

Strategy **Enforcement of Ethical Business Practices**

Management **Risk and Crisis Management**

Address **Code of Conduct**

Response **Ethical Corporate Culture**

Target **Strengthening Transparency and Management**



- Winning the “Classic Award” by China Credit Information Services as the only service industry company whose business performance ranked among the top 500 every year for the last 20 years
- Fifth consecutive year of winning the highest honor of A⁺ from the information disclosure assessment by the Securities & Futures Institute of Taiwan, and also ranked among the top ten largest companies with the A⁺ honor.
- Fifth consecutive year of winning the highest honor of A⁺ from the information disclosure assessment by the Securities & Futures Institute of Taiwan
- “Asia’s Best Companies” evaluation by Finance Asia 2010
- “Best Financial Disclosure Award” and “Best Financial Disclosure Award in the Asia-Pacific Region” by IR Global Ranking
- “Best Corporate Governance and Information Disclosure” award by IR Magazine
- Long-term credit rating of “AA” by Standard & Poor’s and “twAAA / twA-1⁺” on long / short issuer credit ranking by Taiwan Ratings Corporation

Enforcement of Ethical Business Practices

We intend to shape “Chunghwa Telecom” into the most valuable and most reliable information and telecommunications company. On top of expanding our operations, we further emphasis reliable values and ethical operation. The “Code of Corporate Governance for Chunghwa Telecom Co., Ltd” is our official corporate governance policy, which covers: establishment of effective corporate governance frameworks, protection of shareholder rights, enhancement of Board of Directors functions, utilization of Supervisor functions, respect for stakeholder rights, and increasing information transparency.

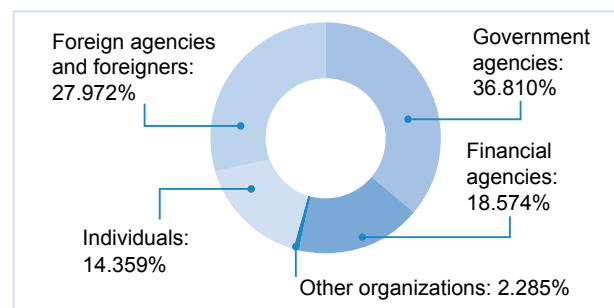
Operation and Performance Assessment of the Board of Directors

Chunghwa Telecom’s Board of Directors is the highest governance body, with the Chairman also acting as the company’s Central Executive Officer (CEO). The Board of Directors is responsible for appointing and nominating high level managers, as well as formulating the company’s corporate social responsibility, corporate citizenship, and sustainable development strategies. The Board of Directors contains 13 seats (with 3 independent seats), while there are 3 seats for Supervisors. Currently, there are 3 members in the 13-seat Board of Directors (including 1 independent seat), and the 3 Supervisor seats are all occupied by women. Also, 1 seat is stipulated for the Labor Director to ensure diversity in the Board of Directors. In 2010, the Board of Directors held 10 meetings, with average attendance rates among all members over 90%.

To consolidate supervisory functions and enhance management effectiveness, the company’s Board of Directors established the “Strategy,” “Audit,” and “Compensation” committees. To protect Directors and Supervisors from suffering losses from personal responsibilities and finances while performing their duties due to third party litigation, we have purchased indemnity insurance for Directors and Supervisors.

The Ministry of Transportation and Communications (MOTC) is the largest shareholder of Chunghwa Telecom, with the company’s Chairman and President acting as shareholder representatives for the government, committed to executing policies and fulfilling social responsibilities. They are also examined by MOTC at the end of each year. Compensation for Chunghwa’s Directors, Supervisors, President, and Vice Presidents account for 0.29% of net profits in 2010, and 0.32% of net profits in 2009.

Shareholder Structure



Note: information is accurate according to January 15, 2011, the standardized date of capital reduction and stock transfer for Chunghwa Telecom.

Information Disclosure

As a publicly traded company in Taiwan, we also issue American investment certificates that are publicly traded in the New York Stock Exchange. All issues of concern to investors are simultaneously disclosed domestically and abroad in Chinese and English, providing instant financial and business information. For six consecutive years from 2006 to 2011, we have been awarded the honor of A+ from assessments of information disclosure for publicly traded companies.

We have also formulated the “Administrative Regulations on Management and Control of Prevention against Insider Trading in Chunghwa Telecom,” to prevent inappropriate information disclosure, and ensure the timeliness and accuracy of information disclosed to the public.

Business Principles

To improve the quality of business sales and establish consumers’ trust, we have formulated the “Business Principles” to ensure compliance with legislative requirements from regulatory agencies, which is also incorporated into annual evaluation criteria for high level managers. Our reputation and corporate image is maintained by the joint diligence of all of our colleagues.

Risk and Crisis Management

Identifying and controlling risk incidents are responsible actions from corporations to enhance operations. Our framework contains comprehensive risk management policies and systems, augmented by complete information systems for recording and tracking, effectively utilizing risk control performance and reducing risks and dangers in managerial aspects.

Risk Analysis and Response

We have always been committed to risk management policies that: “1. Actively establish risk management awareness among colleagues; 2. Discover potential risks and make dynamic responsive adjustments to account for environmental changes; 3. Utilize opportunities within risks in a steadfast and proactive fashion to reasonably ensure achievement of company targets and create maximized shareholder values.”

We have always formulated the “Chunghwa Telecom Risk management Regulations” to act as references for all employees in the execution of the work. As well, the President is designated as the person of the highest level of responsibility for risk and crisis management, who reports to the Board of Directors.

Currently, we have adopted risk maps to act as risk assessment tools, and their parameters include: legal risks, network maintenance risks, market competition risks, and financial operation risks. At the same time, we conduct sensitivity analyses and stress tests for the company’s major business operations to minimize possible losses through risk absorption, risk transfer, risk reduction, and risk avoidance.

In 2011, a new control mechanism is added to request that responsible units conduct “preliminary risk assessments” and “response measures” for major and instantaneous risk information to facilitate tracking and control, in order to lower their impact levels.

Risk Management Responsibilities

Organization Name	Authorities and Responsibilities
Board of Directors (including Audit and Strategy Committees)	<ol style="list-style-type: none"> 1. Establish risk management policies, frameworks, and culture. 2. Ensure the effectiveness of risk management mechanisms and facilitate resource allocation.
High Level Management (Chief Executive Office, President, Vice President)	<ol style="list-style-type: none"> 1. Execution of risk management decisions rendered by the Board of Directors. 2. Coordinate interdepartmental risk management interactions and communications.
Headquarters (the Corporate Planning Department act as Executive Secretary)	<ol style="list-style-type: none"> 1. Compile the execution results of risk management actions. 2. Assist and supervise risk management activities in subordinate branches. 3. Determine risk classifications and recommend absorption methods based on environmental changes. 4. Conduct performance evaluation and coordinate after risk adjustments.
Subordinate branches	<ol style="list-style-type: none"> 1. Execute daily risk management activities. 2. Conduct self assessments for risk control activities.

Climate Change Risks

After the flood disaster of August 8, we have officially incorporated factors from “climate change issues” into the “performance and risk management” assessment system. Significant risks are listed in the group’s annual business plan, which will undergo target management and performance evaluation to facilitate continuous confirmation and feedback. In November 2010, we have completed the “Response for Climate Change – Chunghwa Telecom’s Strategic Actions for Environmental Protection, Energy Conservation, and Carbon Reduction.” Execution priorities or improvement plans were formulated to the overall project, current execution status, short term and long term action plans, etc, to enhance disaster resistance capabilities and enforce responsible communication.

Code of Conduct

We insist that the conduct of the company's employees fulfill ethical standards. In other words, strict codes of conduct and ethical doctrines shall be followed during business and administrative execution processes, and cannot be compromised to achieve special objectives, in order to ensure that our work fulfills legal and social ethical regulations, and that inappropriate behaviors can be prevented.

Amendments to Code of Conduct

The "Code of Ethics of Chunghwa Telecom Co., Ltd." is the basic regulation over daily execution of business operations for all of our employees, and also applicable to all service providers. Also, the "Chunghwa Telecom Corporate Principles on Violation Cases," "Chunghwa Telecom Corporate Principles on Business Secrets Keeping," and "Chunghwa Telecom Corporate Human Resource Department: Employees Complaints Hotline" are followed to provide austere complaint mechanisms that allow employees to communicate opinions under safety and secrecy.

The "Code of Ethics" outlines the principles that Directors, Supervisors, managers, and employees shall observe and maintain, the contents of which cover personal responsibilities, group responsibilities, and responsibility regulations regarding Chunghwa Telecom, the public, and other stakeholders. It is emphasized that employees shall act honestly and ethically, avoid conflicts of personal interests, protect business secrets, protect and appropriately use company assets, prohibit insider trading, etc, while responsibilities to be undertaken by employees who violate company regulations are also stipulated.

To account for changes over time, the "Code of Ethics" will be amended in the following directions:

1. Additions to employee care, anti-corruption, anti-bribery, environmental protection enforcement, and establishment of healthy and safe working environments to enhance corporate governance and internal controls.

2. Applicable to the whole group: affiliated industries and organizations of our company shall conduct business activities according to the spirit of our codes of conduct, and may also formulate relevant regulations over their business needs.

Ethical Evaluations of Employee Behavior

The "Code of Ethics" is not only published on the company's internal and external websites, online tests on codes of conduct are also held annually to enhance the conduct and value system within employees, so that the code of conduct may be observed by all. Also, the "Evaluation Principles of Employees of Chunghwa Telecom Co., Ltd." and "Incentive and Disciplinary Standards of Employees of Chunghwa Telecom" are formulated for employee evaluation. All regulations are communicated to and followed by employees, so that employees clearly understand their codes of conduct. When employees encounter incidents justifying rewards or actions justifying discipline, they will also be rewarded or disciplined according to the aforementioned regulations.

In 2010, a total of 15 persons were involved in 8 violations against codes of conduct, of which 3 persons were involved in 1 violation against information security regulations, 2 persons were involved in 2 violations against secrecy regulations, 3 persons were involved in 1 violation against telecommunications legislations, 4 persons were involved in 1 infringement on company finances, and 3 persons were involved in 3 cases of inappropriate conduct. Total violations were less than the 12 cases reported in 2009. Not only do we clearly enforce disciplinary orders, we also continue to enhance relevant education and promotional activities.

Ethical Corporate Culture

Ethical business practices not only enhance investor confidence in the company and increase corporate values, they can further reduce fundraising costs and achieve win-win objectives for enterprises and investors. Therefore, we have formulated the “Ethical Corporate Management Best Practice Principles for CHUNGHWA TELECOM CO., LTD.” to act as the policy to be followed by all of Chunghwa.

Ethical business practice is an important issue that greatly concerns all of us today. The United Nations already proposed the Global Compact in 1999, listing anti-corruption as a major topic in corporate social responsibilities, and proposing that corporations shall undertake the responsibility of proactive creating ethical and fair business environments.

Thus, the Board of Directors further passed the “Ethical Corporate Management Best Practice Principles for CHUNGHWA TELECOM CO., LTD.” to clarify legislations and regulations that shall be followed by Directors, Supervisors, managers and employees as they conduct their work, and also prevent unethical behaviors. Such regulations are policies that apply to all of Chunghwa.

1. Objective behind formulating such regulations (Article 1).
2. Clear prohibition against unethical behavior and attitudes on unethical profit (Articles 2 and 3).
3. Outlining relevant legislations to be followed by the company to fulfill ethical business practices (Article 4).
4. Outlining ethically sound policies that shall be formulated by the company to create business environments of sustainable development, as well as creating positive corporate governance and risk control mechanisms (Article 5).
5. Regulations over priorities on prevention of unethical behaviors that shall be formulated by the company, in order to enforce ethical policies (Article 6).
6. Outlining parameters of priorities on prevention of unethical behaviors (Article 7).
7. Outlining ethical business practice policies that the company shall clearly state within company publications and public documents, and proper execution of such policies, in order to enhance the company’s determination and promise for ethical business practices (Article 8).
8. Outlining prohibitions on the company engaging in transactions with entities with records of unethical

actions, so that the company may engage in commercial activities fairly and transparently (Article 9).

9. Clear prohibitions on issuing or accepting bribes, providing illegal political donations, inappropriate charity donations or sponsorships (Article 10 to 13).

10. Outlining the Board of Directors’ responsibility to supervise the company in prevention of unethical behaviors and ensuring fulfillment of policies, which will be handled by dedicated units (Article 14).

11. Outlining legislations, regulations, and priorities on prevention of unethical behaviors that shall be followed by the company’s Directors, Supervisors, managers, and employees as they conduct their work, in order to fulfill the company’s ethical business practices (Article 15).

12. Outlining conflict of interest avoidance policies that shall be formulated by the company for its Directors, Supervisors, and managers (Article 16).

13. The company shall establish effective accounting systems and internal control systems, while internal audit personnel shall also regularly inspect compliance to such systems (Article 17).

14. Outlining relevant operational procedures and behavioral guidelines that shall be formulated by the company to facilitate compliance from Directors, Supervisors, managers, and employees as they conduct their work, in order to fulfill ethical business practices (Article 18).

15. Outlining regular education, training, and promotional activities that shall be held by the company to fulfill and promote ethical business practices, as well as creating appropriate complaint and disciplinary systems (Article 19 and 20).

16. Disclosure of information (Article 21).

We have created promotional and executive units for malpractice prevention, as well channels for notifying violations and malpractice, to maintain the company’s business secrets, and prevent violations, malpractice, insider trading, etc.

Strengthening Transparency and Management

In 2010, we have won the gold award from the service industry section of the “Taiwan Corporate Sustainability Report Award” held by Taiwan Institute for Sustainable Energy, for the third time, which indicates stakeholder recognition from across society over our the direction and objectives of our commitments to information disclosure regarding corporate social responsibility. In the future, we will continue to keep ahead of regulatory agencies and act as Taiwan’s benchmark for corporate information disclosure.

Ensuring GRI Frameworks as the Ultimate Principles

After the introduction of the “Corporate Social Responsibility Best Practice Principles for TWSE / GTSM Listed Companies,” Taiwan Stock Exchange further refined its developmental directions in terms of enhancing corporate social responsibility information disclosure for publicly listed companies. Taiwan Stock Exchange proposed the third generation guideline of Global Reporting Initiative’s (GRI) Sustainability Reporting Guidelines (also referred to as GRI G3 Guidelines) as the most important reference and framework of information disclosure. We will continue to emphasize CSR issues and report publication.



Our company had won the highest honor of A+ from the information disclosure assessment by the Securities & Futures Institute of Taiwan for the fifth consecutive year.



Vice President Siew presents the gold award from the service industry section of the “Taiwan Corporate Sustainability Report Award” to Chairman Lu.

Taiwan Stock Exchange also encourages trends of publicly listed companies disclosing greenhouse gas emissions and reduction information in their annual reports and public documents. In the future, we will follow orders from regulatory agencies and voluntarily disclose relevant information in annual reports and public documents, to enhance corporate governance and fulfill corporate social responsibilities.

Chunghwa Telecom is committed to energy conservation, carbon reduction, and sustainable environmental development, and is also the first Taiwanese telecommunications company to pass greenhouse gas examinations and certifications. In the future, we will also gradually disclose relevant information and continue to act as the benchmark of Taiwan’s domestic service industries.

AA 1000 as Reporting Certification Standard

To improve the quality of our reports, we began adopting AA 1000 as our reporting certification standard in 2009. AA 1000 is the certification standard devised by the Institute of Social and Ethical Accountability, which emphasizes reports shall base its certification on its production process, such as confirming the identifies of stakeholders, communication with stakeholders, and confirming mutual issues with stakeholders. The inclusiveness, completeness, and comparability of reports are also emphasized. We have adopted training classes and other methods to enhance recognition for AA 1000 within subordinate groups of the CSR committee.