



Corporate Governance



Risk management
expense

NT\$ **391** million



Information
disclosure assessment

A++



100%
of employees
took CoC exam



Taiwan

Largest
4G spectrum provider

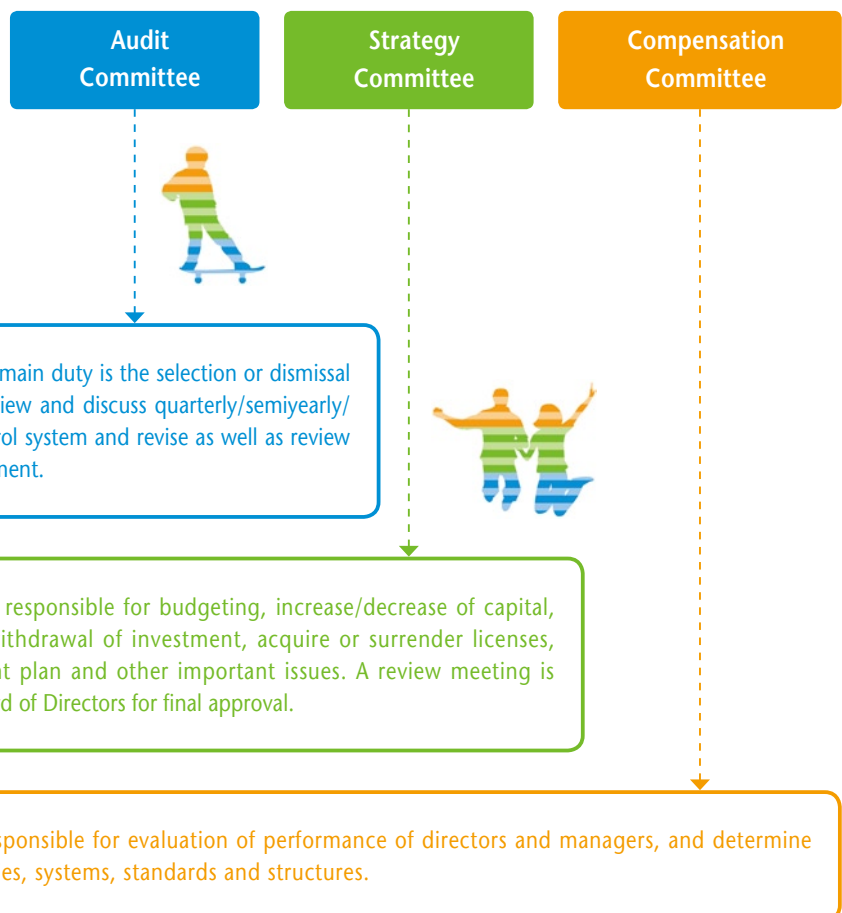


S Ethical Business Practices

The Chungghwa 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 13 directors that include 5 independent directors. To date, there are 5 female directors amongst 13 directors. Director's period of office is three years (June 25, 2013–June 24, 2016), to ensure the governance's independence and stakeholders' perspectives, 5 Independent Directors are included while an Auditing Committee is designated to replace the supervisor.

Chungghwa Telecom's independent director and external director provide expertise based on their respective area of practice and professionalism, to assist the Board of Directors to make decisions as to benefit the company and the shareholders. To prevent financial losses from third party litigation for directors and supervisors, we have purchased indemnity insurance for Directors and Supervisors.

To improve monitor functions and strengthen the management functions, three functional committees are established under the supervision of the Board:



*Introduction of the members of the Board of Directors please refer to annual report p14-17 and p65-66.



Chunghwa Telecom’s director is responsible for the election of Chief Executive Officer and Directors, in that, a nomination system is adopted based on relevant provisions and articles of Securities & Exchange Act, which candidates are nominated by directors and shareholders with qualified shareholding, and director’s nomination and review is conducted accordingly. We have adopted the following control measures to prevent conflict of interests.

- Directors and all signed Consent to Act as Director, announced that they follow the section 23 of Company Act.
- All directors signed Statement to show that they clearly knew the content of Section 206 of Company Act.
- Section 17 of Rules of procedure of board of director clearly defines the things that directors should recuse himself with.

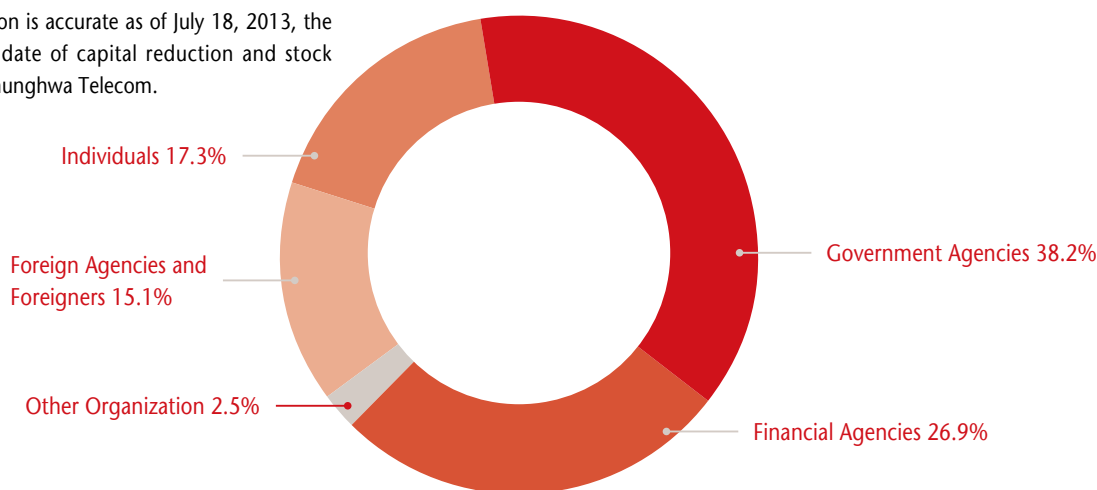
Thanks to the directors’ high ethical standards and self-disciple, in the operation of comprehensive mechanism, no conflict of interest has occurred since the Board of Directors is established. The Board has resolved to approve total of 50 articles of “Code of Corporate Governance for Chunghwa Telecom”, while all departments are required to implement the Code of Conduct, the secretariat also evaluates on a regular basis.

Encourage Shareholders to Participate in the Corporate Governance

For the past two years, Chunghwa Telecom has conducted changes and revisions on a number of systems and measures based on a corporate governance mindset, including electronic voting system, voting of shareholder meeting on the case-by-case basis and disclosing the resolution of all motions; with diversified resolution channels, shareholders are able to exercise their rights in an efficient manner and corporate governance effectiveness is then enhanced.

Shareholder Structure

This information is accurate as of July 18, 2013, the standardized date of capital reduction and stock transfer for Chunghwa Telecom.



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.

The Board of Directors Approved CSR Best Practice Principle

“Chunghwa Telecom CSR Best Practice Principle” and relevant CSR policies have been discussed and revised by the president and higher management and subsequently reported to the Board of Directors, it is scheduled to be approved by this term of service of the Board. A top-down strategy is conducted to implement the principle and action of corporate social responsibility.

M Sound Operation

To ensure the sound operation of the company and not be affected by the external environment and internal operation, Chunghwa Telecom stresses on the management of operational risk, and has formulated the “Chunghwa Telecom Risk Management Regulations” as the guidance for all employees. The authority responsible for risk and crisis management is the President, who reports to the Board on the regular basis, to ensure all operational risks are identified and managed so as to protect the rights and interests of all shareholders, investors and consumers.

“Chunghwa Telecom Risk Management Regulations” clearly defines risk management framework, management procedure and departmental responsibilities, besides conducting risk management accordingly, risk management platform, systematic recording and follow up management is utilized to manage mid-long development plan, annual operating plan, significant event, additional projects and business execution report, to make certain that all possible risks are under control.

The Scope of Chunghwa Telecom Risk Management Regulations



We have “Risk Maps” for risk assessment tools to evaluate regulatory risks, internet maintenance risk, market competition risk and financial operation risk; 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.

Risk Management Expense

unit: NT\$ thousands



*Including insurance premium, man power, system maintenance, and training expense, etc.



Risk Management for Climate Change

Global climate is the significant challenge confronted by human race in this century. For the people in Taiwan, the most serious challenge of climate change is short-time heavy rainfall, and the rise of temperature and sea level, in the long run, may affect the operation of telecom facilities and manpower scheduling. The manpower and materials used to repair the damages, backup power increased for power failure and compensation to consumers may largely increase our operating cost. Not to mention if any infectious diseases caused by climate change, Chunghwa Telecom's daily operation and services will be drastically impacted with over 20,000 employees across Taiwan.

In consideration of the climate change risk, Chunghwa Telecom has officially included "Climate Change Issue" factors into the evaluation system of "Performance and Risk Management", adding significant risk into the Group's annual business planning and schedule disaster budgeting, while conducting objective management and performance evaluation to monitor its effectiveness.

For the business model of the ICT industry, we introduced risk adaption strategy to respond to climate change, enhanced carbon management measures, developed energy conservation and carbon emission reduction as well as environmental protection measures to reduce greenhouse gas emission and risk for ICT industry; and in hope, with our effort, to expand our influence over the society overall on a positive manner.



Action Program in Response to Climate Change

In order to manage risks caused by climate change, we completed the "Response to Climate Change – Chunghwa Telecom Environmental Protection Energy Conservation Carbon Reduction Strategic Action," and formulated priorities, improvement of disaster resilience, ensure clear communications, and the safety of overall communications network.

Plans for flood-prone equipment rooms reform:

- Install sealed water resistant panels.
- Install water resistant sluice gates for equipment.
- Seal up or raise up basement vents, doors, and windows.
- Establish relevant prevention measures in vent line, entry of underground tunnel, entry of high tension cable, lanes, etc.

Improvement plans for telecom equipment:

- Move basement equipment: Move diesel generators and AC distribution equipment to the 1st floor and install DC equipment to above 2nd floor.
- Prepare and stock generators and pumps.
- Enhance generator configurations in remote equipment room and increase oil storage tank capacity.
- Amplify batter capacity: When natural disaster struck and caused power outage, backup battery can be maintained up to 72 hours (3 hours in normal facility) to support the remote areas, when necessary, SMR capacity can be enlarged.

A Code of Conduct

As Chunghwa Telecom is committed to conduct business operations at the highest ethical standard, “Chunghwa Telecom Code of Conduct” is formulated as the basic guideline for employees’ ethical standard while engaging commercial activities. To create a healthy working environment, we have a reporting hotline to encourage employees to voice their opinions in a safe and confidential manner. This Code of Conduct is included in the training program of new employees, not only it is re-examined annually, it is used to evaluate employees performance, to ensure that all employees understand and will be put into practice.

The principle of Chunghwa Telecom Code of Conduct includes:

- To strengthen determination and commitment, specific company regulations and external documents are clearly announced for integrity management policy and its implement.
- Avoid transactions with those who have dishonesty records in order to conduct commercial activities under fairness and transparency.
- Prohibit bribery, accept of bribes, provide illegal political contributions, improper charitable donations, sponsor unreasonable gifts and hospitality, or other improper benefits.
- The board of directors should urge the company to prevent dishonesty and ensure to implement policy through dedicated department.
- To implement integrity management, all Chunghwa people should conduct business by regulations so as to prevent dishonesty.
- Clearly specify a conflict of interest avoidance policy for board members, supervisors, and managers.
- 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.
- 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.
- Clearly specify that the company should strengthen the fulfillment of integrity management information disclosure.

Corruption Prevention

To establish a corporate culture of ethical management, we have formulated an ethical corporate management best practice principle to a sound operation. In addition, we also formulated “Procedures for Ethical Management and Guidelines for Conduct” to prevent unethical behavior and put ethical policy into effect. Additionally, the Chunghwa Telecom Employee Review Guidelines and Chunghwa Telecom Reward and Discipline Standard are published to evaluate employees, who are also confirmed to thoroughly understand and followed.

All our employees are required to take the “Chunghwa Telecom Code of Business Conduct and Code of Conduct Test” each year. By doing so to maintain their professionalism and integrity, which optimize corporate governance and risk control, which establish honestly principled corporate culture. Other than those who were not available during the testing period, all employees (100%) have participated in the test.



R Information Disclosure

With integrity, responsibility, and a trustworthy spirit, Chunghwa is committed to reduce the information asymmetry between business management and external stakeholders and establish diversified information transparency, enhance the communication with the stakeholders, and improve the efficiency, quality, balance and credibility of information disclosure.

To facilitate stakeholders' understanding of the company's latest information, we disclose information through corporate website, Market Observation Post System, annual report, CSR report, press conference and investor conference.

Chunghwa Telecom's contribution and effort has been honored by receiving top 10 awards in the "Information Disclosure and Transparency Ranking System A++". This is the 8th consecutive year that Chunghwa Telecom receives this honor since Securities and Futures Institute promulgated this rating. In the future, we will continue to follow the highest standard of ethical best practice and win the trust and support of the investors and shareholders.

Strengthen Business Management

To improve the quality of business marketing and consumers' trust, we have formulated the "Business Marketing Standards" to ensure the execution of business in line with the requirement of competent authority, while including compliance status into the evaluation of higher management's performance. Though Chunghwa Telecom has not been penalized by taxation and improper actions, however, 59 incidents in the total of NT\$ 19.98 million were fined in 2013. Based on the fined items, the main reasons and subsequent improvement is described below:

Installation of Base Station

(1) Chunghwa Telecom has long been complained about its "poor signal" and "base station might endanger health", in quite a number of times, it was also penalized or received administrative sanctions due to base station issues.

(2) In consideration of consumers' communication interests and difficulty in placing base stations, we will continue to adopt the following measures:

- Communication with the public in an aggressive and positive manner concerning the setup of base station and adjustment issues.
- Continue to communicate with the competent authority to relax the restriction of setting up base stations.
- Work on regulations for administration of base station for a more definite and convenient measures.
- Strengthen public awareness on the issues of electromagnetic waves and provide free testing services.

Two Incidents of Fair Trade Commission Sanction in 2013

As confirmed, both are the cases of failing to file merger reporting. In the future, Chunghwa Telecom will be more diligent on the procedure of cooperating with other partners.

Case Name	Sonet Supernetting Project	Sochamp and Smartfun Project
Reason	Violation of Article 6.1.4 of the Fair Trade Act concerning merger reporting, and Article 11.1 of the same regulation.	Violation of Article 6.1.2 & Article 6.1.5 of the Fair Trade Act concerning merger reporting, and Article 11.1 of the same regulation.
Solution	Cooperation of supernetting project with Sonet has been terminated.	Supplementary reporting procedure has been submitted to the Fair Trade Commission.

Management of Employees

On the management of employees, 20 cases were reported in 2013 with a total of 25 employees violating the Business Principle and Ethical Corporate Management Best Practice Principle, but no employees were dismissed or disciplined or litigation arose due to bribery. In addition to punishment, we will continue to help employees to understand the importance and necessity of best practice principle.

- The violation of Business Principle and Ethical Corporate Management Best Practice Principle: Violation of confidentiality: 3 cases with 4 employees.
- Inappropriate behavior or violate company regulation: 17 cases with 21 employees.

Pay Attention to Digital Convergence Development

Since any changes in policy or regulation might affect the operation and development of Chunghwa Telecom, Chunghwa Telecom therefore on one hand stay communication with the government and competent authority, on the other, pay close attention to the development of any related regulations. Among the regulations, we have been monitoring closely on the development of “Digital Convergence Development Plan”, as it is crucial to national competitiveness and the development of ICT industry development.

The Executive Yuan approved the “Digital Convergence Development Project” in 2010. The digital convergence development project will increase national competitive strength and effectively accelerate digital convergence services and ICT industry development. We are happy to see its success and in addition to continuing to observe amendment status and direction and communicating our suggestions to the competent authorities at the right time to maximize benefits, we will actively construct a fiber optic network simultaneously, enhance the competitive strength of fiber optic broadband, separately commit to expanding innovative value added service operations, and create business opportunities in the ICT industry to maintain our leading position in the high speed broadband market.

Telecom Charge Policy Adjustment

In order to catch up to the European and American’s liberalized telecommunication market, the national communications commissions decided to adjust the current telecom charge policy. Beginning of 2013 there will be controlling over medial price among industry. The National Communications Commissions also decided to reduce the mobile termination rates next year to promote constructive competition.

The mobile termination rates refer to when a customer makes a call to someone who is not a customer of the same company, both companies must calculate the share cost according to the speaking time. Starting in 2013, the mobile termination rates will decline gradually in four year, from NT\$ 2.15 to 1.15 in 2016, which is equivalent to 46.5% price reduction.

We strive to bridge the digital gap, however, in Taiwan there’s no clear policy for radio frequency, people have concern about base station and part of people use most broadband resources, it’s hard for us to well distribute internet resources and infrastructure among people and regions. We will continue to communicate with the competent authorities and hope the industry and government can cooperate to establish a healthy environment that is advantageous to mobile broadband development.



Lead the Market with 4G Mobile Communication

Whereas mobile applications developed by intelligent terminal equipment are changing people's behavior, multimedia audio-visual services are replacing voice services. To improve the communication quality and transmission efficiency of mobile communications, Chunghwa Telecom's goal is leading the market by providing 4G mobile communication networking services.

With NT\$ 39.07 billion, we have been awarded a total of 35 MHz in bandwidth in the 4G license auction in 2013 which made us the largest spectrum telecom carrier in Taiwan. The blocks we acquired include B2 block in the 900MHz frequency band and the C2 and C5 blocks for 1800 MHz; while C2 is currently used for our 2G service, C5 block will be used for 4G networks and terminal equipment. This new addition will continue from our existing 2G system into a 4G system in the future.

Chunghwa Telecom lead the market by establishing 4G at C5 block, it is expected that 4G service will be available to the market before the 2nd quarter of 2014; at the same time, we are planning to establish at least 7,000 4G base stations in 5 years, with radio coverage reaching population of at least 96%, so as to providing quality 4G mobile communication services.

"4G"- Fourth Generation of Mobile Telecommunication Network

4G provides information transmission speed of 100 Mbps for high mobility communications and at least 1 Gbps for stationary users. The first 4G standard recognized is LTE-Advanced, while the earlier released version is LTE, supporting the most updated mobile communication network used by telecom carriers in Taiwan; since LTE's peak transmission speed is only 150 MBPS, it only regarded as BEYOND or PRE 4G networking technology.



T Sustainability

Confronted by the challenges of telecom operation and a rapidly changing market, Chunghwa Telecom aims to develop business operations based on “Innovation, Broadband, Value-added, Integration, Principle-protected, and Touching service” to improve business performance, increase sustainable values of shareholders and the Company.

We will continue to abide by the principle of corporate governance, strengthen social care and environmental protection, implement corporate social responsibility and capitalize on technology and management to improve employees’ expertise and the Company’s business performance. It is believed that these efforts will equip us with the capability to respond to the ever-changing environment, and continue to create values to respond to the support of the consumers, shareholders and employees, thereby achieving sustainable operations.

1 Facilitate positive business evolution through action, broadband, value-added and ICT integration service

- Introduce new broadband products, expand major business of the corporate customers and increase business capacity.
- Create competitive advantage through ICT integration services.

2 Develop emerging service opportunity such as cloud and IOT (Internet of Things), work with partners to generate best strategies

- Take the initiative to integrate cloud and IOT industry to stimulate market needs.
- Develop emerging applications, cost saving and strengthen operational efficiency.

3 Continue to strengthen the application of internet facility and information technology to support business transformation and growth

- Internet upgrade and integration.
- Utilize information technology to enhance operational efficiency, support new business and intensify information security.

4 Strengthen resource utilization and management mechanism to improve the efficiency of resources

- Centralized planning, utilization and management of resources, control operation cost and expense.
- Promote the revitalization and utilization of non-operating assets to enhance asset value.

5 Develop overseas ICT market to explore new opportunities

- Evaluate target market’s development criteria and select suitable products for overseas promotion.
- Plan business model to facilitate market expansion.

6 Sharpen the unique advantage of the subsidiaries to enhance the Company’s competitiveness

- Intensify company cooperation to enhance the advantages of company operation.
- Deepen expertise of the subsidiaries to bring out competitive advantage.

7 Infuse telecom expertise into corporate social responsibility issues to implement the commitment of corporate citizenship

- Initiate digital rainforest project to facilitate the innovation of ICT application through business depth.
- Utilize expertise to facilitate the reduction of digital differences and environmental protection, and narrow urban-rural gap to enhance social well-being.