

# Corporate Governance

**S**trategy



**Enforcement of Ethical Business Practices**

**M**anagement



**Risk and Crisis Management**

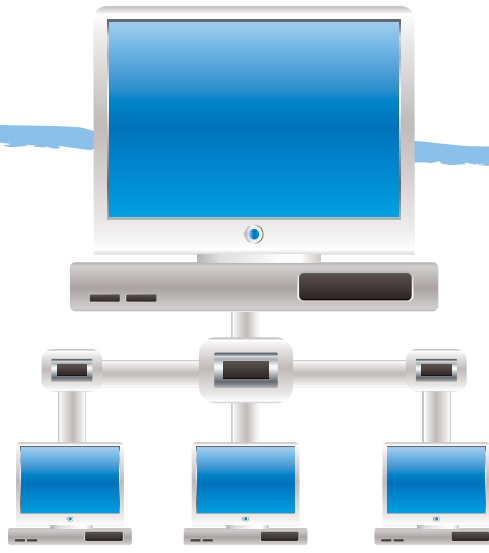


## AWARDS

- Received top 100 for 2012 Taiwan Technology from Business Next Magazine
- Received A++ for 9th Listed Companies Information Disclosure Assessment
- Received The 14th Technology Management Award
- Chunghwa Telecom Laboratories won 3 Gold, 3 Silver and 2 Bronze Medal for invention contest at the 2012 Taipei International Invention Show & Technomart

**A**ction

**Transparent Disclosure and Management**



**R**esponse

**Enhance Code of Conduct**



**T**arget

**Sharing Value through the Cloud Platform**

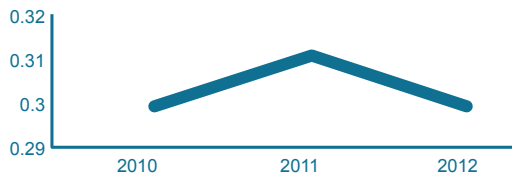




# Enforcement of Ethical Business Practices

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

## Compensation of High Level Managers (%)



\*Including Board of Directors, Supervisors, President, Executive vice presidents, general manager of branch companies, deans.

## Enforce Board of Directors 4.1

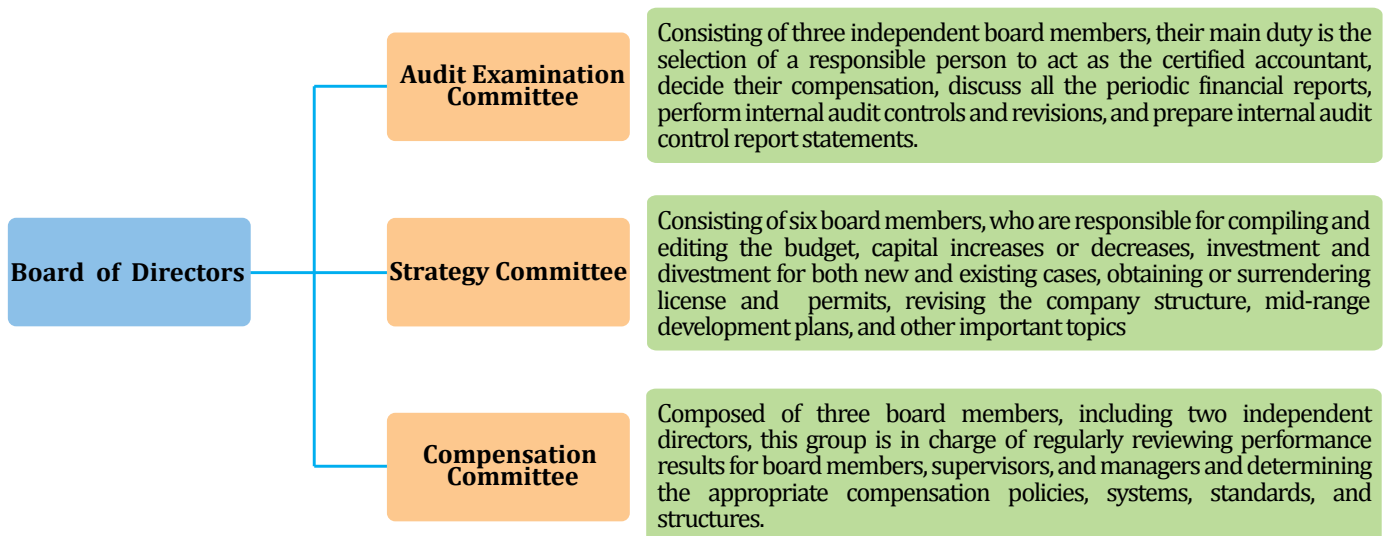
The Chunghwa Telecom Board of Directors is the highest governance body, with the Chairman also acting as the Chief Executive Officer. The Board of Directors is responsible for appointing and nominating high level managers, as well as formulating company corporate social responsibility, corporate citizenship, and sustainable development strategies. The Board has 12 directors that include 3 independent directors, and 3 supervisors. To date, 3 female directors (1 independent) amongst 12 directors, and 2 of the supervisors are female. At the same time, a labor directorship has been specifically provided to ensure diversity of the Board. In 2012, the Board convened a total of 8 meeting and the average rate of board attendance exceeded 80%.

To avoid conflict of interest from highest manager:

1. Directors and supervisors all signed Consent to Act as Director/ Supervisor; announced that they follow the section 23 of Company Art.
2. All directors signed Statement to show that they clearly knew the content of Section 206 of Company Art.
3. Section 17 of Rules of procedure of board of director clearly defines the things that directors should recuse himself with.

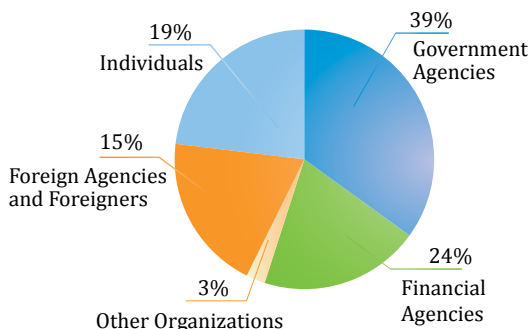
To prevent financial losses from third party litigation for directors and supervisors, we have purchased indemnity insurance for Directors and Supervisors.

## Board Committees





**Shareholder Structure** 2.6



Note: This information is accurate as of July 19, 2012, the standardized date of capital reduction and stock transfer for Chunghwa Telecom.

**Using Electronic Voting** 4.4

We have voted case by case since 2011, and disclosed the result on our website. In 2012, first time that we used electronic voting in regular meeting of shareholders, there are 1,053 shareholders represented of 15% shares involved. By doing so, we protect shareholders' right and encourage them to actively assist company governance.

**Disciplinary cases**

| Type   | Number of Case | Fine (NT\$)      |
|--|----------------|------------------|
| Establish base station without approval.   | 15             | 750              |
| Broadcast program without license.   | 1              | 10,000           |
| Expend fixed network equipment without approval.                                     | 1              | 90,000           |
| Carry out mobile phone rate package without applying for future reference.           | 1              | 30,000           |
| Change system switching equipment without approval by NCC.                           | 1              | 30,000           |
| Activate mobile phone service without verifying user's identity.                     | 1              | 30,000           |
| Violate Section 21 of Corporate Exchange Art, advertisement that misleads consumers. | 1              | 500,000          |
| <b>Total</b>   | <b>21</b>      | <b>1,440,000</b> |

**Business Principles**

To establish decent corporate culture and enhance corporate governance, we issued Chunghwa Telecom Code of Conduct in 2011, which clearly defines that our directors, supervisors, managers and employees should follow regulations and laws, and prevent dishonest behavior when doing business.

Here we disclose the disciplinary cases by government due to our business mistakes. We will bear in mind, raise rectification, and avoid violating the rules again.

**Information Disclosure**

As a publicly traded company in Taiwan and New York Stock Exchange, all of investors' concerns are simultaneously disclosed domestically and abroad in Chinese and English, providing instant financial and business information. For seven consecutive years from 2006 to 2012, we have been awarded the honor of A++ from assessments of information disclosure for publicly traded companies.

We always uphold a honest, responsible trustworthy spirit to manage business, in the past few years that we have recognized by many awards, and we believe that this spirit will lead us to a better future.



# Risk and Crisis Management

Identifying and controlling risk incidents are corporations' responsibility. 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 risk and danger in managerial aspects.

## Risk Management Strategy

| Organization          | Authorities and Responsibilities   |
|-----------------------|--|
| Board of Directors    | <ol style="list-style-type: none"> <li>1. Establish risk management policies, frameworks, and culture.</li> <li>2. Ensure the effectiveness of risk management mechanisms and facilitate resource allocation.</li> </ol>   |
| High level management | <ol style="list-style-type: none"> <li>1. Execution of risk management decisions rendered by the Board of Directors.</li> <li>2. Coordinate interdepartmental risk management interactions and communications.</li> </ol>  |
| Headquarters          | <ol style="list-style-type: none"> <li>1. Compile the execution results of risk management actions.</li> <li>2. Assist and supervise risk management activities in subordinate branches.</li> <li>3. Determine risk classification and recommend mitigation methods based on environmental changes.</li> <li>4. Conduct performance evaluation and coordination after risk adjustments.</li> </ol> |
| Subordinate branches  | <ol style="list-style-type: none"> <li>1. Execute daily risk management activities.</li> <li>2. Conduct self assessments for risk control activities.</li> </ol>   |

## Risk Analysis and Response 4.11

Chunghwa Telecom has high-level meetings for important strategy planning or impact caused by environmental change. We formulated the “Chunghwa Telecom Risk Management Regulations” to act as reference for our employees. The President is the person with the highest level of responsibility for risk and crisis management who reports to the Board of Directors.

We have risk maps for risk assessment tools, 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.

## Climate Change Risks 1.2

The most serious climate change in Taiwan is short-time heavy rain. In the long term, it causes rise in temperature and sea level, which can affect the telecom facilities' operating system. Therefore we have list the climate change risks into management assessment, taking the risks into consideration in the annual operating plan, and set goal management and achievement.

Due to climate changes, we use ICT's new technology and products to reduce the impact it has on the social environment, raise resource usage efficiency, develop energy conservation and carbon emission reduction technology, develop environment protection information system and hope to create new business opportunities and environment sustainability.

## Climate Change Risk and Chance EC2

| Risk driver                | Description   | Potential financial burden, risk and opportunity   |
|----------------------------|---|--|
| Cap and trade schemes      | Taiwanese government plan to set up a carbon-trading platform once the Greenhouse Gas Reduction Act is effective. CHT already established an Environmental Sustainability Group prepared for related issue. | We will be able to trade and benefit from its carbon quota saved and increase revenue.                           |
| Extreme Precipitation      | The weather patterns in Taiwan have become extremely stormy with high precipitation. The flood damages equipment, which disrupts and creates abnormality in the services.                                   | It will take USD 10 million to reinforce the telecommunication control room from flooding damage.                |
| Sea level rise             | Taiwan is an island. The rise of sea level means damaged telecommunication equipments. Inevitably, more cost has to be spent on relocating control rooms and repairing equipments.                          |  |
| Change in mean temperature | Rise in temperature can lead to a large increase in energy consumption by business equipments and home appliances. Which means the demand of green products and services will also increase.                | We estimate the potential profit is up to USD 100 million in Taiwan from our Intelligent Energy Network service. |
| Reputation risk            | Products and services offered by the telecom company are expected to meet the target of energy conservation and carbon reduction. If we do not meet those standards, our reputation might be at risk.       | Each year, CHT invested USD 300,000 on Carbon management action plan and communication.                          |



## Transparent Disclosure and Management

We are committed the goal CSR information disclosure and have received recognition from stakeholders in all segments of society. In the future, we will continue to lead the competent authorities, disclose various information according to international standards, and strengthen communication with stakeholders to gradually become the industry standard for disclosure in Taiwan.



### Ensuring GRI Frameworks as Principle

After the introduction of the “Corporate Social Responsibility Best Practice Principles for TWSE / GTSM Listed Companies,” the Taiwan Stock Exchange further refined terms for corporate social responsibility information disclosure for publicly listed companies. The Taiwan Stock Exchange proposed the Global Reporting Initiative’s Sustainability Reporting Guidelines 3.1 version ( GRI 3.1 ) as the most important reference and framework of information disclosure. We will continue to emphasize CSR issues and report publication.

### AA 1000 as Reporting Certification Standard

We adopted 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 that report certification shall be based on its production process, such as confirming the identities of stakeholders, communication with stakeholders, and confirming mutual issues with stakeholders. We have adopted training classes and other methods to enhance recognition for AA1000 within subordinate groups of the CSR committee.



### Greenhouse Gas Emissions and Reduction Disclosure

The Taiwan Stock Exchange encourages publicly listed companies disclosing greenhouse gas emissions and reduction information in their annual reports and public documents. We follow orders from regulatory agencies and voluntarily disclose relevant information to enhance corporate governance and fulfill corporate social responsibilities.

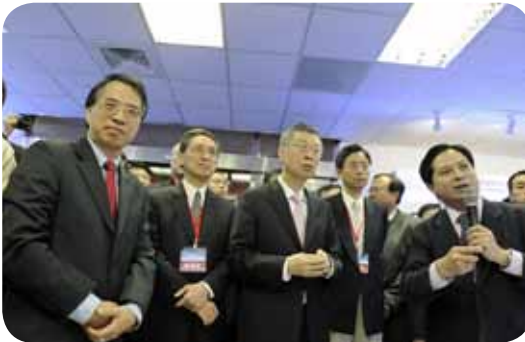
Chunghwa Telecom is the first Taiwanese telecommunications company to pass greenhouse gas examinations and certifications. In the future, we will also gradually disclose relevant information and continue to act as the benchmark of Taiwan’s domestic service industries.

### Inviting Stakeholders to Read Reports

In order to comply with article 8 of the “Corporate Social Responsibility Best Practice Principles for TWSE / GTSM Listed Companies,” we began identifying stakeholders and found that the most important stakeholders are clients, employees, shareholders, suppliers, the community, and non-profit organizations. We began holding stakeholder conferences in 2011 which were divided into specific and general conferences. Stakeholders were invited to offer opinions on that year’s CSR report.

## Enhance Code of Conduct 4.8

During the process of operations and task performance, our employees must strictly follow the code of conduct and moral guidelines and may not compromise for any reason. 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 the Chunghwa Telecom” to be the policy followed by all of Chunghwa.



### Abiding by the Code of Conduct

To establish a highest standard that applies to board members, supervisors, managers, and employees, we formulated the “Chunghwa Telecom Code of Conduct” as the basic guideline that governs the execution of daily tasks by our employees. The conduct includes personal and group responsibility, and responsibility to the company, public, and other stakeholders with the goal of preventing misconduct.

Besides, the “Chunghwa Telecom Code of Conduct Violation Case Acceptance Points,” “Chunghwa Telecom Implementation Guidelines for Protecting Trade Secrets,” “Chunghwa Telecom Human Resources Employee Complaints Hotline,” and a strict reporting mechanism allow employees to conduct commercial activities worldwide with the highest ethical standards.

### Public Private Partnership SO3

Corporate integrity management is a priority issue that everyone concerned currently. The United Nations proposed a Global Compact in 1999 to make anti-corruption one of the major subjects of CSR, by doing so to advocate corporate responsibility and create integrity and fairness business environment. APEC also has categorized “enhancing CSR” and “combating corruption” as two critical global issues.

Hence, the board approved 23 articles in the “Chunghwa Telecom Code of Business Integrity” in December 2010, which clearly specifies the regulation. Board members, supervisors, managers, employees, and also investment companies are ask to comply with.



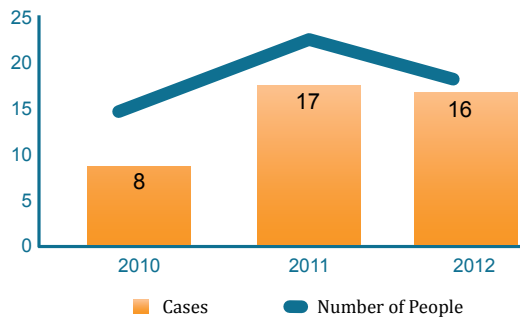
Reference: The International Telecommunication Union

### Obey International Telecommunication Laws and Human Rights Duties

The International Telecommunication Union held the World Congress on Information Technology (WCIT) in Dubai near the end of 2012. The conference set an International Telecommunication Regulations to ensure there is a general rule for free circulation of global information, and add new contents, such as “transparency of competing and fees for mobile roaming”, “Provide convenient access to telecommunication service for the disadvantaged”, “Protection for the freedom of speech”. As our membership, we commit to follow the regulation and put into practice to spread it.



### Violation of Chunghwa Telecom Code of Business Conduct and Code of Conduct



### Ethical Evaluation of Employee Behavior

All our employees are required to take the “Chunghwa Telecom Code of Business Conduct and Code of Conduct Test” each year to maintain their professionalism and integrity, which optimize corporate governance and risk control, and establish honestly principled corporate culture. Nearly 99.95% staffs passed the test in 2012. Additionally, the Chunghwa Telecom “Employee Review Guidelines” and “Reward and Discipline Standard” are published to evaluate employees, who are also confirmed to thoroughly understand and followed.

### Internal Consensus

Goals of establishing company standards are to unify the internal consensus, ensure to ban dishonest behavior, and implement integrity management with good corporate risk management mechanisms, which to help to create a sustainable operating environment. Key implements are as follows:



1. To strengthen determination and commitment, specific company regulations and external documents are clearly announced for integrity management policy and its implement.
2. Avoid transactions with those who have dishonesty records in order to conduct commercial activities under fairness and transparency.
3. Prohibit bribery, accept of bribes, provide illegal political contributions, improper charitable donations, sponsor unreasonable gifts and hospitality, or other improper benefits.
4. The board of directors should urge the company to prevent dishonesty and ensure to implement policy through dedicated department.
5. To implement integrity management, all Chunghwa people should conduct business by regulations so as to prevent dishonesty.
6. Clearly specify a conflict of interest avoidance policy for board members, supervisors, and managers.
7. To ensure the implementation of integrity management, the company should establish an effective accounting system and internal control system. Internal auditor should regularly confirm compliance status.
8. To implement the promotion of integrity management, clearly specify that the company should regularly hold education and training, and establish an expedient rewards and disciplinary system.
9. Clearly specify that the company should strengthen the fulfillment of integrity management information disclosure.

Besides, we especially set up a team and a report channel to execute the anti-fraud plan, in order to protect company confidentiality and prevent illegitimacy.



## Sharing Value through the Cloud Platform

In addition to balancing customers, shareholders, and employees, we are committed to creating overall social value. We are also committed to becoming the leader in domestic cloud computing and driving the shared value of the domestic industry. The cloud service became widely applied to commercial use since 2012.

### Lead Cloud Computation

In recent years, cloud computing has become an important trend in the development of the telecommunications industry. Chunghwa Telecom is also actively preparing development. Simply put, cloud computation consists of cloud servers, terminals, networks, and services. Cloud “networks” and “services” are part of Chunghwa Telecom’s industry and two of its advantages which connect the “cloud” to the “terminals” and provide people and businesses with convenient cloud computation services.

In 2011, cloud services emerged from infrastructure construction in the concept stage, into the year of cloud services. Currently, in addition to providing customers with services such as relationship management services, computing cloud, cloud anti-virus and anti- hacking, cloud storage, etc., we are also promoting the six primary services of the personal, storage, business, travel, circulation and health clouds with partners from different industries. At the same time, we are actively strengthening cloud infrastructure through cooperation with strategic cloud partners such as Microsoft, Intel, Fujitsu, Trend Micro, Quanta, Show Chwan, etc. to drive the development of the cloud computing industry in Taiwan.



### Found Cloud for Animation and Visual Effects Center



In 2011, Chunghwa Telecom and Hollywood special effects company Rhythm & Hues Studios (R&H) created the Cloud for Animation and Visual Effects (CAVE). It uses Chunghwa Telecom’s control room, Internet Communication and Virtuoso and R&H’s techniques and experiences at Hollywood. With cloud computing to target the need of special effects in movie, it has already used in the movies “Life of Pi” and “Snow White and the Huntsman”

Furthermore, both parties have signed the memorandum of understanding in 2012 and have plans to establish a company that merges the quality from both parties to bring in Hollywood’s special effects technique and experience and raise domestic digital material production. Chunghwa Telecom’s Chairman said that to CAVE will be divided into 3 stages for future promotion, and we hope to create a complete platform to let movie artists efficiently use resources while producing a movie in the future.



### Four Centers, One Platform, One Marketplace

Chunghwa Telecom’s cloud computing layout follows the strategic framework of “four centers, one platform, one marketplace” to gradually move forward. Four centers refer to an R&D center, test center, operations center, and experience center.

In addition, Chunghwa Telecom has built a large capacity “cloud service creation platform” focusing on cloud software developers to build a “Chunghwa Cloud Marketplace’ and provide business customers with one-stop shopping, buy to rent, on-demand, safe, and stable cloud application services. From this we hope to expand cloud application use and build the largest cloud settlement in Taiwan.



### Cloud Computing Association in Taiwan 4.13

In 2010, we helped to establish the “Cloud Computing Association in Taiwan”, and there are already 110 members in the end of 2012. This association has become a catalyst for increasing the value of the cloud computing industry chain in Taiwan and allows the industrial, academic, and research sectors to have matching platforms for development, integration, verification, and commerce.

In 2011, the Association planned and birthed the “Taiwan Cloud Valley” in hopes of establishing industry clusters, providing incubation, creating a cloud platform, and other centers for cross nodal operation to become Taiwan’s first cloud computing demonstration industrial park.

Taiwan Cloud Valley divided into three phases: the first phase is to provide virtual demo room for over 30 cloud products, which was already launched in March, 2012. The second and third stage are planned to launch in 2013 and 2014. We hope to lead Taiwan into a cloud service pivot in Asia and play an important role worldwide.

