CHUNGHWA TELECOM CO LTD
Form 20-F
April 28, 2014
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 20-F

(Mark One)

¨ **REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (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, 2013

or

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

or

¨ **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

For the transition period from to

Commission file number 001-31731

Chunghwa Telecom Co., Ltd.

(Exact name of Registrant as specified in its charter)

Chunghwa Telecom Co., Ltd.

(Translation of Registrant s name into English)

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, E-mail 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

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 ¨ 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. ¨ 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 ¨ No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, 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). ¨ Yes ¨ 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 ¨   Non-accelerated filer ¨

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

U.S. GAAP ¨   International Financial Reporting Standards as issued   Other ¨

by the International Accounting Standards Board 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. ¨ Item 17 ¨ 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 Exchange Act). ¨ Yes x No

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. ¨ Yes ¨ No

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

CHUNGHWA TELECOM CO., LTD.

FORM 20-F ANNUAL REPORT

FISCAL YEAR ENDED DECEMBER 31, 2013

Table of Contents

i

Table of Contents

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, unless 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 ROC government are to the government of the Republic of China. All references to the Ministry of Transportation and Communications or the MOTC are to the Ministry of Transportation and Communications of the Republic of China. All references to the National Communications Commission or the NCC are to the National Communications Commission 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. ROC GAAP means the generally accepted accounting principles of the Republic of China, U.S. GAAP means the generally accepted accounting principles of the United States, IFRSs means International Financial Reporting Standards as issued by the International Accounting Standards Board, and Taiwan IFRSs means the International Financial Reporting Standards as issued by the International Accounting Standards Board and endorsed by the FSC, which are required to be adopted by applicable companies in the ROC pursuant to the Framework for Adoption of International Financial Reporting Standards by Companies in the ROC promulgated by the FSC on May 14, 2009. 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 Unit 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 strategies;
- 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.

Table of Contents

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 actions or results of actions that may or are 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 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 Financial Supervisory Commission, or the FSC, in the Republic of China, or ROC, supervises the financial and business matters of publicly-held companies, and we are required to comply with relevant regulations promulgated by the FSC. We have historically presented our consolidated financial statements, including our consolidated financial statements for the year ended December 31, 2012, in accordance with ROC GAAP for purposes of our filings with the Taiwan Stock Exchange, or TWSE, with reconciliation of net income and balance sheet differences of our consolidated financial statements to U.S. GAAP for certain filings with the U.S. Securities and Exchange Commission, or the SEC. Effective January 1, 2013, companies listed on the TWSE, including us, must report their financial statements under Taiwan IFRSs pursuant to the requirements of the Framework for Adoption of International Financial Reporting Standards by Companies in the ROC promulgated by the FSC on May 14, 2009. Accordingly, we have adopted Taiwan IFRSs for reporting in the

Table of Contents

ROC our annual consolidated financial statements beginning in 2013 and our interim quarterly unaudited consolidated financial statements beginning in the first quarter of 2013. While we have adopted Taiwan IFRSs for ROC reporting purposes, we adopt International Financial Reporting Standards as issued by the International Accounting Standards Board, or IFRSs, which differs from Taiwan IFRSs, for certain filings with the SEC, including our annual reports on Form 20-F for the year ended December 31, 2013 and thereafter and our interim quarterly unaudited consolidated financial statements provided on Form 6-K beginning with the three months ended March 31, 2013. Following our adoption of IFRSs for the SEC filing purposes, we are no longer required to provide any reconciliation of our consolidated financial statements with U.S. GAAP.

The selected income statement data and cash flow data for the years ended December 31, 2012 and 2013, and the selected balance sheet data as of December 31, 2012 and 2013 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 consolidated financial statements have been prepared and presented in accordance with IFRSs. Pursuant to the transitional relief granted by the SEC in respect of the first-time application of IFRSs, no audited financial statements and financial information prepared under IFRSs for the year ended December 31, 2011 have been included in this annual report.

	Year Ended December 31		
	2012	2013	
	NT$	NT$	US$
	(in billions, except for percentages and per share and per ADS data)		
Statement of Comprehensive Income Data:			
Revenues	221.4	228.0	7.6
Operating costs	(141.5)	(147.3)	(4.9)
Gross profit	79.9	80.7	2.7
Operating expenses	(29.9)	(33.1)	(1.1)
Other income and expenses	(1.6)	0.1	
Income from operations	48.4	47.7	1.6
Non-operating income and expenses(1)	1.6	1.4	
Income before income tax	50.0	49.1	1.6
Income tax expense	(7.4)	(6.5)	(0.2)
Consolidated net income	42.6	42.6	1.4
Attributable to:			
Stockholders of the parent	41.5	41.5	1.4
Non-controlling interests	1.1	1.1	
	42.6	42.6	1.4

Earnings per share:			
Basic	5.35	5.35	0.18
Diluted	5.33	5.34	0.18
Earnings per ADS equivalent:			
Basic	53.49	53.49	1.79
Diluted	53.34	53.40	1.79

Table of Contents

	As of December 31		
	2012	2013	
	NT$	NT$	US$
	(in billions, except for percentages and per share and per pro forma ADS data)		
Balance Sheet Data:			
Working capital	40.2	(0.3)	
Long-term investments	19.7	15.3	0.5
Properties, plant and equipment	297.3	302.7	10.1
Investment properties	7.8	8.0	0.3
Intangible assets	5.8	44.4	1.5
Total assets	440.0	441.0	14.8
Short-term loans	0.1	0.3	
Current portion of long-term loans		0.3	
Long-term loans(2)	2.1	1.4	
Customers deposits	4.9	4.8	0.2
Accrued pension liabilities	4.6	5.5	0.2
Deferred revenue	3.8	3.7	0.1
Total liabilities	76.6	77.8	2.6
Capital stock	77.6	77.6	2.6
Equity attributable to stockholders of the parent	359.1	358.3	12.0
Non-controlling interests	4.3	4.9	0.2

	Year Ended December 31		
	2012	2013	
	NT$	NT$	US$
	(in billions, except for percentages and per share and per pro forma ADS data)		
Cash Flow Data:			
Net cash provided by operating activities	65.6	75.3	2.5
Net cash used in investing activities	(18.6)	(49.1)	(1.6)
Net cash used in financing activities	(42.5)	(42.5)	(1.4)
Net increase (decrease) in cash and cash equivalents	4.5	(16.3)	(0.5)
Other Financial Data:			
Gross margin(3)	36%	35%	35%
Operating margin(4)	22%	21%	21%
Net margin(5)	19%	18%	18%
Capital expenditures	33.3	36.4	1.2
Depreciation and amortization	32.2	32.2	1.1
Cash dividends declared per share	4.63(6)	2.39(7)	0.08(7)

Stock dividends declared per share

(1) Includes interest income of NT$742 million and NT$563 million (US$18.9 million) for the years ended December 31, 2012 and 2013, respectively, and interest expense of NT$22 million and NT$36 million (US$1.2 million) for the years ended December 31, 2012 and 2013 respectively.
(2) Excludes current portion of long-term loans.
(3) Represents gross profits divided by revenues.
(4) Represents income from operations divided by revenues.
(5) Represents net income attributed to stockholders of the parent divided by revenues.

Table of Contents

(6) In addition to the cash dividend from retained earnings disclosed in table above, we also made cash distributions of NT$0.72 per share, which amounted to an aggregate of NT$5.6 billion, from additional paid-in capital.

(7) Dividends for 2013 have been approved for distribution by the board of directors and are expected to be approved at our annual general stockholders meeting scheduled to be held on June 24, 2014. In addition to the cash dividends from retained earnings disclosed in the table above, the board of directors also approved cash distributions of NT$2.14 per share, which amounted to an aggregate of NT$16.6 billion, from additional paid-in capital. See Item 5. Operating and Financial Review and Prospects Overview Effect of adopting Taiwan-IFRSs on our dividends and employee bonuses.

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, 2013 have been translated into U.S. dollar amounts using US$1.00=NT$29.83, set forth in the statistical release of the Federal Reserve Board on December 31, 2013. 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 NT dollars, as the case may be, at any particular rate or at all. On April 11, 2014, the exchange rate was NT$30.08 to US$1.00.

The following table sets forth, for each of the periods indicated, the low, average, high and period-end exchange rates of the NT dollar, expressed in NT dollar per U.S. dollar. These rates are provided 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
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
2012	29.56	30.27	28.96	29.05
2013	29.73	30.20	29.93	29.83
October	29.38	29.49	29.32	29.42
November	29.52	29.65	29.37	29.59
December	29.72	30.03	29.53	29.83
2014 (through April 11)	30.26	30.57	29.90	30.08
January	30.14	30.31	29.90	30.31
February	30.31	30.37	30.25	30.29
March	30.40	30.57	30.24	30.46
April (through April 11)	30.17	30.29	29.99	30.08

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.

Table of Contents

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

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.

For example, the National Communications Commission, or the NCC, submitted a proposal to the Executive Yuan on July 30, 2012 for an amendment to the Telecommunications Act. This proposed amendment includes several provisions made against the operation of dominant telecommunication service providers, such as the mandatory segregation of financial data, price control, separation between the underlying network infrastructure and services provision of the last-mile technology and the requirement for dominant providers to release local loops and provide relevant sharing services. These requirements would allow all telecommunications service providers to have access to our last-mile network infrastructure. The Executive Yuan and the NCC are still discussing and reviewing the above amendments to the Telecommunications Act and new regulations, such as the Digital Convergence Regulation still in draft form, that may have a material adverse effect on dominant operators and benefit our competitors.

On the other hand, the Legislative Yuan is reviewing the proposed amendments to the three applicable regulations governing broadcasting industries for relaxing the current restrictions regarding investments in the broadcasting industries by the government and political parties. Pursuant to these amendments, the government may indirectly hold shares in broadcasting companies, provided that the government s shareholding is no more than 10% and the government does not control such companies. As the Ministry of Transportation and Communications, or MOTC, holds more than 30% of our shares and retains control over our board, such amendments will not release the current restrictions on us with respect to engaging in the broadcasting business. However, these amendments may benefit our competitors, which could have a material adverse effect on our business prospects and results of operations.

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 NCC. 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, the Wireless Regulations, and the Third Generation Mobile Telecommunications Services Regulations, we are required to submit a report to the NCC within 20 days after our shareholders approve the reduction of our capital, 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; and taking over of the whole of the business or assets of any other company which would have significant impact on our operations. On May 8, 2013, the NCC promulgated the Regulations for Administration of Mobile Broadband Businesses, which also imposes a similar reporting obligation. Any such regulation may 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 example, the NCC adopted the first three-year tariff reduction plan from April 2007 to March 2010 and a second three-year tariff 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. On February 7, 2013, the NCC announced a new plan for tariff reductions in wholesale tariffs for IP peering and domestic leased line services, and in monthly fees for fixed-line broadband access services (excluding fiber-to-the-home, or FTTH, and fiber-to-the-building, or FTTB) over a period of four years starting on April 1, 2013. While mobile tariffs were not regulated in the most recent tariff reduction plan, the revised Administrative Rules for Network Interconnection mandated decreases in the mobile interconnection fees over a period of four years starting on January 5, 2013. 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.

If we fail to comply with the regulations of the ROC Fair Trade Act, we may be investigated and fined.

As a provider of telecommunication products and services, our business operations are subject to the regulations of the ROC Fair Trade Act, or the FTA, which is administered and enforced by the ROC 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 any regulations promulgated by the FTA. The consequences of any such violations could have a material adverse effect on our business and results of operations. See Item 4. Information on the Company B. Business Overview Regulation for a discussion of the FTA applicable to us. We have been investigated and penalized by the FTC in the past and may continue to be investigated or penalized by the FTC in the future if we fail to comply with the relevant regulations. 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.

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 ROC government authorities for operating 2G mobile services on the 900MHz and 1800MHz spectrum can be extended to June 2017 based on the operator s request for extension, according to the Executive Yuan s announcement on November 22, 2010. On November 29, 2011, we filed a request with the NCC to extend our 2G license to June 2017, which was approved by the NCC on November 14, 2012. The NCC released the detailed regulation for mobile broadband business licenses and spectrum bidding for 4G mobile services in May 2013. The spectrum was released adhering to the principle of technological neutrality. Mobile broadband services can be offered by heterogeneous networks, or HetNet, including the new 4G network and the existing 2G network under this technology-neutral spectrum. The bidding process for the spectrum to operate 4G mobile services started on September 3, 2013 and completed on October 30, 2013. There are six winners of the bidding, including Taiwan Mobile Co., Ltd., FarEasTone

Table of Contents

Telecommunications Co., Ltd., Asia Pacific Telecom Co. Ltd., Taiwan Star Cellular Corporation, Ambit Microsystems Corporation and us. The 4G license is valid until the end of year 2030. Furthermore, according to the press release announced by the NCC on March 31, 2014, the ROC government plans to release the 2600MHz spectrum band for 4G mobile services through a bidding process. We plan to participate in the bidding process to acquire the spectrum band in order to remain competitive. If we are unable to successfully maintain 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, and as a result may lead to a material impact on our business revenues.

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 have become popular in recent years. To attract more mobile data users, the major three mobile operators, including us, have adopted comparable promotion packages to attract and maintain customers. Apart from the 3G services, we also aim to begin providing 4G services in July 2014. There are a total of six players in Taiwan that are nominated to provide 4G services, which may increase the level of competition in the 4G services market compared to the 3G services market. 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 fiber to the home, or FTTH access. The government has mandated the digitization of cable television networks by 2014. In addition, the NCC relaxed the zoning restrictions on service areas for cable operators on July 27, 2012, while cable operators remain subject to the restriction that the market share of any single cable operator cannot exceed 33%. This change will allow cable operators to provide digital cable services throughout Taiwan, including high definition cable TV with more channels as well as high speed cable modem services. As of now, it is still uncertain whether we will be deemed a cable operator and subject to the 33% market share restriction. As a result, 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, if 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 therefore 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.

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 insurance to cover damage 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 2013, losses on property, plant and equipment arising from natural disasters such as earthquakes and typhoons were approximately NT$5.3 million (US$0.2 million) as recorded in other income and expenses. The occurrence of natural disasters could impact our ability to deliver services and have a negative effect on our results of operations. Furthermore, we might also be liable for losses claimed from our customers that were incurred from our failure to deliver our services. These potential liabilities could also have a material adverse effect on our results of operations.

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 .

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.

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. We may not be able to retain our present personnel or attract additional qualified personnel as and when needed. 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. The major three mobile network operators in Taiwan, including us, are expanding their retail stores and may increase the number of their employees as part of this expansion. We cannot assure you that we will be able to successfully attract and retain new employees for the expansion of our retail stores. 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.

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 2013, we made capital expenditures in our domestic fixed communications of NT$20.4 billion (US$682.6 million), our mobile communications business of NT$9.2 billion (US$309.9 million), our internet business of NT$4.6 billion (US$154.9 million), our international fixed communications business of NT$1.6 billion (US$52.3 million) and our other businesses of NT$0.6 billion (US$19.9 million), respectively. 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 continue making substantial capital expenditures to further develop our range of services and products. Commercial acceptance by consumers of the 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 expected return from our investments.

We cannot assure you that services enabled by the new technologies we are implementing, such as Heterogeneous or Marco/Micro/Pico/Femto/BBU+RRH mobile technology, will be accepted by the public to the

9

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.

In 2012, we determined that parts of our investment properties were impaired and recognized an impairment loss of NT$1,261 million. In 2013, based on the evaluation of fair value, some impaired investment properties were recoverable, and we reversed the impairment losses of NT$246 million (US$8.2 million). In 2013, we also recognized impairment losses of NT$254 million (US$8.5 million) and NT$18 million (US$0.6 million) for telecommunication and miscellaneous equipment and intangible assets, respectively.

We cannot assure you that we will be able to continue to maintain control of and consolidate the results of operations of our minority-owned subsidiary. For example, we consolidate the results of operations of our subsidiary, Senao International Co., Ltd., or Senao, because we have secured four out of seven seats on the board of directors of Senao through the support of large beneficial shareholders of Senao. Please refer to note 3 and note 15 of our consolidated financial statements included elsewhere in this annual report for details of the relationship between Senao and its parent companies. We cannot assure you that we will be able to continue maintaining control over the board of directors of Senao. If we lose control of our minority-owned subsidiary, we will no longer be able to consolidate the results of operations of such subsidiary, which could adversely affect our consolidated results of operations and ability to meet the operating results guidance that we have projected.

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 2013, we evaluated and concluded that certain investments were impaired, and as a result we recognized an impairment loss of NT$66 million (US$2.2 million) for available-for-sale financial assets due to the decline in fair value owing to adverse changes in industry conditions and operating performance that were 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.

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 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+, and Dual carrier HSPA+ mobile network. Furthermore, the spectrum to operate 4G mobile services was awarded on October 30, 2013. Therefore, we will devote additional capital expenditure to build our 4G mobile services network based on Long Term Evolution, or

Table of Contents

LTE, technology. 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 domestic 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.

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 constantly evaluating new growth opportunities in the broader telecommunications industry. 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 but 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 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.

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.

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 damage 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 cyber security protection costs, lost revenues, litigation and reputational damage due to cyber attacks.

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

As of December 31, 2013, our largest shareholder, the government of the Republic of China, 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

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 revenue 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.

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 our internal control over financial reporting has been audited by Deloitte & Touche, an independent registered public accounting firm, which has also audited our consolidated financial statements for the year ended December 31, 2013. 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, and could result in lawsuits being filed against us by our stockholders or otherwise harm our reputation.

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, most 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 directors, we cannot assure you that we will be able to maintain a good relationship with our labor union. Any deterioration in 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, materially and adversely affect the quality of our services and 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. For example, the global slowdown in technology expenditures has from time to time adversely affected the Taiwan economy, which is highly dependent on the technology industry. There is considerable uncertainty over the long-term effects of the expansionary monetary and fiscal policies that have been adopted by the central banks and financial authorities of some of the world s leading economies. There have also been concerns over unrest in the Middle East, Africa and Ukraine, which has resulted in higher oil prices and significant market volatility.

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 the Economic Cooperation Framework Agreement, or ECFA, in 2010, relations may become strained again. In June 2013, the ROC government and the PRC government entered into the Cross-Strait Agreement on Trade in Services pursuant to the ECFA. According to this agreement, both parties agreed to certain concessions on the telecommunication industries. As of March 31, 2014, the Cross-Strait Agreement on Trade in Services has not yet been ratified by the Legislation Yuan of Taiwan. If the agreement is unable to be ratified by the Legislation Yuan, our business operations in the PRC and our results of operation may be adversely affected. In addition, 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 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 ROC and PRC require companies involved in cross-strait business operations to carefully monitor their actions and manage their relationships with both ROC and PRC governments. In the past, companies in the ROC, including us, have received minor sanctions such as travel restrictions or minor monetary fines by the ROC and/or PRC governments. We cannot assure you that we will be able to successfully manage our relationships with the ROC 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 difficulties 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.

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

Prior to 2013, we used to voluntarily publish our operating results guidance on an annual basis in accordance with ROC GAAP. Beginning in 2013, we continued to voluntarily publish our operating results guidance on an annual basis in accordance with Taiwan IFRSs. We may from time to time update our operating results guidance after evaluating the effects of any changes to the estimates and assumptions that we used to calculate our projections of our operating results. Our projections are based on a number of estimates and assumptions that are inherently subject to significant uncertainties and contingencies, including the risk factors described in this annual report. In particular, our 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.

Our results of operations and financial condition upon the adoption of Taiwan IFRSs may differ materially from our reported results of operations and financial condition under IFRSs.

We have historically presented our consolidated financial statements, including our consolidated financial statements for the year ended December 31, 2012, in accordance with ROC GAAP for purposes of our filings with the TWSE, with reconciliation of net income and balance sheet differences of our consolidated financial statements to U.S. GAAP for certain filings with the SEC. Effective January 1, 2013, companies listed on the TWSE, including us, must report their financial statements under Taiwan IFRSs. Accordingly, we have adopted Taiwan IFRSs for reporting in the ROC our annual consolidated financial statements beginning in 2013 and our interim quarterly unaudited consolidated financial statements beginning in the first quarter of 2013. While we have adopted Taiwan IFRSs for ROC reporting purposes, we adopt IFRSs for certain filings with the SEC, including our annual reports on Form 20-F for the year ended December 31, 2013 and thereafter. Following our adoption of IFRSs for the SEC filing purposes, we are no longer required to provide any reconciliation of our consolidated financial statements with U.S. GAAP. For more details, see Item 3. Key Information A. Selected Financial Data for the description about the adoption of new financial reporting standards.

Taiwan IFRSs differs from IFRSs in certain significant respects, including to the extent that any new or amended standards or interpretations applicable under IFRSs may not be timely endorsed by the FSC. Furthermore, the dividends for 2013 that are expected to be declared at our 2014 annual general stockholders meeting will be calculated based on Taiwan IFRSs. It is difficult for us to evaluate the precise impact of the adoption of Taiwan IFRSs and IFRSs on our financial statements, because the FSC may issue new rules governing the adoption of Taiwan IFRSs and as other laws and regulations may be amended with the adoption of Taiwan IFRSs.

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 government of the Republic of China 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, or TWSE, 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 TWSE. The TWSE 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. During 2013, the TWSE Index peaked at 8,623.43 on December 30, 2013, and reached a low of 7,616.64 on January 17, 2013. On April 21, 2014, the TWSE Index closed at 8,951.19. The TWSE 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 government of the Republic of China 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 TWSE 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 NCC on March 1, 2006, the NCC replaced the Ministry of Transportation and Communications as the competent

Table of Contents

authority under the Telecommunications Act pursuant to the National Communications commission Organization Law, or the Organization Law. The NCC 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 21, 2014, foreign direct holdings of our outstanding share capital is at 14.66%. 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 NCC will exercise its authority over us, or whether NCC will lower the foreign ownership cap at any time.

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:

- 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 TWSE.

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

Table of Contents

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.

Generally, ADS holders will not be able to exercise voting rights attached to the underlying securities on an individual basis. Under the deposit agreement, the voting rights attached to the underlying 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. The election of our directors 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 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 payments. 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 TWSE 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 ADS facilities on the TWSE.

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 privatization efforts by the government of the Republic of China and operate under the Statute of Chunghwa Telecom Co., Ltd. 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 TWSE 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 by the government of the Republic of China 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. Our agent for service of process in the United States is CT Corporation System, 111 Eighth Avenue, New York, NY 10011.

We are the largest telecommunications service provider in Taiwan and one of the largest in Asia in terms of revenue. 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, Wi-Fi services, MOD services, domestic data services and other domestic services;

mobile communications services, including mobile services, sales of mobile handsets and tablets and other mobile services;

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

international fixed communications services, including international long distance telephone services, international leased line services, international data services, satellite services and other international 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 fixed communications services provider as well as 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 2013, our revenues were NT$228.0 billion (US$7.6 billion), our consolidated net income was NT$42.6 billion (US$1.4 billion) and our basic earnings per share was NT$5.35 (US$0.18).

In 2013, we made capital expenditures totaling NT$36.4 billion (US$1.2 billion), of which 56% was related to our domestic fixed communications business, 25% was related to our mobile communications business, 13% was related to our internet business, 4% 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 detailed discussion of our capital expenditures.

Competitive Strengths

We believe that we are well positioned to take advantage of the increasing 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. 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+/Dual cell HSPA+ mobile network, our expansion of FTTx broadband access services, IP-based MOD services, fixed-line/mobile value added and cloud

Table of Contents

computing related services, and our construction of a 4G LTE, or Long-Term Evolution, mobile network using the spectrum that was granted in October 2013 with the largest amount of 4G frequency spectrum allocation out of all of the mobile network operators in Taiwan.

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 place 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 last-mile infrastructure in Taiwan, which comprises the connection between the local telephone service provider s switching centers to the end-users buildings or homes, provides us with access to existing and potential customers and creates a platform for expanding our services. In order to provide higher bandwidth services for our customers, we have been constructing our FTTx network since 2003. We have successfully migrated many of our customers from lower-speed to higher-speed internet access services and upgraded ADSL subscribers to FTTx, which offers even higher speeds by using fiber optic technology. The number of our FTTx subscribers has exceeded that of our ADSL subscribers since 2011. As of December 31, 2013, network coverage of FTTx with speeds of 60 Mbps and 100 Mbps was approximately 91.6% and 86.4%, respectively. In addition, our mobile communications network provides nationwide coverage. Our large cellular spectrum allocation together with our extensive network coverage positions us well for the continued expansion of our mobile services in Taiwan. We are also continuing to build our Wi-Fi network to offload 3G capacity in residential areas and public areas where subscriber density and usage is high, such as urban areas, airports and convenience stores.

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, 431 service centers, 271 exclusive service stores and six customer service call centers. We are continuing to expand and transform our retail stores while increasing the number of our service centers throughout Taiwan. 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 2013, we also obtained several domestic and international awards which recognized our service quality, corporate governance and our fulfillment of corporate social responsibility. In the Reader s Digest Trusted Brands Awards, we have stood out and won the Platinum Award of Telecom Company in Taiwan for ten consecutive years since 2004. We were also awarded the Excellence in Corporate Social Responsibility Award by the Common Wealth Magazine and were ranked A^{++} in Transparency and Information

20

Table of Contents

Disclosure by the Taiwan Securities and Futures Institute in 2013. In addition, we received the Bronze Class Sustainability Award by RobecoSAM in January 2014.

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. 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 ICT 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 great financial resources in Taiwan. Our low debt-to-equity capital structure, together with our strong 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+, Dual carrier HSPA+ mobile communications networks and services. We will continue to make investments in or to acquire other companies which provide complementary telecommunications and internet-related services to further expand our business and offer new products and services.

Advanced network technology. In 2013, we upgraded our FTTx access networks to FTTH access networks, aiming at promoting our broadband services from megabit connectivity to gigabit connectivity and strengthening our leading position in bandwidth services in our industry. We have also upgraded our 3G network to HSPA and HSPA+, and Dual carrier HSPA+. We are currently deploying our 4G network, and we believe that we have the potential to be the first-to-market to launch and offer high speed 4G services over LTE technology. 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, 2014, we employ over 2,546 research professionals and engineers whose principal focus is to develop advanced network services and operation support systems and to build selected core technologies. In 2013, our research and development expenses accounted for 1.6% of our revenues. 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 Strategies

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, or IoT. 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.

Table of Contents

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-line and mobile data services and value-added services. By leveraging our solid customer base, expanded network capacity and enhanced network capability, we plan to further enhance our fixed and mobile value-added services, or VAS, offerings and promotion. We have also introduced new ICT services as well as cloud computing services by leveraging enterprise high speed broadband demand to offer VAS and explore emerging service.

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. We aggressively introduced new technology and equipment of our fixed network to improve operational efficiency and facilitate business transformation. In the meantime, we also provide MOD, cloud-based multi-screen services and IoT services including Intelligent Energy Network, or iEN, street surveillance services to improve customers digital life. We expect that these initiatives will enhance customers loyalty and generate more revenues.

Broadband services: We strive to maintain our broadband market share. Therefore, we are continuing the build-out of our FTTx infrastructure. We expect that we will be able to offer broadband services with speeds of 100 Mbps to 90% of households in the ROC by the end of 2014. As more customers within our current coverage area subscribe for 100 Mbps broadband services or FTTH services, we will still need to incur additional capital expenditures to deploy such services from the cross-connection boxes to each customer s premises. In addition, we plan to incur additional capital expenditures to further construct our FTTH infrastructure to expand our coverage area throughout the ROC. We believe these efforts will help us maintain our competitive advantage for broadband services. A high quality broadband network is also essential for our high-definition MOD services.

- We provide ADSL and FTTx services to 4.6 million customers, which represented approximately 77.7% of Taiwan s fixed-line broadband customers by the end of 2013. Approximately 64.9% of our broadband customers were using FTTx services as of December 31, 2013.

- We typically realize higher average revenue per user, or ARPU, for our FTTx internet services, and we continue to offer various incentives for our ADSL customers to upgrade to FTTx services. In 2013, FTTx revenue reached 79.5% of our total broadband revenue.

Mobile Communications: We currently offer our mobile services via both 2G and 3G networks. We obtained the 4G spectrum in October 2013, and we are currently deploying our 4G network. We believe we have the potential to be the first-to-market to launch and offer high speed 4G services over LTE technology in July 2014. 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 challenge for all mobile operators. We are continuing to develop HetNet to meet such demand. HetNet incorporates macrocells 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:

- Further introducing mid- to low-tier smartphones to expand our mobile internet subscriber base;
- Accelerating the migration of 2G customers to 3G network by offering various mobile handsets combined with attractive value-added services and product packages;
- Expanding our HSPA+/Dual carrier HSPA+ coverage and enhancing the base station bandwidth to attract more mobile internet customers;
- Constructing more Wi-Fi hotspots to offer wireless internet access service and to offload 3G data traffic; in particular, we plan to construct over 50,000 Wi-Fi hotspots by the end of 2014;
- Enabling 3G/Wi-Fi auto-authentication to enhance customer experience; and
- Accelerating LTE network construction to launch 4G services in July 2014.

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. In addition, to cater to customers increasing demand for e-commerce payment systems, we are also developing a platform to support multiple payment interfaces including mobile payment and third-party payment.

Emerging services: Our emerging services include ICT, cloud computing and integrated services. We have been providing ICT services since 2009, including iEN, and Intelligent Transportation 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 Compute as a Service, or CaaS and provide customers 24-hour installation services in 2010. We started to offer hicloud Mall in 2011, which allows Independent Software Vendors, or ISV to offer their application software in the hicloud Mall for sale. We also introduced cloud-based multi-screen services, named Hami+, providing music, video, news, e-book, weather, travel information, personal cloud and payment services. The integration of platform and network enables our customers to use and purchase the service through their PCs, MOD, tablet PCs and smart phones, and satisfies users needs to utilize those services anytime, anywhere with any device. For enterprise customers, we introduced hicloud Virtual Private Cloud, or VPC to facilitate the establishment of the dedicated cloud data center for centralized control of computing resource, storage services, network services and information security total solutions. We also introduced the hicloud box[e] to provide data storage and file sharing services, which helps enterprise customers reduce storage costs while providing a platform to share resources in a protected environment. In 2013, we launched hicloud platform service, or hicloud PaaS, and hicloud S3 service, or hicloud S3:

hicloud PaaS is a cloud innovation platform that integrates six cloud-based components, including communications, information, marketing, digital contents, IoT, and information security, for developers to create various kind of cloud applications in a developing environment with three major programming languages: Java, .Net and PHP. In addition, hicloud PaaS innovation platform is connected to our hicloud Mall, and all cloud applications developed on the platform could be sold at our hicloud Mall; and

hicloud S3 is a cost-effective cloud-based storage service. Enterprises can lease cloud space to support their daily operation and therefore lower their storage cost. hicloud S3 also has HA, or High-Availability, operation system which provides stringent information security to reduce risks of losing information and leaking information.

We are continuing to expand the scope and variety of our integrated services to create more value for our customers. For example, we intend to develop an OTT platform and build relationships with content providers and service providers to offer attractive content and services over the platform.

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, 2013, our Enterprise Business Group was staffed by 396 professionals and offered 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 encompasses, 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.

In addition, we own hundreds of physical service stores, and we will continue to renovate our traditional service stores to enhance user experience. Please refer to Competitive Strengths We are an integrated full-service telecommunications provider in Taiwan for a discussion of our distribution channels.

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. To catch up with the fast evolution of digital devices and network applications, we continue the construction of our fiber-based fixed-line and mobile network to increase the network bandwidth and enhance operational efficiencies. In particular, we plan to accelerate LTE network construction to launch 4G services in July 2014, and construct high capacity Wi-Fi/Fiber-Wireless networks to offload mobile network traffic and upgrade network equipment to improve operational efficiency and reduce operating cost. For example, we have focused on redesigning optical distribution networks, consolidating aggregate networks, simplifying network layers, centralizing network planning and equipment procurement, designing Single Radio Access Networks, developing remote automatic operations, administration, maintenance and provisioning systems and following precision construction policy to enhance equipment utilization rate and improve management efficiency.

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 6,426 employees in total as of December 31, 2013. We also hired more than 3,999 new employees after our privatization in August 2005.

Since then, we continued to align our organizational structure by integrating

24

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 enterprise customer services departments. On January 30, 2013, we set up a human resource company, Honghwa Human Resources Co., Ltd., in order to save on personnel expenses as well as to provide our customers with better installation services and services in our retail stores. We plan to gradually restructure the personnel of our customer services departments to use personnel provided by Honghwa Human Resources Co., Ltd.

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, and information and communication technology solutions partners to diversify our business operations and enhance our service offerings. In January 2013, we signed a memorandum of understanding with Wiwynn Corporation. We aim to cooperate with Wiwynn Corporation by combining its hardware solution with our cloud technology to jointly provide customers plug-and-play appliance and explore domestic and overseas computing business opportunities. We also aim to develop the city of industry technology intelligence. In December 2013, we formed the Taiwan Intelligent Aerotropolis Association, an association that focuses on the research, development and application of telecommunication and aerotropolis technology, together with other telecommunication enterprises and equipment suppliers. The formation of the association has strengthened our leading position in the industry and further supplemented our capability to develop smart city and aerotropolis products and services. On January 17, 2014, we entered into a memorandum of understanding with Delta Electronics, Inc., under which both parties agree to coordinate and to develop environmentally friendly solutions for energy saving in telecommunications industry. See B. Business Overview Mobile Communications Business Mobile Services for a discussion of our alliance on mobile services.

Acquisition 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:

In March 2011, we established a wholly owned subsidiary Chunghwa Telecom (China) Co., Ltd., which engages mainly in providing services of planning, design, and integration 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 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, 2013, we owned 13% 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, 2013, 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, 2013, we owned 65% of Smartfun Digital Co., Ltd.

Table of Contents

In September 2011, we invested in Huada Digital Corporation and owned 50% of this company as of December 31, 2013. Huada Digital Corporation mainly engages in providing software services.

In February 2012, we subscribed for shares of China Airlines Ltd. in an equity offering and became a 5.07% stockholder of China Airlines Ltd. We expect to leverage China Airlines Ltd. s expertise and operational experience within the tourism and transportation industries to develop relevant ICT services, including intelligent tourism and transportation cloud services. We have developed a tourism cloud platform to provide travel information and products as well as physical and virtual channels to facilitate the operation of different parties in the tourism industry.

In November 2012, we established Hua-Xiong Information Technology (China) Co., Ltd., which mainly engages in providing intelligent systems and energy saving systems and services for buildings. As of December 31, 2013, we owned 51% of Hua-Xiong Information Technology (China) Co., Ltd.

In January 2013, we set up a human resource company, Honghwa Human Resources Co., Ltd., in order to save on personnel expenses as well as to provide our customers with better installation services and services in our retail stores.

In November 2013, Taiwan Mobile Corporation, Asia Pacific Telecom, Vibo Telecom, EasyCard Corporation, Far Eastone Telecommunications and us established the Alliance Digital Technology Co., Ltd., or ADT, which mainly engages in the development of mobile payments and information processing services. We owned a 19% equity interest in ADT and had one seat out of five seats on the board of directors of ADT as of December 31, 2013.

In February 2014, we, together with Benefit One Asia Ptd. Ltd., established Chunghwa Benefit One Co., Ltd., or Chunghwa Benefit One, and we owned a 50% equity interest in Chunghwa Benefit One. Chunghwa Benefit One mainly engages in providing an e-commerce platform for enterprises to provide employee benefits.

Please also see notes 3 and 16 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 we 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 common 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.

Under the Company Act of the ROC, companies are allowed to distribute special cash dividend from capital surplus. At our annual general stockholders meeting held on June 25, 2013, our stockholders approved the distribution of NT$5.6 billion from capital surplus, and such amount was subsequently paid in August 2013. See

Table of Contents

Item 5. Operating and Financial Review and Prospects Overview Effect of adopting Taiwan-IFRSs on our dividends and employee bonuses.

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. The selected financial data for the years ended December 31, 2012 and 2013 have been prepared and presented in accordance with IFRSs as issued by the International Accounting Standards Board.

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 other domestic services including ICT, corporate solution services, cloud computing 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. Our revenues from domestic fixed communications services were NT$76.1 billion or 34.4% of our revenues in 2012 and NT$73.5 billion (US$2,465.5 million) or 32.2% of our revenues in 2013. 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 mobile and VoIP substitution.

Local Telephone

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

	Year Ended December 31		
	2012	2013	
	NT$	NT$	US$
	(in billions)		(in millions)
Local telephone revenues:			
Usage	20.1	17.9	599.0
Subscription	16.4	16.4	550.5
Interconnection	1.2	1.0	34.7
Pay telephone	0.4	0.3	11.0
Other	2.8	2.2	72.7
Total	40.9	37.8	1,267.9

We provide local telephone services to approximately 11.6 million customers in Taiwan. Our fixed-line network reaches virtually all homes and businesses in Taiwan. Revenues from local telephone services comprised 18.5% and 16.6% of our total revenues in 2012 and 2013, respectively. Approximately 73.9% of our local telephone customers as of December 31, 2013 were residential customers. We are currently the leader of the local telephone service market, with an average market share of approximately 95.0% and 94.6% in 2012 and 2013, respectively.

27

Table of Contents

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

	As of December 31		
	2011	2012	2013
	(in thousands, except percentages and per household data)		
Taiwan population(1)	23,225	23,316	23,374
Fixed line customers:			
Residential	8,948	8,728	8,555
Business	3,133	3,061	3,017
Total	12,081	11,790	11,572
Growth rate (compared to the same period in the prior year)	(1.8)%	(2.4)%	(1.8)%
Penetration rate (as a percentage of the population)	52.0%	50.6%	49.5%
Lines in service per household	1.11	1.07	1.03

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

With the continued development of mobile technologies and the disconnection of additional lines for dial-up services, demand for local customer lines has been declining. The number of fixed-line customers decreased by 2.4% in 2012 compared to 2011 and 1.8% in 2013 compared to 2012. 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 the Supreme Administrative Court, starting from September 2011, we no longer require our broadband service subscribers to apply for our fixed-line services. We also allow our existing broadband 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		
	2011	2012	2013
	(in millions, except percentages)		
Minutes from local calls(1)(2)	15,569	14,368	12,942
Growth rate (compared to the same period in the prior year)	13.9%	(7.7)%	(9.9)%

(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. Minutes from local calls decreased in 2012 and 2013 due to the impact of mobile substitution and increased use of VoIP applications.

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.

Table of Contents

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	
	2012	2013
	NT$	NT$
Average local telephone usage fee (per minute)	1.41	1.39
Growth rate (compared to the same period in the prior year)	3.7%	(1.4)%

Average per minute usage charges increased 3.7% to NT$1.41 in 2012, and we attribute this increase to the fact that users with lower average tariffs switched to using VoIP telephony services to a greater extent than users with higher average tariffs. However, average per minute usage charges decreased 1.4% to NT$1.39 in 2013, mainly due to more users switching to use mobile phones and VoIP telephony services, which also led to the decreases in total revenue derived from local telephone. 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 were NT$3.8 billion representing 1.7% of our total revenues in 2012 and NT$3.5 billion (US$0.1 billion) representing 1.5% of our total revenue in 2013. This decrease was mainly due to the increased use of mobile services and VoIP applications. Our average market share in the domestic long distance market was approximately 74.1%, 75.4% and 76.6% in 2011, 2012 and 2013, 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		
	2011	2012	2013
	(in millions, except percentages)		
Domestic long distance telephone service usage (minutes)	3,202	3,354	3,288
Growth rate (compared to the same period in the prior year)	(6.2)%	4.7%	(2.0)%

Along with the mandatory tariff reduction for domestic long distance telephone services, the minutes of use increased in 2012. See Item 5. Operating and Financial Review and Prospects Overview Tariff adjustments . However, call minutes declined in 2013 compared to 2012. We expect the minutes of use for domestic long distance calls will continue to decline as a result of traffic migration to mobile services and increased use of VoIP applications.

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	
	2012	**2013**
Average domestic long distance telephone usage fee (per minute)	NT$0.90	NT$0.84
Growth rate (compared to the same period in the prior year)	(41.2)%	(6.6)%

Table of Contents

According to the resolution released by the NCC on November 30, 2011, we reduced our peak hour domestic long distance rate from NT$0.032 per second to our current rate of NT$1.6 per three minutes, and off-peak hours rate from NT$0.023 per second to our current rate of NT$1.0 per three minutes, in January 2012. All domestic long distance calls, regardless of the distance between the calling parties, are subject to the same tariff. Our average domestic long distance usage charge per minute decreased 41.2% in 2012 due to the mandatory tariff reduction mentioned above. The slight difference in the average domestic long distance usage charge per minute in 2012 and 2013 was due to the higher tariff in early January 2012 before the tariff reduction mentioned above. For more details of the NCC s mandatory tariff reduction, please see Item 5. Operating and Financial Review and Prospects Overview Tariff adjustments .

We provide so-called intelligent network services over our domestic long distance network, including toll-free calling, personal number, televoting, premium rate service and virtual private network, or VPN, services. We also focus on offering our customers an increasing number of value-added services with 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 following table sets forth our revenues from our broadband access services for the periods indicated.

	Year Ended December 31	
	2012	**2013**
	NT$	**NT$**
	(in billions)	
Broadband access revenues:		
Broadband access (ADSL and FTTx)	19.1	19.1

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 only our broadband data access lines and choose another provider for internet service provider, or ISP, services. We began to provide our ADSL service in August 1999 and had approximately 1.6 million customers as of December 31, 2013. As of December 31, 2013, approximately 68.8%, or 1.1 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 continued to decline in 2013.

The number of our FTTx customers increased significantly in 2011, 2012 and 2013 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 who only use us for the FTTx data access lines and choose another ISP to provide internet services. Of the approximately 3.0 million FTTx customers as of December 31, 2013, approximately 2.7 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, 2013, 69% 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 79.2%, 79.2% and 77.7% in 2011, 2012 and 2013, respectively.

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

	As of December 31		
	2011	2012	2013
ADSL service customers (in thousands)	2,101	1,839	1,598
FTTx service customers (in thousands)	2,398	2,719	2,955
Average downlink speed (Mbps)	11.2	16.3	26.9

Our ADSL service offers downlink speeds that range from 1 Mbps to 8 Mbps and uplink speeds that range from 64 kilobits per second, or Kbps, to 640 Kbps. Our FTTx service offers downlink speeds of 12, 20, 50 and 100 Mbps matched with uplink speeds of 20, 40 and 100 Mbps, respectively. As of December 31, 2013, our average downlink speed was 26.9 Mbps.

We have experienced competition in the ADSL and FTTx service market from cable operators and other fixed-line operators. Our strategy is to continue the migration of ADSL subscribers to FTTx so as to increase the ARPU. In addition, in order to strengthen customer loyalty, we have provided free speed upgrades for broadband customers since August 2010. In April and October 2013, we further reduced our broadband tariff, especially for higher speed services, such as 60 Mbps and 100 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 ARPU for each of the periods indicated.

	Year Ended December 31	
	2012	2013
	NT$	NT$
ARPU for HiNet dial-up services per month(1)	15	11
ARPU for ADSL services per month(2)	437	424
ARPU for FTTx services per month(3)	895	859

(1) ARPU 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) ARPU for ADSL 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 access customers on the first and last days of the period divided by the number of months in the relevant period and (b) HiNet ADSL ISP service revenues divided by the

average of the number of HiNet ADSL ISP service subscribers on the first and last days of the period divided by the number of months in the relevant period.

(3) ARPU for FTTx 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 access customers on the first and last days of the period divided by the number of months in the relevant period and (b) HiNet FTTx ISP service revenues divided by the average of the number of HiNet FTTx ISP service subscribers on the first and last days of the period divided by the number of months in the relevant period.

Table of Contents

The decline of our ADSL ARPU was due to the NCC s mandatory tariff reduction. The decline of FTTx ARPU was due to (1) the NCC mandatory tariff reduction and (2) the promotional packages and discounts provided for existing customers. For more details of the NCC s mandatory 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 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		
	2011	2012	2013
	(in gigabits per second, or Gbps)		
Total bandwidth	1,705.7	1,294.6	1,054.7

The total bandwidth of local and domestic long distance lines leased to third parties decreased from 2011 to 2013 primarily due to the general trend of migrating to broadband services and the increased competition from other service providers constructing their own lines.

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. We attribute the general decline in rental fees since 2000 to a general migration toward broadband services and increased competition from other service providers constructing their own lines mentioned above. In response, we continue to implement marketing and service campaigns to retain our high-value corporate customers for our leased line products. Our local and domestic long distance leased line services revenues were NT$5.5 billion and NT$5.1 billion (US$0.2 billion) in 2012 and 2013, respectively.

Wi-Fi Services

We launched our wireless local area network service in May 2002. As of December 31, 2012 and 2013, we had a total of approximately 1,280,315 and 1,816,090 residential and business customers that leased our access points, respectively. In addition, we had established 42,000 hot spots and 150 hot zones in public areas by the end of 2013, such as convenience stores, airports and international convention centers, where our smartphone subscribers can access our Wi-Fi network and help to offload 3G data network traffic.

Multimedia on Demand Services

Using video streaming technology through a set top box that connects to our FTTx and ADSL data connections, our customers can access TV programs, video-on-demand and other services. We had over 160 broadcasting channels and over 12,000 hours of on-demand programs and served approximately 1.24 million customers as of December 31, 2013. In addition, our video-on-demand service provides movies, dramas, animations, documentaries, e-learning and music programs for home entertainment. Also, as of December 31, 2013, we offered 88 high definition, or HD, channels and other HD video-on-demand programming, such as

32

sports, movies and knowledge materials. In 2013, we offered TV Everywhere service for our MOD subscribers to enjoy seamless program viewing experience on multi-screens including smartphones, tablets and PCs. Additionally, we offered movie SVoD, or Subscription Video on Demand, targeting customers who are film fans. In addition, we also offered new family packages to attract more subscription and broadcasted free movies every week to increase the household TV usage rate and enhance user experience. MOD revenues accounted for NT$1.9 billion and NT$2.2 billion (US$74.4 million) in 2012 and 2013, respectively.

Other Domestic Services

Our other domestic 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 other mobile services.

Mobile Services

We are Taiwan s largest provider of mobile services in terms of both revenues and customers. In 2012, we generated revenues of NT$72.5 billion, or 32.8% of our total revenues, from mobile services. In 2013, we generated revenues of NT$76.7 billion, or 33.6% of our total revenues, from mobile services. In 2012, we managed to increase our mobile revenue by promoting mobile internet services, which fully offset the decline of mobile voice revenue due to the NCC s mandatory tariff reduction and market competition. In 2013, we continued to migrate customers (1) from 2G to 3G with additional data plans and (2) from 3G voice only to data plan adoption. As a result, our mobile VAS revenue grew 38.4% year over year in 2013.

	Year Ended December 31		
	2012	2013	
	NT$	NT$	US$
	(in billions)		(in millions)
Mobile services revenues:			
Usage[(1)]	42.1	40.1	1,345.6
Interconnection	7.3	6.0	200.7
Mobile data	20.4	28.3	948.4
Other	2.7	2.3	76.6
Total mobile services	72.5	76.7	2,571.3

(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 10.7 million mobile customers, for a market share of approximately 35.9% of total mobile customers and approximately 35.3% of total mobile services revenues in Taiwan, as of December 31, 2013.

In October 2013, we obtained a 4G mobile services spectrum of 10 MHz paired spectrum in the 900 MHz frequency band and 25 MHz paired spectrum in the 1800 MHz frequency band. In November 2013, we paid NT$39.1 billion to the government for our 4G mobile services spectrum. Our 4G mobile services license is valid until December 31, 2030. We are currently deploying our 4G network, and we plan to launch 4G services using LTE technology in July 2014.

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

33

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 have been allocated 15 MHz paired spectrum plus 5 MHz unpaired spectrum in the 2 GHz frequency band for 3G mobile services, and 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. We offer the largest international roaming network among Taiwan mobile service providers. By the end of 2013, our 3G roaming contracts includes 213 networks in 89 countries, our 2G GSM roaming contracts include 425 networks in 198 countries, and our 2.5G GPRS roaming contracts include 350 networks in 144 countries.

As of December 31, 2013, we had upgraded all of our 3G cellular base stations with HSDPA capacity, and 2,400 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.

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		
	2011	**2012**	**2013**
Taiwan population (in thousands)(1)	23,225	23,316	23,374
Total mobile customers in Taiwan (in thousands)(2)	28,862	29,449	29,701
Penetration (as a percentage of the population)(2)	124.3%	126.2%	127.1%
Total mobile revenues in Taiwan (in billions)(3)	NT$217.0	NT$219.2	NT$216.8
Number of our mobile customers (in thousands)(2)(4)	10,072	10,269	10,656
Our market share by customers	34.9%	34.9%	35.9%
Our market share by revenues(5)	32.6%	33.0%	35.3%
Number of our prepaid customers (in thousands)(4)	1,052	1,124	1,325
Our prepaid customers as a percentage of our total customers	10.4%	10.9%	12.4%
Annualized churn rate(6)	11.52%	13.26%	13.87%
Minutes of usage (in millions of minutes)			
Incoming	11,368	12,536	12,372
Outgoing	10,897	12,258	12,316
Average minutes of usage per user per month(2)(7)	188	203	197
ARPU per month(2)(8)	NT$598	NT$594	NT$611

(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 2G, 3G and personal handy-phone system, or PHS, customers. The number of our mobile customers also includes our prepaid and VPN customers.

(3) Data from the statistical monthly release by the NCC, in the Republic of China, which include mobile revenues 2G, 3G and PHS. The figures of 2011 and 2012 have not been adjusted by the NCC after the adoption of IFRSs.

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

(5) Market share by revenues is calculated by dividing mobile service revenues by the total mobile revenues in Taiwan.

(6) 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.

(7) Average minutes of use per user per month is calculated by dividing the total minutes of use 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.

(8) ARPU 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.

The total mobile customers in Taiwan had reached approximately 29.7 million as of December 31, 2013. Mobile penetration was approximately 127.1% on the same date. The overall mobile services market experienced a slight decrease of 1.1% in revenues in 2013 mainly due to the downturn in overall 2G mobile market and the tariff cut for 3G services owing to the promotion of our 3G data services. As of December 31, 2013, we had 8.04 million and 2.62 million subscribers for 3G and 2G services, respectively.

We began offering prepaid card services in October 2000 and prepaid 3G card services in February 2008. As of December 31, 2013, we had approximately 1.33 million prepaid customers, representing approximately 12.4% 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 87% of the total handsets we offered in 2013, and we expect the percentage to reach more than 90% in 2014. We expect our average subsidy per handset in 2014 to decrease as we focus more on promoting mid-tier and low-tier smart phones. At the same time, we expect to maintain our mobile internet market leadership.

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. Our strategic alliance with Vodafone has been terminated by the end of April 2013 after our agreement expired, as Vodafone has already entered into another strategic alliance with one of our competitors. We have already signed agreements with other European providers, such as T-Mobile, Telefonica, Orange, TeliaSonera, for strategic cooperation for our roaming business, and we also continue cooperating with local operators in different countries. 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 ARPU per month increased from NT$594 in 2012 to NT$611 in 2013, mainly due to our strong promotion on mobile internet services. We intend to continue migrating mobile voice only customers to adopt additional data plan.

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. 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 offered the Hami value-added service platform and provided e-book and Hami Apps services. Revenues from mobile data services represented 28.3% and 37.0% of our total mobile services revenues in 2012 and 2013, respectively. The increase of mobile data service revenue percentage was mainly attributed to the increase in mobile data plan subscriber number.

Table of Contents

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, our subsidiary Senao, 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 TWSE under the number 2450 since May 2001. Our equity ownership in Senao decreased from 31.33% as of January 15, 2007 to 28.18% as of March 31, 2014 due to the exercise of options by employees that were previously granted before 2007. We consolidated the results of operations of Senao because we control four out of seven seats on the board of directors through the support of large beneficial shareholders of Senao. Please refer to note 3 and note 15 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. Starting from January 2014, customers can subscribe for our broadband service, MOD service and other services at Senao retail stores. 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

Our internet business includes HiNet, our internet service provider, internet value-added services, or VAS, data communication services, internet data center services, and other internet services. Our internet revenues represented 11.2% and 11.1% of our revenues in 2012 and 2013, respectively.

HiNet Internet Service

We are the largest ISP in Taiwan, with a market share of 68.8% as of December 31, 2013. As of December 31, 2013, HiNet had approximately 4.2 million subscribers. Our HiNet internet service generated revenues of NT$16.9 billion and NT$17.2 billion (US$0.6 billion) in 2012 and 2013, respectively. Although our ISP service subscribers increased from 2011 to 2013, the revenues decreased mainly due to the tariff reductions for the HiNet ISP service.

Table of Contents

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

	As of December 31		
	2011	2012	2013
	(in thousands, except percentages)		
Total internet subscribers in Taiwan	6,092	6,101	6,158
HiNet subscribers:			
HiNet dial-up subscribers	487	469	454
HiNet ADSL subscribers	1,559	1,321	1,099
HiNet FTTx subscribers	2,132	2,451	2,683
Other access technology subscribers	4	3	3
Total HiNet subscribers	4,182	4,244	4,239
Market share[(1)]	68.6%	69.6%	68.8%

(1) Based on data provided by the NCC.

We have maintained our leading market position despite a highly competitive market with approximately 218 ISPs 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 multimedia content on demand. We charge access fees for some of this content. We 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 largest floor area of internet data centers in Taiwan compared to our competitors in Taiwan. We offer co-location, web hosting and application service provider services.

Other Internet Services

Our other internet services include government services, corporate solution and ICT services.

37

Table of Contents

International Fixed Communications Business

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

International Long Distance Telephone

We provide international long distance telephone services in Taiwan. Total revenues from international long distance telephone services comprised 5.2% and 4.9% of our revenues in 2012 and 2013, 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. Our international long distance telephone revenues decreased by 2.6% from NT$11.5 billion in 2012 to NT$11.2 billion (US$0.4 billion) in 2013 primarily due to the increased competition from VoIP-based international long distance service providers and free VoIP applications.

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 by minutes was approximately 54.9%, 51.0% and 55.1% in 2011, 2012 and 2013, respectively. Despite the decrease in our international long distance traffic volume, our market share increased from 2012 to 2013 because our international long distance traffic volume decreased less than our competitors. However, the overall market for international long distance services declined due to the intense competition from VoIP-based international long distance service providers and free VoIP applications. Our international long distance services consist primarily of international direct dial services and the wholesale of international long distance traffic.

We commenced the wholesale of international long distance minutes to licensed domestic international simple resale, or ISR operators, and other international carriers in 2001. The domestic ISR operators require fixed-line operators in Taiwan, such as us, to provide international long distance telephone services to their end-users. We provide time-division multiplexing, or TDM and VoIP connections with committed standard and premium route quality to connect to over 230 worldwide destinations for ISR operators and international carriers. We offer customized solutions with competitive prices and 24 hours a day, 7 days a week service to satisfy their needs. In 2012 and 2013, we sold 1,064 million and 743 million minutes of wholesale international long distance traffic, which represented approximately 42.2% and 35.5% of our total outgoing international long distance traffic, respectively. Despite the decrease in international long distance traffic volume, revenues from the wholesale of international long distance minutes increased by 5.4% from NT$2.9 billion in 2012 to NT$3.1 billion (US$0.1 billion) in 2013 primarily due to our focus on expanding such services in higher-unit-price areas, such as Europe.

International calls to our top five destinations represented 62.4% of our outgoing international long distance call traffic in 2013. International calls from our top five destinations represented 47.7% of our incoming international long distance call traffic in 2013.

The following table shows the percentage of total outgoing international long distance minutes for our top five outgoing destinations in 2013.

Destination	**Percentage of Total Outgoing Minutes (%)**
Mainland China	27.2
Indonesia	16.1

Philippines	8.2
Vietnam	6.5
United States	4.4
Total of top five destinations	62.4

Table of Contents

The following table shows the percentage of total incoming international long distance minutes for our top five incoming destinations in 2013.

Destination	Percentage of Total Incoming Minutes (%)
Mainland China	19.0
United States	8.1
Indonesia	7.3
Canada	6.7
Malaysia	6.6
Total of top five destinations	47.7

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

	As of December 31		
	2011	2012	2013
	(in thousands, except percentages and incoming/outgoing ratio)		
Incoming minutes	1,737	1,529	1,198
Growth rate (compared to the same period in the prior year)	(9.3)%	(11.9)%	(21.6)%
Outgoing minutes	2,560	2,523	2,095
Growth rate (compared to the same period in the prior year)	(5.7)%	(1.4)%	(17.0)%
Total minutes	4,297	4,052	3,293
Incoming/outgoing ratio	0.68	0.61	0.57

Total outgoing call volume decreased by 21.6% from 2012 to 2013 primarily due to intensified market competition from VoIP-based international long distance service providers and other international long distance service providers.

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.

Rates vary depending on the time of day at which a call is placed. 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

	2012	2013
Average international long distance usage charge (per minute)	NT$3.4	NT$3.8
Growth rate (compared to the same period in the prior year)	(5.6)%	11.8%

In 2012, since other operators offered competitive tariff to grab market share, we reduced our retail price to maintain competitiveness which resulted in the lower average charge per minute. Despite the decrease in average charge per minute, our growth rate increased from negative 5.6% in 2012 to 11.8% in 2013 due to our focus on expanding the wholesale of international long distance minutes in higher-unit-price areas, such as Europe.

Table of Contents

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		
	2012	**2013**	
	NT$	**NT$**	**US$**
	(in billions)	**(in billions)**	&nbs