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## **Chunghwa Telecom Co., Ltd.**

### **2010 Annual General Meeting Minutes**

**I. Time:** June 18, 2010, at 9:00 a.m.

**II. Venue:** No. 168, Minzu Road, Banchiao City, Taipei County, Taiwan, R.O.C.

(Chunghwa Telecom Training Institute)

**III. Number of shares represented by present shareholders:** The shares represented by shareholders present and proxies totaled 7,184,562,869, accounting for 74.09% of the total shares issued by this Company, i.e. 9,696,808,181 shares.

**IV. Chairman:** Shyue-Ching Lu, Chairman and CEO    Minute taker: Hsiun-Chuan Lee  
Ping-Chuan Huang  
Yu-Ching Cho

**Attendee:** Julian Hung, Attorney, Lotus International Law Office  
Chien-Hsin Hsieh, CPA, Deloitte & Touche Taiwan

**V. Chairman's address:** (omitted)

**VI. Reports:**

1. The Company's 2009 Business Report (Please see Appendix 1 of the minutes).
2. Supervisors' audit report concerning the Company's 2009 financial statements (Please see Appendix 2 of the Minutes for the supervisors' audit report and Appendix 3 for the independent auditors' report).

Chairman: Each shareholder is hereby informed of the said report.

**Summary of Shareholder Statement:**

Statements by shareholders, including Shui-Wen Chu (Account No. 041207), Wei-Hsien Liu (Account No.052047), Shu-Chen Wang (Account No. 421981), Long-Sheng Sung (Account No. 047640), Ching-Kuan Huang (Account No. 113975), Rong-Ho Li (Account No. 356596), Ming-Hua Lu (Account No. 049536), Ching-Tsai Peng (Account No.049363), Chia-Hua You (Account No.036977), Hui-Ce Lin (Account No. 047650), Tai-Shen Chao (Account No. 038175), Lu-Cheng Han (Account No.091868): various inquiries, requests and suggestions regarding the security of the meeting venue, the management team after the term cessation of the Fifth Board of Directors, 2009 Annual Report consists of neither table of content nor title heading, proposed content from shareholders, effectiveness of post-investment management, qualification of management, the reasons of subscriber reduction for both broadband access and MOD business, revenue from key enterprise customers, oversight on shareholder requests, unfair treatment to certain shareholders, not proactively caring for customers, under-performance of the subsidiaries, inability to download Senao's Annual Report, construction fees of the road curve near Ren-aigate of the Hsinyi Zone, remodeling fees of Taipei East Branch Office's restaurant, board and supervisor remuneration, investment in Essence Technology Solution, Inc. and InfoExplorer Co., Ltd. and their respective strategic directions, patronization of shareholder requests, long-term planned use of the Company's cash,

potential impact of WiMAX on the mobile business, future prospect of the Company, un-necessity of capital reduction due to the solid financial position of the Company, inconsistency between the performance evaluation of Company's Southern Business Group Information System Department and the overall corporate emphasis, careful maintenance of the mutual trust established via the labor negotiation, lack of detailed information of property development in the Annual Report, employee evaluation and incentives, careful planning and execution for investment in Mainland China, management to consider reference other successful corporation's investment strategy in order to enhance the Company's profitability, the management of employee's suggestions posted on employees interactive website moderation of Corporate Social Responsibility ("CSR") execution, consistent standards of incentive and discipline for all divisions and employees, supervisors conducting due diligence of all disclosed information from the Annual Report, employee safety and security.

The above statements made by the said shareholders were supplemented and explained by the President, Senior Vice President Yeh and the heads of Marketing, Human Resource and Legal Affairs.

## **VII. Issues to be approved by shareholders**

### **1. Ratification of 2009 business report and financial statements** (Proposed by the Board of Directors)

Explanation:

- (1) The Company's 2009 financial statements (including balance sheets, statements of income, statements of changes in stockholders' equity, and statements of cash flows) have been audited and attested by Hsien Chien-Hsin, CPA and Chang Jr-Yen CPA of Deloitte & Touche, who have issued a modified unqualified opinion in their audit report. The 22<sup>nd</sup> meeting of the Company's 5th Board of Directors on March 30, 2010 passed the Company's 2009 financial statements together with the Company's business report, and forwarded the financial statements and business report to the supervisors for audit. The supervisors found no unconformities, and their audit report is submitted for examination.
- (2) The aforementioned statements and report are submitted to the Annual General Meeting (AGM) for ratification.

Summary of Shareholder Statement:

Statements by shareholders, including Shui-Wen Chu (Account No. 041207), Ching-Kuan Huang (Account No. 113975), Chia-Hua You (Account No.036977), Lu-cheng Han (Account No.091868), Cong-Rong Fang (Account No. 038209): various inquiries, requests and suggestions regarding the removal of salary and bonus for management, the evaluation basis for the equity and debt investment as stated under item 7310 and item 7540 of the Consolidated Income Statement, long-term planned use of the Company's cash, board, supervisor and management remuneration, MOD subscriber target for fiscal year 2010, R&D personnel.

The above statements made by the said shareholders were supplemented and explained by the President, Senior Vice President Yeh and the heads of Finance and Human Resource.

The proposal for amendments by shareholders:

Proposal 1: Shareholder Chia-Hua You (Account No.036977), raised an objection against the Proposal, and proposed to revise the statement "present

fairly” to “not present fairly” on the Independent Auditors’ Report .

Proposal 2: Shareholder Shui-Wen Chu (Account No. 041207), proposed to deduct all management compensation except salary.

Resolution: The Proposal for recognition made by the Board of Directors was approved and ratified upon voting (upon positive votes of present shareholders representing 5,742,385,609 shares, accounting for 79.93 % of the present voting rights at the time of voting; please see Appendix 1 and Appendix 4 ~ 11 of the minutes for the business report and financial statements)

## **2. Ratification of the proposal for the distribution of 2009 earnings** (Proposed by the Board of Directors)

Explanation:

- ( 1 ) The Company's 2009 financial statements have been completed, and earnings shall be distributed as specified in the proposed statement of retained earnings. It is proposed that directors and supervisors be issued cash remuneration of NT\$41,211,181, employees be issued cash bonuses of NT\$1,800,928,610, and common stock shareholders receive cash dividends of NT\$4.06 per share; shareholders shall receive a total of NT\$39,369,041,215 as cash dividends.
- ( 2 ) Each shareholder's cash dividends shall be issued to the rounded-down full NT dollar, and the Chairman shall be authorized to dispose of the remainder; after approval at the 2010 AGM, the Board shall additionally be authorized to set a record date to distribute cash dividend.
- ( 3 ) If the Company's subsequent repurchase of any of its stock, assignment or retirement of treasury stock, or conversion of convertible bonds, or employees' exercise of stock options, or other reason affects the number of outstanding shares, and the shareholders' dividend distribution rate consequently changes, shareholders shall be requested to give the Board full authority to handle the matter at the AGM.
- ( 4 ) This proposal has been approved by resolution of the 23rd meeting of the Company's 5th Board of Directors, and is hereby submitted to the AGM for ratification.

Summary of Shareholder Statement:

Statements by shareholder Jun-De Wu (Account No. 269783): please clarify the process of dividend payment and the capital reduction.

The Head of Finance clarified that dividend payment will be conducted prior to capital reduction.

The proposal for amendments by shareholders:

Proposal 1: Shareholder Shui-Wen Chu (Account No. 041207), raised an objection against the Proposal, and proposed no remuneration for board and supervisors.

Proposal 2: Shareholders Chia-Hua You (Account No.036977), proposed to amend board and supervisor remuneration to NT\$1.0, with the remaining amount used for employee bonus and shareholder dividend.

Resolution: The Proposal made by the Board of Directors was approved upon voting (upon positive votes of present shareholders representing 5,741,849,785 shares, accounting for 79.92% of the present voting rights at the time of voting; please see

## **VIII. Issues to be discussed**

### **1. Revision of the Articles of Incorporation (Proposed by the Board of Directors)**

Explanation:

- (1) The proposed revision is to remove article 2, paragraph 1, item 41 "Tourism Hotel Business (J901011)" of the Articles of Incorporation in accordance with the instruction of Ministry of Economic Affairs on July 8, 2009 by letter of Jing Shou Shang Zi No. 09801147390.
- (2) A comparison table of the amended articles and the existing articles of the Company's Articles of Incorporation is enclosed below.
- (3) This proposal has been approved by the 23rd meeting of the Company's 5th Board of Directors, and is hereby submitted to the AGM for approval.

Resolution: The Proposal was resolved unanimously by all present shareholders upon the Chairman's inquiry (please see Appendix 13 of the minutes for the comparison table of amended articles of the articles of incorporation of Chunghwa Telecom Co., Ltd.)

### **2. Capital management plan (Proposed by the Board of Directors)**

Explanation:

- (1) This discussion item is based on the proposal approved by the 22<sup>nd</sup> meeting of the Company's 5th Board of Directors.
- (2) The proposed plan is to conduct a 20% capital reduction and cash repayment in order to improve the Company's capital structure, improve the return on shareholders' equity, and return surplus funds to shareholders
- (3) The amount of the capital reduction shall be NT\$19,393,616,360. Following the capital reduction, paid-in capital shall be NT\$77,574,465,450 and no share shall be issued in physical form.
- (4) The common shares, calculated on the basis of the number of shares held by each shareholder, according to each shareholder's ownership as registered in the book on the record date of the capital reduction, shall be replaced for new shares. Each share shall be exchanged for 0.8 shares, which will achieve a reduction of 1,939,361,636 common shares. For each fractional common share resulting from the capital reduction, the shareholder may seek to make it one share through the combination with the shareholders' other fractional shares within five days after the book close for capital reduction; otherwise the Company will pay the shareholder cash based on the closing share price on the last trading day before the record date of the conversion, rounded down to whole NT dollar. The Chairman is hereby authorized to designate persons to purchase all of the fractional shares at the closing price.
- (5) The Board shall be authorized to determine the record date of the capital reduction and other relevant matters after this capital reduction proposal has been approved at the AGM and has received the competent authority's approval. It is proposed that the Board is granted full power to handle the situation if the competent authority changes the minimum capital requirement or if a response must be made to other

changes in the objective environment prior to the record date of cash capital reduction.

#### Summary of Shareholder Statement:

Statements by shareholders, including Long-Sheng Sung (Account No. 047640), Rong-Ho Li (Account No. 356596), Shui-Wen Chu (Account No. 041207), Chia-Hua You (Account No.036977), Lu-Cheng Han (Account No.091868), Wei-Hsien Liu (Account No.052047), Hui-Ce Lin (Account No. 047650), Sheng-Ho Tsai (Account No. 040638): various inquiries, requests and suggestions regarding the reasons for capital reduction and enhanced return on investment via capital reduction, the necessity of capital reduction given the solid financial position of the Company, capital reduction impact on shareholder value, capital raising via new share issuance prior to capital reduction, careful consideration of future capital reduction, possibility of share repurchase via idle cash currently on the Company's books, the Company to support stock trading in minimizing the cash loss of shareholders, the idle cash to be included in the Company's financial report and the supervisors' audit report, stock market trading being a personal decision and one must assume the necessary risks, if dissatisfied with capital reduction, one can also unload all the Company shares but still retain fractional shares in order to bombard the management team during AGM, stock price driven by shareholders' view on management performance, further clarification on capital reduction, investment into Taipei 101 in enhancing the property return, possibility of hostile takeover due to reduced paid-in-capital from capital reduction plan, definition of designated persons.

The above statements made by the said shareholders were supplemented and explained by the Chairman and Senior Vice President Yeh.

#### The proposal for amendments by shareholders:

- Proposal 1: Shareholder Long-Sheng Sung (Account No. 047640), raised an objection against the Proposal.
- Proposal 2: Shareholder Shui-Wen Chu (Account No. 041207), raised an objection against the Proposal, and proposed that fractional shares not to be purchased by designated persons.
- Proposal 3: Shareholders Chia-Hua You (Account No.036977) and Lu-Cheng Han (Account No.091868), proposed to delete item 5, but to insert further explanation on Company supporting the stock market trading.
- Proposal 4: Shareholder Sheng-Ho Tsai (Account No. 040638), raised an objection against the Proposal, and proposed to invest the idle cash from the Company in Taipei 101.

The Chairman of the AGM commanded to proceed the voting based on the original Proposal.

#### Summary of Voting Dispute:

Shareholder Hua Kang (Account No. 037170): questions a set of voting cards held by a rubber band was not delivered into the ballot box, so these votes should not be counted.

Voting supervisor Chi-Shi Chou (Account No. 101047): witness by himself that all voting cards were from the ballot box.

The Chairman of the AGM command: the original Proposal is ratified, the associated voting cards to be sealed, the associated audio and video of the voting process and

voting count to be sealed. Disputing shareholders are as follows: Lu-Cheng Han (Account No.091868, holding 91 shares), Hua Kang (Account No. 037170, holding 21,285 shares), Chia-Hua You (Account No.036977, holding 8 shares), Shui-Wen Chu (Account No. 041207, holding 10 shares), Shu-Chen Wang (Account No. 421981, holding 1,000 shares), Wei-Hsien Liu (Account No.052047, holding 27,427 shares), Long-Sheng Sung (Account No. 047640, holding 6,649 shares), Ting-Chang Chu (Account No.089386, holding 24,140 shares). The dispute matter is to recount the vote and the legality of certain votes.

Resolution: The original Proposal of 20% capital reduction made by the Board of Directors was resolved and ratified upon voting. As part of the Proposal, the 20% capital reduction is equivalent to NT\$19,393,616,360 from the Company's existing paid-in capital. As a result of this capital reduction, the Company will cancel 1,939,361,636 outstanding common shares by exchanging one existing common share for 0.8 new shares. The paid-in capital after the 20% capital reduction transaction for the Company will be NT\$77,574,465,450 and no share shall be issued in physical form. For this capital reduction proposal, the shareholders authorize the Board to determine the record date and relevant issues after the ratification of the proposal in the AGM and after the approval of the relevant authorities in charge of securities. Prior to the record date of the capital reduction, if the relevant authorities in charge of securities revises the minimum paid-in capital requirement or to respond to other relevant issues, the shareholders agrees to the full authorization of the Board to act in the best interest of all parties. (upon positive votes of present shareholders representing 5,741,291,903 shares, accounting for 79.91 % of the present voting rights at the time of voting)

### **3. Revision of the "Operational Procedures for Endorsements and Guarantees"** (Proposed by the Board of Directors)

Explanation:

- (1) The proposed revision is to be in accordance with the amendment of Regulations Governing Loaning of Funds and Making of Endorsements/Guarantees by Public Companies announced by the Financial Supervisory Commission on March 19, 2010, and to cope with the Company's need.
- (2) The key points of amended articles are summarized as follows:
  - A. Amended Article 3:  
To set forth that the Company shall not extend endorsements/ guarantees to any subsidiary whose shareholders' equity is less than one-half of its paid-in capital.
  - B. Amended Article 4:  
To relax the aggregate endorsement/guarantees amount and the total amount of endorsements/guarantees for any single entity.
  - C. Amended Article 10 paragraph 2 to 5:  
To set forth the controlling procedure and the amount limit for subsidiaries' endorsements/guarantees activities.
- (3) A comparison table of Amended Articles of Procedures for Endorsements and Guarantees of Chunghwa Telecom Co., Ltd. is included below.
- (4) This proposal has been approved by resolution of the 23<sup>rd</sup> meeting of the Company's 5th Board of Directors, and is hereby submitted to the shareholders at the AGM for approval.

The proposal for amendments proposed by shareholders:

Proposal 1: The shareholders, Shui-Wen Chu (Account No. 041207) and Tieng-Zhang Chu (Account No. 089386), raised an objection against the Proposal.

Resolution: The Proposal made by the Board of Directors was resolved and ratified upon voting (upon positive votes of present shareholders representing 5,741,400,656 shares, accounting for 79.91% of the present voting rights at the time of voting. Please see Appendix 14 of the minutes for the Comparison Table of Amended Articles of Operational Procedures for Endorsements/Guarantees of Chunghwa Telecom Co., Ltd.).

## VIII. Election

### 1. The election of the Company's 6th term directors and supervisors (Proposed by the Board of Directors)

Explanation:

- (1) The Company's 5th term of directors and supervisors expires on June 14, 2010. In case no election of new directors and supervisors is effected after expiration of the term of office of existing directors and supervisors, the term of office of out-going directors shall be extended until the time new directors and supervisors have been elected and assumed their office.
- (2) Article 12, paragraph 1 of the Company's Articles of Incorporation states that the Company shall have at least seven (7) to fifteen (15) directors and three (3) to five (5) supervisors. The 21st meeting of the Company's 5th Board of Directors resolved to elect 13 directors (including 3 independent directors) and 3 supervisors for a term of 3 years, from June 18, 2010 to June 17, 2013.
- (3) Article 12-1, paragraph 1 of the Company's Articles of Incorporation states that the Company shall have at least three (3) independent directors; paragraph 2 of the same article states that independent director elections shall proceed via the candidate nomination system. The list of independent director candidates for this election has been reviewed and approved by the 23rd meeting of the 5th Board, as shown below:

Candidates of Independent Directors	Education	Selected Positions	Title	Shareholding
Zse-Hong Tsai	Ph.D. in Electrical Engineering, University of California, Los Angeles	Member of Technical Staff, AT&T Bell Laboratories	Professor of National Taiwan University, Independent Director of Chunghwa Telecom	0 shares
C.Y. Wang	B.A., Chung Yuan Christian University	Legislator, Legislative Yuan, R.O.C., Chairman of Kaohsiung Taipei Rapid	Vice Chairman, Tong Lung Metal Industry Co., Ltd., Chairman of Chinese	0 shares

		Transit Corporation, Chairman of China Steel Corporation	International Economic Cooperation Association, Vice Chairman of ROC-USA Business Council	
Rebecca Chung-Fern Wu	Ph.D. (Accounting & Information Management), Anderson Graduate School of Management, University of California, Los Angeles	Commissioner of Financial Supervisory Commission, Taiwan	Professor of Department of Accounting, National Taiwan University, Director of Gre Tai Securities Market	0 shares

(4) For the Regulations of Election of Chunghwa Telecom Co., Ltd. Directors and Supervisors, please refer to page 63 of Chunghwa Telecom Co., Ltd. 2010 Annual General Meeting handbook.

(5) Please vote.

#### Summary of Shareholder Statement:

Statements by shareholders, including Shui-Wen Chu (Account No. 041207) and Chia-Hua You (Account No.036977): questions the four day extension of the expiration term of Board and Supervisors in accordance to the Company Laws, as well as the appropriate proxy representation from the government-owned shares and to halt the election.

The above statements made by the said shareholders were supplemented and explained by the Company's lawyers.

#### Election Results:

- The current term for Board of Director and Supervisors will be three years, starting June 18, 2010 until June 17, 2013.
- Elected board directors' names and votes as listed below:

orders	Account or Identification Numbers	Account Name or Name	Votes
1	1	MOTC Representative : Shyue-Ching Lu	8,469,088,221
2	1	MOTC Representative : Shaio-Tung Chang	6,397,965,609
3	1	MOTC Representative : Mu-Shun Lin	5,551,577,177



4	1	MOTC Representative : Guo-Shin Lee	5,551,577,177
5	1	MOTC Representative : Jennifer Yuh-Jen Wu	5,551,577,177
6	1	MOTC Representative : Shih-Wei Pan	5,551,577,177
7	1	MOTC Representative : Gordon S. Chen	5,551,577,177
8	1	MOTC Representative : Yi-Bing Lin	5,551,577,177
9	1	MOTC Representative : Shen-Ching Chen	5,551,577,177
10	1	MOTC Representative : Shih-Peng Tsai	5,551,577,177

(Also, Ting-Chang Chu (Account No.089386) obtained 313,820 votes, and Shi-Peng Tsai (Account No. 049900) obtained 74,519 votes, however, both insufficient to be elected.)

3. Elected independent board directors' names and votes as listed below:

orders	Account or Identification Numbers	Account Name or Name	Votes
1	B12XXX2658	Zse-Hong Tsai	5,262,575,443
2	Y22XXX9911	Chung-Fern Wu	5,140,886,531
3	A10XXX1362	Chung-Yu Wang	5,140,660,535

4. Elected supervisors' names and votes as listed below:

orders	Account or Identification Numbers	Account Name or Name	Votes
1	39	Chunghwa Post Co., Ltd. Representative : Ming-Shyan Yang	5,009,739,646
2	39	Chunghwa Post Co., Ltd. Representative : I-Hwa Wu	5,009,168,992
3	21	National Development Fund of Executive Yuan Representative : Shwu-Fen Chao	5,009,168,992

(Also, Ting-Chang Chu (Account No.089386) obtained 48,280 votes, but insufficient to be elected.)

## **X. Motions**

The shareholders proposed a total of 32 motions. The gist thereof is hereby summarized pursuant to Paragraph 3 of Article 15 of the Company's Ordinance of Shareholders Meetings:

1. Operational Management Matter: The 11 motions proposed by the shareholders including Hui-Ce Lin (Account No. 047650) about the Southern Taiwan Business Group's loss of civil lawsuit resulting in damage to the Company while benefiting others, Chia-yi branch office's suspected inappropriate use of customer relations management system, the mishap of the Southern Taiwan Business Group's execution of Mobile Kaohsiung Application Promotional Plan (2 associated motions), unsuccessful integration of the Central and Southern Taiwan Business Groups, enhancement of the quality of the branches officers, increase of the travel agents with whom HiNet Travel cooperates in order to enhance the competitive advantage, net profit as a performance evaluation basis for business customer divisions, prohibition of drinking during work hours, the management not to resume the use of five-grade performance appraisal system, Human Resource head to fulfill a positive bridging role among Chairman, employees and labor union, as well as advanced planning for strategic alliances in Mainland China.
2. Disciplinary Matter: The two motions proposed by the shareholders including Hui-Ce Lin (Account No. 047650) regarding the suspected embezzlement of the Company's assets from the Kaohsiung branch office, as well as the ineffective management of customer complaints by the Company's branch office manager resulting in damage of the corporate brand.
3. Employees' Interest and Rights Matter: The two motions proposed by the shareholders including Hsiun-Long Hong (Account No. 052913) regarding overtime payment, as well as removing the payment upper limit for the respective pay grade in order to better incentivize the employees.
4. Personnel Replacement Matter: The 7 motions proposed by shareholders including Shui-Wen Chu (Account No. 041207) to replace management and security personnel.
5. Inquiries: The 8 motions proposed by shareholders including Shui-Wen Chu (Account No. 041207) regarding "I did not receive any salary payment from February 1, 2005 until now. When will be the time of payment", etc, totaling 43 inquiries, as well as the Company's breach of credibility for not providing subsidies for the retiree's children's education.
6. Others: The two motions proposed by shareholders including Wei-Hsien Liu (Account No.052047) pleaded Supervisors to not leave early during the AGM, the Company website to include simplified Chinese in order to enhance the understanding of government entities and potential investors/customers of the Mainland China and to accelerate potential opportunities with them.

The Chairman explained that the management will handle the motions proposed by the shareholders appropriately.

## **XI. The meeting was adjourned at 4:10 p.m. of the same day.**

## Appendix

### I. The Company's 2009 Business Report

#### (I) Report on Operations

The Company's 2009 (from January 1, 2009 to December 31, 2009) financial statements have been prepared in accordance with regulations, and have been audited by independent auditors. The result of operations was shown as follows:

- Analysis of profit and loss and profitability (currency unit: NTD millions)

Account title		Year	2009	2008
Profit and loss	Net revenues		184,040	186,781
	Operating costs		97,229	95,812
	Gross profit		86,811	90,969
	Operating expenses		31,670	33,804
	Income from operations		55,141	57,165
	Non-operating income and gains		1,575	3,507
	Non-operating expenses and losses		553	2,199
	Income before income tax		56,163	58,473
	Income tax expenses		12,406	13,463
	Net income		43,757	45,010
Profitability	ROA (%)		9.70	9.74
	ROE (%)		11.64	11.67
	Income from operations to common stock (%)		56.87	58.95
	Income before income tax to common stock (%)		57.92	60.30
	Net income ratio (%)		23.78	24.10
	Earnings per share (in NTD)		4.51	4.64

Note: the aforementioned figures were from the separate financial statements of the Company.

- (1) Net revenues in 2009 decreased by NT\$2.741 billion from the same period of 2008, which was the result of the global financial crisis and acute competition in the country, to the extent that revenue from domestic fixed network communications, international fixed network communications and mobile communications decreased.
- (2) Operating costs and expenses in 2009 decreased by NT\$717 million from the same period of 2008 mainly because of the decrease in depreciation resulting from the capital expenditure decrease over the 2002 to 2007 period. In addition, measures have been taken to cut down spending, including expenses for marketing, maintenance, and materials procurement.
- (3) Non-operating income and gains in 2009 decreased by NT\$1.932 billion from the same period of 2008 mainly because of the interest rate cut in the latter half of 2008 resulting in a decrease in interest income.
- (4) Non-operating expenses and losses in 2009 decreased by NT\$1.646 billion from the

same period of 2008 as a result of lower losses recognized as compared with 2008. The Company recognized an impairment loss amounting to NT\$85 million from revaluation of available-for-sale financial assets. In addition, the Company also recognized an impairment loss amounting to NT\$10 million from an investment carried at cost because its performance was inferior to the Company's expectation. The Company's recognized losses totaled NT\$95 million.

(II) The Prospect

Mired in the sustained global economic recession, the telecommunications industry performed poorly last year. This was compounded by the moderation of public consumption and the cut-throat competition launched by other telecommunication services providers. As such, there was no positive growth in the market. CHT is dedicated to professional service and seeks every opportunity for business development through its Information and Communications Technology (ICT) strategy. In 2009, the Company had consolidated revenue amounting to NT\$198.36 billion, which was a decrease of NT\$3.31 billion or 1.6% from the same period of 2008. However, the operations in mobile data, internet data, and ICT services sustained growth, which demonstrate that the Company has successfully evolved the nature of its operations.

The Company has maintained its market leading position in different businesses. In mobile communications, the Company had 9.27 million subscribers as of the end of 2009, of which 2G business accounted for 4.54 million and 3G accounted for 4.73 million, making the Company the leader in the mobile communications market. In broadband communications, the Company had more than 4.30 million subscribers, of which 1.64 million were fiber solution users. The Company is also the leader in this segment of telecommunications services. In the local, long distance and international calls markets, the Company was negatively affected by the economic downturn and the mobile and broadband service substitution. Yet, the Company was able to maintain its leadership position in the market with 97.1% of the market share by the number of user accounts, 88.6% of the share by local calls minutes of usage, 82.9% share for long distance calls minutes of usage, and 60.3% share of international calls minutes of usage. To satisfy the user preferences for high quality audio/visual effects, the Company continues to introduce high definition and sound quality contents for its MOD service, with more program variety and choice for the users, including convenient interactive services available for video shopping, the 2009 Deaflympics and the 2009 World Game, as well as numerous other high quality audio/visual services. At the end of 2009, the Company had 670,000 user accounts in MOD.

The Company has prepared for competition in the mature telecommunications services market in the country by launching innovative services, reinforcing service quality, introducing attractive devices, and bidding for ICT projects. Only by doing so could the Company sustain its growth and maintain its stable leadership in the market. In 2010, the Company will accelerate its fiber deployment, enhance its mobile internet service, MOD, value-added services (VAS) and core products for Enterprise customers, and bid for ICT projects as it continues its growth momentum. Further, the Company will also make an effort in deploying its next generation network, promoting broadband access, developing broadband applications, furthering our initiative to transfer customers to higher access speeds, and promoting value-added services, which are vital for its core operations in 2010. Nonetheless, the Company will package its products in a flexible manner so that the users can enjoy state-of-the-art and convenient telecommunication services.

The Company's commitment to corporate social responsibility (CSR) in 2009 has been recognized, as demonstrated by various awards from different sectors of society. Examples are the "Common Wealth Corporate Citizen Award" presented by The Common Wealth Magazine, the "Prestigious Benchmark Enterprise of Taiwan" award in telecommunications services in 2009, The "Trusted Brand" in Telecommunications Services Award (for six consecutive years) by Reader's Digest, the Champion of telecommunications services in the

“Survey of the Ideal Branch for Business Persons” of the Business Today magazine, the “Number One Service Award” by the Next Magazine, the “Corporate Social Responsibility Award” by the Global View Magazine, the “Green Procurement Outstanding Enterprise Award” by the Environmental Protection Administration, an A+ rating by the Securities and Futures Development Foundation in “The 6<sup>th</sup> Evaluation on Disclosures of Companies listed in TSE (Gretai Market)”, recognition as one of “Asia’s Best Companies 2009” by Finance Asia, and the “Financial Disclosure” award in Greater China by IR Global Rankings. In 2010, the Company will continue its core competencies and commitment to addressing social concerns, environmental protection and corporate governance, and will sustain its dedication to corporate social responsibility.

In the year ahead, the Company will continue its high-quality customer service in order to maintain stable revenue and create value for the shareholders, and will maintain positive interactions with the competent authorities and others in the industry in order to enhance value for the customers and contribute to national economic development and the prosperity of the telecommunications industry.

Shyue-Ching Lu, Chairman and CEO

Shaio-Tung Chang, President

Shui-Yi Kuo, Accounting Officer

March 30, 2010

## **II. Supervisors' audit report concerning Chunghwa Telecom Co., Ltd.'s 2009 financial statements**

The Board of Directors has compiled and submitted the Company's 2009 financial statements, and independent auditors Hsieh Chien-hsin and Chang Jih-yen of Deloitte & Touche have issued an audit report. The financial statements and audit report, together with the business report and proposed distribution of earnings, have been audited by the supervisors, who found no unconformities. The Company has accordingly issued this report as prescribed in Article 219 of the Company Act. Please examine.

Chunghwa Telecom Co., Ltd. 2010 Annual General Meeting

Supervisors : Ming-Shyan Yang  
Shu-Chen Chen  
Yung-An Yen

April 27, 2010

### **III. Independent Auditors' Report**

The Board of Directors and Stockholders  
Chunghwa Telecom Co., Ltd.

We have audited the accompanying balance sheets of Chunghwa Telecom Co., Ltd. as of December 31, 2009 and 2008, and the related statements of income, changes in stockholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the Rules Governing the Audit of Financial Statements by Certified Public Accountants and auditing standards generally accepted in the Republic of China. Those rules and standards required that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to first paragraph present fairly, in all material respects, the financial position of the Company as of December 31, 2009 and 2008, and the results of its operations and its cash flows for the years then ended in conformity with the Securities and Exchange Act, the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, requirements of the Business Accounting Law and Guidelines Governing Business Accounting relevant to financial accounting standards, and accounting principles generally accepted in the Republic of China.

As discussed in Note 3 to the financial statements on January 1, 2008, the Company adopted Interpretation 96-052 issued by the Accounting and Research Development Foundation of the Republic of China that requires companies to record bonuses paid to employees, directors and supervisors as an expense rather than an appropriation of earnings. The Company early adopted the new Statements of Financial Accounting Standards No. 41, "Operating Segments" ("SFAS No. 41") beginning from September 1, 2009.

We have also audited the consolidated financial statements of the Company and its subsidiaries as of and for the years ended December 31, 2009 and 2008, and have expressed a modified unqualified opinion on those consolidated financial statements.

Deloitte & Touche

March 10, 2010

Notice to Readers

*The accompanying financial statements are intended only to present the financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in the Republic of China and not those of any other jurisdictions. The standards, procedures and practices to audit such financial statements are those generally accepted and applied in the Republic of China.*

*For the convenience of readers, the auditors' report and the accompanying financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language auditors' report and financial statements shall prevail.*



## IV. CHUNGHWA TELECOM CO., LTD.

### BALANCE SHEETS

DECEMBER 31, 2009 AND 2008

(Amounts in Thousands of New Taiwan Dollars, Except Par Value Data)

ASSETS	2009		2008		LIABILITIES AND STOCKHOLDERS' EQUITY	2009		2008	
	Amount	%	Amount	%		Amount	%	Amount	%
<b>CURRENT ASSETS</b>					<b>CURRENT LIABILITIES</b>				
Cash and cash equivalents (Notes 2 and 4)	\$ 68,393,379	15	\$ 77,137,903	17	Financial liabilities at fair value through profit or loss (Notes 2 and 5)	\$ -	-	\$ 106,896	-
Financial assets at fair value through profit or loss (Notes 2 and 5)	6,677	-	258,076	-	Trade notes and accounts payable	8,346,932	2	9,349,489	2
Available-for-sale financial assets (Notes 2 and 6)	16,684,380	4	14,161,391	3	Payables to related parties (Note 24)	1,875,717	-	2,236,919	1
Held-to-maturity financial assets (Notes 2 and 7)	1,099,595	-	769,435	-	Income tax payable (Notes 2 and 21)	4,157,986	1	5,433,630	1
Trade notes and accounts receivable, net of allowance for doubtful accounts of \$2,774,868 thousand in 2009 and \$2,992,143 thousand in 2008 (Notes 2 and 8)	11,065,325	3	10,190,150	2	Accrued expenses (Notes 3 and 16)	16,500,060	4	15,680,602	4
Receivables from related parties (Notes 2 and 24)	383,218	-	343,016	-	Due to stockholders for capital reduction (Note 18)	9,696,808	2	19,115,554	4
Other monetary assets (Note 9)	1,771,949	-	2,187,324	1	Other current liabilities (Notes 17 and 26)	15,933,025	4	15,446,581	3
Inventories, net (Notes 2, 3 and 10)	1,186,522	-	992,609	-					
Deferred income tax assets (Notes 2 and 21)	60,700	-	64,211	-	Total current liabilities	56,510,528	13	67,369,671	15
Other current assets (Note 11)	3,916,850	1	4,182,658	1					
Total current assets	104,568,595	23	110,286,773	24	<b>DEFERRED INCOME</b>	2,483,764	-	2,072,297	-
					<b>RESERVE FOR LAND VALUE INCREMENTAL TAX (Note 15)</b>	94,986	-	94,986	-
<b>LONG-TERM INVESTMENTS</b>					<b>OTHER LIABILITIES</b>				
Investments accounted for using equity method (Notes 2 and 12)	10,170,504	2	8,691,154	2	Accrued pension liabilities (Notes 2 and 23)	1,207,957	-	5,164,388	1
Financial assets carried at cost (Notes 2 and 13)	2,226,048	1	2,521,907	-	Customers' deposits	5,940,403	2	6,098,605	2
Held-to-maturity financial assets (Notes 2 and 7)	3,929,662	1	3,044,102	1	Deferred credits - profit on intercompany transactions (Note 24)	1,485,916	-	1,485,916	-
Other monetary assets (Notes 14 and 25)	1,000,000	-	1,000,000	-	Others	225,114	-	426,387	-
Total long-term investments	17,326,214	4	15,257,163	3	Total other liabilities	8,859,390	2	13,175,296	3
					Total liabilities	67,948,668	15	82,712,250	18
<b>PROPERTY, PLANT AND EQUIPMENT (Notes 2, 15 and 24)</b>					<b>STOCKHOLDERS' EQUITY (Notes 2, 15, 18 and 19)</b>				
Cost					Common stock - \$10 par value;				
Land	101,266,026	23	101,259,221	22	Authorized: 12,000,000 thousand shares				
Land improvements	1,535,066	-	1,494,398	-	Issued: 9,696,808 thousand shares	96,968,082	22	96,968,082	21
Buildings	62,669,377	14	62,612,157	14	Preferred stock - \$10 par value	-	-	-	-
Computer equipment	15,636,520	4	15,751,162	3	Additional paid-in capital				
Telecommunications equipment	654,609,330	148	648,805,525	141	Capital surplus	169,496,289	38	179,193,097	39
Transportation equipment	2,111,872	-	2,404,125	1	Donated capital	13,170	-	13,170	-
Miscellaneous equipment	7,062,450	2	7,247,977	2	Equity in additional paid-in capital reported by equity-method investees	304	-	3	-
Total cost	844,890,641	191	839,574,565	183	Total additional paid-in capital	169,509,763	38	179,206,270	39
Revaluation increment on land	5,800,909	1	5,810,650	1	Retained earnings				
	850,691,550	192	845,385,215	184	Legal reserve	56,987,241	13	52,859,566	11
Less: Accumulated depreciation	555,893,816	126	540,010,369	117	Special reserve	2,675,894	1	2,675,894	1
	294,797,734	66	305,374,846	67	Unappropriated earnings	43,749,962	10	41,276,274	9
Construction in progress and advances related to acquisition of equipment	15,715,083	4	15,989,495	3	Total retained earnings	103,413,097	24	96,811,734	21
Property, plant and equipment, net	310,512,817	70	321,364,341	70	Other adjustments				
					Cumulative translation adjustments	7,626	-	29,474	-
<b>INTANGIBLE ASSETS (Note 2)</b>					Unrecognized net loss of pension	(43,750)	-	(84)	-
3G concession	6,737,479	2	7,486,088	2	Unrealized gain (loss) on financial instruments	(447,129)	-	(2,272,242)	-
Others	418,080	-	407,028	-	Unrealized revaluation increment	5,803,446	1	5,813,187	1
Total intangible assets	7,155,559	2	7,893,116	2	Total other adjustments	5,320,193	1	3,570,335	1
					Total stockholders' equity	375,211,135	85	376,556,421	82
<b>OTHER ASSETS</b>									
Idle assets (Note 2)	926,277	-	927,076	-					
Refundable deposits	1,408,706	1	1,282,539	-					
Deferred income tax assets (Notes 2 and 21)	398,423	-	1,487,685	1					
Others (Note 24)	863,212	-	769,978	-					
Total other assets	3,596,618	1	4,467,278	1					
<b>TOTAL</b>	<b>\$ 443,159,803</b>	<b>100</b>	<b>\$ 459,268,671</b>	<b>100</b>	<b>TOTAL</b>	<b>\$ 443,159,803</b>	<b>100</b>	<b>\$ 459,268,671</b>	<b>100</b>

The accompanying notes are an integral part of the financial statements.

(With Deloitte & Touche audit report dated March 10, 2010)

**V. CHUNGHWA TELECOM CO., LTD.**

**STATEMENTS OF INCOME  
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008  
(Amounts in Thousands of New Taiwan Dollars, Except Earnings Per Share Data)**

	2009		2008	
	Amount	%	Amount	%
NET REVENUES (Note 24)	\$184,040,272	100	\$186,780,650	100
OPERATING COSTS (Note 24)	<u>97,229,277</u>	<u>53</u>	<u>95,812,214</u>	<u>52</u>
GROSS PROFIT	<u>86,810,995</u>	<u>47</u>	<u>90,968,436</u>	<u>48</u>
OPERATING EXPENSES (Note 24)				
Marketing	25,210,891	13	27,306,113	14
General and administrative	3,303,370	2	3,345,977	2
Research and development	<u>3,155,752</u>	<u>2</u>	<u>3,151,789</u>	<u>2</u>
Total operating expenses	<u>31,670,013</u>	<u>17</u>	<u>33,803,879</u>	<u>18</u>
INCOME FROM OPERATIONS	<u>55,140,982</u>	<u>30</u>	<u>57,164,557</u>	<u>30</u>
NON-OPERATING INCOME AND GAINS				
Interest income	454,464	-	1,866,875	1
Equity in earnings of equity method investees, net	281,340	-	362,314	-
Valuation gain on financial instruments, net	100,688	-	550,649	1
Foreign exchange gain, net	87,597	-	329,408	-
Gain on disposal of property, plant and equipment, net	5,147	-	-	-
Others	<u>646,593</u>	<u>1</u>	<u>397,631</u>	<u>-</u>
Total non-operating income and gains	<u>1,575,829</u>	<u>1</u>	<u>3,506,877</u>	<u>2</u>
NON-OPERATING EXPENSES AND LOSSES				
Loss on disposal of financial instruments, net	194,133	-	660,331	-
Loss arising from natural calamities	148,747	-	-	-
Impairment loss on assets	95,349	-	1,164,105	1
Interest expense	2,776	-	404	-
Loss on disposal of property, plant and equipment, net	-	-	276,710	-
Others	<u>112,385</u>	<u>-</u>	<u>97,019</u>	<u>-</u>
Total non-operating expenses and losses	<u>553,390</u>	<u>-</u>	<u>2,198,569</u>	<u>1</u>
INCOME BEFORE INCOME TAX	56,163,421	31	58,472,865	31
INCOME TAX EXPENSE (Notes 2 and 21)	<u>12,405,995</u>	<u>7</u>	<u>13,462,523</u>	<u>7</u>
NET INCOME	<u>\$ 43,757,426</u>	<u>24</u>	<u>\$ 45,010,342</u>	<u>24</u>

(Continued)

**CHUNGHWA TELECOM CO., LTD.**

**STATEMENTS OF INCOME**

**FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008**

**(Amounts in Thousands of New Taiwan Dollars, Except Earnings Per Share Data)**

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	<u>2009</u>		<u>2008</u>	
	<b>Income Before Income Tax</b>	<b>Net Income</b>	<b>Income Before Income Tax</b>	<b>Net Income</b>
EARNINGS PER SHARE (Notes 2 and 22)				
Basic earnings per share	<u>\$ 5.79</u>	<u>\$ 4.51</u>	<u>\$ 6.03</u>	<u>\$ 4.64</u>
Diluted earnings per share	<u>\$ 5.77</u>	<u>\$ 4.50</u>	<u>\$ 6.02</u>	<u>\$ 4.63</u>

The accompanying notes are an integral part of the financial statements.

(With Deloitte & Touche audit report dated March 10, 2010)

(Concluded)

VI. CHUNGHWA TELECOM CO., LTD.

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY  
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008  
(Amounts in Thousands of New Taiwan Dollars Except Dividend Per Share Data)

	Common Stock		Preferred Stock		Additional Paid-in Capital	Retained Earnings			Cumulative Translation Adjustments	Unrecognized Net Loss of Pension	Other Adjustments		Total Stockholders' Equity	
	Shares (Thousands)	Amount	Shares (Thousands)	Amount		Legal Reserve	Special Reserve	Unappropriated Earnings			Unrealized Gain (Loss) on Financial Instruments	Unrealized Revaluation Increment		Treasury Stock
BALANCE, JANUARY 1, 2008	9,667,845	\$ 96,678,451	-	\$ -	\$ 200,605,563	\$ 48,036,210	\$ 2,678,723	\$ 48,317,617	\$ (1,980)	\$ (90)	\$ 37,508	\$ 5,823,200	\$ (7,107,494)	\$ 395,067,708
Adjustment of additional paid-in capital from revaluation of land to income upon disposal	-	-	-	-	-	-	-	-	-	-	-	(10,013)	-	(10,013)
Appropriations of 2007 earnings														
Legal reserve	-	-	-	-	-	4,823,356	-	(4,823,356)	-	-	-	-	-	-
Reversal of special reserve	-	-	-	-	-	-	(3,304)	3,304	-	-	-	-	-	-
Cash dividend - NT\$4.26 per share	-	-	-	-	-	-	-	(40,716,130)	-	-	-	-	-	(40,716,130)
Stock dividend - NT\$0.1 per share	95,578	955,778	-	-	-	-	-	(955,778)	-	-	-	-	-	-
Employees' bonus - cash	-	-	-	-	-	-	-	(1,303,605)	-	-	-	-	-	(1,303,605)
Employees' bonus - stock	43,453	434,535	-	-	-	-	-	(434,535)	-	-	-	-	-	-
Remuneration to board of directors and supervisors	-	-	-	-	-	-	-	(43,454)	-	-	-	-	-	(43,454)
Capital surplus transferred to common stock	1,911,555	19,115,554	-	-	(19,115,554)	-	-	-	-	-	-	-	-	-
Capital reduction (Note 18)	(1,911,555)	(19,115,554)	-	-	-	-	-	-	-	-	-	-	-	(19,115,554)
Net income in 2008	-	-	-	-	-	-	-	45,010,342	-	-	-	-	-	45,010,342
Unrealized loss on financial instruments held by investees	-	-	-	-	-	-	-	-	-	-	(18,613)	-	-	(18,613)
Equity adjustments in investees	-	-	-	-	-	-	-	(54,583)	-	-	-	-	-	(54,583)
Cumulative translation adjustment for foreign-currency investments held by investees	-	-	-	-	-	-	-	-	31,454	-	-	-	-	31,454
Defined benefit pension plan adjustments of investees	-	-	-	-	-	-	-	-	-	6	-	-	-	6
Special reserve for gain arising from disposal of land	-	-	-	-	-	-	475	(475)	-	-	-	-	-	-
Cancellation of treasury stock - 110,068 thousand common shares (Notes 2 and 19)	(110,068)	(1,100,682)	-	-	(2,283,739)	-	-	(3,723,073)	-	-	-	-	7,107,494	-
Unrealized loss on financial instruments	-	-	-	-	-	-	-	-	-	-	(2,291,137)	-	-	(2,291,137)
BALANCE, DECEMBER 31, 2008	9,696,808	96,968,082	-	-	179,206,270	52,859,566	2,675,894	41,276,274	29,474	(84)	(2,272,242)	5,813,187	-	376,556,421
Adjustment of additional paid-in capital from revaluation of land to income upon disposal	-	-	-	-	-	-	-	-	-	-	-	(9,741)	-	(9,741)
Appropriations of 2008 earnings														
Legal reserve	-	-	-	-	-	4,127,675	-	(4,127,675)	-	-	-	-	-	-
Cash dividend - NT\$3.83 per share	-	-	-	-	-	-	-	(37,138,775)	-	-	-	-	-	(37,138,775)
Cancellation of preferred stock (Note 18)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Capital surplus transferred to common stock	969,680	9,696,808	-	-	(9,696,808)	-	-	-	-	-	-	-	-	-
Capital reduction (Note 18)	(969,680)	(9,696,808)	-	-	-	-	-	-	-	-	-	-	-	(9,696,808)
Net income in 2009	-	-	-	-	-	-	-	43,757,426	-	-	-	-	-	43,757,426
Unrealized gain on financial instruments held by investees	-	-	-	-	-	-	-	-	-	-	36,011	-	-	36,011
Equity adjustments in investees	-	-	-	-	301	-	-	(17,288)	-	-	-	-	-	(16,987)
Cumulative translation adjustment for foreign-currency investments held by investees	-	-	-	-	-	-	-	-	(21,848)	-	-	-	-	(21,848)
Defined benefit pension plan adjustments of investees	-	-	-	-	-	-	-	-	-	(43,666)	-	-	-	(43,666)
Unrealized gain on financial instruments	-	-	-	-	-	-	-	-	-	-	1,789,102	-	-	1,789,102
BALANCE, DECEMBER 31, 2009	<u>9,696,808</u>	<u>\$ 96,968,082</u>	<u>-</u>	<u>\$ -</u>	<u>\$ 169,509,763</u>	<u>\$ 56,987,241</u>	<u>\$ 2,675,894</u>	<u>\$ 43,749,962</u>	<u>\$ 7,626</u>	<u>\$ (43,750)</u>	<u>\$ (447,129)</u>	<u>\$ 5,803,446</u>	<u>\$ -</u>	<u>\$ 375,211,135</u>

The accompanying notes are an integral part of the financial statements.

(With Deloitte & Touche audit report dated March 10, 2010)

## VII. CHUNGHWA TELECOM CO., LTD.

### STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008 (Amounts in Thousands of New Taiwan Dollars)

	2009	2008
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 43,757,426	\$ 45,010,342
Impairment loss on assets	95,349	1,164,105
Provision for doubtful accounts	454,402	503,753
Depreciation and amortization	35,972,878	37,968,938
Amortization of premium of financial assets	15,295	3,258
Loss on disposal of financial instruments, net	194,133	660,331
Valuation gain on financial instruments, net	(100,688)	(550,649)
Valuation loss on inventory	11,550	23,320
Loss (gain) on disposal of property, plant and equipment, net	(5,147)	276,710
Loss arising from natural calamities	148,747	-
Equity in earnings of equity method investees, net	(281,340)	(362,314)
Dividends received from equity investees	393,115	435,285
Deferred income taxes	1,092,773	(178,971)
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Financial assets held for trading	215,658	(207,463)
Trade notes and accounts receivable	(1,322,076)	(218,461)
Receivables from related parties	(40,202)	(131,390)
Other monetary assets	371,339	4,860,343
Inventories	(205,463)	(254,588)
Other current assets	601,970	(1,010,310)
Increase (decrease) in:		
Trade notes and accounts payable	(1,338,719)	(454,187)
Payables to related parties	(324,270)	553,070
Income tax payable	(1,275,644)	(1,526,874)
Accrued expenses	819,458	723,521
Other current liabilities	501,273	650,762
Deferred income	411,467	567,147
Accrued pension liabilities	(3,956,431)	1,252,424
Net cash provided by operating activities	<u>76,206,853</u>	<u>89,758,102</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisition of available-for-sale financial assets	(8,617,262)	(7,271,995)
Proceeds from disposal of available-for-sale financial assets	7,642,345	6,639,849
Acquisition of held-to-maturity financial assets	(2,099,875)	(3,326,951)
Proceeds from disposal of held-to-maturity financial assets	868,860	659,605
Acquisition of financial assets carried at cost	-	(485,859)
Proceeds from disposal of financial assets carried at cost	285,859	354,933
Acquisition of investments accounted for using equity method	(1,637,615)	(4,461,562)
Proceeds from disposal of long-term investments	-	44,047
Acquisition of property, plant and equipment	(24,344,334)	(29,660,351)
Proceeds from disposal of property, plant and equipment	64,599	2,642,439

(Continued)

**CHUNGHWA TELECOM CO., LTD.****STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008  
(Amounts in Thousands of New Taiwan Dollars)**

	2009	2008
Increase in intangible assets	\$ (233,471)	\$ (258,290)
Increase in other assets	<u>(329,770)</u>	<u>(331,620)</u>
Net cash used in investing activities	<u>(28,400,664)</u>	<u>(35,455,755)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Decrease in customers' deposits	(95,111)	(160,733)
Decrease in other liabilities	(201,273)	(135,309)
Cash dividends paid	(37,138,775)	(40,716,130)
Remuneration to board of directors and supervisors and bonus to employees	-	(1,347,059)
Capital reduction	<u>(19,115,554)</u>	<u>(9,557,777)</u>
Net cash used in financing activities	<u>(56,550,713)</u>	<u>(51,917,008)</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	(8,744,524)	2,385,339
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u>77,137,903</u>	<u>74,752,564</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u>\$ 68,393,379</u>	<u>\$ 77,137,903</u>
<b>SUPPLEMENTAL INFORMATION</b>		
Interest paid	\$ <u>37</u>	\$ <u>404</u>
Income tax paid	<u>\$ 12,588,866</u>	<u>\$ 15,168,368</u>
<b>NON-CASH FINANCING ACTIVITIES</b>		
Reclassification from common capital stock to due to stockholders for capital reduction	<u>\$ 9,696,808</u>	<u>\$ 19,115,554</u>
<b>CASH AND NON-CASH INVESTING ACTIVITIES</b>		
Increase in property, plant and equipment	\$ 24,257,098	\$ 30,493,115
Payables to suppliers	<u>87,236</u>	<u>(832,764)</u>
	<u>\$ 24,344,334</u>	<u>\$ 29,660,351</u>

(Continued)

**CHUNGHWA TELECOM CO., LTD.**

**STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008  
(Amounts in Thousands of New Taiwan Dollars)**

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The acquisition of InfoExplorer Co., Ltd. ("IFE") was made on January 20, 2009. The following table presents the allocation of acquisition costs of IFE to assets acquired and liabilities assumed based on their fair values on the basis of the final data on May 7, 2009:

Cash and cash equivalents	\$ 457,990
Receivables	13,479
Other current assets	14,792
Property, plant, and equipment	40,221
Identifiable intangible assets	53,001
Refundable deposits	2,468
Other assets	2,338
Payables	(83,319)
Income tax payable	(246)
Other current liabilities	<u>(153)</u>
Total	500,571
Percentage of ownership	<u>49.07%</u>
Goodwill	<u>37,870</u>
Acquisition costs of acquired subsidiary (cash prepaid for long-term investments in December 2008)	<u>\$ 283,500</u>

(Continued)

## CHUNGHWA TELECOM CO., LTD.

### STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008 (Amounts in Thousands of New Taiwan Dollars)

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The acquisition of additional interest of Chunghwa Investment Co., Ltd. (“CHI”) and its subsidiaries was made on September 9, 2009. The following table presents the allocation of acquisition costs of Chunghwa Investment Co., Ltd. and its subsidiaries to assets acquired and liabilities assumed based on their fair values on the basis of the final data performed:

Cash and cash equivalents	\$ 913,593
Financial assets at fair value through profit or loss	51,357
Available-for-sale financial assets	568,377
Trade notes and accounts receivable	76,258
Inventories	60,040
Other current assets	19,429
Investments accounted for using equity method	57,339
Financial assets carried at cost	155,714
Property, plant, and equipment	90,278
Identifiable intangible assets	33,662
Other assets	22,462
Trade notes and accounts payable	(33,665)
Accrued expenses	(16,496)
Income tax payable	(1,289)
Short-term loans	(20,000)
Long-term loans	(24,238)
Other liabilities	(1,115)
Subtotal	1,951,706
Minority interests	(100,071)
Total	1,851,635
Percentage of additional ownership	40%
	740,654
Goodwill	18,055
Acquisition costs of acquired subsidiary paid in cash	<u>\$ 758,709</u>

The accompanying notes are an integral part of the financial statements.

(With Deloitte & Touche audit report dated March 10, 2010)

(Concluded)



### VIII. INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholders of  
Chunghwa Telecom Co., Ltd.

We have audited the accompanying consolidated balance sheet of Chunghwa Telecom Co., Ltd. and subsidiaries ("the Company") as of December 31, 2009 and 2008, and the related consolidated statements of income, changes in stockholders' equity, and cash flows then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the Rules Governing the Audit of Financial Statements by Certified Public Accountants and auditing standards generally accepted in the Republic of China. Those standards required that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Chunghwa Telecom Co., Ltd. and subsidiaries as of December 31, 2009 and 2008, and the results of their operations and their cash flows for the years then ended in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, and accounting principles generally accepted in the Republic of China.

As discussed in Note 3 to the consolidated financial statements, on January 1, 2008, the Company adopted Interpretation 96-052 issued by the Accounting and Research Development Foundation of the Republic of China that requires companies to record bonuses paid to employees, directors and supervisors as an expense rather than an appropriation of earnings. The Company early adopted the new Statements of Financial Accounting Standards No. 41, "Operating Segments" ("SFAS No. 41") beginning from September 1, 2009.

Deloitte & Touche

March 10, 2010

#### Notice to Readers

*The accompanying consolidated financial statements are intended only to present the financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in the Republic of China and not those of any other jurisdictions. The standards, procedures and practices to audit such consolidated financial statements are those generally accepted and applied in the Republic of China.*

*For the convenience of readers, the auditors' report and the accompanying consolidated financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language auditors' report and consolidated financial statements shall prevail.*

# CHUNGHWA TELECOM CO., LTD. AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 2009 AND 2008

(Amounts in Thousands of New Taiwan Dollars, Except Par Value Data)

ASSETS	2009		2008		LIABILITIES AND STOCKHOLDERS' EQUITY	2009		2008	
	Amount	%	Amount	%		Amount	%	Amount	%
<b>CURRENT ASSETS</b>					<b>CURRENT LIABILITIES</b>				
Cash and cash equivalents (Notes 2 and 4)	\$ 73,259,490	16	\$ 81,288,165	18	Short-term loans (Note 16)	\$ 763,000	-	\$ 258,000	-
Financial assets at fair value through profit or loss (Notes 2 and 5)	40,519	-	258,578	-	Financial liabilities at fair value through profit or loss (Notes 2 and 5)	828	-	107,344	-
Available-for-sale financial assets (Notes 2 and 6)	17,537,089	4	14,182,385	3	Trade notes and accounts payable (Note 20)	10,155,383	2	11,359,570	2
Held-to-maturity financial assets (Notes 2 and 7)	1,099,595	-	769,435	-	Payables to related parties (Note 28)	335,719	-	523,488	-
Trade notes and accounts receivable, net of allowance for doubtful accounts of \$2,798,679 in 2009 and \$3,050,691 in 2008 (Notes 2 and 8)	11,973,180	3	10,844,712	2	Income tax payable (Notes 2 and 25)	4,311,545	1	5,687,100	1
Receivables from related parties (Note 28)	94,323	-	2,052	-	Accrued expenses (Notes 3 and 17)	17,448,914	4	16,345,702	4
Other monetary assets (Note 9)	1,839,745	-	2,226,256	-	Due to stockholders for capital reduction (Note 21)	9,696,808	2	19,115,554	4
Inventories, net (Notes 2, 3, 10 and 20)	4,049,207	1	3,902,498	1	Current portion of long-term loans (Note 19)	117,181	-	8,440	-
Deferred income taxes assets (Notes 2 and 25)	101,347	-	118,535	-	Other current liabilities (Notes 2, 18, 20, 28 and 31)	16,870,329	4	16,529,811	4
Restricted assets (Notes 20, 29 and 30)	177,462	-	58,914	-					
Other current assets (Notes 11 and 20)	4,319,700	1	4,556,040	1	Total current liabilities	59,699,707	13	69,935,009	15
Total current assets	114,491,657	25	118,207,570	25	<b>NONCURRENT LIABILITIES</b>				
<b>LONG-TERM INVESTMENTS</b>					Long-term loans (Note 19)	221,252	-	29,400	-
Investments accounted for using equity method (Notes 2 and 12)	1,621,772	-	2,337,190	-	Deferred income	2,483,764	1	2,072,297	-
Financial assets carried at cost (Notes 2 and 13)	2,536,560	1	2,537,357	1	Total noncurrent liabilities	2,705,016	1	2,101,697	-
Held-to-maturity financial assets (Notes 2 and 7)	3,929,662	1	3,044,102	1	<b>RESERVE FOR LAND VALUE INCREMENTAL TAX (Note 15)</b>	94,986	-	94,986	-
Other monetary assets (Notes 14 and 30)	1,000,000	-	1,000,000	-	<b>OTHER LIABILITIES</b>				
Total long-term investment	9,087,994	2	8,918,649	2	Accrued pension liabilities (Notes 2 and 27)	1,216,940	-	5,173,489	1
<b>PROPERTY, PLANT AND EQUIPMENT (Notes 2, 15, 28, 29 and 30)</b>					Customers' deposits	5,998,035	2	6,159,722	2
Cost					Others	318,517	-	431,515	-
Land	102,131,565	23	101,460,017	22	Total other liabilities	7,533,492	2	11,764,726	3
Land improvements	1,535,066	-	1,494,398	-	Total liabilities	70,033,201	16	83,896,418	18
Buildings	63,184,398	14	63,029,159	14	<b>EQUITY ATTRIBUTABLE TO STOCKHOLDERS OF THE PARENT (Notes 2, 15, 21 and 23)</b>				
Computer equipment	16,343,774	4	16,130,398	3	Common stock - \$10 par value:				
Telecommunications equipment	656,016,086	146	650,204,202	140	Authorized: 12,000,000 thousand shares				
Transportation equipment	2,113,053	-	2,406,111	1	Issued: 9,696,808 thousand shares	96,968,082	21	96,968,082	21
Miscellaneous equipment	7,230,632	2	7,331,543	2	Preferred stock - \$10 par value	-	-	-	-
Total cost	848,554,574	189	842,055,828	182	Additional paid-in capital:				
Revaluation increment on land	5,800,909	1	5,810,650	1	Capital surplus	169,496,289	38	179,193,097	38
	854,355,483	190	847,866,478	183	Donated capital	13,170	-	13,170	-
Less: Accumulated depreciation	557,020,560	124	540,822,370	117	Equity in additional paid-in capital reported by equity-method investees	304	-	3	-
	297,334,923	66	307,044,108	66	Total additional paid-in capital	169,509,763	38	179,206,270	38
Construction in progress and advances related to acquisition of equipment	15,687,426	4	16,005,390	4	Retained earnings:				
Property, plant and equipment, net	313,022,349	70	323,049,498	70	Legal reserve	56,987,241	13	52,859,566	11
<b>INTANGIBLE ASSETS (Note 2)</b>					Special reserve	2,675,894	-	2,675,894	1
3G concession	6,737,479	2	7,486,088	2	Unappropriated earnings	43,749,962	10	41,276,274	9
Goodwill	282,182	-	226,257	-	Total retained earnings	103,413,097	23	96,811,734	21
Others	597,417	-	558,435	-	Other adjustments				
Total intangible assets	7,617,078	2	8,270,780	2	Cumulative translation adjustments	7,626	-	29,474	-
<b>OTHER ASSETS</b>					Unrecognized net loss of pension	(43,750)	-	(84)	-
Leased assets (Note 29)	362,700	-	516,637	-	Unrealized loss on financial instruments	(447,129)	-	(2,272,242)	-
Idle assets (Note 2)	957,475	-	957,757	-	Unrealized revaluation increment	5,803,446	1	5,813,187	1
Refundable deposits	1,550,825	1	1,373,644	-	Total other adjustments	5,320,193	1	3,570,335	1
Deferred income taxes assets (Notes 2 and 25)	482,931	-	1,543,315	1	Total equity attributable to stockholders of the parent	375,211,135	83	376,556,421	81
Restricted assets (Note 29)	23,524	-	8,536	-	<b>MINORITY INTERESTS IN SUBSIDIARIES</b>	3,752,479	1	3,137,450	1
Others (Note 27)	1,400,282	-	743,903	-	Total stockholders' equity	378,963,614	84	379,693,871	82
Total other assets	4,777,737	1	5,143,792	1	<b>TOTAL</b>	\$ 448,996,815	100	\$ 463,590,289	100
<b>TOTAL</b>	\$ 448,996,815	100	\$ 463,590,289	100					

The accompanying notes are an integral part of the consolidated financial statements.

(With Deloitte & Touche audit report dated March 10, 2010)

## VIII. CHUNGHWA TELECOM CO., LTD. AND SUBSIDIARIES

### CONSOLIDATED STATEMENTS OF INCOME FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008 (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2009		2008	
	Amount	%	Amount	%
NET REVENUES (Note 28)	\$198,361,220	100	\$201,669,521	100
OPERATING COSTS (Note 28)	<u>112,735,948</u>	<u>57</u>	<u>113,546,289</u>	<u>56</u>
GROSS PROFIT	<u>85,625,272</u>	<u>43</u>	<u>88,123,232</u>	<u>44</u>
OPERATING EXPENSES (Note 28)				
Marketing	22,292,965	11	22,732,128	11
General and administrative	3,764,974	2	3,680,178	2
Research and development	<u>3,173,255</u>	<u>2</u>	<u>3,143,935</u>	<u>2</u>
Total operating expenses	<u>29,231,194</u>	<u>15</u>	<u>29,556,241</u>	<u>15</u>
INCOME FROM OPERATIONS	<u>56,394,078</u>	<u>28</u>	<u>58,566,991</u>	<u>29</u>
NON-OPERATING INCOME AND GAINS (Note 28)				
Interest income	478,708	-	1,916,263	1
Valuation gain on financial instruments, net	98,654	-	550,703	1
Foreign exchange gain, net	88,840	-	336,037	-
Equity in earnings of equity method investees, net	-	-	63,648	-
Others	<u>755,692</u>	<u>1</u>	<u>509,482</u>	<u>-</u>
Total non-operating income and gains	<u>1,421,894</u>	<u>1</u>	<u>3,376,133</u>	<u>2</u>
NON-OPERATING EXPENSES AND LOSSES				
Loss arising from natural calamities	148,747	-	-	-
Loss on disposal of financial instruments, net	141,865	-	671,685	-
Impairment loss on assets	109,968	-	1,168,399	1
Equity in losses of equity method investees, net	23,223	-	-	-
Interest expense	15,223	-	4,256	-
Loss on disposal of property, plant and equipment, net	6,903	-	278,091	-
Others	<u>131,956</u>	<u>-</u>	<u>136,773</u>	<u>-</u>
Total non-operating expenses and losses	<u>577,885</u>	<u>-</u>	<u>2,259,204</u>	<u>1</u>
INCOME BEFORE INCOME TAX	57,238,087	29	59,683,920	30
INCOME TAX EXPENSE (Notes 2 and 25)	<u>12,742,934</u>	<u>7</u>	<u>13,892,308</u>	<u>7</u>
CONSOLIDATED NET INCOME	<u>\$ 44,495,153</u>	<u>22</u>	<u>\$ 45,791,612</u>	<u>23</u>

(Continued)

# CHUNGHWA TELECOM CO., LTD. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF INCOME FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008 (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2009		2008	
	Amount	%	Amount	%
ATTRIBUTABLE TO				
Stockholders of the parent	\$ 43,757,426	22	\$ 45,010,342	22
Minority interests	<u>737,727</u>	<u>-</u>	<u>781,270</u>	<u>1</u>
	<u>\$ 44,495,153</u>	<u>22</u>	<u>\$ 45,791,612</u>	<u>23</u>
	2009		2008	
	Before Income Tax	After Income Tax	Before Income Tax	After Income Tax
EARNINGS PER SHARE (Note 26)				
Basic earnings per share	<u>\$ 5.79</u>	<u>\$ 4.51</u>	<u>\$ 6.03</u>	<u>\$ 4.64</u>
Diluted earnings per share	<u>\$ 5.77</u>	<u>\$ 4.50</u>	<u>\$ 6.02</u>	<u>\$ 4.63</u>

The accompanying notes are an integral part of the consolidated financial statements.

(With Deloitte & Touche audit report dated March 10, 2010)

(Concluded)

## X. CHUNGHWA TELECOM CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY  
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008  
(In Thousands of New Taiwan Dollars)

	Common Stock		Preferred Stock		Additional Paid-in Capital	Retained Earnings			Other Adjustments					Total Stockholders' Equity	
	Shares (Thousands)	Amount	Shares (Thousands)	Amount		Legal Reserve	Special Reserve	Unappropriated Earnings	Cumulative Translation Adjustments	Unrecognized Net Loss of Pension	Unrealized Loss on Financial Instruments	Unrealized Revaluation Increment	Treasury Stock		Minority Interests
BALANCE, JANUARY 1, 2008	9,667,845	\$ 96,678,451	-	\$ -	\$ 200,605,563	\$ 48,036,210	\$ 2,678,723	\$ 48,317,617	\$ (1,980)	\$ (90)	\$ 37,508	\$ 5,823,200	\$ (7,107,494)	\$ 2,774,561	\$ 397,842,269
Adjustment of additional paid-in capital from revaluation of land to income upon disposal	-	-	-	-	-	-	-	-	-	-	-	(10,013)	-	-	(10,013)
Appropriation of 2007 earnings															
Legal reserve	-	-	-	-	-	4,823,356	-	(4,823,356)	-	-	-	-	-	-	-
Reversal of special reserve	-	-	-	-	-	-	(3,304)	3,304	-	-	-	-	-	-	-
Cash dividend - NT\$4.26 per share	-	-	-	-	-	-	-	(40,716,130)	-	-	-	-	-	-	(40,716,130)
Stock dividend - NT\$0.1 per share	95,578	955,778	-	-	-	-	-	(955,778)	-	-	-	-	-	-	-
Employees' bonus - cash	-	-	-	-	-	-	-	(1,303,605)	-	-	-	-	-	-	(1,303,605)
Employees' bonus - stock	43,453	434,535	-	-	-	-	-	(434,535)	-	-	-	-	-	-	-
Remuneration to board of directors and supervisors	-	-	-	-	-	-	-	(43,454)	-	-	-	-	-	-	(43,454)
Capital surplus transferred to common stock	1,911,555	19,115,554	-	-	(19,115,554)	-	-	-	-	-	-	-	-	-	-
Decrease in minority interests	-	-	-	-	-	-	-	-	-	-	-	-	-	(419,211)	(419,211)
Capital reduction (Note 21)	(1,911,555)	(19,115,554)	-	-	-	-	-	-	-	-	-	-	-	-	(19,115,554)
Consolidated net income in 2008	-	-	-	-	-	-	-	45,010,342	-	-	-	-	-	781,270	45,791,612
Unrealized loss on financial instruments held by investees	-	-	-	-	-	-	-	-	-	-	(7,398)	-	-	-	(7,398)
Equity adjustments in investees	-	-	-	-	-	-	-	(54,583)	-	-	-	-	-	-	(54,583)
Cumulative translation adjustment for foreign-currency investments held by investees	-	-	-	-	-	-	-	-	31,454	-	-	-	-	(345)	31,109
Defined benefit pension plan adjustments of investees	-	-	-	-	-	-	-	-	-	6	-	-	-	13	19
Special reserve for gain arising from disposal of land	-	-	-	-	-	-	475	(475)	-	-	-	-	-	-	-
Cancellation of treasury stock - 110,068 thousand common shares (Notes 2 and 23)	(110,068)	(1,100,682)	-	-	(2,283,739)	-	-	(3,723,073)	-	-	-	-	7,107,494	-	-
Unrealized loss on financial instruments	-	-	-	-	-	-	-	-	-	-	(2,302,352)	-	-	1,162	(2,301,190)
BALANCE, DECEMBER 31, 2008	9,696,808	96,968,082	-	-	179,206,270	52,859,566	2,675,894	41,276,274	29,474	(84)	(2,272,242)	5,813,187	-	3,137,450	379,693,871
Adjustment of additional paid-in capital from revaluation of land to income upon disposal	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Appropriation of 2008 earnings															
Legal reserve	-	-	-	-	-	4,127,675	-	(4,127,675)	-	-	-	-	-	-	-
Cash dividend - NT\$3.83 per share	-	-	-	-	-	-	-	(37,138,775)	-	-	-	-	-	-	(37,138,775)
Cancellation of preferred stock (Note 21)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Capital surplus transferred to common stock	969,680	9,696,808	-	-	(9,696,808)	-	-	-	-	-	-	-	-	-	-
Decrease in minority interests	-	-	-	-	-	-	-	-	-	-	-	-	-	(128,833)	(128,833)
Capital reduction (Note 21)	(969,680)	(9,696,808)	-	-	-	-	-	-	-	-	-	-	-	-	(9,696,808)
Consolidated net income in 2009	-	-	-	-	-	-	-	43,757,426	-	-	-	-	-	737,727	44,495,153
Equity adjustments in investees	-	-	-	-	301	-	-	(17,288)	-	-	-	-	-	-	(16,987)
Cumulative translation adjustment for foreign-currency investments held by investees	-	-	-	-	-	-	-	-	(21,848)	-	-	-	-	(210)	(22,058)
Defined benefit pension plan adjustments of investees	-	-	-	-	-	-	-	-	-	(43,666)	-	-	-	(1,079)	(44,745)
Unrealized loss on financial instruments	-	-	-	-	-	-	-	-	-	-	1,825,113	-	-	7,424	1,832,537
BALANCE, DECEMBER 31, 2009	<u>9,696,808</u>	<u>\$ 96,968,082</u>	<u>-</u>	<u>\$ -</u>	<u>\$ 169,509,763</u>	<u>\$ 56,987,241</u>	<u>\$ 2,675,894</u>	<u>\$ 43,749,962</u>	<u>\$ 7,626</u>	<u>\$ (43,750)</u>	<u>\$ (447,129)</u>	<u>\$ 5,813,187</u>	<u>\$ -</u>	<u>\$ 3,752,479</u>	<u>\$ 378,973,355</u>

The accompanying notes are an integral part of the consolidated financial statements.

(With Deloitte & Touche audit report dated March 10, 2010)

# XI. CHUNGHWA TELECOM CO., LTD. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008 (Amounts in Thousands of New Taiwan Dollars)

	2009	2008
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Consolidated net income	\$ 44,495,153	\$ 45,791,612
Provision for doubtful accounts	462,329	505,285
Depreciation and amortization	36,319,957	38,216,171
Amortization of premium of financial assets	16,080	3,258
Loss on disposal of financial instruments, net	141,865	671,685
Valuation loss on inventory	56,055	58,961
Valuation gain on financial instruments, net	(98,654)	(550,703)
Loss on disposal of property, plant and equipment, net	6,903	278,091
Equity in loss (earnings) of equity investees, net	23,223	(63,648)
Dividends received from equity investees	89,279	217,177
Loss arising from natural calamities	148,747	-
Impairment loss on assets	109,968	1,168,399
Loss on disposal of leased assets	24	733
Deferred income taxes	1,098,630	(155,852)
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Financial assets held for trading	221,427	(207,535)
Trade notes and accounts receivable	(1,491,798)	126,578
Receivables from related parties	(70,392)	(388,712)
Other monetary assets	350,295	4,841,092
Inventories	(143,704)	(270,506)
Other current assets	510,031	(1,182,000)
Increase (decrease) in:		
Financial liabilities held for trading	145	-
Trade notes and accounts payable	(1,564,541)	190,333
Payables to related parties	(206,090)	656,488
Income tax payable	(1,377,091)	(1,570,848)
Accrued expenses	950,081	906,990
Other current liabilities	775,918	808,494
Deferred income	421,598	567,147
Accrued pension liabilities	(3,959,844)	1,244,325
Net cash provided by operating activities	<u>77,285,594</u>	<u>91,863,015</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisition of designated financial assets at fair value through profit or loss	(44,625)	-
Proceeds from disposal of designated financial assets at fair value through profit or loss	62,695	-
Acquisition of available-for-sale financial assets	(9,263,485)	(8,759,539)
Proceeds from disposal of available-for-sale financial assets	8,096,767	8,425,156
Acquisition of held-to-maturity financial assets	(2,099,875)	(3,326,951)
Proceeds from disposal of held-to-maturity financial assets	868,860	659,605
Acquisition of financial assets carried at cost	(142,455)	(485,859)

(Continued)

# CHUNGHWA TELECOM CO., LTD. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008 (Amounts in Thousands of New Taiwan Dollars)

	2009	2008
Proceeds from disposal of financial assets carried at cost	\$ 302,157	\$ 354,933
Increase in other monetary assets	-	(30,000)
Proceeds from other monetary assets	-	29,109
Acquisition of investments accounted for using equity method	(559,725)	(554,693)
Proceeds from disposal of long-term investment	-	44,256
Acquisition of property, plant and equipment	(25,477,587)	(30,118,922)
Proceeds from disposal of property, plant and equipment	65,177	14,077
Increase in intangible assets	(274,406)	(208,323)
Increase in restricted assets	(90,574)	(3,065)
Increase in other assets	<u>(913,815)</u>	<u>(565,301)</u>
Net cash used in investing activities	<u>(29,470,891)</u>	<u>(34,525,517)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Increase in short-term loans	485,000	222,000
Increase in long-term loans	400,000	-
Repayment of long-term loans	(123,645)	(37,280)
Decrease in customers' deposits	(118,081)	(126,699)
Decrease in other liabilities	(199,126)	(293,747)
Cash dividends paid	(37,836,442)	(41,202,177)
Remuneration to board of directors and supervisors and bonus to employees	-	(1,394,077)
Proceeds from exercise of employee stock option granted by subsidiary	58,289	63,436
Capital reduction	<u>(19,115,554)</u>	<u>(9,557,777)</u>
Net cash used in financing activities	<u>(56,449,559)</u>	<u>(52,326,321)</u>
EFFECT OF EXCHANGE RATE CHANGES	<u>(6,693)</u>	<u>30,795</u>
EFFECT OF CHANGE ON CONSOLIDATED SUBSIDIARIES	<u>612,874</u>	<u>13,192</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(8,028,675)	5,055,164
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>81,288,165</u>	<u>76,233,001</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 73,259,490</u>	<u>\$ 81,288,165</u>
<b>SUPPLEMENTAL INFORMATION</b>		
Interest paid (excluding capitalized interest expense)	<u>\$ 13,480</u>	<u>\$ 4,095</u>
Income tax paid	<u>\$ 13,023,872</u>	<u>\$ 15,620,016</u>

(Continued)

## XI. CHUNGHWA TELECOM CO., LTD. AND SUBSIDIARIES

### CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008 (Amounts in Thousands of New Taiwan Dollars)

	2009	2008
<b>NON-CASH FINANCING ACTIVITIES</b>		
Current portion of long-term loans	<u>\$ 117,181</u>	<u>\$ 8,440</u>
Reclassification from common capital stock to due to stockholders for capital reduction	<u>\$ 9,696,808</u>	<u>\$ 19,115,554</u>
<b>CASH AND NON-CASH INVESTING ACTIVITIES</b>		
Increase in property, plant and equipment	\$ 25,150,339	\$ 31,162,149
Payables to suppliers	359,280	(1,070,843)
Prepayments for equipment	<u>(32,032)</u>	<u>27,616</u>
	<u>\$ 25,477,587</u>	<u>\$ 30,118,922</u>

The acquisition of InfoExplorer Co., Ltd. ("IFE") was made on January 20, 2009. The following table presents the allocation of acquisition costs of IFE to assets acquired and liabilities assumed based on their fair values on the basis of the final data on May 7, 2009:

Cash and cash equivalents	\$ 457,990
Receivables	13,479
Other current assets	14,792
Property, plant, and equipment	40,221
Identifiable intangible assets	53,001
Refundable deposits	2,468
Other assets	2,338
Payables	(83,319)
Income tax payable	(246)
Other current liabilities	<u>(153)</u>
Total	500,571
Percentage of ownership	<u>49.07%</u>
Goodwill	<u>37,870</u>
Acquisition costs of acquired subsidiary (cash prepaid for long-term investments in December 2008)	<u>\$ 283,500</u>

(Continued)



# CHUNGHWA TELECOM CO., LTD. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008 (Amounts in Thousands of New Taiwan Dollars)

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The acquisition of Chunghwa Investment Co., Ltd. (“CHI”) and its subsidiaries was made on September 9, 2009. The following table presents the allocation of acquisition costs of Chunghwa Investment Co., Ltd. and its subsidiaries to assets acquired and liabilities assumed based on their fair values on the basis of the final data performed:

Cash and cash equivalents	\$ 913,593
Financial assets at fair value through profit or loss	51,357
Available-for-sale financial assets	568,377
Trade notes and accounts receivable	76,258
Inventories	60,040
Other current assets	19,429
Investments accounted for using equity method	57,339
Financial assets carried at cost	155,714
Property, plant, and equipment	90,278
Identifiable intangible assets	33,662
Other assets	22,462
Trade notes and accounts payable	(33,665)
Accrued expense	(16,496)
Income tax payable	(1,289)
Short-term loans	(20,000)
Long-term loans	(24,238)
Other liabilities	<u>(1,115)</u>
Subtotal	1,951,706
Minority interests	<u>(100,071)</u>
Total	1,851,635
Percentage of additional ownership	<u>40%</u>
	740,654
Goodwill	<u>18,055</u>
Acquisition costs of acquired subsidiary paid in cash	<u>\$ 758,709</u>

The accompanying notes are an integral part of the consolidated financial statements.

(With Deloitte & Touche audit report dated March 10, 2010)

(Concluded)

**XII.**

**Chunghwa Telecom Co., Ltd.**  
**2009 Statement of Retained Earnings**

Units: NT\$

Item	Amount
<b>Source items:</b>	
Initial current undistributed earnings (note 1)	9,823,628
Current net profit after tax	43,757,425,580
Retained earnings adjusted for long-term equity investment	(17,287,475) 43,740,138,105
Set aside to statutory reserve (10%)	(4,374,013,811)
Special reserve set aside in accordance with the Securities and Exchange Law	0
<b>Distributable earnings for 2009</b>	<b>39,375,947,922</b>
<b>Distribution items:</b>	
Shareholders' cash dividends (total of 9,696,808,181 shares x NT\$4.06 per share)	(39,369,041,215)
<b>Final current undistributed earnings</b>	<b>6,906,707</b>
Notes:	
Employee bonuses (cash) expensed	1,800,928,610
Director and supervisor remuneration (cash) expensed	41,211,181

Note 1: The "initial current undistributed earnings" is the same amount as the "final current undistributed earnings" on the statement of retained earnings approved at the 2009 annual general meeting.

Shyue-Ching Lu, Chairman and CEO

Shiou-Tong Chang, President

Shui-Yi Kuo, Accounting Executive

### XIII.

## Comparison Table of Draft Amendment and Existing Articles of the Articles of Incorporation of Chunghwa Telecom Co., Ltd.

1. All 26 articles adopted by Promoters Meeting on June 11, 1996.
2. Article 15 amended by Annual General Meeting on December 26, 1997.
3. Articles 2 and 22 amended by Annual General Meeting on November 25, 1998.
4. Paragraph 1 of Article 21, amended by Extraordinary General Meeting on July 13, 1999.
5. Articles 2, 3, 6, 7, 10, 12, 13, 19, 21, and 22 amended, and Articles 6-1 and 7-1 inserted by Annual General Meeting on June 4, 2001.
6. Articles 2, 7, 8, 9, 10, 19, 21, and 22 amended and Article 5 deleted by Annual General Meeting on June 21, 2002.
7. Article 2 amended by Annual General Meeting on June 17, 2003.
8. Articles 2 and 22 amended by Annual General Meeting on June 25, 2004.
9. Articles 2, 3, 6, 10, 11, 12, 14, 17, 19, 20, 22, 23, and 25 amended, and Articles 12-1, 18-1, and 18-2 inserted by Annual General Meeting on May 30, 2006.
10. Articles 2, 12-1, 14, 22, and 23 amended, and Article 18-1 deleted by Annual General Meeting on June 15, 2007.
11. Articles 2, 6, and 14 amended by Annual General Meeting on June 19, 2008.
12. Articles 2, 6, 12 and 13 amended, and Article 6-1 deleted by Annual General Meeting on June 19, 2009.
13. Article 2 amended by Annual General Meeting on June 18, 2010.

Draft Amendment	Existing Articles	Explanatory Note
<p>Article 2</p> <p>The scope of business of the Company shall be as follows:</p> <p>1)Telecommunications Enterprise of Type 1 (G901011);</p> <p>2)Telecommunications Enterprise of Type 2 (G902011);</p> <p>3)Installation of the Computer Equipment Business (E605010);</p> <p>4)Telecommunication Equipment Wholesale Business (F113070);</p> <p>5)Telecommunication Equipment Retail Business (F213060);</p> <p>6)Telecommunications Construction Business (E701011);</p> <p>7)Installation of the Radio-Frequency Equipment whose operation is controlled by</p>	<p>Article 2</p> <p>The scope of business of the Company shall be as follows:</p> <p>1)Telecommunications Enterprise of Type 1 (G901011);</p> <p>2)Telecommunications Enterprise of Type 2 (G902011);</p> <p>3)Installation of the Computer Equipment Business (E605010);</p> <p>4)Telecommunication Equipment Wholesale Business (F113070);</p> <p>5)Telecommunication Equipment Retail Business (F213060);</p> <p>6)Telecommunications Construction Business (E701011);</p> <p>7)Installation of the Radio-Frequency Equipment whose operation is controlled by</p>	<p>1. To delete article 2, paragraph 1, item 41 "Tourism Hotel Business (J901011)" of the Articles of Incorporation in accordance with the instruction of Ministry of Economic Affairs on July 8, 2009 by letter of Jing Shou Shang Zi No. 09801147390.</p> <p>2. The line-item sequence is adjusted accordingly to accommodate the removal of item 41.</p>

Draft Amendment	Existing Articles	Explanatory Note
<p>the Telecommunication Business (E701030);</p> <p>8)Information Software Service Business (I301010);</p> <p>9)Other Designer Businesses 【the design of the computer information hardware】 (I599990);</p> <p>10)Rental Business (JE01010);</p> <p>11)Publishing Business (J304010);</p> <p>12)Other Wholesale Businesses 【telephone card and IC card】 (F199990);</p> <p>13)Management and Consulting Service Business (I103060);</p> <p>14)Other Corporation Service Businesses 【telephone card, IC card, the research and development of the telecommunication facilities and devices, accepting payment on behalf of businesses and institutions, telecommunication equipment inspection services, and agency sale of entry tickets and travel fares】 (IZ99990);</p> <p>15)Other Retail Businesses 【telephone card and IC card】 (F299990);</p> <p>16)Online Certification Service Businesses (IZ13010);</p> <p>17)Supply of Electronic Information Service Businesses (I301030);</p> <p>18)Information Process Service Business (I301020);</p> <p>19)Telecommunication Account Application Agency Businesses</p>	<p>the Telecommunication Business (E701030);</p> <p>8)Information Software Service Business (I301010);</p> <p>9)Other Designer Businesses 【the design of the computer information hardware】 (I599990);</p> <p>10)Rental Business (JE01010);</p> <p>11)Publishing Business (J304010);</p> <p>12)Other Wholesale Businesses 【telephone card and IC card】 (F199990);</p> <p>13)Management and Consulting Service Business (I103060);</p> <p>14)Other Corporation Service Businesses 【telephone card, IC card, the research and development of the telecommunication facilities and devices, accepting payment on behalf of businesses and institutions, telecommunication equipment inspection services, and agency sale of entry tickets and travel fares】 (IZ99990);</p> <p>15)Other Retail Businesses 【telephone card and IC card】 (F299990);</p> <p>16)Online Certification Service Businesses (IZ13010);</p> <p>17)Supply of Electronic Information Service Businesses (I301030);</p> <p>18)Information Process Service Business (I301020);</p> <p>19)Telecommunication Account Application Agency Businesses</p>	

<b>Draft Amendment</b>	<b>Existing Articles</b>	<b>Explanatory Note</b>
(IE01010); 20)Residential and Commercial Building Development, Rental and Sales Businesses (H701010); 21)Development of Special District/Zone Businesses (H701040); 22)Real Estate Sales Businesses (H703090); 23)Real Estate Rental Businesses (H703100); 24)Technique and Performing Arts Training (J201031) 25)Waste Disposal Businesses (J101040); 26)Community Common Cable Television Equipment Businesses (J502020); 27)Exhibition Service Businesses (JB01010); 28)General Advertising Service Businesses (I401010); 29)Department Store Businesses (F301010); 30)Communication Newsletter Businesses (J302010); 31)Industry and Commerce Credit Investigation Service Businesses (JD01010); 32)Public Notarization Businesses (IZ07010); 33)Parking Lot Operation Businesses (G202010); 34)Environmental Assessment Service Businesses (J101050); 35)Computer and Accessories Manufacturing Service (CC01110); 36)Information Storage and Process Equipment Manufacturing Businesses (CC01120); 37)Electronic Component	(IE01010); 20)Residential and Commercial Building Development, Rental and Sales Businesses (H701010); 21)Development of Special District/Zone Businesses (H701040); 22)Real Estate Sales Businesses (H703090); 23)Real Estate Rental Businesses (H703100); 24)Technique and Performing Arts Training (J201031) 25)Waste Disposal Businesses (J101040); 26)Community Common Cable Television Equipment Businesses (J502020); 27)Exhibition Service Businesses (JB01010); 28)General Advertising Service Businesses (I401010); 29)Department Store Businesses (F301010); 30)Communication Newsletter Businesses (J302010); 31)Industry and Commerce Credit Investigation Service Businesses (JD01010); 32)Public Notarization Businesses (IZ07010); 33)Parking Lot Operation Businesses (G202010); 34)Environmental Assessment Service Businesses (J101050); 35)Computer and Accessories Manufacturing Service (CC01110); 36)Information Storage and Process Equipment Manufacturing Businesses (CC01120); 37)Electronic Component	

Draft Amendment	Existing Articles	Explanatory Note
<p>Manufacturing Businesses (CC01080);</p> <p>38)Other Electrical and Electronic Machinery &amp; Equipment Manufacturing Businesses 【IC or Optical Card Scanners】 (CC01990);</p> <p>39)Radio-Frequency Equipment Import Business (F401021);</p> <p>40)General Hotel Business (J901020);</p> <p>41)Computer and Administrative Device Wholesale Businesses (F113050);</p> <p>42)Information Software Wholesale Businesses (F118010);</p> <p>43)Computer and Administrative Device Retail Businesses (F213030);</p> <p>44)Information Software Rental Businesses (F218010);</p> <p>45)Energy Service Business (IG03010);</p> <p>46)Engineering Consulting Business (I101061);</p> <p>47)Refrigeration and Air-Conditioning Consulting Business (E602011);</p> <p>48)Automatic Control Equipment Engineering Business (E603050);</p> <p>49)Lighting Equipment Installation (E603090);</p> <p>50)Non-store Retailer Business (F399040);</p> <p>51) Electric Appliance Construction Business (E601010);</p> <p>52) Electric Appliance Installation Business (E601020);</p> <p>53) Apparatus Installation Construction Business (EZ05010);</p>	<p>Manufacturing Businesses (CC01080);</p> <p>38)Other Electrical and Electronic Machinery &amp; Equipment Manufacturing Businesses 【IC or Optical Card Scanners】 (CC01990);</p> <p>39)Radio-Frequency Equipment Import Business (F401021);</p> <p>40)General Hotel Business (J901020);</p> <p>41)<u>Tourism Hotel Business (J901011);</u></p> <p>42)Computer and Administrative Device Wholesale Businesses (F113050);</p> <p>43)Information Software Wholesale Businesses (F118010);</p> <p>44)Computer and Administrative Device Retail Businesses (F213030);</p> <p>45)Information Software Rental Businesses (F218010);</p> <p>46)Energy Service Business (IG03010);</p> <p>47)Engineering Consulting Business (I101061);</p> <p>48)Refrigeration and Air-Conditioning Consulting Business (E602011);</p> <p>49)Automatic Control Equipment Engineering Business (E603050);</p> <p>50)Lighting Equipment Installation (E603090);</p> <p>51)Non-store Retailer Business (F399040);</p> <p>52) Electric Appliance Construction Business (E601010);</p> <p>53) Electric Appliance Installation Business (E601020);</p> <p>54) Apparatus Installation</p>	

Draft Amendment	Existing Articles	Explanatory Note
<p><u>54</u>) Television Program Production Business (J503021);</p> <p><u>55</u>) Broadcasting and Television Program Distribution Business (J503031);</p> <p><u>56</u>) Broadcasting and Television Commercial Business (J503041);</p> <p><u>57</u>) Video Program Distribution Business (J503051);</p> <p><u>58</u>) Except the permitted business, the Company may engage in other businesses not prohibited or restricted by laws and regulations(ZZ99999). The Company may handle endorsement and guaranty affairs in accordance with the Operation Procedures for the Endorsement and Guaranty of the Company if there is any business need.</p>	<p>Construction Business (EZ05010);</p> <p>55) Television Program Production Business (J503021);</p> <p>56) Broadcasting and Television Program Distribution Business (J503031);</p> <p>57) Broadcasting and Television Commercial Business (J503041);</p> <p>58) Video Program Distribution Business (J503051);</p> <p>59) Except the permitted business, the Company may engage in other businesses not prohibited or restricted by laws and regulations(ZZ99999). The Company may handle endorsement and guaranty affairs in accordance with the Operation Procedures for the Endorsement and Guaranty of the Company if there is any business need.</p>	

#### XIV.

### Comparison Table of Amended Articles of the Chunghwa Telecom Co., Ltd. Operational Procedures for Endorsements/Guarantees

1. All 8 articles adopted by Annual General Meeting on November 25, 1998.
2. Rule name and all 25 articles amended by Extraordinary General Meeting on May 18, 2000.
3. Articles 3, 4 and 6 amended by Annual General Meeting on June 4, 2001.
4. Articles 4, 5, 7, 8, 9, 13 and 14 amended, and articles 15 and 16 added by Annual General Meeting on June 25, 2004.
5. Articles 1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 11, and 12 amended, and articles 13, 14, 15, and 16 deleted by Annual General Meeting on June 15, 2007.
6. All 12 articles amended by Annual General Meeting on June 19, 2009.
7. Articles 3, 4, 5, 8, and 10 amended at the 2010 Annual General Meeting on June 18, 2010.

Draft Amendment	Existing Articles	Explanatory Note
<p>Article 3 (Beneficiaries of Endorsements/Guarantees) The Company may extend endorsements/guarantees only to subsidiaries in which the Company directly holds 100% of voting shares <u>and the subsidiary's shareholders' equity shall not be less than one-half of its paid-in capital.</u></p>	<p>Article 3 (Beneficiaries of Endorsements/Guarantees) The Company may extend endorsements/guarantees only to subsidiaries in which the Company directly holds 100% of voting shares.</p>	<p>In an attempt to effectively control the Company's risk in regards to endorsements/guarantees and to meet the requirements set forth in Article 12, Paragraph 1, Subparagraph 11 of "Regulations Governing Loaning of Funds and Making of Endorsements/Guarantees by Public Companies" (hereafter referred to as the Regulations) amended by the Financial Supervisory Commission on March 19, 2010, it is added that the Company shall not extend endorsements/guarantees to a subsidiary whose shareholders' equity is less than one-half of the paid-in capital.</p>
<p>Article 4 (Endorsements/Guarantee limits) The total amount of the Company's endorsements/guarantees shall be limited to <u>4%</u> of the shareholders' equity on the Company's latest financial statement. The total amount of endorsements and guarantees extended by the Company to a single beneficiary company shall be limited to <u>1%</u> of the shareholders' equity on the Company's latest financial</p>	<p>Article 4 (Endorsements/Guarantee limits) The total amount of the Company's endorsements and guarantees shall be limited to <u>1%</u> of the shareholders' equity on the Company's latest financial statement. The total amount of endorsements and guarantees extended by the Company to a single beneficiary company shall be limited to <u>0.1%</u> of the shareholders' equity on the</p>	<p>1. To enhance the financial supporting function of the entire Group, the amendment is intended to relax the aggregate endorsement/ guarantee amount of the Company and the total amount of endorsements/ guarantees granted by the Company to any single beneficiary company in Paragraphs 1 and 2. 2. In coordination with the requirements set forth in</p>



Draft Amendment	Existing Articles	Explanatory Note
<p>statement.  <u>The total amount of endorsements and guarantees extended by the Company and its subsidiaries shall be limited to 5% of the shareholders' equity on the Company's latest financial statement.</u>  <u>The total amount of endorsements and guarantees extended by the Company and its subsidiaries to any single beneficiary company shall be limited to 2% of the shareholders' equity on the Company's latest financial statement.</u></p> <p>The total amount of the Company's loans of funds to others and endorsements and guarantees shall be limited to 5% of the shareholders' equity on the Company's latest financial statement.</p>	<p>Company's latest financial statement.  The total amount of the Company's loans of funds to others and endorsements/guarantees shall be limited to 5% of the shareholders' equity on the Company's latest financial statement.</p>	<p>Article 12, Paragraph 1, Subparagraph 3 of the Regulations, the contents set forth in Paragraphs 3 and 4 were duly added on March 19, 2010.  3. Paragraph 3 of the current content has been rearranged to be Paragraph 5 of the amended content.</p>
<p>Article 5 (Endorsements / Guarantees Implementation and Review Procedures)  The company applying for an endorsement or guarantee shall submit its basic information, latest financial statement, and a detailed written list including the purpose of applying for an endorsement/guarantee, collateral provided, and other information to the Company's Investment Department. After preliminary reviewing and approval, the Investment Department shall forward the application to the Company's Finance Department for further assessment.  After accepting a case, the Finance Department shall convene relevant departments and carefully assess whether the case complies with the requirements of the Regulations Governing Loaning of Funds and Making of Endorsements / Guarantees and these Operating Procedures, and shall assess the endorsement / guarantee</p>	<p>Article 5 (Endorsements / Guarantees Implementation and Review Procedures)  The company applying for an endorsement or guarantee shall submit its basic information, latest financial statement, and a detailed written list including the purpose of applying for an endorsement/guarantee, collateral provided, and other information to the Company's Investment Department. After preliminary reviewing and approval, the Investment Department shall forward the application to the Company's Finance Department for further assessment.  After accepting a case, the Finance Department shall convene relevant departments and carefully assess whether the case complies with the requirements of the Regulations Governing Loaning of Funds and Making of Endorsements / Guarantees and these Operating Procedures, and</p>	<p>The wording set forth in Paragraph 2, Subparagraph 4 is duly amended in accordance with Article 12, Paragraph 1, Subparagraph 5 Item 4 of the Regulations.</p>

Draft Amendment	Existing Articles	Explanatory Note
<p>recipient's business items, financial status, repayment ability, profitability, and purpose of the endorsement/guarantee, etc., and draft an assessment report after compiling the opinions of relevant departments; the content of the assessment report shall include at least the following:</p> <ol style="list-style-type: none"> <li>1. Necessity and reasonableness of the endorsements / guarantees.</li> <li>2. Credit status and risk assessment of the entity for which the endorsements/ guarantees is made.</li> <li>3. Influence on the Company's operating risk, financial status, and shareholders' equity.</li> <li>4. <u>Whether collateral must be obtained and appraisal of the value thereof.</u></li> </ol> <p>Before making endorsements / guarantees for others, the Company's Finance Department shall attach the assessment report in the preceding paragraph, including the contract draft and risk assessment results, to the Board for approval, and shall implement the endorsements/guarantees based on Board's decision.. Each independent director's assenting or dissenting opinion shall be fully taken into consideration, and reasons for dissent shall be explicitly recorded in the Board meeting minutes.</p> <p>When an endorsement or guarantee is about to expire , the Finance Department shall notify the Accounting and other relevant departments, clearly state the terms of responsibility for canceling the endorsement or guarantee, the date of cancellation, and other necessary matters, submit the case to the President for approval, and report to the Board.</p> <p>The management shall be authorized to separately determine the Company's Standard Operation Procedures (SOP) for</p>	<p>shall assess the endorsement / guarantee recipient's business items, financial status, repayment ability, profitability, and purpose of the endorsement/guarantee, etc., and draft an assessment report after compiling the opinions of relevant departments; the content of the assessment report shall include at least the following:</p> <ol style="list-style-type: none"> <li>1. Necessity and reasonableness of the endorsements / guarantees.</li> <li>2. Credit status and risk assessment of the entity for which the endorsements/ guarantees is made.</li> <li>3. Influence on the Company's operating risk, financial status, and shareholders' equity.</li> <li>4. <u>Assessment of the value of collateral.</u></li> </ol> <p>Before making endorsements / guarantees for others, the Company's Finance Department shall attach the assessment report in the preceding paragraph, including the contract draft and risk assessment results, to the Board for approval, and shall implement the endorsements/ guarantees based on Board's decision.. Each independent director's assenting or dissenting opinion shall be fully taken into consideration, and reasons for dissent shall be explicitly recorded in the Board meeting minutes.</p> <p>When an endorsement or guarantee is about to expire , the Finance Department shall notify the Accounting and other relevant departments, clearly state the terms of responsibility for canceling the endorsement or guarantee, the date of cancellation, and other necessary matters, submit the case to the President for approval, and report to the Board.</p> <p>The management shall be authorized to separately</p>	

Draft Amendment	Existing Articles	Explanatory Note
endorsements/ guarantees.	determine the Company's Standard Operation Procedures (SOP) for endorsements/ guarantees.	
<p>Article 8 (internal Control)</p> <p>The Investment Department shall assist the Finance Department to track beneficiary finances, business, and credit on a monthly basis. When necessary, a beneficiary may be required to provide financial data at any time. <u>If collateral has been provided, the Investment and Finance Departments shall also monitor the changes in the value of collateral;</u> any major changes shall be immediately reported to the Chairman &amp; CEO, and appropriate action taken in accordance with instructions.</p> <p>When the Company provides an endorsement or guarantee, the Finance Department shall prepare a memorandum book and record in detail the following information for the record: the entity for which the endorsement/guarantee is made, the amount, the date of passage by the Board, the date the endorsement/guarantee is made, and the matters to be carefully evaluated under article 5.</p> <p>An improvement plan shall be made and submitted to all supervisors and independent directors if the beneficiary no longer meets the requirement in on the Regulations Governing Loaning of Funds and Making of Endorsements / Guarantees or these Operating Procedures, or the endorsement / guarante amount exceeds the limit as a result of the Company or the beneficiary's condition changing. The improvement shall be completed in accordance with the planned timetable.</p> <p>The Company's Audit Department shall, at least once per quarter, audit the Endorsement/</p>	<p>Article 8 (internal Control)</p> <p>The Investment Department shall assist the Finance Department to track beneficiary finances, business, and credit on a monthly basis. When necessary, a beneficiary may be required to provide financial data at any time. <u>The Investment and Finance Departments shall also pay attention to the changes in the value of collateral;</u> any major changes shall be immediately reported to the Chairman &amp; CEO, and appropriate action taken in accordance with instructions.</p> <p>When the Company provides an endorsement or guarantee, the Finance Department shall prepare a memorandum book and record in detail the following information for the record: the entity for which the endorsement/guarantee is made, the amount, the date of passage by the Board, the date the endorsement/guarantee is made, and the matters to be carefully evaluated under article 5.</p> <p>An improvement plan shall be made and submitted to all supervisors and independent directors if the beneficiary no longer meets the requirement in on the Regulations Governing Loaning of Funds and Making of Endorsements / Guarantees or these Operating Procedures, or the endorsement / guarante amount exceeds the limit as a result of the Company or the beneficiary's condition changing. The improvement shall be completed in accordance with the planned timetable.</p> <p>The Company's Audit Department shall, at least once per quarter, audit the</p>	<p>Wording of Paragraph 1 is duly amended as appropriate.</p>

Draft Amendment	Existing Articles	Explanatory Note
<p>Guarantee Operating Procedures and the state of their implementation, and prepare written records accordingly. All supervisors and independent directors shall be notified immediately in writing if any material violations are discovered.</p>	<p>Endorsement / Guarantee Operating Procedures and the state of their implementation, and prepare written records accordingly. All supervisors and independent directors shall be notified immediately in writing if any material violations are discovered.</p>	
<p>Article 10 (Procedures for Controlling and Managing of Subsidiaries' Endorsements / Gguarantees)  When a subsidiary plans to make endorsements or guarantees for others, it shall determine its endorsement/guarantee operating procedures on the basis of the Regulations Governing Loaning of Funds and Making of Endorsements / Guarantees. After approval by the subsidiary's board and shareholders' meeting, the case shall be submitted to the Company for future reference; likewise in the case of revisions. The subsidiary shall make endorsements and guarantees in accordance with the endorsement/guarantee operating procedures that it has determined.  <u>The endorsements/guarantees granted by a subsidiary shall be reported to the Company's Board of Directors.</u>  <u>The subsidiaries in which the Company directly or indirectly holds 90% or more of the voting shares may extend endorsements/guarantees among themselves. A subsidiary may not engage in the activity above until it is approved by the Company's Board of Directors.</u>  <u>The total endorsement /guarantee amount granted by subsidiaries shall be limited to 3% of the shareholders' equity on the Company's latest financial statements.</u>  <u>The total amount of endorsements/guarantees granted by a single subsidiary to any single</u></p>	<p>Article 10 (Procedures for Controlling and Managing of Subsidiaries' Endorsements / Gguarantees)  When a subsidiary plans to make endorsements or guarantees for others, it shall determine its endorsement/guarantee operating procedures on the basis of the Regulations Governing Loaning of Funds and Making of Endorsements / Guarantees. After approval by the subsidiary's board and shareholders' meeting, the case shall be submitted to the Company for future reference; likewise in the case of revisions. The subsidiary shall make endorsements and guarantees in accordance with the endorsement/guarantee operating procedures that it has determined.  Subsidiaries shall submit lists of endorsements and guarantees made during the previous month to the Company's Investment Department before the fifth day of each month; the Investment Department shall compile such lists and forward them to the Finance Department for announcement.  The Company's Investment Department shall check subsidiaries' monthly lists of endorsements and guarantees, and shall immediately instruct the subsidiary to make improvements in accordance with relevant regulations if any abnormalities are discovered.  When a subsidiary performs its annual internal control</p>	<p>1. In order to keep with the requirements set forth in Article 5, Paragraph 2 and Article 17, Paragraph 2 of "the Regulations", amended by the Financial Supervisory Commission on March 19, 2010, and to control over the risks related to endorsements/guarantees granted by subsidiaries, contents set forth in Paragraphs 2~5 are added as appropriate.  2.Paragraphs 2-5 of the current content have been rearranged to be Paragraphs 6-9 of the amended content.</p>

Draft Amendment	Existing Articles	Explanatory Note
<p><u>beneficiary company shall be limited to 1% of the shareholders' equity on the Company's latest financial statements.</u></p> <p>Subsidiaries shall submit lists of endorsements and guarantees made during the previous month to the Company's Investment Department before the fifth day of each month; the Investment Department shall compile such lists and forward them to the Finance Department for announcement.</p> <p>The Company's Investment Department shall check subsidiaries' monthly lists of endorsements and guarantees, and shall immediately instruct the subsidiary to make improvements in accordance with relevant regulations if any abnormalities are discovered.</p> <p>When a subsidiary performs its annual internal control self-assessment, it shall include matters concerning endorsements and guarantees in the self-assessment items, and shall submit the self-assessment report to the Company.</p> <p>The Company's Audit Department shall check self-assessment reports submitted by all subsidiaries.</p>	<p>self-assessment, it shall include matters concerning endorsements and guarantees in the self-assessment items, and shall submit the self-assessment report to the Company.</p> <p>The Company's Audit Department shall check self-assessment reports submitted by all subsidiaries.</p>	