O.C. GAAP and U.S. GAAP as of and for the periods indicated.

For the year ended December 31,

	2009	2010	2011	
	NT$	NT$	NT$	US$
		(in billions)		
R.O.C. GAAP:				
Consolidated net income	44.5	48.6	48.1	1.6
Attributable to:				
Stockholders of the parent	43.8	47.6	47.1	1.6
Minority interests	0.7	1.0	1.0	
U.S. GAAP:				
Net income	45.8	49.2	49.4	1.6

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	For the year ended December 31,			
	2009	2010	2011	
	NT$	NT$	NT$	US$
	(in billions)			
Attributable to:				
Stockholders of the parent	45.1	48.3	48.4	1.6
Noncontrolling interests	0.7	0.9	1.0	
Total stockholders equity:				
R.O.C. GAAP	379.0	368.6	373.0	12.3
U.S. GAAP	306.5	296.1	301.4	9.9

Note 36 to our audited consolidated financial statements included elsewhere in this annual report provides a description of the significant difference between R.O.C. GAAP and U.S. GAAP as they related to us and a reconciliation of net income and stockholders equity.

C. Research, Development, Patents and Licenses, Etc.

Research and Development

Our research and development efforts are focused on the development of advanced network services and operation technologies as well as the development of core technologies for the domestic telecommunications market. For 2009, 2010 and 2011, our research and development expenses were approximately NT$3.2 billion, NT$3.2 billion and NT$3.5 billion (US$116.5 million), respectively, or approximately 1.6%, 1.6% and 1.6% of our revenues, respectively.

As of March 31, 2012, we have more than 2,213 researchers focusing on the following areas:

- wireless communication;
- broadband transmission and access;
- Internet and multimedia applications;
- network operation support;

- customer service information;
- Information and communication security;
- advanced technologies research; and
- customer premises equipment.

We have developed a number of advanced network services, operation technologies and applications and value-added services, including our xDSL/FTTx deployment, internet-based call center, e-commerce platform, mobile internet services, global standard for mobile communications billing system, a new telecommunications operation service system for all business units of our company, government public key infrastructure, a leased line testing and monitoring system and an intelligent transportation system. As of December 31, 2011, we have been granted 360 domestic patents and 60 foreign patents.

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D. Trend Information

See Overview for a discussion of the most significant recent trends that have had, and in the future may have, a material impact on our results of operations, financial condition and capital expenditures. In addition, see discussions included in this Item for a discussion of known trends, uncertainties, demands, commitments or events that we believe are reasonably likely to have a material effect on our net operating revenues, income from continuing operations, profitability, liquidity or capital resources, or that would cause reported financial information not necessarily to be indicative of future operating results or financial condition.

E. Off-Balance Sheet Arrangements

Note 30 and 31 to our consolidated financial statements included elsewhere in this annual report provide descriptions of the pledged assets, and significant commitments and contingencies. There are no off-balance sheet arrangements that are material to investors.

F. Tabular Disclosure of Contractual Obligations

Set forth below are our total contractual obligations as of December 31, 2011.

	Payments due by period				
	Total	**Less than 1 year**	**1-3 years**	**3-5 years**	**More than 5 years**
			(NT$ in billions)		
Contractual Obligations(1)					
Short-term loans	0.1	0.1			
Long-term loans	1.8	0.7		1.1	
Obligations related to ST-2 satellite	2.8	0.2	0.4	0.4	1.8
Operating leases(2)	6.2	1.9	2.7	1.5	0.1
Total	10.9	2.9	3.1	3.0	1.9

(1) Accrued pension liabilities of NT$1.4 billion (US$47.7 million) as of December 31, 2011 have not been included in the table above.

(2) Operating leases obligations are described in note 31 to our consolidated financial statements included elsewhere in the annual report.

As of December 31, 2011, we had remaining commitments under non-cancelable contracts with various parties, including acquisition of lands and buildings of NT$0.05 billion (US$1.7 million), acquisition of telecommunications equipment of NT$20.0 billion (US$660.5 million), unused letters of credit of NT$0.3 billion (U$9.9 million) and contracts for printing bills, envelopes and marketing gifts of NT$34.7 million (US$1.1 million). Light Era Development has already contracted to advance sale of lands and buildings for NT$1.1 billion (US$36.7 million), and collected NT$0.2 billion (US$7.9 million) in advance according to the contracts.

G. Foreign Exchange

Our revenues and costs and expenses are largely denominated in NT dollars. Our principal expenses denominated in foreign currencies are capital expenditures on telecommunications equipment and settlement payments for the use of networks of carriers in foreign countries for outgoing international calls. Settlement receipts have been a principal source of foreign currency for us. While future fluctuations of the NT dollar against foreign currencies could impact our financial condition and results of operations, we have not been materially affected by the fluctuation of the NT dollar against foreign currencies.

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ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

A. Directors and Senior Management

The following table sets forth the name, age, position and tenure of each of our directors and supervisors and such person s position as of March 31, 2012. There is no family relationship among any of these persons. All of our directors and supervisors were elected at our annual general stockholders meeting held on June 18, 2010 and have terms from June 18, 2010 to June 17, 2013.

Name	Age	Position
Shyue-Ching Lu	63	Chairman, chief executive officer and director
Shaio-Tung Chang	65	President and director
Wen-Tsan Lin	55	Director
Yu-Fen Hong	55	Director
Gordon S. Chen	58	Director
Yi-Bing Lin	51	Director
Jennifer Yuh-Jen Wu	51	Director
Shih-Wei Pan	57	Director
Chung-Yu Wang(1)	67	Director
Zse-Hong Tsai(1)	51	Director
Chung-Fern Wu(1)	55	Director
Shih-Peng Tsai	63	Director
Shwu-Fen Chao	48	Supervisor
I-Hwa Wu	63	Supervisor
Su-Ghen Huang	47	Supervisor

(1) Independent director.

Shyue-Ching Lu is a director and our chairman and chief executive officer. Dr. Lu had served as our president from May 1996 until he was appointed our chairman in August 2008. Prior to that, Dr. Lu was the Director General of the Department of Posts and Communications of the Ministry of Transportation and Communications from 1993 to 1994 and the deputy director general of the Directorate General of Telecommunications from 1994 to 1996. Dr. Lu holds a Ph.D. degree in electrical engineering from the University of Hawaii and a bachelor s degree in engineering from the National Cheng Kung University in Taiwan.

Shaio-Tung Chang is the president of our company. Mr. Chang served as a senior vice president of our company from March 2007 to August 2008 and an executive vice president of our company and manager of our Mobile Business Group from July 2004 to March 2007. He also served as executive vice president of our company and manager of our International Business Group from December 2002 to July 2004. Mr. Chang holds a master s degree in management science from the National Chiao Tung University in Taiwan.

Wen-Tsan Lin is a director of our company. Mr. Lin is also a director of Personnel Department at the Ministry of Transportation and Communications. Mr. Lin holds a Ph.D degree from Public Administration Department of National Chengchi University in Taiwan.

Yu-Fen Hong is a director of our company. Ms. Hong is currently the director of the accounting department at the Ministry of Transportation and Communications. She holds a master s degree in business & management from the National Chiao Tung University in Taiwan.

Gordon S. Chen is a director of our company, and also the Chairman of Gre Tai Securities Market. Dr. Chen has more than 28 years of services in financial sector. He gained in-depth financial expertise and hands-on banking experience from several government positions, such as chairman of Taiwan Stock Exchange Corporation and chairman of Taiwan Certificate Authority Corporation. Dr. Chen obtained a Ph.D. degree from the National

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Taiwan University, a master s degree in Public Finance from National Chengchi University and a bachelor s degree in economics at the Chinese Culture University.

Yi-Bing Lin is a director of our company. Dr. Yi-Bing Lin received his bachelor s degree from the National Cheng Kung University in Tainan, Taiwan in 1983, and his Ph.D. from the University of Washington in Seattle in 1990. From 1990 to 1995, he was a research scientist with Bellcore (Telcordia). He then joined the National Chiao Tung University, or NCTU, in Taiwan where he remains. In 1996, he served as the deputy director of Microelectronics and Information Systems Research Center at the NCTU. Between 1997 and 1999, Dr. Lin was chairman of the Department of Computer Science & Information Engineering at the NCTU. Since 2000, he has also been appointed as an adjunct research fellow at the Academia Sinica. Between 2004 and 2006, Dr. Lin was appointed the vice president of the office of research and development at the NCTU. From 2007 to February 22, 2011, Dr. Lin has served as the dean of the College of Computer Science at the NCTU. Since February 23, 2011, he became the vice president of NCTU.

Jennifer Yuh-Jen Wu is a director of our company. Dr. Wu is also currently the deputy director general of the Institute of Transportation at the Ministry of Transportation and Communications. Dr. Wu was the director of the information systems division of the Institute of Transportation from 1995 to August 2008 and also worked as the secretary-general of the Ministry of Transportation and Communications in 2000. Dr. Wu holds a Ph.D. degree from the Institute of Traffic and Transportation from the National Chiao Tung University. She also holds two master s degrees from Northwestern University, one in electrical engineering and computer science and one in industrial engineering and management science.

Shih-Wei Pan is a director of our company. Dr. Pan is also currently the political deputy minister at the Council of Labor Affairs. Dr. Pan holds a Ph.D. degree in industrial and labor relations from Cornell University.

Chung-Yu Wang is currently an independent director of our company and also the ex-chairman of China Steel Corporation. He graduated from Chung Yuan Christian University with a bachelor s degree in Chemical Engineering.

Zse-Hong Tsai is an independent director of our company. Dr. Tsai is also currently a professor of electrical engineering at the National Taiwan University. His research interest includes broadband networking, performance evaluation and telecommunication regulations. Dr. Tsai holds a Ph.D. degree and a master s of science degree in electrical engineering from the University of California, Los Angeles, and a bachelor s of Science degree in electrical engineering from the National Taiwan University.

Chung-Fern Wu is an independent director of our company. Dr. Wu is also currently a professor of Accounting at the National Taiwan University. She holds an MBA degree in Finance and a Bachelor degree in Accounting from the National Taiwan University. She started her career as a practicing CPA in Taiwan and a Systems Analyst in U.S.A. She started her academic career as an Assistant Professor in the Fisher School of Accounting, University of Florida after receiving her Ph.D. degree in Accounting and Information Management from the Anderson Graduate School of Management, University of California, Los Angeles.

Shih-Peng Tsai is a director of our company. Mr. Tsai is currently a representative of the Member s Convention of the Chunghwa Telecom Workers Union. Mr. Tsai graduated from Ta Tung Junior Technological College of commerce.

Shwu-Fen Chao is a supervisor of our company. Ms. Chao is the office director of the Secretary-General Office of the Executive Yuan. Ms.Chao was a Senior Specialist of the Department of Information and Tourism, Taipei City Government from 2006-2009 and the Secretary of the Taipei Economic and Cultural Representative Office in New Zealand from 1994 to 1996. She holds a master degree of Diplomacy from National Chengchi University.

I-Hwa Wu is a supervisor of our company. Ms. Wu is also the vice president of Chunghwa Post Co., Ltd. She holds a bachelor s degree in commerce of the National Taiwan University.

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Su-Ghen Huang is a supervisor of our company. Ms. Huang is also currently the director of the Department of Planning of the Directorate General of Budget, Accounting and Statistics at the Executive Yuan. Ms. Huang holds a bachelor s degree in Accounting from the Furen University in Taiwan.

The following people served as directors on our board during 2011 but are no longer serving with us due to resignations or replacements.

Mu-Shun Lin was a director of our company. Mr. Lin is the chief secretary at the Ministry of Transportation and Communications. Mr. Lin holds a master s degree in law from Ming-Chuan University in Taiwan.

Shen-Ching Chen was a director of our company. Mr. Chen is the vice president of Chinese Television System. He was the president of the Central News Agency, the assistant general manager of the Public Television Service and assistant manager of Formosa TV s news department. Mr. Chen obtained a bachelor s degree in journalism from Chengchi University.

The following table sets forth the name, age, position and tenure of each of our executive officers and such person s position as of March 31, 2012. There is no family relationship among any of these persons.

Name	Age	Position
Shu Yeh	54	Chief financial officer and senior vice president
Chi-Mau Sheih	58	Senior vice president
Yen-Sung Lee	63	Senior vice president
Mu-Piao Shih	59	Senior vice president
Yuan-Kuang Tu	56	Executive vice president
Min-Hsuan Lin	63	Executive vice president
Chang-Rong Chen	61	Executive vice president
Fu-Kuei Chung	58	Executive vice president
Hsiu-Gu Huang	59	Executive vice president
Tai-Feng Leng	63	Executive vice president

Shu Yeh is our chief financial officer. Dr. Yeh is also a director of Chunghwa Investment Co., Ltd. Dr. Yeh served as an independent director of our company from June 2007 to January 2010. Dr. Yeh also served as a professor of accounting at National Taiwan University. Dr. Yeh holds a Ph.D. degree in accounting from the University of California, Los Angeles, a master s degree in professional accounting from the University of Texas at Austin, and a bachelor s degree in economics from the National Taiwan University.

Chi-Mau Sheih is a senior vice president of our company. Mr. Sheih is also a director of Taiwan International Standard Electronics Co., Ltd. Mr. Sheih was an executive vice president and the manager of our Southern Taiwan Business Group from March 2007 to June 2010. Prior to that, he was an executive vice president of our company and the manager of our Central Taiwan Business Group from September 2006 to March 2007. He served as the senior managing director of our Network Department from September 2001 to January 2004. He also served as an assistant vice president of our company and a deputy manager of our Central Taiwan Business Group from January 2004 to September 2006. Mr. Sheih holds a Master of Business Administration degree from the National Taiwan University.

Yen-Sung Lee is a senior vice president of our company. Dr. Lee is also a director of Senao International Co., Ltd. Dr. Lee previously served as an executive vice president of our company and the manager of our Enterprise Business Group from February 2007 to September 2008. Mr. Lee was an executive vice president and the manager of the Data Communications Business Group of our company from January 2002 to April 2005 and was the president of the Telecom Laboratories from April 2005 to February 2007. Mr. Lee holds a Ph. D. degree in information engineering from National Chiao Tung University.

Mu-Piao Shih is a senior vice president of our company. Mr. Shih is also a director of Taipei Financial Center Corp. Mr. Shih was an executive vice president of our company and the manager of our Mobile Business Group from September 2009 to August 2011. Mr. Shih served as an assistant vice president and a deputy

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manager of our Mobile Business Group from March 2005 to September 2009. He also served as the senior chief engineer of our Mobile Business Group from October 2001 to March 2005. Mr. Shih holds a master s degree in electronic engineering from the National Taiwan University.

Yuan-Kuang Tu is an executive vice president of our company and the manager of our Northern Taiwan Business Group. Dr. Tu is also a director of Senao International Co., Ltd. He served as the president of Chunghwa Telecom Laboratories from May 2009 to March 2012, the senior managing director of our Corporate Planning Department from May 2007 to May 2009, and a vice president of Chunghwa Telecom Laboratories from March 2006 to April 2007. He holds a Ph.D. degree in Electrical Engineering from National Taiwan University.

Min-Hsuan Lin is an executive vice president of our company and the manager of our Southern Taiwan Business Group since June 2010. Prior to that, he served as an assistant vice president of our company and a deputy manager of our Southern Taiwan Business Group from September 2009 to June 2010. He also served as the manager of the Tainan Branch Office from May 2007 to September 2009. He also served as the manager of the Fong-Shan Branch Office from February 2006 to May 2007, and he also served as the managing director of the Marketing Department of our Southern Taiwan Business Group from August 2004 to February 2006. Mr. Lin holds a Bachelor of Department of Transportation and Communication Management Science degree from the National Cheng Kung University.

Chang-Rong Chen is an executive vice president of our company and the manager of our Mobile Business Group. Mr. Chen is also a director of Chunghwa Investment Co., Ltd. Mr. Chen served as an assistant vice president and deputy manager of our Mobile Business Group from February 2006 to September 2011, and he also served as the managing director of the Marketing Department of our Mobile Business Group from March 2004 to February 2006. Mr. Chen holds a master s degree in Business Management from National Chiao Tung University.

Fu-Kuei Chung is an executive vice president of our company and the manager of our Data Communications Business Group. He is also a director of Chunghwa Telecom Vietnam Co., Ltd. Before promoting to this position, he previously served as a deputy manager of our Data Communications Business Group from September 2010 to 2012 March and the senior managing director of our Corporate Planning Departing from May 2009 to August 2010. Mr. Chung holds the master degree in information management from National Taiwan University.

Hsiu-Gu Huang is an executive vice president of our company and the manager of our Enterprise Business Group. Mr. Huang served as an assistant vice president of our company and a deputy manager of our Enterprise Business Group from January 2007 to September 2008. Mr. Huang holds a master s degree in management science from the National Chiao Tung University in Taiwan.

Tai-Feng Leng is an executive vice president of our company and the manager of the International Business Group. Miss Leng is also a director of Chief Telecom Inc., Donghwa Telecom Co., Ltd. and Chunghwa Telecom Singapore Pte., Ltd. Miss Leng served as the a deputy manager of our International Business Group from July 2004 to December 2007 and as the senior managing director of our Marketing Department from October 2001 to July 2004. Miss Leng holds a master s degree in management science from the National Chiao Tung University in Taiwan.

The following person served as our executive officer during 2011 but is no longer serving with us due to resignations or replacements.

Jen-Hon Lin was a senior vice president of our company. Mr. Lin previously served as executive vice president and manager of our Mobile Business Group from March 2007 to September 2009. He also previously served as an executive vice president of our company and the manager of our International Business Group from January 2006 to March 2007. Mr. Lin graduated from the New York Institute of Technology with master s degree in electrical engineering.

Tzu-Han Huang was an executive vice president of our company and the manager of our Northern Taiwan Business Group from January 2008 to March 2012. Dr. Huang was also a director of Senao International Co., Ltd.

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He served as an assistant vice president of our company and a deputy manager of our Northern Taiwan Business Group from February 2006 to January 2008 and as the senior managing director of our Marketing Department from July 2004 to February 2006. He holds a Ph.D. degree in applied mathematics from National Chung-Hsing University.

Shyang-Yih Chen was an executive vice president and the manager of our Data Communications Business Group from September 2006 to March 2012. He served as an assistant vice president of our company and a deputy manager of our Data Communications Business Group from January 2005 to September 2006. Mr. Chen was the managing director of our Value-added System Department of our Data Communications Business Group from May 1997 to January 2005. Mr. Chen holds a master s degree in electronic engineering from National Taiwan University.

B. Compensation

The compensation plan for our directors and supervisors was approved at our annual general stockholders meeting in 2006The adjustment in the fixed monthly income for the chairman of our board of directors and the president was approved by the board meeting in December 2011.

- the chairman of our board of directors may receive a fixed monthly income of NT$330,000 and a non-fixed income, including but not limited to performance-related bonuses or other rewards, which may not exceed his fixed income. The chairman will not receive any additional compensation for his role as a director;

- our president may receive a fixed monthly income of NT$311,700 and a non-fixed income, including but not limited to performance-related bonuses or other rewards, which may not exceed his fixed income. The president will not receive any additional compensation for his role as a director;

- independent directors who concurrently serve in military, public office or hold teaching or administrative post may receive a fixed monthly compensation of NT$8,000, and those who do not concurrently serve in military or public office or hold teaching or administrative post may receive a monthly compensation of NT$50,000;

- directors and supervisors who serve in military, public office or hold teaching or administrative post may receive a monthly compensation of NT$8,000, and those directors and supervisors who do not serve in military and public office or hold teaching or administrative post may receive a monthly compensation of NT$30,000;

Any compensation above the stipulated amounts in the compensation plan for our directors and supervisors, including but not limited to profit-based bonuses, received by our directors and supervisors who are serving as representatives of the Ministry of Transportation and Communications or other legal persons will be collected by the Ministry of Transportation and Communications or the legal persons they represent, respectively. Our chairman, president, and labor representative to our board of directors Shyue-Ching Lu, Shaio-Tung Chang, and

Shih-Peng Tsai, respectively do not receive monthly compensation for acting as our directors because they receive salaries as employees.

The compensation plan was put into practice on January 1, 2006. The aggregate amount of compensation that we paid to our directors, supervisors and executive officers in 2010 and 2011 was NT$139,477,758 and NT$136,289,017 respectively. The aggregate amount of compensation in 2011 includes a NT$81,647,530 salary payment for directors, supervisors and executive officers, a NT$2,929,017 pension accrued for executive officers, a NT$44,446,400 bonus for directors and supervisors and a NT$7,266,070 bonus for executive officers and a labor union director. The 2011 bonus for our directors and supervisors may not exceed 0.2% of our distributable earnings and must be approved at our 2012 annual general stockholders meeting. See Item 5. Operating and Financial Review and Prospects Overview Provisions for pension payments to our employees and note 28 to our consolidated financial statements included elsewhere in this annual report for descriptions about our pension plans.

Pursuant to R.O.C. disclosure rules, we have disclosed the compensation of our directors and supervisors and the compensation ranges of our senior management for the fiscal year ended December 31, 2011 as follows:

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Directors	Total Compensation	Fixed Income	Dividends	Business Expenses
		(in NT$)		
Chung-Yu Wang	630,000	600,000	(5)	30,000
Zse-Hong Tsai	640,000	600,000	(5)	40,000
Chung-Fern Wu	624,000	600,000	(5)	24,000
Shyue-Ching Lu	8,141,000(1)		(6)	
Shaio-Tung Chang	7,510,450(2)		(6)	
Shih-Peng Tsai	2,059,766(3)		(6)	
Mu-Shun Lin	60,968	54,968	(6)	6,000
Wen-Tsan Lin	45,032	41,032	(6)	4,000
Yu-Fen Hong	102,000	96,000	(6)	6,000
Jennifer Yuh-Jen Wu	112,000	96,000	(6)	16,000
Shih-Wei Pan	96,000	96,000	(6)	
Gordon S. Chen	380,000	360,000	(6)	20,000
Yi-Bing Lin	112,000	96,000	(6)	16,000
Shen-Ching Chen	201,613	191,613	(6)	10,000
Ministry of Transportation and Communications(4)	33,804,440		33,804,440	

(1) Includes NT$8,141,000 received as salary for serving as our chief executive officer.

(2) Includes NT$ 7,510,450 received as salary for serving as our president.

(3) Includes NT$1,958,248 received as salary and NT$101,518 received as business expenses as our employee

(4) Our juridical director.

(5) The independent directors will not receive any dividend distributions.

(6) Each of these directors are legal representatives of the MOTC. The dividend distributions will be paid directly to the MOTC because such dividend distributions are not the individual income of these directors.

Supervisors	Total Compensation	Fixed Income	Dividends	Business Expenses
		(in NT$)		
Shwu-Fen Chao	98,000	96,000	(2)	2,000
I-Hwa Wu	108,000	96,000	(2)	12,000
Su-Ghen Huang	106,000	96,000	(2)	10,000
National Development Fund, Executive Yuan(1)	7,094,640		7,094,640(2)	
Chunghwa Post Co., Ltd.(1)	3,547,320		3,547,320(2)	

(1) Our juridical supervisor.

(2) The dividend distributions will be paid directly to the legal entity that the respective supervisor represents because such dividend distributions are not the individual income of these supervisors.

Total Compensation	Senior Management
Below NT$2,000,000	none
NT$2,000,000 to NT$4,999,999	Chang-Rong Chen, Feng-Yue Hung
NT$5,000,000 to NT$9,999,999	Yen-Sung Lee, Jen-Hon Lin, Chi-Mao Hsieh, Shu Yeh, Mu-Piao Shih, Tzu-Han Huang, Min-Hsuan Lin, Hsiu-Gu Huang, Tai-Feng Leng, Shyang-Yih Chen, Yuan-Kuang Tu
Total	13 people

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We do not have any service contracts with any directors providing for any benefits upon termination of employment.

C. Board Practices

Thirteen directors and three supervisors were elected in 2010 for three-year terms. The MOTC replaced Mr. Mu-Shun Lin with Mr. Wen-Tsan Lin in July 2011 due to a reallocation of responsibilities for these two individuals at the MOTC. One of the directors designated by MOTC, Shen-Ching Chen, resigned in July 2011 and MOTC has not designated new director yet. Therefore we currently have 12 directors and three supervisors. Pursuant to the R.O.C. Company Act, the directors may be removed from office at any time by a resolution adopted by a resolution at a stockholders meeting. The chairman of our board of directors is elected by our directors. Our chairman presides at all meetings of our board of directors and also has the authority to act as our representative. We have not entered into any contract with any of our directors and supervisors by which our directors or supervisors are expected to receive benefits upon termination of their employment.

Our articles of incorporation provide for a board of directors consisting of seven to fifteen members. Pursuant to the R.O.C. Securities and Exchange Act, as amended in January 2006, the R.O.C. Financial Supervisory Commission on May 28, 2006 published a rule requiring listed non-financial-institution companies with paid-in capital exceeding NT$50 billion to appoint independent directors to serve on their board of directors in accordance with the Act. The term independent director may have a different meaning when used in Taiwan than in other jurisdictions. The number of independent directors shall be not less than one-fifth of the total number of directors and not less than two in number. Pursuant to both the R.O.C. Company Act and the R.O.C. Securities and Exchange Act, Article 12 Clause 1 of our article of incorporation provides for the election of, starting from the fifth stockholders meeting, at least three independent directors out of the 7-to-15-member board. We have used a nominating process, with the stockholders choosing the independent directors from the list of nominees. Accordingly, we have elected three independent directors in the annual general meeting on June 18, 2010. With respect to certain material decisions to be made by our company as specified in the R.O.C. Securities and Exchange Act, including the adoption or amendment to our internal control system, material loans or guarantees, the issuance of equity-type securities, matters in which directors and supervisors have personal interests, the appointment and discharge of auditors, approval of financial reports, the appointment and discharge of financial, accounting or internal auditing officers and other matters prescribed by the R.O.C. Financial Supervisory Commission, the dissenting opinion or qualified opinion of an independent director is required to be noted in the minutes of the board of directors meeting.

In accordance with our articles of incorporation, we are required to have three to five supervisors. We currently have three supervisors elected during the stockholder s meeting in 2010. In accordance with the R.O.C. Company Act, our supervisors are elected by our stockholders and may not concurrently serve as our directors, executive officers or other staff members. The term of office for our supervisors is three years and their term may be renewed for any number of consecutive terms. Supervisors duties and powers include, but are not limited to, supervision of our business operations, investigation of our financial condition, inspection of corporate records, verification of statements prepared by the board of directors prior to the annual general stockholders meeting, calling of and giving reports at stockholders meetings, representation of us in negotiations with our directors and giving notification, when appropriate, to the board of directors to cease acting in contravention of applicable law or regulations, our articles of incorporation or the resolutions adopted by our stockholders. The supervisors may be also removed from office at any time by a resolution adopted at a stockholders meeting.

Under the R.O.C. Company Act, a person may serve as our director or supervisor in his personal capacity or as the representative of another legal entity. A director or supervisor who serves as the representative of a legal entity may be removed or replaced at any time at the discretion of that legal entity, and the replacement director or supervisor may serve the remainder of the term of office of the replaced director or supervisor. Except for our three independent directors, all of our directors are representatives of the Ministry of Transportation and Communications. Our current supervisors consist of one representative from the Executive Yuan s National Development Foundation and two representatives from Chunghwa Post Co. Ltd. In accordance with the R.O.C. Securities and Exchange Act, as amended, except with the approval of the Competent Authority (i.e. The Financial Supervisory Commission), a representative of the government or of a juristic person, as a stockholder of our company, may not be concurrently

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selected or serve as the director or supervisor from the time of expiration of the term currently being served by our directors or supervisors.

The business address of our directors, supervisors and executive officers is the same as our registered address.

Our audit committee was established in September 2004 and is comprised of our three independent directors: Chung-Yu Wang and Zse-Hong Tsai and Chung-Fern Wu.

Our audit committee is responsible for: (i) selecting our independent registered public accounting firm and determining their compensation; (ii) reviewing and discussing our annual, semi-annual and quarterly financial reports with our independent auditor; (iii) communicating with our independent auditors; (iv) approving our accounting firm s annual audit and non-audit service items; (v) negotiating the conflicts over our financial reports between our management and accounting firm; (vi) reviewing and assessing of our internal control policy; (vii) discussing and reporting other financial information and required disclosure under the Securities Exchange Act of 1934 with our management and independent auditor; and (viii) performing one self-review each year. Our board of directors has concluded that Chung-Fern Wu is our audit committee financial expert.

In addition to our audit committee, we also have a corporate strategy committee. Our corporate strategy committee is composed of seven directors and is responsible for reviewing and advising on the budgets, capital requirements, financial forecasts, matters related to investments, business license matters, corporate reorganization, development plans and other major issues affecting our development. The conclusions of the corporate strategy committee are considered at a subsequent board of directors meeting. The board of directors passed a resolution on November 8, 2005 to set up a compensation committee, which is composed of five directors. The Article 14-6 of R.O.C. Securities and Exchange Act requires all listed companies to establish a compensation committee for directors, supervisors and managers compensation, which includes salary, stock options and other rewards, as well as authorizes the Competent Authority (i.e. Financial Supervisory Commission) to enact a regulation on the authorities of the compensation committee and the qualifications of its members. Our board of directors passed a resolution to amend the organization of our compensation committee on August 26, 2011. The compensation committee is composed of two independent directors and one director and is responsible for drafting, approving and periodically reviewing the compensation proposals for the directors, supervisors, president, senior management, financial officer, accounting officer, and internal audit officer. See Item 10. Additional Information B. Memorandum and Articles of Incorporation Directors. Our audit committee members include: Chung-Yu Wang, Zse-Hong Tsai, Chung-Fern Wu.

In November 2003, the Securities and Exchange Commission approved changes to the New York Stock Exchange s listing standards related to the corporate governance practices of listed companies. Under these rules, listed foreign private issuers, like us, must disclose any significant ways in which their corporate governance practices differ from those followed by New York Stock Exchange-listed U.S. companies under the New York Stock Exchange s listing standards. See Item 16G. Corporate Governance . A copy of the significant differences between our corporate governance practices and New York Stock Exchange corporate governance rules applicable to U.S. companies is also available on our website *http://www.cht.com.tw*. The information contained on our website is not a part of this annual report.

D. Employees

The following section sets forth information regarding the employees.

As of December 31, 2011, we had 28,772 employees on a consolidated basis. The following table is a breakdown of our employees from 2009 to 2011 on a consolidated basis.

	2009	2010	2011
Employees			
Technical	14,490	14,522	14,768
Operations	11,643	11,785	12,283
Administrative	1,782	1,827	1,721
Total	27,915	28,134	28,772

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The following table is a breakdown of our employees from 2009 to 2011 on a non-consolidated basis.

	2009	2010	2011
Employees			
Technical	14,061	13,879	13,959
Operations	9,133	9,189	9,336
Administrative	1,474	1,406	1,369
Total	24,668	24,474	24,664

As of December 31, 2011, approximately 73% of our employees had university, graduate or post-graduate degrees. To improve our operational efficiency by reducing personnel costs, we offered a number of voluntary retirement programs between June 1, 2000 and December 31, 2011, which resulted in a reduction in our workforce of approximately 12,193 employees.

As of December 31, 2011, approximately 99% of our employees on a non-consolidated basis were members of our principal labor union. Our collective agreement sets forth work rules, grievance procedures and provides for union participation in performance evaluations and promotion decisions. Our union members also occupy a majority of the seats on our employee welfare and pension fund committees. In addition, we will continue to maintain a good relationship with our labor union. We strive to have good communication with our employees and the labor union by inviting representatives of our labor union to attend various meetings related to the performance of our employees.

Pursuant to our articles of incorporation, our employees are entitled to 2% to 5% of the distributable earnings as employee bonuses. Our practice in the past to determine the amount of the bonus has been based on the operating results. In the fourth quarter of 2011, we distributed an aggregate bonus to our employees of NT$2.1 billion. Since the change in accounting regulations requiring bonuses in the form of stocks be recorded as an expense at their market value instead of their par value, we instead decided to distribute cash bonuses.

E. Share Ownership

As of March 31, 2012, our directors, supervisors and executive officers personally held an aggregate 593,078 shares of our common shares, representing around 0.01% of our outstanding common shares. The following table sets forth information with respect to the beneficial ownership of our common shares as of March 31, 2012 by each of our directors, supervisors and executive officers.

Name	Number	%
Shyue-Ching Lu	*	*
Shaio-Tung Chang	*	*
Shih-Peng Tsai	*	*
Shu Yeh	*	*
Chi-Mau Sheih	*	*
Yen-Sung Lee	*	*
Mu-Piao Shih	*	*
Yuan-Kuang Tu	*	*
Min-Hsuan Lin	*	