

# Value Integration

**S** investors/shareholders, employees, government, industry peers  
takeholder

**Voices** | In this world, only transparency brings us trust.

**Commitment** | Becoming the benchmark enterprise on local and overseas social responsible investment.

Responsible Management

Value Integration

Innovation

Environmental Sustainability

Employee Care

Inspiring Service

Digital Opportunities

Social Philanthropy

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	<ul style="list-style-type: none"> <li>Information Transparency and Disclosure Ranked A+ in Securities &amp; Futures Institute in Taiwan</li> <li>"twAAA/twA-1" on long/short-term issuer credit ranking by Taiwan Ratings Corporation</li> <li>"Internal Audit Quality Assessment Certificate" by The Institute of Internal Auditors Taiwan</li> <li>"Trusted Brand-Network Service Provider: Platinum Award" by Reader's Digest</li> <li>"Best Financial Disclosure Award" by IR Global Ranking</li> <li>Finance Asia Most Committed to a Strong Dividend Policy, "Asia's Best Companies", "Best Managed Company", "Best Corporate Governance"</li> <li>Long-term credit "AA" rating by Standard &amp; Poor's</li> </ul>			

# Management Corporate Governance

Chunghwa Telecom believes that healthy corporate governance, while being the foundation to sustainable development, is necessary to satisfy customers' and the society's expectations. "Code of Corporate Governance for Chunghwa Telecom Co., Ltd." states the official governance principles which include: establish an effective corporate governance structure, ensure shareholders' rights, enforce responsibilities and liabilities of the directorate board, bring out supervisors' functions, respect the rights of stakeholders and increase information transparency.

## Board of Directors

Our Board is currently comprised of 13 directors, including 3 independent directors. To ensure the diversity of members, there are one female director, one independent female director, and one labor director. We also have 3 supervisors, and two of them are female.

To enforce the Board's supervising and management functions, three functional committees are in place to take care of strategy, audit and compensation.

Independent directors provide objective opinion according to their expertise to assist the Board in making the best decisions. To protect directors and supervisors from being held personally liable for or suffering any financial loss on a litigated event as a result of performing their duties, Chunghwa Telecom ensures that they are covered by indemnity insurance.

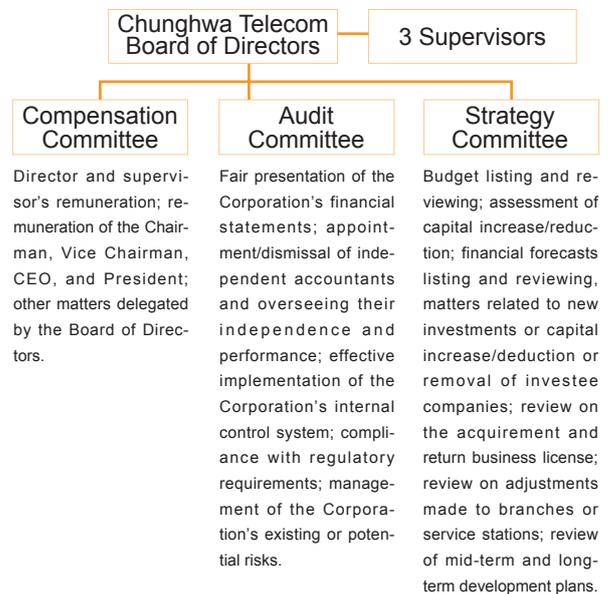
Ministry of Transportation and Communications is Chunghwa Telecom's largest shareholder with the company Chairman and President acting as the government's representatives. The representatives are responsible for enforcing policies and ensure social responsibilities are fulfilled. Each year, they need to be evaluated by the Ministry according to "Selection, management and evaluation principles on private enterprise and juridical person institution representatives assigned by the Ministry of Transportation and Communications."

In terms of the management of the Chairman, President and share-holding representatives appointed to companies we invested, a management mechanism known as the "Selection, management and evaluation principles on business representatives and share-holding representatives assigned by Chunghwa Telecom" is in place for evaluation and performance assessment.

## Internal Audit

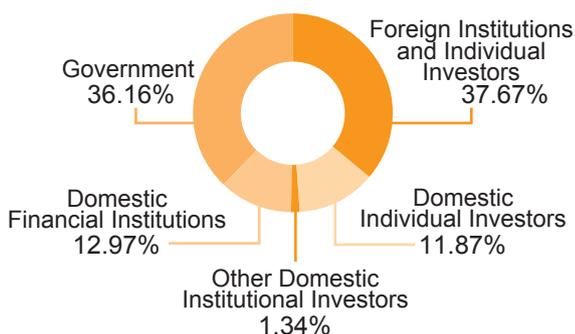
Internal audit is the core of internal control and corporate governance. To assess IA's conformance to the IIA's International Standards for the Professional Practice of Internal Auditing (Standards), we requested the Institute to conduct a quality assessment (QA) of Internal Audit (IA) in 2009. After over a month's data collecting and document reviewing, added with a two-week field research and interviews, a team of senior quality assess experts from IIA reported that "IA generally conforms to the IIA's Standards and Code of Ethics." It was an excellent rating, and meant that our IA was recognized as the highest level.

### Organizational Chart of the Chunghwa Telecom Board of Directors



### Shareholder Composition

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# Management Regulation Compliance and Information Transparency

Chunghwa Telecom is dedicated to act in compliance with regulations within and outside the nation to improve the degree of transparency and accuracy of all information disclosed. This can not only strengthen investors' confidence in us and increase corporate value but also reduce our financing costs thus reaching the goal of creating a win-win situation for both the corporation and the investors. As a result, we established the "Chunghwa Telecom Code of Ethics" as the fundamental principle of daily operations for all employees and our service providers to follow.

## Information Disclosure

Being a listed company in Taiwan and having our ADRs traded on the New York Stock Exchange requires us to be in compliance with all domestic and overseas regulations regarding information disclosure. These regulations include setting up a spokesperson system, publish major announcement and information as required in a timely manner and ensure the accuracy and completeness of information published on the corporate website. All issues of interest to investors should be made publicly available simultaneously in Taiwan and overseas in both Chinese and English to offer investors complete and real-time financial and operational information of the company. By doing so, we enhance the information's degree of transparency and accuracy for investors to base their decision upon, strengthen investors' confidence in us and enhance corporate value to benefit both parties.

## Business Principles

To elevate our business quality and enable consumers to have more faith in us, Business Principles were laid out firmly to ensure all our acts are in compliance with the laws and regulations of administrative organizations. High-level managers' performance is also evaluated in this regard to make sure all employees work together to maintain reputation and corporate image.

Business malpractice cases and penalties 			
	2007	2008	2009
Amount of Penalty (Thousand of NTD)	430	184	268
Case of Malpractice (No. of Case )	11	5	9

## Code of Conduct

Our Code of Ethics outlines the ethical standards and responsibilities required of directors, supervisors, executive officers and all employees while engaging in business practices. This applies to individual employees and groups and the corporation when facing the public and all stakeholders. An employee report hotline is also in place for all employees to express their opinions under a secure and confidential mechanism.

We demand our employees to strictly abide by the code of ethics and shall never, under any circumstances, compromise to achieve a specific purpose. The goal is to ensure compliance of our business practices with legal requirements and social ethical standards to prevent any misconduct. The code of ethics is now a part of our corporate training programs for new employees. Each employee receives an annual evaluation and the results are considered as part of their performance.

In 2009, 12 violations were reported which involved 13 persons. Besides the needed punishment, review and analysis were completed and the Corporation is still working hard on further education and promotion.

### Regulations on Code of Conduct

- Chunghwa Telecom Corporate Code of Ethics
- Chunghwa Telecom Corporate Principles on Violation Cases
- Chunghwa Telecom Corporate Principles on Business Secrets Keeping
- Chunghwa Telecom Corporate Human Resource Department: Employees Complaints Hotline

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# Management Risk Management

Risk management is an issue at the core of a corporation's operation. For the purpose of enhancing our responsible operations, identifying and controlling risk events, we have put in place the "Chunghwa Telecom Risk Management Regulations" (the "Regulations" henceforth) for our employees to refer to in performing their duties. The President is appointed as the person in charge for any event involving risk and crisis management. He is required to report back to the Board of Directors concerning those events.

## Risk Analysis and Response Mechanism

The Regulations clearly set out the framework and process of risk management operations as well as the authorities and responsibilities assigned to the respective departments. The Regulations 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 Regulations also require us to conduct risk analysis, systemized records and follow-up management when appropriate.

Currently we adopt a Risk Map as our main evaluation tool which includes statutory risks, risks of network operation, risks of market competition and risks of financial operation. At the same time, we continuously conduct sensitivity analysis and pressure testing around the company. Our goal is to bring the losses to a minimum through risk acceptance, risk transfer, risk mitigation and risk avoidance.

### Risk Management Responsibilities

Organization Name	Authority and Responsibilities
Board of Directors (including Audit and Strategy Committees)	<ol style="list-style-type: none"> <li>1. Establish Risk Management Policies, Frameworks, and Culture</li> <li>2. Ensure the Effectiveness of Risk Management Mechanisms and Proceed with Resource Allocation</li> </ol>
High Level Management (Chief Executive Officer, President, Vice President)	<ol style="list-style-type: none"> <li>1. Execute Board of Directors Risk Management Decision-Making</li> <li>2. Coordinate with Inter- Departmental Risk Management Interaction and Communication</li> </ol>
Headquarters (The Corporate Planning Department takes on the duties of Executive Secretary)	<ol style="list-style-type: none"> <li>1. Compile Implemented Results of Risk Management Activities</li> <li>2. Assist and Supervise Risk Management Activities in Subordinate Branches</li> <li>3. Decide Risk Types based on Environmental Changes and Establish Risk Undertaking</li> <li>4. Proceed with Efficiency Assessment and Coordination after Risk Adjustments</li> </ol>
Subordinate Branches	<ol style="list-style-type: none"> <li>1. Execute Risk Management Activities</li> <li>2. Execute Self-Evaluation of Risk Management and Control Activities</li> </ol>

After the flood on August 8th, 2009, "climate change" was officially included in our "performance and risk management" evaluation system. Significant risks are all listed in Chunghwa Telecom's annual operation plan and are subject to target monitoring and performance evaluation for constant verification and feedbacks.

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# Address Carbon Disclosure and Climate Change-derived Risks

In response to the 2009 Carbon Disclosure Project survey results, we organized a “World Cafe” (see Note) in May within the company to encourage discussions. Staffs from various departments were invited to discuss the risks and opportunities climate change might bring to Chunghwa Telecom. (Note: World Café is a conversational process that’s been widely popular in the recent years. This process can encourage dialogues, enhance knowledge sharing and even find people new initiatives.)

## Actual Risks

In group discussions, the potential risks regarding climate change that were raised include “greenhouse emission causing a raise in temperature which leads to higher central office costs,” “climate change leading to abnormalities increasing the possibility of potential damages on central office by natural disasters,” “revenue losses due to communication problems” and “insurance costs for risk transfer.” Typhoon Morakot was the perfect proof of those four risks raised.

- Of all the climate abnormalities, torrential rain in a short period of time makes the largest impact to Taiwan and may badly damage central office and telecommunication facilities. We need a large amount of budget for precaution plans and disaster relief activities.
- Chunghwa Telecom employs over 20 thousand people working in all around Taiwan. Contagious diseases that are caused by climate change might influence our staffs’ daily operations and services.
- In a long term, temperature increasing and sea level rising might significantly influence central office operation and manpower distribution. Extra manpower and resources for emergency repairs, emergency power supply in the cases of power failure and compensation for consumers are all possible causing for additional operational costs.

## Statutory Risks

While discussing actual risks, we continue to follow up on regulations related to climate change and evaluate the possible risks they might cause us. When appropriate, they are included in our risk evaluation system for further management. By responding to regulation changes early, we not only reduce the operational risks but also strengthen our image as a green benchmark corporation.

Risks and opportunities regarding regulations on climate Change 		
Regulation	Risks	Opportunities
Renewable Energy Development Regulation	Renewable energy development fund merged into electricity bills is causing an increase in electricity costs	<ul style="list-style-type: none"> <li>● Provides us an opportunity to evaluate the possibilities of forestation or renewable energy generating facilities establishment on unused non-urban areas.</li> </ul>
Energy Management Law	The government audits on the energy efficiency of corporations which might increase our costs in facilities improvement and maintenance	<ul style="list-style-type: none"> <li>● Use our ICT and telecommunication expertise to assist corporation in achieving carbon reduction and energy saving.</li> </ul>
Greenhouse Gas Reduction Bill (under discussion)	Limiting the amount of greenhouse gas emitted by the telecom industry. This might increase future carbon emission cap and trade costs.	<ul style="list-style-type: none"> <li>● Develop methods for large capacity renewable energy generating. Electricity generated can be used by our company or sold to customers.</li> <li>● Beneficial for ITS/Telematics development.</li> <li>● As a response to the current trends of low-carbon communities and low-carbon cities, this can be beneficial for the promotion and marketing of intelligent energy-saving services.</li> <li>● By responding to the needs in energy-saving appliances household, we can enjoy further earnings through energy-saving.</li> <li>● LED lighting development.</li> </ul>
Energy Tax (under discussion)		<ul style="list-style-type: none"> <li>● Use our ICT and telecommunication expertise to work with other electricity providers and to create a Smart Grid.</li> </ul>

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# Response

## Industrial Environment of Fair Competition

Under the influence of the financial crisis, the domestic economy did not perform well in 2009. Added with the overflow of suppliers in the traditional telecom market and the supervising institutions controlling service charges through administrative means, the whole industry was facing fierce challenges from the environment. Under intense competition, peers started to become doubtful of our market position. While ensuring the rights of our customers and shareholders, we will continue to communicate with supervising organizations and peer service providers.

### Supervising Institutions

Any changes in policies or regulations might pose an influence on our operational result. That is why we closely monitor every move of the National Communications Commission (NCC) which oversees all our activities. For example, starting in 2007, NCC has been lowering the X value for three consecutive years leading to an over 14% reduction on mobile phone service charges and an over 19% reduction in broadband service charges. Without any doubts, we are happy to see that broadband is more and more popular around the nation and we are glad to help in minimizing the digital gap in our society. While striving for satisfying customers' needs for high-speed broadband, we still believe that charges should be fixed according to the market.

Facing the said operational impacts, besides keep developing comprehensive value-added services to increase revenue, we also pay close attention to the following regulation/policies changes and propose countermeasures to tackle them:

- Actively participate and provide suggestions in the amendment process of the Telecommunication Law, the Cable Radio and Television Law, Broadcasting and Television Law, and Satellite Broadcasting Law.
- Our GSM 900 1800 License are due to expire on 2012 2013. We will work harder for a license extension.
- NCC is expected to release 7 licenses for Second SFN of Digital Terrestrial TV in 2011.
- Domestic WiMAX service providers will gradually start operating in 2010. Apart from expanding the mobile network coverage and quality, we will speed up the promotion of Fiber to the Building (FTTB) services.

### Peer Relationship

In a highly competitive market, service providers' profits are limited which lead to a lot of concerns regarding the "last mile" from peers and the public. The last mile was released in 2004. In 2006, it was announced as a bottleneck mechanism according to which it last mile circuits are leased to other fixed network providers under historical cost and the number of cores are used as the basis for cost allocation. Under the pricing regulations, the last mile charge we ask for is the lowest in the world (126 NTD/month). This is about 30%~50% of the price asked for in Japan. It is evident that the price we charge is already the lowest we can afford to.

In April 2009, our failure in reaching an agreement on the networking charges with other service providers such as TFN raised a lot of concern. To settle this dispute, we limited parts of TFN's bandwidth with consideration for customers' interests.

In August of the same year, NCC finally stated that the new listed price for connection charges should be 1 Mbps/1,480 NTD.

To provide customers with good communication quality and better services, added with the fact that most of our facilities are reaching their retirement age, we continue to put in tens of billions of construction and maintenance funds each year for last mile infrastructure. We sincerely hope to create a sane and healthy competition environment along with our peers in the industry to provide customers with diversified and high quality services.

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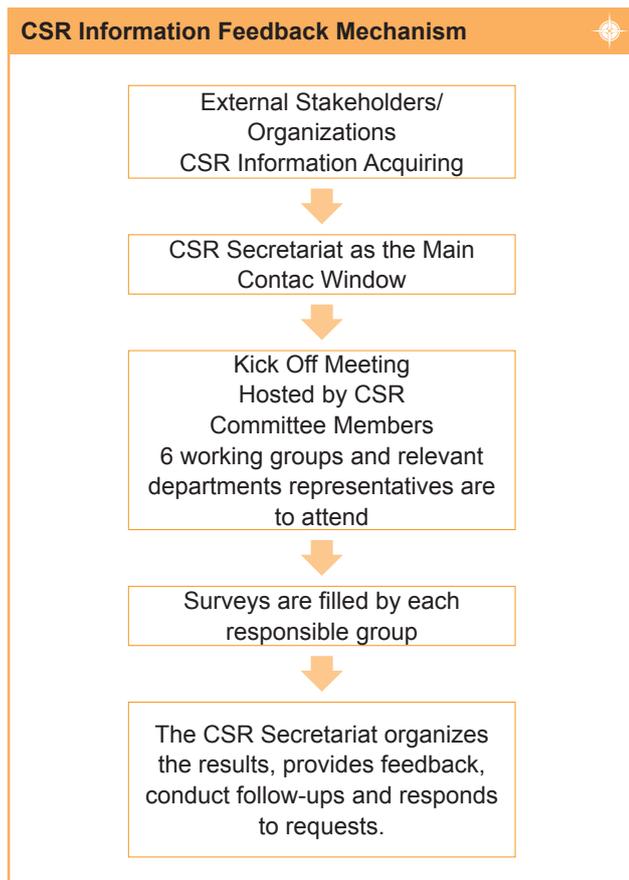
# Target Socially Responsible Investment

In 2009, along the global trends in Socially Responsible Investment (SRI), the four major government funds such as the Labor Pension Fund and the Labor Insurance Fund decided to include a company's CSR performance into their decision making process for fund investment. In view of this, we will continue to communicate with investors and shareholders to reach our ultimate goal of enhancing corporate value.

## SRI Surveys

We started to reply the two important Socially Responsible Investment surveys that are known around the world since 2008 and 2009: Dow Jones sustainability Indexes (DJSI) and Carbon Disclosure Project (CDP). We firmly believe that by replying surveys from high authority institutions, we can enhance the transparency of information disclosure and encourage CSR management within the company.

On the other hand, even though Socially Responsible Investment is at its early stages in Taiwan, we already started to conduct CSR surveys on our global institutional investors to find out their expectations towards us.



## Investors Relationship

In order to enable our investors to have a better idea of our management strategies and operational performance, quarterly meetings are held and high level managers can take the opportunity of non-deal road shows for overseas investors to have face to face communication with our institutional investors. Apart from the above, we update financial and business information on our website in a timely manner. At the same time, news releases and importance notices regarding the company's development are also posted on the website for better information transparency.

## Institutional Investors CSR Engagement

We take the initiative to send out online questionnaire to local and overseas institutional investors to understand their views on CSR and SRI. This also shows our determination and performance in practicing CSR. The overall return rate was lower than expected but from the returned questionnaires, we still managed to find some SRI trends.

### First telecom service provider to conduct CSR survey on institutional investors

- When making investment decisions, some institutional investors take whether a company realizes its CSR into consideration.
- Some questionnaires indicated that "corporate governance" and "human resource development" are important when evaluating a company's performance. Some even take "carbon management" into consideration.
- Some institutional investors showed knowledge and applauded us for our efforts on CSR.