



## Operational Development

The recent global financial crisis has awakened our deeper thoughts and made us realize that the economic crisis and the risks of climate change challenging the operations of business enterprises will eventually become closely tied to corporate behavior issues on the dimensions of environment, human rights, labor and corporate governance. Incorporation of environmental, social and corporate governance factors as part of the consideration for an enterprise's risk and opportunities is fundamental to corporate sustainability management.

Given the difficult post- financial crisis economic environment, we trust that any corporation, with its existing CSR competitive advantages, is better equipped to create the long-term prospect of sustainable competitive advantages, improve employee morale and loyalty to the company and maintain stakeholders' support for and trust in the corporation.

As such, we will utilize the internal corporate resources more effectively than in the past. With respect to CSR, we plan to dedicate our efforts and resources to projects that are capable of simultaneously achieving the economic effects and promoting social benefits. That is, to integrate our pursuit of the becoming the "most valuable" corporate operational prospects by focusing on our core business, emphasizing our professional competency, improving operational efficiency and offering Inspiring Services with our corporate social responsibilities to continue increasing our investment and performance improvements in CSR fulfillment.

**Management Approach**

Sustainable Operation  
Products and Services

**Key Issues**

Operating Results and Economic Impact

**Major Responses**

Protection of Shareholders' Rights  
Affiliated Enterprises  
Indirect Economic Impact  
Promotion of Industrial Developments

**Key Action Items**

R&D and Innovation

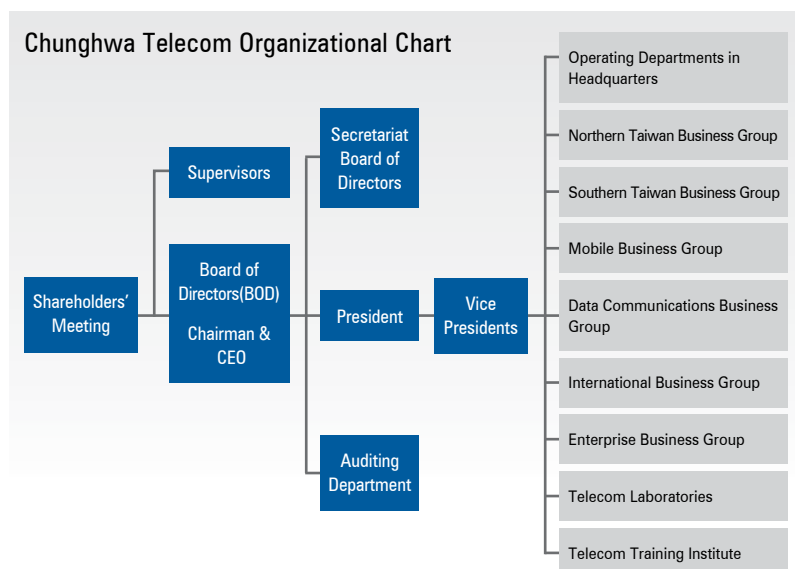


## Sustainable Operation

Information Communication Technology (ICT) in the 21<sup>st</sup> Century is not only a measure of a nation's competitiveness in terms of technology development, but also the Integration of ICT application with overall management is becoming more critical. As the leader of the telecommunications industry in Taiwan, we have greater responsibilities in addition to actively grasping the global trend, providing innovative services and broadening the service range.

Upon integration of ICT to every facet of a corporation's daily operations, it is essential that operations and services shall stay uninterrupted. Given the globalization of business operations and the fact that service hours are becoming longer with some enterprises even offering round-the-clock services year-round, it is inevitably that corporate networks need to go global and remain functioning uninterrupted at all times. As such, it is crucial to maintain the quality of our communications and Internet services as the quality of such services is key to our clients' operations or moreover, reputation. We are dedicated to accomplishing the missions entrusted to us by our clients while reducing the risks confronting our corporate clients and us. The optimal goal is to work with our clients side by side towards sustainable growth.

Given the economic downturn, the relevant ICT may not only help business enterprises to improve productivity and promote economic growth, but it is also capable of boosting low-carbon economy and in turn, creating social and environmental benefits. Our concept of sustainable operation aims at helping our customers as well as our own corporation. We believe that our management approach in caring for both the environmental resources and social welfare may touch people's hearts and win the society's recognition.





## Products and Services

Telecommunication represents our core competency. Our business composition is rapidly changing following technological advancement in recent years. Taking the emerging and fast-growth businesses in recent years for instance including ADSL and FTTx, WLAN (3.5G), MOD, the various value-added businesses and the five major corporate services (iEN, Corporate Data Security Services, Call Center, ITS / Telematics & PBX/ IMO), it is evident that we have emerged from the traditional telecommunication market and are gradually settling into the IT services arena.

Our services include the following:

### Fixed Line Services

- Local Telephone Service & Related Value-Added Services include the following:
  - Domestic long distance services: include operator toll dialing (OTD), subscriber toll dialing (STD) and long-distance hotline services.
  - International long distance services: include the various types of international call and telephone conferencing services.
- International long distance services: include the various types of international call and telephone conferencing services.
- Intelligent Network (IN): toll-free service, bulk announcement, personal number service, and premium rate services.
- Integrated Services Digital Network (ISDN): allowing digital communication of voice, data, text and image.

### Mobile Services

- GSM and 3G Mobile Services: GSM services utilize the terminal devices of Mobile phones to make domestic or international communications at any time through the digital Mobile network; 3G Mobile services not only offer voice services but also rich and diverse value-added (include multimedia) services as well as the application of real-time image.
- Value-Added Services: include text/multimedia messaging, mobile Internet, value-added voice mail, mobile business, mobile information, music and games downloads, video phone and location based service.

Radio Paging Service: the caller transmits the messages to the callee through radio signals. Numbers or symbols are displayed in the screen of the pager passing on the caller's message to the callee.



## Internet and Data Services

- Internet Service: Chunghwa Telecom's ISP service is called HiNet. The service not only offers subscribers Internet access services but also valued-added services such as on-line games, video and anti-virus/ firewall protection as well as Xuite members' services. Wireless Services (WLAN).
- MOD (IPTV) Services: our transmission platform offers our customers multimedia on demand content. Media companies use our platform to offer online TV or radio channels, programs on demand, and other applied services such as TV channels, high definition TV, Internet banking, and home karaoke.
- Dedicated Line Services: we offer local, long-distance or international dedicated line services for customers who require point-to-point transmission of data, and voice calls.



## Business Services

We offer advanced customized data and communication services for our local corporate clients to enable them to raise their competitiveness and aggressively pursue business opportunities with the optimal goal of achieving their corporate goals and strategies.

- Corporate Client Total Services: Voice value-added services, Corporate Voice and Data Total Services, Corporate Internet Upgrading, IPCC Customer Service Platforms, and IMO Total Management Services.
- Corporate Client International Services: conferencing, international dedicated line and Internet services.
- Corporate Client Mobile Services: data services including Corporate Messaging Services, Mobile Office Services (MDVPN), Upgrading Corporate Mobile Capability, mPro Business Services, Business Travel Services, and Mobile Internet Services.
- Corporate Client Data Services: we offer data value-added services including Optical Fiber Internet Connections, Corporate Data Security Services, Electronic Commerce, Government Tenders and Real Estate Services, Corporate Web Hosting, Intelligent Facilities Management Services, Direct Broadcasting Platforms, Video Conferencing and HiNet Travel Web.



## Other

- Satellite Communications Services: include Leasing of Transponders, Satellite Uplinks, Transoceanic Broadcasting and Very Small Aperture Terminal (VSAT) services.



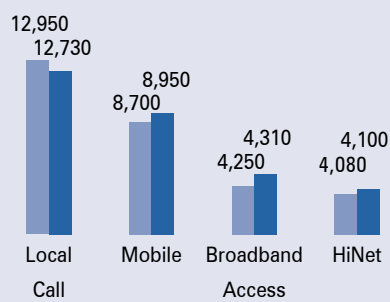
Management  
Approach

## Subscribers

Unit: Thousand Subscribers

■ 2007

■ 2008



Being a valuable business enterprise, besides emphasizing our professionalism, we maintain focus on the impact of our core business on our stakeholders and the responsible action we take to address any stakeholder related issues. The CSR issues corresponding to our core businesses are listed as follows, which will continue to be our future focus:

Our Services	Corresponding CSR Issues
Mobile Communications	Recycling of cell phones and electromagnetic issues.
ADSL FTTx	In line with the government's policy for information and communications development and the "U Taiwan Project", bridge the digital divide, promote digital living and health cares, induce business innovation in the information and communications industry, raise the country's competitiveness and the living standards.
MOD	Reduce wastes, achieve energy saving and carbon reduction.
HiNet Internet Access	Energy saving, carbon reduction, create digital opportunities, increase the transparency of real-time data, responsible marketing behaviors and customer care.
Customer Services	Protection of customer confidentiality, energy saving and carbon reduction.

The market share statistics of our various types of telecommunication services give us an indication of our importance in contributing to the country's economic development. Improvement in the operating efficiency and productivity in the information and communications industry has significant impact on the country's overall industrial and economic development. As such, we are dedicated to improving our sustainable competitiveness and we work together with related industry partners and customers to deliver innovative and forward-looking products and services with the optimal goal of creating a win-win situation.

### Taiwan Telecom Penetration Rate (%)

	2007	2008
Mobile Phone Penetration Rate <sup>*1</sup>	105.9	110.3
Broadband Internet Penetration Rate <sup>*2</sup>	63.8	65.6

\*1: Include PHS subscribers. Data was computed on the total number of subscribers.

\*2: Data was computed on the total number of households using broadband internet services.

### Chunghua Telecom User Number and Market Share

	2007		2008	
	User Number	Market Share	User Number	Market Share
Local Call	12,950,000	97.4%	12,730,000	97.3%
Mobile	8,700,000	35.8%	8,950,000	35.2%
Broadband Access	4,250,000	87.0%	4,310,000	83.8%
HiNet <sup>*</sup>	4,080,000	68.3%	4,100,000	68.1%

\*: HiNet includes Broadband Services (ADSL and FTTx), Dial-up and other Internet access.



Key Issues

## Operating Results and Economic Impact

The global economy experienced an extremely turbulent year in 2008. Many businesses were confronted with sales decline while employees of some enterprises were forced to take leave without pay. In spite of the difficult environment, our operating performance maintained our usual standards given the entire CHT team's effort and support of our suppliers. The corporation's overall operating results are as follows:

- Consolidated operating income was NT\$ 201.67 billion,<sup>\*1</sup> representing 1.54% of the real GDP for 2008 published by the Directorate General of Budget, Accounting and Statistics, Executive Yuan.<sup>\*2</sup>
- Consolidated net income after tax was NT\$ 45.01 billion while net profit margin was 22.3%.
- Consolidated income tax was NT\$ 13.89 billion, the highest among other corporate entities in Taiwan, providing the government a major source of revenue for public infrastructure construction and other developments.

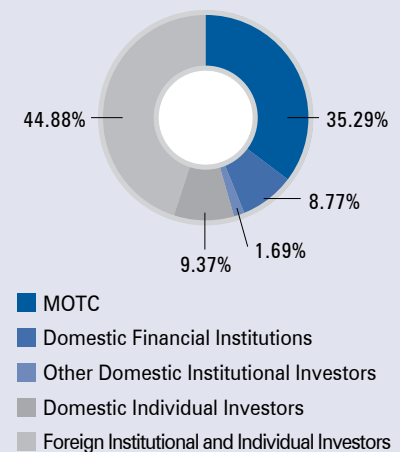
Our paid-in capital is NT\$ 96.97 billion. Even after privatization, the government is still our largest shareholder. As of December 31, 2008, the Ministry of Transportation and Communications ("MOTC" henceforth) owns 35.29% of the total shares. Our business sectors observed balanced growth in the past year and the current business status is summarized as follows:

- Mobile Phone & 3G Internet Connection: we have a total of 8.95 million 2G/3G subscribers, representing a market share of 35.2%. Through the Smartphone strategic alliance and channel marketing, we hope to promote the development of the domestic communications equipment industry and then in turn the life enhancing application of domestic mobile commerce and wireless broadband Internet services.
- Broadband Access and E-Commerce Services: Broadband construction and the household penetration rate are key indicators of a nation's competitiveness. Because we have continually improving network construction and quality of services, we have a total of 4.31 million ADSL and FTTx subscribers, representing a market share of 83.8%, among which 1.07 million were FTTx subscribers, representing a growth rate of 99% comparing to 2007.
- MOD and Digital Convergence Services: our MOD services offer local suppliers of electronic appliances, video conferencing equipment and digital contents and the cultural and creative industry a platform for innovation. We have overcome traditional broadcasting barriers and offered 680,000 households selective and high-resolution TV programs such as the Olympic Games.
- ICT Total Services (iEN / ITS): Bearing in mind that our ICT and related services have the most potential for growth, we have been promoting five major business services and offering consumers, corporate customers, other industries and the government a multiple grouping and emerging platform. We make our share of contribution to economic growth and environmental sustainability.

\*1: Refer to the consolidated operating income of the CHT and subsidiaries. The operating income of CHT amounted to NT\$ 186.78 billion.

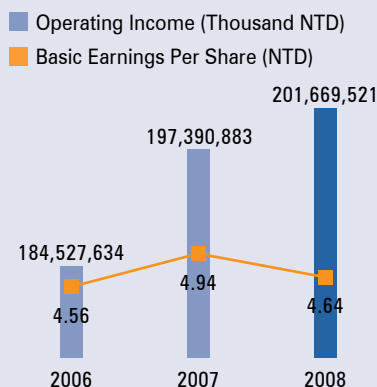
\*2: The real GDP for 2008 was approximately NT\$ 13,089.7 billion.

### 2008 Shareholder Composition



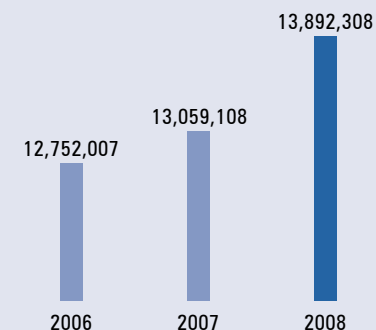
Major  
Responses

### Major Financial Performance for the Past Years



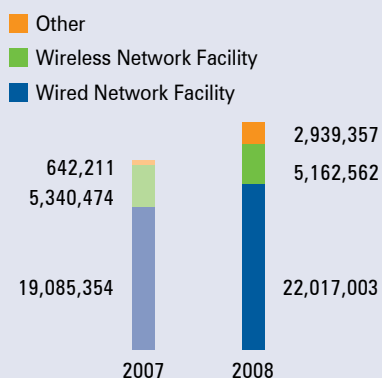
### Taxable Income for the Past Years

Unit: Thousand NTD



### Consolidated Capital Expenditure

Unit: Thousand NTD



## Protection of Shareholders' Rights

According to the current trends of global CSR development, investors have acquired keener interest in the social and environmental performance of business enterprises. Besides maintaining our fundamental ideal of creating profits for shareholders and making contributions to the society, we also communicate with investors our plans for sustainable corporate development and take actions to address social and environmental issues and ethical risks to ensure that they fully understand our CSR goals.

The 2008 results show that we are a steady performer. We made a dividend distribution as follows: NT\$ 4.26 cash dividend and NT\$ 0.1 stock dividend per share. In an effort to improve our ROE ratio, we convened an interim shareholders' meeting in August 2008 to approve the proposal for a capital increase by capital surplus, which included a distribution of a NT\$ 2 stock dividend per share. Also approved in the interim shareholders' meeting was the proposal for capital decrease by cash refund of NT\$ 1.64 per share. A total amount of approximately NT\$ 19.116 billion was refunded to shareholders. In addition to the capital decrease in 2007, we have made a total refund of NT\$ 28.783 billion to our shareholders in 2007 and 2008.

We have maintained steady management for the past years. Besides continuing to stay profitable and keeping a sound financial structure, we have also been an honest taxpayer, and a major contributor to the government's revenue. Although the future operating environment is full of challenges, we will remain focused on our core businesses to create the maximum benefits for our shareholders.

### Consolidated Financial Performance Benchmarks for the Past Years

Unit: Thousand NTD

	2006	2007	2008
Operating Income	184,527,634	197,390,883	201,669,521
Operating Costs and Expenses	127,344,136	137,016,836	143,043,820
Personnel Expenditure	42,566,323	40,604,196	40,930,423
Earnings Before Income Tax (EBIT)	57,183,498	60,374,047	58,625,701
Earnings Per Share (\$)	4.56	4.94	4.64
Income Tax	12,752,007	13,059,108	13,892,308

Note: Several accounts in the 2006 and 2007 financial statements have been reclassified to be comparable with the presentation of accounts in the 2008 financial statement.

## Affiliated Enterprises

In 2006, we started to make investments in other businesses with the objective of expanding the width of horizontal linkage and depth of vertical integration between industries to achieve an overall business diversity. Currently, we operate with 23 investee companies and the amount of investment amounted to NT\$ 11.4 billion.

Among our core investments, we place a high level of emphasis on communications product and service integration industries. We expect to improve our service quality and efficiency and create more opportunities in the market through proactive cooperation with our investee companies. We have established more linkages between the Company and other industries in the non-core or emerging businesses to seek more diverse sources of revenue.

## Indirect Economic Impact

Network technology and mobile communications are changing people's life styles, offering users freedom, convenience and improved productivity. Besides making direct contributions to the economy, we have indirectly promoted the development of related industries in the operating process by effectively changing the industrial structure, creating employment opportunities and improving the quality of labor. We engage in R&D and product innovation and undertake external procurement and social investment projects to offer the general public, the various industries, consumers and disadvantaged groups convenience and assistance.

## Promotion of Industrial Developments

Our major tasks in promoting industrial developments are as follows:

- Construct the WiMAX trial network allowing local equipment manufacturers to undertake inter-operability tests and in turn, promoting the development of autonomous technology in the domestic wireless communications industry.
- Starting 2008, we organized the GPON (Gigabit-capable Passive Optical Network) inter-operability tests to assist domestic providers of network communications services to obtain from prominent global OLT providers the interoperability technology and price advantages with respect to the central office equipment.
- Research and develop intelligent living ICT services, construct a mutual platform for the respective industries and promote the development of application services in emerging industries.
- Develop MOD-HDTV to promote the development of the relevant digital contents industries.

### Investees and Ownership Ratio

Company Name	Shareholding Ratio (%)
<b>Publicly Traded</b>	
Senao International Co., Ltd	29
<b>Non-Publicly Traded</b>	
Sino Investment Corporation	49
Chunghwa System Integration Co.	100
Alcatel-Lucent Taiwan International	
Standard Electronics Ltd.	40
Chief Telecom Inc.	69
Skysoft Co., Ltd.	30
Chunghwa International Yellow Pages Corp.	100
Spring House Entertainment Inc.	56
Light Era Development Co., Ltd.	100
Kingwaytek Technology	33
InfoExplorer Co., Ltd.	49
Taipei Financial Center Corp.	12
Global Mobile Corp.	11
Chi-Chiu Investment Company	8
RPTI International Ltd.	12
Kunming Biogen Science and Technology	9
Taiwan Siemens Telecommunication Systems Ltd.	17
<b>Offshore companies</b>	
Chunghwa Telecom Global, Inc.	100
Donghua Telecom Co., Ltd.	100
Viettel-CHT Company Limited	33
Chunghwa Telecom Singapore Pte.,Ltd.	100
Chunghwa Telecom Japan Co., Ltd.	100
<b>B.V. I. Investees</b>	
New Prospect Investment Holdings Ltd.	
Prime Asia Investment Holdings Ltd.	



Key Action  
Items

The Telecommunication Laboratories located in the outskirts of Chungli City, is responsible for the R&D projects of frontier telecommunication technology to improve our competitiveness.

<http://www.chttl.com.tw/>

## R&D and Innovation

A business enterprise's capability in R&D and product innovation is the major drive for business growth. In response to the impact of changes in the overall environment, our telecommunication laboratories assume the responsibilities of R&D and work together with numerous tertiary institutions and academic organizations in Taiwan to undertake research in the innovation of next generation technology. Our R&D expenditure for 2008 amounted to approximately NT\$ 3.2 billion. Besides continually enhancing our services network and improving the overall quality of service, we also develop diverse, quality products and services with the optimal goal of "becoming the most reliable and valuable provider of information and communications services".

We trust that by addressing the key CSR issues with our unique corporate resources and specialization to improve the corporation's competitive environment, we may create the mutual benefits for the society and the Corporation. Mature corporate social responsibilities shall become integrated with the enterprise's core activities for the benefits of organization unification and innovation.

In future, we plan to incorporate our R&D policies with respect to product, production and sales and human resources management into strategic CSR planning according to our own resources and core competency. Meanwhile, we will consider internal conditions and external demands and give a serious thought on the type of social issues that genuinely help and create the maximum positive influence to formulate CSR strategies that are systematically planned and with clear objectives. We will continue to improve the subsequent implementation efficiency and performance of the relevant CSR projects through collection and analysis of performance data. The major results of our study in 2008 are as follows:

### Be Informed of Environmental Changes and Ensure Strategic Competitive Advantages

- Study the operating performance and innovative management strategies of benchmark telecommunication providers, competition and development trends in the telecommunications industry and the Corporation's operating strategies in response to the development and evolution of digital convergence.
- Study and analyze reinvestments and cooperative strategies, SOP of domestic and global strategic alliances, multiple management approaches and investments by Taiwan-capital entrepreneurs.
- Study the SMP supervisory policy and countermeasures adopted by major nations, analyze regulatory revisions of other nations and follow up and discuss the NCC policies.



We are an active participant of the various events of the TeleManagement Forum to raise our international reputation. We have campaigned for Taipei to be the host city for the "2010 TMF Management World Asia" event.

## Refinement of Development of 3G Technology, Offering of Diverse Premium Services

- Developed the 3G "Talk Assured" service system and prepaid "Ideal Card" (mobile data value-added service platform) to enhance our competitive edges, increase customer retention rate and attract more new customers to subscribe with us.
- Developed the 3G Mobile phone audiovisual service system, allowing 3G subscribers to view a rich source of real-time audiovisual programs. This will be applied in the various types of mobile phone TV services in the future.
- Developed the Hami service platform exclusive for 3G iPhone subscribers to offer differentiated value-added services.

## Wise Utilization of ICT Core Technology, Integration and Promotion of Intelligent Living

- Completed the development of the Telematics On-road Information Services system and the mobile taxi satellite dispatching system.
- Completed the development of the Environmental Sustainability Management System (EARTH) that offers the functions including tree planting and the management of electricity and water consumption, lighting equipment, resource recycling, environmental conservation innovation and inventory of greenhouse gas.
- In line with the "Broadband Everywhere" project of the National Communications Commission (NCC) and the construction of the broadband network in tribal villages, we have developed an integrated wireless local and broadband Internet access system, which has already gone live at over ten locations in Taiwan.

## Continual Enhancement of System Functions, Improvement of Overall Service Quality

- Completed developing the Near Real Time Roaming Data Exchange of the International Roaming services. Improve the timeliness of fraud detection from 24 hours down to 4 hours.
- 3G RSV/MOS/RAN View and Core View/Roaming View real-time surveillance and analysis system went live, which effectively improve the timeliness of the surveillance and analysis of the network quality.
- Completed the upgrading of the five major IT systems that maintained the mobile mega infrastructure (MNOC/TIME/MTRIS/MBASIS/MORIS) and managed over 10,000 base stations and core network equipment of the 3.5G/3G/GPRS/GSM network.



Undertook microwave construction projects in rural areas to provide telephone and Internet connection services.

### TeleManagement Forum

TeleManagement Forum (TMF), set up by primary companies of the Telecommunication Industrial Chain, aims to assist the Telecommunication companies in the world in running Operational and Business Support System(OSS/BSS). Ever since the deployment of New Generation Operations Systems and Software (NGOSS) in 2000, we have been actively involved in establishment of technical standards.

We have not only published many papers on TMF Case Study, we have also presented several speeches at the past meetings. Also, we have worked on "One Stop FMC Service" Catalyst Project with TELUS Telecom, Amdocs, Infosys, TechMahindra, TCS, NSN, Microsoft and other unlisted companies. The project was given the permission to report achievements at the TMF annual conference for three consecutive years. In 2008, the project was even awarded the prize of Best Catalyst Project Management 2008 at the World TeleManagement Forum.

 <http://www.tmforum.org>