



Responsible Operation

Corporate responsibilities are beneficial in restoring market confidence. The value and success of an entity are closely tied to the question of whether the environmental, social and corporate governance considerations are integrated into corporate management and operation.

Our vision for “Responsible Operation” is to become the “Most Reliable” entity. With respect to corporate governance, we have established the CSR Management Committee in 2006 in addition to adopting a policy of segregating the duties of our Board of Directors. We have consolidated CSR with corporate management and at the same time, established the risk management system to reinforce our pursuit of becoming the most reliable entity.

We consider that information transparency is a key indicator of responsible operations. Besides improving the transparency of our financial information, in 2007, we have published our first Corporate Social Responsibility Report with the objective of disclosing non-financial corporate information. In future, we will continue this endeavor to enable shareholders and stakeholders to better understand our initiatives on environmental, social and corporate governance issues.

- Management Approach
Corporate Governance
Risk Management Mechanism
- Key Issues
Improvement in Information Transparency
- Major Responses
Corporate Code of Ethics
Rules of Conduct for Sales and Marketing Staff
- Key Action Items
Communication of CSR Information with Investors



Corporate Governance

In an effort to become the most reliable entity, we have appointed experts from the various fields to take up the roles as our independent directors upon privatization of the company. We have high expectations for our independent directors, hoping that they may help to further enhance our existing corporate governance practices with their expertise, while also take up the vital role as dutiful supervisors for our risk management practices and ethical operations on behalf of the public.

The Chunghwa Telecom Board is comprised of 13 directors and 3 supervisors, including 3 independent directors and 7 non-executive directors. There are 3 functional committees namely Strategy, Audit, and Compensation Committees. The Chairman is acting concurrently as the Chief Executive Officer. Independent directors offer the Board professional and objective comments according to their areas of expertise and assist the Board making the most beneficial management decision for shareholders. All our directors and supervisors are covered by indemnity insurance to protect them from being personally liable for or suffering any financial loss on a litigated event as a result of performing their duties.

In order to enhance the efficiency of executive decisions of the Company, the Board hereby establishes the Strategy Committee. The members of this committee shall consist of 5 directors of the Company and hold meetings as may be authorized by the Board. Any and all conclusions of the Committee's meetings shall be submitted to the Board.

The committee also holds special meetings to within its discretion to discuss and review the major corporate development issues. However, all meeting findings shall be submitted to the Board of Directors for resolution. Major corporate development issues include:

- Budget compilation and revision
- Capital increase or decrease
- New re-investments and capital increase, capital reduction, or withdrawal of investments
- Application or return of business license
- Reorganization of business groups or affiliated enterprises
- All mid-term and long-term development plans
- Other major issues

The Compensation Committee was established in November, 2005 comprising of 5 directors, among at least one of the committee's members shall be an independent director that shall serve as the Chairperson. The committee's authority is to formulate the proposals for the following:

- Directors and supervisors' remuneration
- Remuneration of the Chairman, CEO, and President
- Other matters delegated by the Board of Directors

2007 CSR Report

Our Commitment to Corporate Governance:

To our way of thinking, corporate governance is not just a matter of sound financial performance. Corporate social responsibilities and genuine concern for employees are also of paramount importance.... Of even greater importance to us though is integration of our corporate social responsibilities as a part of our corporate governance framework through the establishment of the CSR committee.



Code of Corporate Governance

<http://www.cht.com.tw/CompanyCat.php?CatID=912>

Our audit committee was established on September 21, 2004 and is comprised of 3 independent directors. The Committee is responsible for supervising the corporation's financial operations and the functioning of the internal controls system through a fair and objective approach. The committee has the following duties:

- Appointment (or dismissal) of the Corporation's independent accountants and determination of the audit engagement fee.
- Review and discuss with the independent accountants the Corporation's annual reports and interim financial statements.
- Communication and interaction with the Corporation's independent accountants.
- Approve independent accountants' annual audit and non-audit service items.
- Coordination of conflicting views between the management and the independent auditors in relation to the financial statements.
- Review the appropriateness of the internal controls policy as well as any revision to the policy; Issue the Statement of Internal Controls System.
- Discuss about other financial information of the company and the report prepared under the U.S Securities and Exchange Act with the Company's management and independent accountants.

On August 20, 2008, our largest institutional shareholder, the MOTC, reappointed 2 independent institutional directors. On the same date, we convened the 5th special meeting of the 5th term of Board of Directors, appointing Mr. Lu Shuye-Ching (formerly the President) as the Chairman and Mr. Chang Shiou Tong (formerly the Vice President) as the President.

Organizational Chart of the Chunghwa Telecom Board of Directors





Risk Management Mechanism

For the purpose of enhancing our initiatives for responsible operations and identifying and controlling risk events, we have put in place the “Chunghwa Telecom Risk Management Standards” (the “Standards” henceforth) for our employees to refer to in performing their duties. The Risk Management regulations include the following:

- Risk Awareness
- Risk Event Identification
- Risk Evaluation
- Control Process
- Risk Monitoring
- Goal Setting
- Risk Analysis
- Risk Treatment
- Information & Communication

Besides, the Standards also clearly set out the framework and process of risk management operations as well as the authorities and responsibilities assigned to the respective departments. The Standards require that we carry out risk management of various plans of Chunghwa Telecom and subsidiaries including the med-term and long-term development projects, the annual business and contingency plans, new implementation projects and business execution reporting according to actual requirements. Furthermore, the Standards also require that we ensure that risks are maintained at a manageable level with the aid of the risk management network, systemized records and follow-up management.

Risk Management Structure

Organization	Job Responsibilities
Board of Directors (including Audit and Strategy Committees)	<ul style="list-style-type: none"> ● Establishment of policy, structure and culture regarding risk management. ● Ensure the effectiveness of risk management system and perform resource allocation.
High-Level Management (CEO, President and VP)	<ul style="list-style-type: none"> ● Carry out risk management proposals adopted by the Board of Directors. ● Coordinate inter-departmental interactions and communications in relation to risk management.
All Departments at the Headquarter (Operation and Planning Department is the Office of the Executive Secretariat)	<ul style="list-style-type: none"> ● Summation of the results of risk management execution. ● Assist and supervise risk management activities conducted by branches and offices. ● Determine and change risk classification according to the changes in the environment and recommend the risk endurance methods.
Affiliated Branches and Offices	<ul style="list-style-type: none"> ● Carry out daily risk management activities. ● Self-evaluation of risk management activities.



The Enterprise Risk Management (ERM) system effectively tracks and manages the various risk events.



External Risks & Countermeasures

Risk management is the most fundamental issue of corporate operation. Internal risks are more easily managed while external risks are more difficult to be kept under control. The key to external risk management is dependant on periodic evaluations of the risk factors and the countermeasures adopted by an entity. Traditionally, external risks that attract our attention are primarily natural disasters and policy and regulatory changes. However, as business operations are going global, it is becoming increasingly important that we incorporate some of the most talked about global subjects as the benchmarks for managing external risks such as CSR risks including climate change, corporate fraud and the ethical supply chain to name just a few.

● Natural Disasters

Abnormal weathers caused by climate change may potentially impact the functioning of our stationary control stations and manpower dispatching. For instance, additional manpower required for service restoration due to a disruption by a draught or other natural disasters, the additional backup power required as a result of an earthquake or tsunami and consumer compensation payments will significantly increase the maintenance costs of our power stations. The global increase in temperature caused by emission of greenhouse gas will inevitably result in higher energy consumption by and expenditure on the control stations.

During 2008, our communication facilities were stricken by 4 typhoons, especially that Typhoon Kalmaegi and Sinlaku brought massive rainfall, inflicting severe damage to the central and southern part of the island. Local call and mobile communication facilities in some regions were severely damaged, causing serious disruption to our service. During the period of disasters, we have immediately activated our contingency mechanism and used all our available manpower and supplies to overcome the hazards such as power stoppage, flooding and bridge/road blockage to restore normal service in a timely manner.

Our experience shows that "Disaster Prevention is More Important than Disaster Rescue" and on the basis of our concept, "More Preparation, Less Loss", we are dedicated to enhancing our disaster prevention measures from time to time. We undertake regular facility maintenance, inspection and upgrades and reinforce disaster prevention measures in regions more susceptible to impacts of natural disasters in order to keep potential loss at the lowest possible level.

● Countermeasures for Policy & Regulatory Changes

The National Communications Commission (NCC) is the competent authority governing the operations of telecommunication service providers in Taiwan. Any change in the NCC policy or regulatory requirements may impact the results of our operation. For instance, the fact that NCC has pushed for Chunghwa Telecom to liberalize access to last-mile connections would impact our fixed line voicemail and ADSL businesses. The NCC's continual tariff adjustments and reduction in the usage charges on mobile voice services have sliced our revenue on mobile services. On top of that, an increasing number of operators have been licensed to cut into the VoIP market, delivering a direct impact on the local, long-distance and international call markets. To tackle the abovementioned changes on our business operation, we have offered additional total value-added services to raise our operating revenue while continued to enhance communications with the NCC to ensure compliance with regulatory requirements.

● Smooth Roads Project and Countermeasures

We have cooperated with the "Smooth Roads Project" undertaken by the Public Construction Commission, Executive Yuan, to lower existing manhole and handhole covers to below the pavement level in order to improve the quality of asphalt paving work when roads are repaved. We plan to keep infrequently used manhole and handhole covers underground in line with the government's target of decreasing the number of unused covers and at the same time moving covers to underground to ensure smoother roads and improve citizens' satisfaction on road quality. Our optimal goal is to become the most reliable entity.

● Climate Change and Countermeasures

Given the crisis of global warming, CO₂ emission is a hot issue at hand. We have commenced the groundwork for carbon inventory. In future, we plan to perform analysis on the carbon footprints of our various services. Besides undertaking energy conservation and carbon reduction management within our corporation, we will offer low-carbon products and services to proactively influence consumers' carbon awareness and jointly create a low-carbon economy.

● CSR Risks and Countermeasures

With respect to CSR issues such as corporate fraud and the ethical supply chain, we have reinforced employees' compliance with the Corporate Code of Ethics. Moreover, we have established a CSR Committee and gradually the respective management systems will be put in place. In 2008, we started to propel supply chain management by formulating environmental, human right and ethical standards requiring our suppliers to abide by. We also attempted to establish a social investment management system. In future, we plan to establish a stakeholders' communication management system.



National Communications Commission

<http://www.ncc.gov.tw>



Improvement in Information Transparency

Enhancement of corporate governance practices has become our set policy in order to achieve our target of becoming the most reliable entity. The transparency of our published information becomes the most critical review benchmark. Besides improving the transparency of our financial information, we published our first Corporate Responsibility Report in 2007, disclosing the corporation's non-financial information, which allowed shareholders, investors and stakeholders to understand our initiatives with respect to environmental, social and corporate governance issues.

In 2008, we have completed the Dow Jones Sustainability Index (DJSI) and Carbon Disclosure Project (CDP) surveys. Participation in the surveys proved to be an invaluable exercise as it enabled us to further understand the global trends in the development of environmental sustainability and CSR requirements and ways in which an entity may apply such requirements in practice on the dimension of corporate management. Participation in the surveys may be described as an eye-opening exercise in that it broadened our visions for and imaginations on any dimensions of CSR.

Forward Exchange Incidence

In September 2007, we have entered into a forward exchange knock-out agreement as required by circumstances. By the end of February 2008, due to rapid appreciation in our home currency against the US dollar, a significant unrealized loss on valuation of the investments resulted. We immediately convened a Board of Directors meeting and investor and press conferences in early March 2008, making a public announcement on the status of the event domestically and overseas as well as disclosing the relevant statistics, allowing all to understand the situation in the shortest time possible.

The Board also formed a Special Task Group to handle the subsequent events. In October 2008, the contract automatically expired when the exchange rate for the US Dollar against the NT Dollar reached 32.7. We made a gain of approximately NT\$ 30 million upon settlement. Our highly transparent approach in handling the incidence has won us the trust and support of our shareholders and customers. Our endless effort will be devoted to the following aspects of business management including continual information disclosure and establishment of an effective communication network between the management team and the board of directors and supervisors to ensure full exertion and reflection of the Board's expertise and fairness.

Legal compliance is fundamental to realizing our CSR initiatives. Besides being an honest taxpayer, we have ensured compliance of our business operations and employee conduct with the regulatory requirements through the following control.

Major
Responses

Corporate Code of Ethics

We strictly require satisfaction of our employee's conduct with the ethical standards. That is, all employees of Chunghwa Telecom shall abide by a code of conduct and ethical standards as they do business and while performing their duties. As such, we have formulated the "Chunghwa Telecom Corporate Code of Ethics" to be used by employees as the basis for performing their duties.

The code of ethics clearly outlines the ethical standards and responsibilities required of directors, supervisors, executive officers and all employees while engaging in business practices. The code of ethics applies to individual employees and groups and the corporation when dealing with the public and other stakeholders. The code of ethics is now a part of our corporate training programs for new employees. Each employee also takes tests every year on the code of ethics. In 2008, close to 100% of our employees have taken the test.

Rules of Conduct for Sales and Marketing Staff

Our first-step communications with customers are achieved through sales and marketing. We have put in place the Rules of Conduct for Sales and Marketing Staff in order to improve the standards of our sales and marketing practices and build up consumer satisfaction on the corporation's products and services, which will in turn reduce customer complaints and disputes. The rules have been drawn up in accordance with the applicable law and cover advertising, articles and leaflets, promotions, tele-marketing, free giveaways, prizes and handling of customer information. The rules have been incorporated as a part of the performance review process in relation to senior executive officers. Each department is required to continually reinforce compliance with the rules by their teams to ensure an overall sound corporate image and goodwill.

The Chunghwa Telecom's ADRs are listed on the New York Stock Exchange for trading and as such, we are also subject to the governance of the Sarbanes Oxley Act. Article 404 of the Act stipulates that we make appropriate disclosure of the Corporation's financial information and put in place a series of internal controls and procedures to prevent the information from internal and external threats or unauthorized access to ensure the completeness and confidentiality of customer and shareholder information.

In spite of our effort in preventing unlawful sales and marketing practices, there were 5 incidences of sales misconduct in 2008 and we were fined NT\$ 1.84 million by the competent authority. However, the results saw a significant decrease comparing to 2007. In future, we will definitely keep up our effort in governing our marketing approaches to improve customer satisfaction.

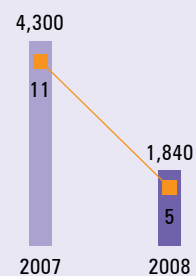


Codes of Ethics

<http://www.cht.com.tw/CompanyCat.php?CatID=911>

Sales & Marketing Practices In Breach of Law and the Total Amount of Fine

■ Total Amount of Fine (Thousand NTD)
■ Incidences of Legal Violation (No. of Cases)





Key Action Items

Communication of CSR Information With Investors

We have not only accomplished brilliant operating results but were also the first entity in Taiwan to establish a CSR Committee in 2006. Our purpose is to facilitate proactive communications and interactions with our stakeholders in all respect. Domestically, we have been a part of the Global Views Monthly Magazine CSR Award and Common Wealth Magazine Corporate Citizens Award evaluations. On the global scale, in recent years, we were invited to respond to international surveys including the DJSI and CDP evaluations. We view that our participation in completing these surveys conducted by prominent domestic and international institutions is a way of demonstrating the transparency of our corporate information.

Dow Jones Sustainability Indexes

The fact that Chunghwa Telecom's ADRs are listed on the New York Stock Exchange for trading and that we are ranked among the TOP500 global enterprises, we have received consecutive invitations to participate in the annual DJSI survey, competing with some of the largest multinational providers of fixed line telecommunications to be included in the index.

In 2008, we responded to the DJSI survey for the first time. In spite of the fact that we were not listed in the index, we have performed better on the economic side while there was still some room for improvement with respect to environmental and social issues according to the DJSI benchmarks. We have confidence in achieving better results in the 2008 survey for we were the first telecommunication provider in Taiwan to complete greenhouse gas inventory with third-party collaboration and accounting of social and charitable investments.

During the period from 2002 to 2008, the weightings of the DJSI benchmarks for telecommunications providers were constantly changing. The DJSI benchmarks the sustainable performance and risk rating of major global companies through an assessment on the companies' strategy, management and industry specific factors in the economic, social and environmental dimensions to include the top 10% companies in the indices as benchmark companies for related financial product developments and investment evaluations. The significant increase in the weighting of the social aspect explains the fact that global investors have gained increasing interest in "corporate social responsibilities". Our approach in promoting our CSR initiatives is to learn from the experience of global benchmark companies. Our vision is to become one of the world-class benchmark companies in the years to come.



The Dow Jones Sustainability Indexes were jointly launched by Dow Jones and the Swiss-based Sustainable Asset Management (SAM) Group in September 1999, initially including the top 10% sustainability-driven companies (rated on the basis of over 3,000 component stocks included in the Dow Jones Industrial Index) in each industry sector as component stocks. The DJSI were a type of "Social Responsibility Investment" indexes.

<http://www.sustainability-index.com>

Carbon Disclosure Project


The issue of climate change has attracted worldwide attention. In a business that is highly sensitive to changes in the operating environment, we have planned years ahead with respect to energy conservation. The National Energy Conference 2009 and the Energy Management Act and the Reusable Energy Act that were passed recently have indeed signaled for carbon management to become an integral part of corporate management.

On the international level, the CDP has become the benchmark for global entities in "Disclosure of Carbon Management Information". In 2008, over 1,550 companies around the world participated in the CDP, disclosing their statistics on greenhouse gas emission as well as the strategies and countermeasures to address the threats and opportunities brought upon by the global climate change.

To demonstrate our emphasis on the issue of climate change, in 2008, we have initiated a carbon inventory project, which would also prepare us for participation in the CDP survey. We will incorporate carbon management into our thoughts in innovating and developing our various products, technology, service and business models to gradually pave out the foundation for carbon management and secure the potential business opportunities. We hope to leverage on our core competency and make our contribution to the country's progress in creating a low-carbon society and developing a low-carbon economy.



World mainstream institutional investment companies initiated the Carbon Disclosure Project in 2003. Each year, the CDP invites over 2,500-3,000 major global companies to disclose the risks of climate change confronting their corporation and the potential opportunities for development. The CDP investor project is backed by some 475 institutional investors with a total of US\$ 55 trillion worth of assets under management and holds the largest corporate database of climate change information in the world.

 <http://www.cdproect.net>

CSR Information Feedback Mechanism

