CHUNGHWA TELECOM CO LTD
Form 20-F
April 20, 2010
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F

(Mark One)

¨ **Registration statement pursuant to Section 12(b) or 12(g) of the Securities Exchange Act of 1934**

or

x **Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the fiscal year ended December 31, 2009

or

¨ **Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the transition period from to

or

¨ **Shell company report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
Date of event requiring this shell company report

Commission file number 001-31731

Chunghwa Telecom Co., Ltd.

(Exact Name of Registrant as Specified in Its Charter)

Taiwan, Republic of China

(Jurisdiction of Incorporation or Organization)

21-3 Hsinyi Road, Section 1, Taipei, Taiwan, Republic of China

(Address of Principal Executive Offices)

Fufu Shen

21-3 Hsinyi Road, Section 1, Taipei,

Taiwan, Republic of China

Tel: +886 2 2344-5488

Fax: +886 2 3393-8188

(Name, Telephone, email and/or Facsimile number and Address of Company Contact Person)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Shares, par value NT$10 per share	**New York Stock Exchange***
American Depositary Shares, as evidenced by American Depositary Receipts, each representing 10 Common Shares	**New York Stock Exchange**

Securities registered or to be registered pursuant to Section 12(g) of the Act:

None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

None

Indicate the number of outstanding shares of each of the Issuer s classes of capital or common stock as of the close of the period covered by the annual report.

9,696,808,181 Common Shares

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No ¨

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes ¨ No x

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ¨ No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP ¨ International Financial Reporting Standards as issued by the International Accounting Standards Board ¨ Other x

If Other has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow. Item 17 ¨ Item 18 x

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Securities Exchange Act of 1934). Yes ¨ No x

* Not for trading, but only in connection with the listing on the New York Stock Exchange of the American Depositary Shares

CHUNGHWA TELECOM CO., LTD.

FORM 20-F ANNUAL REPORT

FISCAL YEAR ENDED DECEMBER 31, 2009

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SUPPLEMENTAL INFORMATION

All references to we, us, our and our company in this annual report are to Chunghwa Telecom Co., Ltd. and our consolidated subsidiaries, unles the context otherwise requires. All references to shares and common shares are to our common shares, par value NT$10 per share, and to ADSs are to our American depositary shares, each of which represents ten of our common shares. The ADSs are issued under the deposit agreement, as amended, supplemented or modified from time to time, originally dated as of July 17, 2003, among Chunghwa Telecom Co., Ltd. and the Bank of New York, and amended and restated on November 14, 2007, among Chunghwa Telecom Co., Ltd. and JP Morgan Chase Bank, as depository, and the holders and beneficial owners of American Depositary Receipts issued thereunder. All references to Taiwan are to the island of Taiwan and other areas under the effective control of the Republic of China. All references to the government or the Republic of China government are to the government of the Republic of China. All references to the Ministry of Transportation and Communications are to the Ministry of Transportation and Communications of the Republic of China. All references to the Securities and Futures Bureau are to the Securities and Futures Bureau of the Republic of China or its predecessors, as applicable. R.O.C. GAAP means the generally accepted accounting principles of the Republic of China, and U.S. GAAP means the generally accepted accounting principles of the United States. Any discrepancies in any table between totals and sums of the amounts listed are due to rounding. Unless otherwise indicated, or the context otherwise requires, references in this annual report to financial and operational data for a particular year refer to the fiscal year of our company ending December 31 of that year.

When we refer to our privatization or our being privatized in this annual report, we mean our status as a non-state-owned entity after the government reduced its ownership of our outstanding common shares, including our common shares owned by entities majority-owned by the government, to less than 50%. We were privatized in August 2005.

We publish our consolidated financial statements in New Taiwan dollars, the lawful currency of the Republic of China. In this annual report, NT$ and NT dollars mean New Taiwan dollars, $, US$ and U.S. dollars mean United States dollars.

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FORWARD-LOOKING STATEMENTS IN THIS ANNUAL REPORT MAY NOT BE REALIZED

This annual report contains forward-looking statements, including statements regarding:

- our business and operating strategy;
- our network expansion plans;
- our business, operations and prospects;
- our financial condition and results of operations;
- our dividend policy;
- the telecommunications industry regulatory environment in Taiwan; and
- future developments in the telecommunications industry in Taiwan.

These forward-looking statements are generally indicated by the use of forward-looking terminology such as believe, expect, anticipate, estimate, plan, aim, seek, project, may, will or other similar words that express an indication of actions or results of actions that may o expected to occur in the future. These statements reflect our current views with respect to future events and are subject to risks, uncertainties and assumptions, many of which are beyond our control. You should not place undue reliance on these statements, which apply only as of the date of this annual report. These forward-looking statements are based on our own information and on information from other sources we believe to be reliable. Actual results may differ materially from those expressed or implied by these forward-looking statements. Factors that could cause differences include, but are not limited to, those discussed under Item 3. Key Information D. Risk Factors. In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this annual report might not occur and our actual results could differ materially from those anticipated in these forward-looking statements. We undertake no obligation to update or revise any forward-looking statements whether as a result of new information, future events or otherwise.

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PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

We were privatized as a result of a secondary ADS offering and concurrent domestic auction of our common shares on August 12, 2005. The privatization has enabled us to develop our business and respond to changing market conditions more rapidly and efficiently.

A. Selected Financial Data

The selected income statement data and cash flow data for the years ended December 31, 2007, 2008 and 2009, and the selected balance sheet data as of December 31, 2008 and 2009 set forth below are derived from our audited consolidated financial statements included elsewhere in this annual report and should be read in conjunction with, and are qualified in their entirety by reference to, our consolidated financial statements and the related notes. The selected income statement and cash flow data for the years ended December 31, 2005 and 2006, and the selected balance sheet data as of December 31, 2005, 2006 and 2007 set forth below, are derived from our audited consolidated financial statements not included in this annual report. The consolidated financial statements have been prepared and presented in accordance with accounting principles generally accepted in the Republic of China, or R.O.C. GAAP, which differ in some material respects from accounting principles generally accepted in the United States of America, or U.S. GAAP, as further explained under note 34 to our consolidated financial statements included herein.

	Year Ended December 31,					
	2005[1]	2006[1]	2007[1]	2008[1]	2009	
	NT$	NT$	NT$	NT$	NT$	US$
	(in billions, except for percentages and per share and per pro forma ADS data)					
Income Statement Data:						
ROC GAAP						
Net revenues	183.4	184.5	197.4	201.7	198.4	6.2
Operating costs[1][2]	(92.9)	(93.8)	(106.7)	(113.5)	(112.7)	(3.5)
Gross profit	90.5	90.7	90.7	88.2	85.7	2.7
Operating expenses[2]	(31.4)	(34.4)	(30.4)	(29.6)	(29.3)	(0.9)
Income from operations	59.1	56.3	60.3	58.6	56.4	1.8
Non-operating income and gains[3]	1.9	1.8	2.5	3.4	1.4	
Non-operating expenses and losses[1][2][3]	(1.4)	(0.4)	(1.0)	(2.3)	(0.6)	
Income before income tax	59.6	57.7	61.8	59.7	57.2	1.8
Income tax expense	(11.9)	(12.8)	(13.1)	(13.9)	(12.7)	(0.4)
Consolidated net income	47.7	44.9	48.7	45.8	44.5	1.4
Attributable to:						

Stockholders of the parent	47.7	44.9	48.2	45.0	43.8	1.4
Minority interests			0.5	0.8	0.7	
	47.7	44.9	48.7	45.8	44.5	1.4

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	Year Ended December 31,					
	2005[1] NT$	2006[1] NT$	2007[1] NT$	2008[1] NT$	2009 NT$	2009 US$
	(in billions, except for percentages and per share and per pro forma ADS data)					
Earnings per share:						
Basic	4.77	4.56	4.94	4.64	4.51	0.14
Diluted			4.93	4.63	4.50	0.14
Earnings per ADS equivalent:						
Basic	47.66	45.61	49.35	46.42	45.16	1.41
Diluted			49.35	46.31	45.01	1.41
US GAAP						
Net revenues	184.7	186.3	200.9	204.4	200.4	6.3
Operating costs and expenses[1][2]	(139.6)	(130.0)	(138.1)	(147.1)	(141.8)	(4.4)
Income from operations	45.1	56.3	62.8	57.3	58.6	1.9
Non-operating income, net[1][3]	0.9	1.1	1.5	1.4	0.8	
Income before income tax	46.0	57.4	64.3	58.7	59.4	1.9
Income tax expense	(12.7)	(15.3)	(14.5)	(14.5)	(13.6)	(0.5)
Consolidated net income	33.3	42.1	49.8	44.2	45.8	1.4
Attributable to:						
Stockholders of the parent	33.3	42.1	49.5	43.7	45.1	1.4
Noncontrolling interests			0.3	0.5	0.7	
	33.3	42.1	49.8	44.2	45.8	1.4
Earnings per share:						
Basic	3.29	4.30	5.08	4.52	4.65	0.14
Diluted			5.08	4.51	4.64	0.14
Earnings per ADS equivalent:						
Basic	32.90	43.01	50.81	45.19	46.51	1.45
Diluted			50.80	45.09	46.36	1.45

	As of December 31,					
	2005[1] NT$	2006[1] NT$	2007[1] NT$	2008[1] NT$	2009 NT$	2009 US$
	(in billions, except for percentages and per share and per pro forma ADS data)					
Balance Sheet Data:						
ROC GAAP						
Working capital	36.2	47.8	60.6	48.3	54.8	1.7
Long-term investments	5.9	5.7	5.6	8.9	9.1	0.3
Properties	360.9	343.5	330.8	323.0	313.0	9.8
Goodwill		0.1	0.2	0.2	0.3	
Total assets	458.9	461.4	469.6	463.6	449.0	14.1
Short-term loans		0.1		0.3	0.8	
Long-term loans[4]	0.5	0.3			0.3	
Deferred income	0.3	1.0	1.5	2.1	2.5	0.1
Other liabilities	7.6	8.5	11.0	11.8	7.5	0.2
Total liabilities	52.0	61.3	71.8	83.9	70.0	2.2
Capital stock	96.5	96.7	96.7	97.0	97.0	3.0
Cash dividend on common shares	45.3	40.7	34.6	40.7	37.1	1.2
Equity attributable to stockholders of the parent	406.9	400.0	395.0	376.6	375.2	11.7
Minority interests in subsidiaries		0.1	2.8	3.1	3.8	0.1

US GAAP						
Total assets[5]	395.2	398.8	406.2	400.7	385.4	12.1
Total liabilities[5]	67.4	78.6	85.7	94.8	78.9	2.5
Capital stock	96.5	96.7	96.7	97.0	97.0	3.0
Equity attributable to stockholders of the parent[5]	327.8	320.1	317.8	302.8	302.8	9.5
Noncontrolling interests		0.1	2.7	3.1	3.7	0.1

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	Year Ended December 31,					
	2005(1)	2006(1)	2007(1)	2008(1)	2009	
	NT$	NT$	NT$	NT$	NT$	US$
	(in billions, except for percentages and per share and per pro forma ADS data)					
Cash Flow Data:						
ROC GAAP						
Cash provided by operating activities	87.4	100.7	89.0	91.9	77.3	2.4
Cash used in investing activities	(28.3)	(18.8)	(38.6)	(34.5)	(29.5)	(0.9)
Cash used in financing activities	(46.6)	(52.9)	(44.3)	(52.3)	(56.4)	(1.8)
Net cash inflow	12.6	28.8	5.6	5.1	(8.0)	(0.3)
Other Financial Data:						
ROC GAAP						
Gross margin(6)	49%	49%	46%	44%	43%	43%
Operating margin(7)	32%	31%	31%	29%	28%	28%
Net margin(8)	26%	24%	24%	22%	22%	22%
Capital expenditures	22.9	27.7	25.1	30.1	25.5	0.8
Depreciation and amortization	41.6	41.0	39.8	38.2	36.3	1.1
Cash dividends declared per share	4.30(9)	3.58(9)	4.26(9)	3.83(9)	(10)	(10)
Stock dividends declared per share	0.20	1.00	2.10	1.00	(10)	(10)

(1) As of January 1, 2009, we adopted the revised Statements of Financial Accounting Standards, or SFAS, No. 10 Accounting for Inventories, which requires inventories to be stated at the lower of the weighted-average cost or net realizable value item by item, except for where it may be appropriate to group items of similar or related inventories. In addition, SFAS No. 10 also requires inventory-related income and expenses to be classified as operating costs. According to this standard, we have recorded inventory-related expenses and inventory-related non-operating expenses and losses as operating costs for the year of 2009. For comparison purpose, we reclassified the inventory-related expenses and inventory-related non-operating expenses and losses as operating costs for the years of 2005 to 2008.

(2) As a result of the adoption of Interpretation 96-052 issued by the Accounting and Research Development Foundation, or ARDF, in the Republic of China, beginning from January 1, 2008, bonuses paid to employees, directors, and supervisors are recognized as an expense rather than an appropriation of earnings, and we recorded NT$1,891 million and NT$1,964 million (US$61.5 million) in operating costs and expenses in 2008 and 2009, respectively. Interpretation 96-052 is effective for the financial statements beginning after January 1, 2008, thus we did not retrospectively restate our financial statements for the years of 2005 to 2007.

(3) Includes interest income of NT$452 million, NT$804 million, NT$1,453 million, NT$1,916 million and NT$479 million (US$15 million) for the years ended December 31, 2005, 2006, 2007, 2008 and 2009 respectively, and interest expense of NT$2 million, NT$6 million, NT$15 million, NT$4 million and NT$15 million (US$0.5 million) for the years ended December 31, 2005, 2006, 2007, 2008 and 2009 respectively.

(4) Includes current portion of long-term loans.

(5) As of December 31, 2006, we adopted the guidance related to Employers Accounting for Defined Benefit Pensions and Other Postretirement Benefits and recorded the under-funded status of our defined benefit pension plan as a liability of NT$0.3 billion with a corresponding offset, net of taxes, to deferred income tax assets of NT$0.1 billion and accumulated other comprehensive income within stockholders equity of NT$0.2 billion. The adoption of the abovementioned guidance is on prospective basis so we did not retrospectively restate our financial statements for the year of 2005.

(6) Represents gross profits divided by net revenues.

(7) Represents income from operations divided by net revenues.

(8) Represents net income attributed to stockholders of the parent divided by net revenues.

(9) Dividends for 2005, 2006, 2007 and 2008 in U.S. dollars were US$0.13, US$0.11, US$0.13 and US$0.12, respectively.

(10) Dividends for 2009 are expected to be declared at our 2010 annual general stockholders meeting scheduled for June 2010.

Currency Translations and Exchange Rates

In portions of this annual report, we have translated New Taiwan dollar amounts into U.S. dollars for the convenience of readers. The rate we used for the translations was NT$31.95 = US$1.00, which was the noon buying rate in the City of New York for cable transfers of New Taiwan dollars as certified for customs purposes by the Federal Reserve Bank of New York on December 31, 2009. This translation does not mean that New Taiwan dollars could actually be converted into U.S. dollars at that or any other rate or at all. The following table shows the noon buying rates for New Taiwan dollars expressed in New Taiwan dollar per US$1.00.

Year Ended December 31,	Average[(1)]	High	Low	At Period End
2005	32.13	33.77	30.65	32.80
2006	32.51	33.31	31.28	32.59
2007	32.41	33.41	32.26	32.43
2008	31.51	33.58	29.99	32.76
2009	33.02	35.21	31.95	31.95
October	32.29	32.61	32.04	32.61
November	32.32	32.58	32.12	32.20
December	32.24	32.38	31.95	31.95
2010 (through April 16)	31.83	32.14	31.35	31.35
January	31.87	32.04	31.65	31.94
February	32.06	32.14	31.98	32.12
March	31.83	32.04	31.70	31.73
April (through 16)	31.56	31.74	31.35	31.35

Source: Federal Reserve Statistical Release, Board of Governors of the Federal Reserve System.

(1) Annual averages are calculated using the average of the exchange rates on the last day of each month during the period. Monthly averages are calculated using the average of the daily rates during the relevant period.

B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

Our business and operations are subject to various risks, many of which are beyond our control. If any of the risks described below actually occurs, our business, financial condition or results of operations could be seriously harmed.

Risks Relating to Our Company and the Taiwan Telecommunications Industry

The current global recession and credit crisis may cause disruptions to our customers and their demand for telecommunications services. Demand for our products has been, and will continue to be, adversely affected by overall macroeconomic conditions.

The current global recession and credit crisis since the second half of 2008 has been having a negative impact on businesses around the world. Taiwan and other major economies around the world, including the United States and China, have entered a period of economic contraction or slower economic growth. In particular, the current global economic crisis, weak consumer confidence, diminished consumer and business spending, and asset depreciation have contributed to a slowdown in the market demand for telecommunications

services, which has led to a decrease in demand for our services. We cannot assure you when an economic recovery may occur, or even when an economic recovery does occur, that demand for our services will increase. The combined effects of the global recession may have a material adverse impact on our results of operations, cash flows and financial condition, which may cause the price of our ADSs to decline.

The licenses granted by the ROC government authorities for operating 2G mobile services on the GSM 900MHz and GSM 1800MHz spectrum will expire in 2012 and 2013, respectively. We cannot assure you that we will be able to continue operating our 2G mobile services in the same manner after 2013, which could have a material adverse effect on our business.

The licenses granted by the ROC government authorities for operating 2G mobile services on the GSM 900MHz and GSM 1800MHz spectrum will expire in 2012 and 2013, respectively. There are currently three mobile network operators that offer 2G mobile services in Taiwan. All three 2G mobile network operators in Taiwan have engaged in discussions with the National Communications Commission and Ministry of Transportation and Communications to discuss the government s plan for 2G mobile services after 2013. Along with the other two 2G mobile network operators in Taiwan, we have expressed our desire to continue operations of 2G mobile services in Taiwan and have asked the government regulators to extend the licenses. We anticipate the government will announce its plans for 2G mobile services before the end of 2010. Currently, the National Communications Commission is considering retrieving 2G mobile numbers which are inactive or idle from 2G mobile service providers. While we believe that the government will continue to allow operations of 2G mobile services and promulgate a framework for renewing the licenses, we cannot assure you of the ultimate outcome. If we cannot continue to operate our 2G wireless services beyond 2013, our business and future results of operators may be adversely affected.

Extensive regulation of our industry may limit our flexibility to respond to market conditions and competition, and our business may suffer.

As a telecommunications service provider in Taiwan, we are subject to extensive regulation. See Item 4. Information on the Company B. Business Overview Regulation for a discussion of the regulatory environment applicable to us. Any changes in the regulatory environment applicable to us may adversely affect our business, financial condition and results of operations.

Prior to March 1, 2006, we were under the supervision of the Ministry of Transportation and Communications and the Directorate General of Telecommunications. On March 1, 2006, the National Communications Commission was formed in accordance with the National Communications Commission Organization Law, or Organization Law, which was intended to transfer regulatory authority over the Taiwan telecommunications industry from the Ministry of Transportation and Communications and the Directorate General of Telecommunications to the National Communications Commission.

We have been designated by the government as a dominant provider of fixed communications and mobile services within the meaning of applicable telecommunications regulations, and as a result, we are subject to special additional requirements imposed by the National Communications Commission. For example, the regulation governing the setting and changing of tariffs allows non-dominant telecommunications service providers greater freedom to set and change tariffs within the range set by the government. If we are unable to respond effectively to tariff changes by our competitors, then our competitiveness, market position and profitability will be materially and adversely affected. We were subject to the Statute of Chunghwa Telecom Co., Ltd. prior to our privatization. Although we have been privatized, the Legislative Yuan has not yet abolished the Statute of Chunghwa Telecom Co., Ltd., and at this time, the Statute of Chunghwa Telecom Co., Ltd. is still applicable to us. Under the Statute of Chunghwa Telecom Co., Ltd., the Ministry of Transportation and Communications has the authority to regulate aspects of our business. Any such regulation could be burdensome or conflict with regulations of the National Communications Commission or may otherwise adversely affect our business, financial condition and results of operations.

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The regulatory framework within which we operate may limit our flexibility to respond to market conditions, competition or changes in our cost structure. In particular, future decreases in tariff rates could immediately and substantially decrease our revenues. In particular, as a Type I service provider under the Republic of China Telecommunications Act, or Telecommunications Act, we are constrained in our ability to raise prices. For instance, the National Communications Commission adopted a price reduction plan on January 29, 2010 that resulted in a number of price reductions in the tariff structures relating to our domestic fixed communications and mobile communications services from April 2010 to March 2013. See Item 5. Operating and Financial Review and Prospects Overview Tariff Adjustments.

In addition, we operate our businesses with approvals and licenses granted by the government. If these approvals or licenses are revoked or suspended or are not renewed, or if we are unable to obtain any additional licenses that we may need to operate or expand our business in the manner we desire, then our financial condition and results of operations, as well as our prospects, will suffer.

Our investment project in Global Mobile Corporation may be subject to regulatory approval by the National Communications Commission

Our investment project in Global Mobile Corporation, a company that acquired a WiMAX license in 2007, was overruled by the National Communications Commission on April 1, 2008 on the grounds that it is unfair to other parties that submitted bids for licenses if we were allowed to invest in a company that acquired a license when we failed to obtain a license. On October 23, 2008, the National Communications Commission overturned its ruling on April 1, 2008 about our investment in Global Mobile Corporation, a company that acquired a WiMAX license in 2007. The new ruling states that our 2007 investment in Global Mobile Corporation has been allowed. We cannot assure you that the National Communications Commission will not implement other restrictions on our investments in the future, which could have a material adverse effect on our business.

Increasing competition resulting from the ongoing liberalization of the Taiwan telecommunications industry or from alternative means of communication may adversely affect our growth and profitability by causing us to lose customers, charge lower tariffs or spend more on marketing.

We have faced increasing competition from new entrants in the Taiwan telecommunications market in recent years. In particular, multiple licenses to operate fixed line, mobile, paging and other services have been issued by the Republic of China government since 1996. The National Communications Commission opened applications for VoIP (070) phone numbers in November 2005. As of the end of 2008, three Type I service providers New Century InfoComm Tech. Co., Ltd., or Sparq, Taiwan Fixed Network and us and two Type II service providers Taiwan Infrastructure Technology Company and one of our subsidiaries, Chief Telecom have obtained VoIP phone numbers. Our subsidiary, Chief Telecom, has been granted 070 VoIP phone numbers from the National Communications Commission and has launched its 070 phone-to-phone VoIP service in April 2009.

We also face increased broadband competition from cable operators. Cable operators have been using low-priced internet access packages to attract new customers in specific areas and buildings in Taiwan. They have also been upgrading their networks to DOCSIS 3.0 in order to provide higher speed internet access. DOCSIS refers to Data Over Cable Service Interface Specification, which is an international telecommunications standard that permits the addition of high-speed data transfer to an existing cable TV system. To counter these developments, we plan to migrate more of our ADSL customers to FTTx services and to provide even higher speed FTTH access. However, we cannot guarantee that these measures will be effective and our broadband competitors could still adversely affect our business, financial condition and results of operations.

Many of our competitors are in alliances with leading international telecommunications service providers and have access to financial and other resources or technologies that may not be available to us. Moreover, as the government continues to liberalize the telecommunications market, such as through the issuance of new licenses or establishment of additional networks, our market position and competitiveness could be materially and adversely affected.

Mobile service providers in Taiwan have been offering 3G mobile services for several years. We face increased competition from some of these mobile service providers starting during the economic downturn, when they began offering free on-net call packages. We have launched diversified packages of our own to counter the intensified competition. However, we cannot guarantee that these measures will be effective and our business, financial condition and results of operations may be adversely affected by our competition. We may also be subject to competition from providers of new telecommunications services as a result of technological development and the convergence of various telecommunications services. In particular, as a result of technological innovations and other factors, we have been facing competition from alternative means of communication, including voice over internet protocol, or VoIP, high-speed cable internet service, cable telephony, email and wireless services. Providers of these products and services include cable television companies, direct broadcast satellite companies and DSL resellers.

Increasing competition may also cause the rate of our customer growth to reverse or decline, bring about further decreases in tariff rates and necessitate increases in our selling and promotional expenses. Any of these developments could adversely affect our business, financial condition and results of operations.

If we fail to maintain a good relationship with our labor union, work stoppages or labor unrest could occur and the quality of our services as well as our reputation could suffer.

In accordance with our articles of incorporation, besides the managers, deputy managers and human resource directors of our various departments and groups, all of our employees are members of our principal labor union, the Chunghwa Telecom Workers Union. Since our incorporation in 1996, we have experienced disputes with our labor union on such issues as employee benefits and retirement benefits in connection with our privatization as well as the right to protest. Despite having taken measures to improve relations, increase cooperation and ensure mutual benefit with our labor union, such as increasing channels of communications by holding periodic labor resource review meetings and guaranteeing a labor union seat on our board of directions, we cannot assure you that we will be able to maintain a good relationship with our labor union. Any deterioration of our relationship with our labor union could result in work stoppages, strikes or threats to take such an action, which could disrupt our business and operations, and materially and adversely affect the quality of our services and harm our reputation.

Changes in technology may render our current technologies obsolete or require us to obtain licenses for introducing new services or make substantial capital investments, financing for which may not be available to us on favorable commercial terms or at all.

The Taiwan telecommunications industry has been characterized by rapid increases in the diversity and sophistication of the technologies and services offered. As a result, we expect that we will need to constantly upgrade our telecommunications technologies and services in order to respond to competitive industry conditions and customer requirements. Developments of new technologies have rendered some less advanced technologies unpopular or obsolete. For example, demand for our paging services declined significantly since the introduction of GSM services. As a result, we recognized an impairment charge of NT$343 million relating to our paging business in 2005. If we fail to develop, or obtain timely access to, new technologies and equipment, or if we fail to obtain the necessary licenses to provide services using these new technologies, we may lose our customers and market share and become less profitable.

In addition, the cost of implementing new technologies, upgrading our networks or expanding capacity could be significant. In particular, we have made and will continue to make substantial capital expenditures in the near future in order for us to effectively respond to technological changes, such as the continued expansion of our High Speed Packet Access, or HSPA, and HSPA+ mobile network. We will also need to make additional capital expenditures relating to the launch of new businesses, such as Next Generation Network, or NGN, projects to migrate our fixed line networks to NGN. In addition, to meet the increasingly robust high-bandwidth requirements of digital convergence services, we will expand construction of fiber optic networks, including

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PONs, or passive optical networks, and ODNs, or optical distribution networks. To the extent these expenditures exceed our cash resources, we will be required to seek additional debt or equity financing. Our ability to obtain additional financing on favorable commercial terms will depend on a number of factors. These factors include our financial condition, results of operations, cash flows and the prevailing market conditions in the Taiwan and international telecommunications industry, the cost of financing and conditions in the financial markets, and the issuance of relevant government and other regulatory approvals. The failure to obtain funding for our capital expenditures on commercially acceptable terms and on a timely basis or at all, could jeopardize our expansion plans and materially and adversely affect our business, financial condition, results of operations and prospects.

We may not realize the benefits we expect from our investments, and this may materially and adversely affect our business, financial condition, results of operations and prospects.

We have made significant capital investments in our network infrastructure and information technology systems to provide the services we offer. In 2009, we made capital expenditures for our domestic fixed communications of NT$15.9 billion (US$497 million), our mobile communications business of NT$5.0 billion (US$157 million), our internet business of NT$2.1 billion (US$66 million), our international fixed communications business of NT$1.3 billion (US$41 million) and our other businesses of NT$1.2 billion (US$37 million). In order to continue to develop our business and offer new and more sophisticated services, we intend to continue to invest in these areas as well as new technologies. The launch of new and commercially viable products and services is important to the success of our business. We expect to incur substantial capital expenditures to further develop our range of services and products. Commercial acceptance by consumers of new and more sophisticated services we offer may not occur at the rate or level expected, and we may not be able to successfully adapt these services to effectively and economically meet our customers demand, thus impairing our expected return from our investments.

We cannot assure you that services enabled by new technologies we are implementing, such as HSPA mobile technology, will be accepted by the public to the extent required to generate an acceptable rate of return. In addition, we could face the risk of unforeseen complications in the deployment of these new services and technologies, and we cannot assure you that our estimate of the necessary capital expenditure to offer such services will not be exceeded. New services and technologies may not be developed and/or deployed according to expected schedules or may not achieve commercial acceptance or be cost effective. The failure of any of our services to achieve commercial acceptance could result in additional capital expenditures or a reduction in profitability to the extent we are required under applicable accounting standards to recognize a charge for impairment of assets. Any such charge could materially and adversely affect our financial condition and results of operations.

We may also from time to time make equity investments in companies, but we cannot assure you of their profitability. We cannot assure you that losses related to our equity investments will not have a material adverse effect on our financial condition or results of operations.

In 2009, we recognized an other-than-temporary impairment loss of NT$85 million (US$2.7 million) for available-for-sale financial assets, NT$20 million (US$0.6 million) for financial assets carried at cost due to an adverse change in market conditions. We may be required to record additional impairment charges in future periods, which may have a material adverse effect on our financial condition and future results of operations.

Our ability to deliver services may be disrupted due to a systems failure, shutdown in our networks, earthquakes or other natural disasters.

Our services are currently carried through our fixed and mobile communications networks, as well as through our transmission networks consisting of optical fiber cable, microwave, submarine cable and satellite transmission links. Our networks may be vulnerable to damage or interruptions in operations due to adverse weather conditions, earthquakes, fires, power loss, telecommunications failures, software flaws, transmission cable cuts or similar events. For example, in 2009, losses on property, plant and equipment arising from natural calamities such as earthquakes and typhoons were approximately NT$149 million (US$4.7 million) as recorded in non-operating expenses under ROC GAAP.

Taiwan is susceptible to earthquakes and typhoons. However, we do not carry any insurance to cover damages caused by earthquakes, typhoons or other natural disasters or any resulting business interruption. Any failure of our networks, servers, or any link in the delivery chain that results in an interruption in our operations or an interruption in the provision of any of our services, whether from operational disruption, natural disaster, military or terrorist activity, or otherwise, could damage our ability to attract and retain customers and materially and adversely affect our business, financial condition, results of operations and prospects.

If new technologies adopted by us do not perform as expected, or if we are unable to effectively deliver new services based on these technologies in a commercially viable manner, our revenue growth and profitability will decline.

We are always evaluating new growth opportunities in the broader telecommunications industry. Some of these opportunities involve new services for which there are no proven markets, and may not develop as expected. Our ability to deploy and deliver these services will depend, in many instances, on new and unproven technologies. These new technologies may not perform as expected or generate an acceptable rate of return. In addition, we may not be able to successfully develop new technologies to effectively and economically deliver these services, or be able to compete successfully in the delivery of telecommunications services based on new technologies. Furthermore, the success of our wireless data services is substantially dependent on the availability of wireless data applications and devices that are being developed by third-party developers. These applications or devices may not be sufficiently developed to support the deployment of our wireless data services. If we are unable to deliver commercially viable services based on the new technologies that we adopt, our financial condition and results of operations may be materially and adversely affected.

We depend on select personnel and could be affected by the loss of their services.

We depend on the continued service of our executive officers and skilled technical and other personnel. Our business could suffer if we lose the services of any of these personnel and cannot adequately replace them. In particular, we are not insured against the loss of any of our personnel. Moreover, we may be required to increase substantially the number of these employees in connection with any expansion, and there is intense competition for experienced personnel in the Taiwan telecommunications industry. We may not be able to retain our present personnel or attract additional qualified personnel as and when needed. In addition, we may need to increase employee compensation levels in order to attract and retain personnel. We cannot assure you that the loss of the services of any of these personnel would not disrupt our business and operations and materially and adversely affect the quality of our services and harm our reputation.

Our largest stockholder may take actions that conflict with our public stockholders best interests.

As of March 31, 2010, the Republic of China government, through the Ministry of Transportation and Communications, owned approximately 35.29% of our outstanding common shares. Accordingly, the government, through its control over our board, as all non-independent board members were appointed by the Ministry of Transportation and Communications, may continue to have the ability to control our business, including matters relating to:

- any sale of all or substantially all of our assets;
- the approval of our annual operation and projects budget;
- the composition of our senior management;
- the timing and distribution of dividends;
- the election of a majority of our directors and supervisors; and

our business activities and direction.

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According to the Fixed Network Regulations, we are still required to submit a report to the National Communications Commission within 20 days after our board of directors approves the entering into, modification or termination of any contracts regarding leasing of all business, outsourcing of operations or joint operations, the transfer of the whole or substantial part of our business or assets; taking over of the whole of the business or assets of any other company which would have significant impact on our operations. The National Communications Commission also amended the Wireless Regulations and the Third Generation Mobile Telecommunications on April 3, 2009 to impose a similar requirement requiring us to submit a report within 20 days after our shareholders approves one of the above matters or our capital reduction. We cannot assure you that our largest shareholder will not take actions that impair our ability to conduct our business competitively or conflict with the best interests of our public stockholders.

Actual or perceived health risks related to mobile handsets and base stations could lead to decreased mobile service usage and difficulties in increasing network coverage and could expose us to potential liability.

According to some published reports, the electromagnetic signals from mobile handsets and cellular base stations may pose health risks or interfere with the operation of electronic equipment. Although the findings of those reports are disputed, actual or perceived risks of using mobile communications devices or of cellular base stations could have a material adverse effect on mobile service providers, including us. For example, our customer base could be reduced, our customers may reduce their usage of our mobile services, we could encounter difficulties in obtaining sites for additional cellular base stations required to expand our network coverage or we may be requested to reduce the number of existing cellular base stations. As a result, our mobile services business may generate less revenues and our financial condition and results of operations may be materially and adversely affected. In addition, we could be exposed to potential liability for any health problems caused by mobile handsets and base stations.

We are subject to litigation that could expose us to substantial liabilities.

We are from time to time involved in litigation, arbitration or administrative proceedings in the ordinary course of our business. See Item 4. Information on the Company B. Business Overview Legal Proceedings. We cannot predict the outcome of these proceedings, and we cannot assure you that if a judgment is rendered against us in any or all of these proceedings, our financial condition and results of operations would not be materially and adversely affected.

Investor confidence in us may be adversely impacted if we or our independent registered public accountants are unable to attest to or express a qualified opinion on the effectiveness of our internal control over financial reporting.

We are subject to the reporting requirements of the SEC. The SEC, as directed by Section 404 of the U.S. Sarbanes-Oxley Act of 2002, adopted rules requiring U.S. public companies to include a report of management on our internal control over financial reporting in their annual reports that contain an assessment by management of the effectiveness of our internal control over financial reporting. The effectiveness of internal control over financial reporting has been audited by Deloitte & Touche, an independent registered public accounting firm, who has also audited our consolidated financial statements for the year ended December 31, 2009. Deloitte & Touche has issued an attestation report on the effectiveness of our internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board (United States). See Item 15. Controls and Procedures Attestation Report of the Registered Public Accounting Firm.

While the management report included in this annual report concluded that our internal control over financial reporting was effective, we cannot assure you that our management will be able to conclude that our internal control over financial reporting is effective in future years. If in future years we fail to maintain effective internal control over financial reporting in accordance with the Sarbanes-Oxley Act, we could suffer a loss of investor confidence in the reliability of our consolidated financial statements, which in turn could negatively impact the trading price of our ADSs, result in lawsuits being filed against us by our stockholders or otherwise harm our reputation.

Any further economic downturn or decline in the growth of the population in Taiwan may materially and adversely affect our financial condition, results of operations and prospects.

We conduct most of our operations and generate most of our revenues in Taiwan. As a result, any decline in the Taiwan economy or a decline in the growth of the population in Taiwan may materially and adversely affect our financial condition, results of operations and prospects. In recent years, the banking and financial sectors in Taiwan have been seriously harmed by the general economic downturn in Taiwan and the rest of Asia, which has resulted in a depressed property market and an increase in the number of companies filing for corporate reorganization and bankruptcy protection. Although economic conditions in Taiwan have improved since 2003, the global slowdown in technology expenditures has also from time to time adversely affected the Taiwan economy, which is highly dependent on the technology industry. We cannot assure you that economic conditions in Taiwan will continue to improve in the future or that our business and operations will not be materially and adversely affected by deterioration in the Taiwan economy.

We face substantial political risks associated with doing business in Taiwan, particularly due to domestic political events and the tense relationship between the Republic of China and the People s Republic of China, which could adversely affect our financial condition and results of operations.

Our principal executive offices and substantially all of our assets are located in Taiwan, and substantially all of our revenues are derived from our operations in Taiwan. Accordingly, our business, financial condition and results of operations and the market price of our common shares and the ADSs may be affected by changes in Republic of China governmental policies, taxation, inflation or interest rates and by social instability and diplomatic and social developments in or affecting Taiwan which are outside of our control. Taiwan has a unique international political status. Since 1949, Taiwan and the Chinese mainland have been separately governed. The People s Republic of China, or PRC, claims that it is the sole government in China and that Taiwan is part of China. Although significant economic and cultural relations have been established during recent years between the Republic of China and the PRC, relations have often been strained. The PRC government has refused to renounce the use of military force to gain control over Taiwan. Furthermore, the PRC government passed an Anti-Secession Law in March 2005, which authorizes non-peaceful means and other necessary measures should Taiwan move to gain independence from the PRC. Past developments in relations between the Republic of China and the PRC have on occasion depressed the market prices of the securities of companies in the Republic of China. Relations between the Republic of China and the PRC and other factors affecting military, political or economic conditions in Taiwan could materially and adversely affect our financial condition and results of operations, as well as the market price and the liquidity of our securities.

Any future outbreak of contagious diseases may materially and adversely affect our business and operations, as well as our financial condition and results of operations.

Any future outbreak of contagious diseases, such as severe acute respiratory syndrome, avian influenza or H1N1 flu, may disrupt our ability to adequately staff our business and may generally disrupt our operations. If any of our employees is suspected of having contracted any contagious disease, we may under certain circumstances be required to quarantine such employees and the affected areas of our premises. As a result, we may have to temporarily suspend part or all of our operations. Furthermore, any future outbreak may restrict the level of economic activity in affected regions, including Taiwan, which may adversely affect our business and prospects. As a result, we cannot assure you that any future outbreak of contagious diseases would not have a material adverse effect on our financial condition and results of operations.

Stockholders may have more difficulty protecting their interests under the laws of the Republic of China than they would under the laws of the United States.

Our corporate affairs are governed by our articles of incorporation, the Telecommunications Act, and by the laws governing corporations incorporated in the Republic of China. In addition, our corporate affairs may remain governed by the Statute of Chunghwa Telecom Co., Ltd. See Extensive regulation of our industry may limit our flexibility to respond to market conditions and competition, and our business may suffer. The rights of stockholders and the responsibilities of management and the members of the board of directors of Taiwan companies are different from those applicable to a corporation incorporated in the United States. For example, controlling or major stockholders of Taiwan companies do not owe fiduciary duties to minority stockholders. As a result, holders of our common shares and ADSs may have more difficulty in protecting their interests in connection with actions taken by our management or members of our board of directors than they would as public stockholders of a United States corporation.

Risks Relating to Ownership of Our ADSs and Common Shares

The value of your investment may be reduced by future sales of our ADSs or common shares by us, by the Republic of China government or by other stockholders.

The government may continue to sell our common shares. Sales of substantial amounts of ADSs or common shares by the government or any other stockholder in the public market, or the perception that future sales may occur, could depress the prevailing market price of our ADSs and common shares.

The market value of your investment may fluctuate due to the volatility of, and government intervention in, the Taiwan securities market.

Our common shares are traded on the Taiwan Stock Exchange, which has a smaller market capitalization and is more volatile than the securities markets in the United States and many European countries. The market value of our ADSs may fluctuate in response to the fluctuation of the trading price of our common shares on the Taiwan Stock Exchange. The Taiwan Stock Exchange has experienced substantial fluctuations in the prices and trading volumes of listed securities, and there are currently limits on the range of daily price movements. In recent years, the Taiwan Stock Exchange Index reached a peak of 10,202.20 in February 2000 and subsequently fell to a low of 3,446.26 in October 2001. During 2009, the Taiwan Stock Exchange Index peaked at 8,188.11 on December 31, 2009, and reached a low of 4,242.61 on January 20, 2009. On April 16, 2010, the Taiwan Stock Exchange Index closed at 8,111.57. The Taiwan Stock Exchange has experienced certain problems, including market manipulation, insider trading and payment defaults. The recurrence of these or similar problems could have a material adverse effect on the market price and liquidity of the securities of Taiwan companies, including our ADSs and common shares, in both the domestic and the international markets.

In response to declines and volatility in the securities markets in Taiwan, the Republic of China government formed the National Financial Stabilization Fund to support these markets through open market purchases of shares in Taiwan companies from time to time. The details of the transactions of the National Financial Stabilization Fund have not been made public. In addition, the government s Labor Insurance Fund and other funds associated with the government have in the past purchased, and may from time to time purchase, shares of Taiwan companies listed on the Taiwan Stock Exchange or other markets. As a result of these activities, the market price of common shares of Taiwan companies may have been and may currently be higher than the prices that would otherwise prevail in the open market. Market intervention by government entities, or the perception that such activity is taking place, may take place or has ceased, may cause sudden movements in the market prices of the securities of Taiwan companies, which may affect the market price and liquidity of our common shares and ADSs.

We may be sanctioned or lose our licenses for violations of limits on foreign ownership of our common shares, and these limits may materially and adversely affect our ability to obtain financing.

The laws of the Republic of China limit foreign ownership of our common shares. Prior to March 1, 2006, the Ministry of Transportation and Communications, as the competent authority under the Telecommunications Act, had the power to prescribe the limits on foreign ownership of our common shares. After the formation of the

National Communications Commission on March 1, 2006, the National Communications Commission replaced the Ministry of Transportation and Communications as the competent authority under the Telecommunications Act pursuant to the Organization Law. The National Communications Commission and the Ministry of Transportation and Communications reached an agreement on foreign ownership of Chunghwa Telecom. An announcement issued by the Ministry of Transportation and Communications on December 28, 2007 stipulated that direct holdings by foreign investors in Chunghwa Telecom cannot exceed 49% of our outstanding share capital and the total direct and indirect holdings by foreign investors cannot exceed 55% of our outstanding share capital. As of April 16, 2010, foreign direct holdings of our outstanding share capital is at 26.57%. If we fail to comply with the applicable foreign ownership limitations, our licenses to operate some of our businesses could be revoked. Moreover, we cannot predict the manner in which the National Communications Commission will exercise its authority over us, and the National Communications Commission could decline to raise, or determine to reduce, this foreign ownership limitation.

If we are deemed to be in violation of our foreign ownership limitations, any consequences arising from such violation may materially and adversely affect us. Moreover, since we are unable to control ownership of our common shares or ADSs representing our common shares, and because we have no ability to stop transfers among stockholders, or force particular stockholders to sell their shares, we may be subject to monetary fine or lose our licenses through no fault of our own. In that event, our business could be disrupted, our reputation could be damaged and the market price of our ADSs and common shares could decline. These limitations may also materially and adversely affect our ability to obtain adequate financing to fund our future capital requirements or to obtain strategic partners, and alternate forms of financing may not be available on terms favorable to us or at all.

Restrictions on the ability to deposit our common shares into our ADS program may adversely affect the liquidity and price of the ADSs.

The ability to deposit shares into our ADS program is restricted by Republic of China law, under which no person or entity, including you and us, may deposit our common shares into our ADS program unless the Securities and Futures Bureau has not objected within a prescribed period following the filing with it of an application to do so, except for the deposit of the common shares into our ADS program and for the issuance of additional ADSs in connection with:

- distribution of share dividends or free distribution of our common shares;

- exercise of preemptive rights of ADS holders applicable to the common shares evidenced by our ADSs in the event of capital increases for cash; or

- purchases of our common shares in the domestic market in Taiwan by the investor directly or through the depositary and delivery of such shares or delivery of our common shares held by such investors to the custodian for deposit into our ADS program, subject to the following conditions: (a) the depositary may accept deposit of those shares and issue the corresponding number of ADSs with regard to such deposits only if the total number of ADSs outstanding after the deposit does not exceed the number of ADSs previously approved by the Securities and Futures Bureau, plus any ADSs issued pursuant to the events described above; and (b) this deposit may only be made to the extent previously issued ADSs have been cancelled.

As a result of the limited ability to deposit common shares into our ADS program, the prevailing market price of our ADSs on the New York Stock Exchange may differ from the prevailing market price of the equivalent number of our common shares on the Taiwan Stock Exchange.

You will be more restricted in your ability to exercise voting rights than the holders of our common shares, which may diminish your influence over our corporate affairs and may reduce the value of your ADSs.

Holders of American depositary receipts evidencing our ADSs may exercise voting rights with respect to the common shares represented by these ADSs only in accordance with the provisions of our deposit agreement. The deposit agreement provides that, upon receipt of notice of any meeting of holders of our common shares, the depositary bank will, as soon as practicable thereafter if requested by us in writing, mail to ADS holders the notice of the meeting sent by us, voting instruction forms and a statement as to the manner in which instructions may be given by the holders.

ADS holders will not generally be able to exercise voting rights attaching to the deposited securities on an individual basis. Under the deposit agreement, the voting rights attaching to the deposited securities must be exercised as to all matters subject to a vote of stockholders collectively in the same manner, except in the case of an election of directors and supervisors. The election of our directors and supervisors is by means of cumulative voting. In the event the depositary does not receive voting instructions from ADS holders in accordance with the deposit agreement, our chairman or his or her designee will be entitled to vote the common shares represented by the ADSs in the manner he or she deems appropriate at his or her discretion, which may not be in your interest.

Your right to participate in any future rights offerings may be limited, which may cause dilution to your holdings.

We may from time to time distribute rights to our stockholders, including rights to acquire our securities. Under the deposit agreement, the depositary will not offer you those rights unless the distribution to ADS holders of both the rights and any related securities are either registered under the U.S. Securities Act of 1933, as amended, or the Securities Act, or exempt from registration under the Securities Act. We are under no obligation to file a registration statement with respect to any such rights or securities or to endeavor to cause such a registration statement to be declared effective. Moreover, we may not be able to establish an exemption from registration under the Securities Act. Accordingly, you may be unable to participate in our rights offerings and may experience dilution in your holdings.

If the depositary is unable to sell rights that are not exercised or not distributed or if the sale is not lawful or reasonably practicable, it will allow the rights to lapse, in which case you will receive no value for these rights.

Changes in exchange controls that restrict your ability to convert proceeds received from your ownership of ADSs may have an adverse effect on the value of your investment.

Your ability to convert proceeds received from your ownership of ADSs depends on existing and future exchange control regulations of the Republic of China. Under the current laws of the Republic of China, an ADS holder or the depositary, without obtaining further approvals from the Central Bank of the Republic of China (Taiwan) or any other governmental authority or agency of the Republic of China, may convert NT dollars into other currencies, including U.S. dollars, in respect of:

- the proceeds of the sale of common shares represented by ADSs or received as share dividends with respect to the common shares and deposited into the depositary receipt facility; and
- any cash dividends or distributions received from the common shares represented by ADSs.

In addition, the depositary may also convert into NT dollars incoming payments for purchases of common shares for deposit in the depositary receipt facility against the creation of additional ADSs. If you withdraw the common shares underlying your ADSs and become a holder of our common shares, you may convert into NT dollars subscription payments for rights offerings. The depositary may be required to obtain foreign exchange approval from the Central Bank of the Republic of China (Taiwan) on a payment-by-payment basis for conversion from NT dollars into foreign currencies of the proceeds from the sale of subscription rights of new common shares. Although it is expected that the Central Bank of the Republic of China (Taiwan) will grant approval as a routine matter, required approvals may not be obtained in a timely manner, or at all.

Under the Republic of China Foreign Exchange Control Law, the Executive Yuan of the Republic of China may, without prior notice but subject to subsequent legislative approval rendered within ten days from such

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imposition, impose foreign exchange controls or other restrictions in the event of, among other things, a material change in domestic or international economic conditions which might threaten the stability of the domestic economy in Taiwan.

You are required to register with the Taiwan Stock Exchange and appoint several local agents in Taiwan if you withdraw common shares from our ADS facility and become our stockholder, which may make your ownership burdensome.

If you are a non-Republic of China person and wish to withdraw common shares represented by your ADSs from our ADS facility and hold those common shares, you are required under the current laws and regulations of the Republic of China to appoint an agent, also referred to as a tax guarantor, in the Republic of China for filing tax returns and making tax payment. A tax guarantor must meet certain qualifications set by the Ministry of Finance of the Republic of China and, upon appointment, becomes a guarantor of your Republic of China tax obligations. If you wish to repatriate profits derived from the sale of withdrawn common shares or cash dividends or interest on funds derived from the withdrawn common shares, you will be required to submit evidence of your appointment of a tax guarantor and the approval of the appointment by the Republic of China tax authorities. You may not be able to appoint and obtain approval for a tax guarantor in a timely manner.

In addition, under the current laws of the Republic of China, you will be required to be registered as a foreign investor with the Taiwan Stock Exchange for making investments in the Republic of China securities market prior to your withdrawal and holding of common shares represented by the ADSs. You will be required to appoint a local agent in Taiwan to, among other things, open a securities trading account with a local securities brokerage firm and a bank account to remit funds, exercise stockholders rights and perform other functions as holders of ADSs may designate. You must also appoint a local bank to act as custodian for handling confirmation and settlement of trades, safekeeping of securities and cash proceeds and reporting and declaration of information. Without the relevant registration and appointment of the local agent and custodian and the opening of a securities trading account and bank account, you will not be able to hold, subsequently sell or otherwise transfer our common shares withdrawn from the ADSs facilities on the Taiwan Stock Exchange.

Our actual financial results may differ materially from our published full year guidance.

Before 2009, we voluntarily published operating results guidance for the current fiscal year prepared in accordance with R.O.C. GAAP. Starting in the second quarter of 2009, we publish operating results guidance on a quarterly basis. These projections are based on a number of estimates and assumptions and are inherently subject to significant uncertainties and contingencies, including the risks factors described in this annual report. In particular, projections are forward-looking statements that are necessarily speculative in nature, and it can be expected that one or more of the estimates on which the projections were based will not materialize or will vary significantly from actual results, and such variances will likely increase over time.

ITEM 4. INFORMATION ON THE COMPANY

A. History and Development of the Company

Our legal and commercial name is Chunghwa Telecom Co., Ltd. Our common shares have been listed on the Taiwan Stock Exchange under the number 2412 since October 27, 2000 and our ADSs have been listed on the New York Stock Exchange under the symbol CHT since July 17, 2003. Our principal executive offices are located at 21-3 Hsinyi Road, Section 1, Taipei, Taiwan, Republic of China, and our telephone number is (886) 2-2344-5488. Our website address is *http://www.cht.com.tw*. The information on our website does not form a part of this annual report.

We were established as a company on July 1, 1996 as a result of the separation of the business and regulatory functions of the Directorate General of Telecommunications. We were privatized in August 2005.

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We are the largest telecommunications service provider in Taiwan and one of the largest in Asia in terms of revenues. As an integrated telecommunications service provider, our principal services include:

- domestic fixed communications services, including local and domestic long distance telephone services, broadband access services, local and domestic long distance leased line services, multimedia on demand, or MOD, services, domestic data services and domestic other services;
- mobile communications services, including mobile and paging services, sales of mobile handsets and data cards and mobile other services;
- internet services, including HiNet, our internet service provider, internet value-added services, data communication services, internet data center services, and internet other services; and
- international fixed communications services, including international long distance telephone services, international leased line services, international data services, satellite services and international other services.

As our traditional fixed communications business has matured and new technologies have become available, we have pursued new growth opportunities in the mobile communications and internet services markets. We are focusing on enhancing our leading position in each of our principal lines of business, and expanding into new lines of business such as 3G mobile services. We enjoy leading positions across a number of areas:

- we are Taiwan s largest provider of domestic fixed communications services in terms of both revenues and customers;
- we are Taiwan s largest mobile communications service provider in terms of both revenues and customers;
- we are Taiwan s largest broadband internet access provider as well as Taiwan s largest internet service provider in terms of both revenues and customers; and
- we are also a leading player in the data communications market in Taiwan.

In 2009, our revenues under R.O.C. GAAP were NT$198.4 billion (US$6.2 billion), our net consolidated income was NT$44.5 billion (US$1.4 billion) and our basic earnings per share was NT$4.51 (US$0.14).

In 2009, we made capital expenditures totaling NT$25.5 billion (US$0.8 billion), of which 62% was related to our domestic fixed communications business, 20% was related to our mobile communications business, 8% was related to our internet business, 5% was related to our international fixed communications business and 5% was related to our other businesses. See Item 5. Operating and Financial Review and Prospects B. Liquidity and Capital Resources Capital Expenditures for a discussion of our capital expenditures.

Competitive Strengths

We believe that we are well positioned to take advantage of growth opportunities in the telecommunications market in Taiwan as new technologies evolve. In particular, we have maintained our leading market share in mobile communications and internet services since the opening of the Taiwan telecommunications market to competition in June 2001. Furthermore, we have enjoyed greater flexibility in making purchasing and other business decisions after we were privatized in August 2005.

We believe that further deregulation and market liberalization will continue to drive the growth of the overall market for telecommunications services in Taiwan, as well as the development of new products and services. We expect to benefit from additional opportunities as the telecommunications market in Taiwan continues to grow.

We believe that our primary competitive strengths are:

- our broad customer base in Taiwan;

our position as an integrated, full-service telecommunications provider in Taiwan; and

our capital resources and technology, which we believe we can build on to expand our leading position in the mobile communications and internet services markets, including through our continued construction of a 3G mobile network, FTTx broadband access services, our IP-based MOD services and our rollout of VoIP services.

We have a broad customer base in Taiwan.

We are the largest telecommunications service provider in Taiwan with a broad customer base across all of our service offerings. Despite deregulation and an increase in competition in the Taiwanese telecommunications industry, we have maintained a market leading position in our primary service offerings of fixed communications, mobile communications and internet services. We believe our broad customer base in each of our service offerings grants us a distinct competitive advantage to maintain our existing customers and attract new customers and increases the chance of success for the launch and popularization of new products. As the telecommunications industry continues its trend of converging fixed communications, mobile communications and internet services, we believe that our comprehensive service offerings places us in a strong position to offer converged products and services to our customers.

We are an integrated full-service telecommunications provider in Taiwan.

We are the largest telecommunications service provider in Taiwan with a leading position in fixed communications services, mobile communications services and internet services.

Broad range of communications products and services. We believe that our ability to provide an attractive and comprehensive range of telecommunications services positions us to provide bundled and value-added services to our business and residential customers. In addition, we are able to offer innovative integrated services and tariff packages to meet the specific needs of our customers.

Broad network coverage. The breadth of our network and our ownership of the so called last mile infrastructure in Taiwan, which comprises the connection between the local telephone service provider s switching centers to the end-users buildings or homes, provide us with access to existing and potential customers and creates a platform for expanding our services. As of December 31, 2009, substantially all of our installed telephone lines were capable of delivering ADSL services and network coverage of ADSL was approximately 97.0%. In order to provide higher bandwidth services for our customers, we are constructing our FTTx network. As of December 31, 2009, network coverage of FTTx was approximately 73.1%. In addition, our mobile communications network provides nationwide coverage. Our large cellular spectrum allocation together with our network of 15,627 base stations position us well for the continued expansion of our mobile services in Taiwan.

Brand awareness, distribution channels and customer service. Our principal brands Chunghwa Telecom and HiNet have a reputation for quality, reliability and sophisticated technology. In particular, we are the leading internet service provider in Taiwan through HiNet. We serve our large and well-established customer base through our extensive customer service network in Taiwan, including 23 operations offices, 317 service centers, 218 exclusive services stores and six customer service centers. We also offer comprehensive and high-quality point of sale and after sale services, and we provide web-based customer services. Moreover, our extensive sales and distribution channels help us attract additional customers and develop new business opportunities. In the Reader s Digest Trusted Brands Award, we have stood out and won the Platinum Award of Telecom Company in Taiwan for four consecutive years since 2004. We were also awarded Best Managed Company and Best Commitment to Strong Dividends in Taiwan by FinanceAsia in 2006. In January 2007, the Standard & Poor s Ratings Services raised our long-term foreign currency credit rating to AA from AA- with positive implications and removed us from CreditWatch in 2008 and maintained our AA long-term foreign

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currency corporate rating in 2009. In 2009, we were also awarded the Excellence in Corporate Social Responsibility Award by the Common Wealth Magazine, the certification award by the Corporate Governance Association in Taiwan, the Taiwan Sustainable Development Award by the National Council and named one of Asia s Best Companies by FinanceAsia.

Operational expertise. Our management and employees have extensive operating experience and technical knowledge, which we believe cannot be easily replicated by competitors. We also believe we will continue to attract and retain high quality employees.

Comprehensive customer billing infrastructure. As Taiwan s leading telecommunications services provider, we have extensive resources and infrastructure relating to billing services. In particular, we issue, in the aggregate, approximately 17 million invoices, including integrated bills, every month. We intend to continue taking advantage of this unique attribute by offering bill collection services to internet content providers and other entities that lack the necessary resources and infrastructure for effective customer billing.

We have the capital resources and technology to enhance our leading position in the growing mobile communications and internet services markets.

Established position in growing markets. Revenues from our mobile communications and internet services have increased from 54.1% of revenues in 2007 to 55.5% in 2009. We expect our mobile communications, internet, broadband value-added and information and communication technologies services to continue to be the key drivers of our future growth. With our leading market share, we enjoy substantial economies of scale in equipment procurement as well as the marketing of our products and services.

Strong capital structure. We believe we have greater financial resources than other telecommunications operators in Taiwan. In particular, our relatively low debt-to-equity capital structure, together with our high levels of cash and operating cash flows, provides us with the flexibility and resources to invest in capital intensive and growing businesses. In particular, we continue to invest in broadband internet protocol networks, fiber-optic networks, and 3G mobile communications networks and services. We also have begun making investments in or acquiring other companies which provide complementary telecommunications and internet-related services to further expand our business and offer new products and services.

Advanced network technology. Since 2003, we have developed and upgraded our existing infrastructure for both mobile and fixed line networks. We developed a high-speed internet protocol backbone network, expanded the coverage of our ADSL network and deployed a 3G network. In 2008, we launched a long-term next generation network construction project that will upgrade our local fixed line networks to high-speed packet-based digital networks with FTTx technologies, including FTTC/N, FTTB and FTTH, in order to provide high speed internet, VoIP, MOD and high definition television, or HDTV, services. We have also upgraded our 3G network to 3.5G HSPA. In 2010, we will launch HSPA+ service to provide mobile internet services with speeds of up to 21 Mbps. Our investment in network infrastructure places us in a position to capture a significant share of the internet and high-speed data transmission market.

Research and development expertise. As of March 31, 2010, we employ over 1,282 research professionals and engineers whose principal focus is to develop advanced network services and operations support systems and to build selected core technologies. In 2009, our research and development expenses accounted for 1.6% of our revenues under R.O.C. GAAP. We believe our focus on research and development will allow us to efficiently develop and deploy new technologies and services ahead of our competitors.

Business Strategy

Taiwan has one of the highest fixed line penetration rates in Asia and has also experienced rapid adoption of wireless communications and internet services, including broadband access services. We believe that telecommunications services will evolve over the coming years, driven by a number of technological innovations. We also believe that the convergence of communications technologies will provide a significant competitive advantage to integrated telecommunications service providers that are able to design and construct sophisticated and scalable networks capable of serving as a common platform for a broad range of services.

Our key strategic objectives are to maintain our position as a leading integrated telecommunications services provider in Taiwan and to enhance our leadership position in growing markets, such as the mobile services and internet services markets, including broadband access services and value-added services.

Consistent with our strategic objectives, we have developed the following business strategies:

Focus on our core strengths while expanding our scope of services to capture new growth opportunities

Our core strengths are the management of telecommunication networks and the provision of services over these networks. We currently operate several networks linked by a core backbone infrastructure consisting of public switched telephone, cellular, ADSL, FTTx and internet protocol networks. Our strategy for each network differs depending on the market dynamics and future growth prospects of services delivered over these networks. In general, we endeavor to maintain our strong market position in each of our business lines and seek to expand the scope of our business beyond network services by offering value-added services to generate growth and new opportunities.

Domestic fixed communications: Our strategy is to maintain our position as the market leader in domestic fixed communications. In addition to our Public Switched Telephone Network, or PSTN, customer retention program, we are working on NGN projects to facilitate network migration into IP Multimedia Subsystem, or IMS. The first stage of our IMS network was completed in March 2009. This is the largest ever NGN deployment that has been constructed in Taiwan, with more than 500,000 subscriber facilities. Multimedia value-added services are scheduled to launch in the third quarter 2010. To enhance business efficiency and reduce operational expenditures, we constructed a new Multi-Protocol Label Switching-, or MPLS-, based IP backbone to consolidate existing IP networks in September 2008. Based on these facilities, we will collaborate with the third parties to develop new integrated services to retain our customers and generate new revenue streams.

We also plan to continue to build on the success of our broadband access services.

We provided ADSL and FTTx services to 4.3 million customers, which represented more than 83% of Taiwan s fixed line broadband customers by the end of 2009. We are the leading provider of broadband internet access in Taiwan, with a significant market share as of December 31, 2009. We have successfully migrated many of our customers from low-speed to higher-speed internet access services. Approximately 76.3% of our broadband customers subscribe for downlink speeds of over 2 Mbps, and the average downlink speed of our internet customers, defined as the total downlink speed subscribed divided by the total number of customers, increased from 0.6 Mbps as of December 31, 2002 to 5.1 Mbps for ADSL and FTTx and 2.3 Mbps for ADSL only as of December 31, 2009.

FTTx offers a faster access medium for our internet customers compared to ADSL by using fiber optic technology. We are continuing the build-out of our FTTx infrastructure. Because we typically realize higher average revenue per user for our FTTx internet services, we plan to continue offering various incentives for our ADSL and other internet customers to switch to our FTTx services.

Mobile Communications: Our strategy for our existing 2G mobile services, which uses the GSM standard, is to continue to expand service offerings that take advantage of our strong customer base and extensive network coverage. In particular, we will focus on increasing our average revenue per user by expanding our post-paid customer base and promoting increased use of wireless value-added services, such as our emome mobile internet service, Hami services, Java games, ring-back tone services, video streaming, e-books, and online shopping. Furthermore, we upgraded our 3G mobile service, which was based on a wideband code division multiple access, or WCDMA, technology launched on July 26, 2005, to 3.5G services on September 12, 2006. Our strategy with respect to our 3G mobile service includes the following initiatives:

- Taking advantage of our ability to provide services using either the GSM or WCDMA standards and offering seamless service to customers with dual-mode mobile handsets, which enable our customers to enjoy the benefits of network coverage while retaining their GSM mobile handset number. In order to meet the demand from our customers for high-speed wireless data access, we adopted High-Speed Downlink Packet Access, or HSDPA, technology and are continuing to develop next generation mobile technologies;

- Encouraging our high-end customers, who are more likely to demand wireless internet services with higher data speed access capabilities, to use our 3G and 3.5G services by offering customized mobile handsets combined with attractive value-added services and product packages;

- Converging fixed communications and mobile communications services to provide customers with access to personalized information through personal computers or mobile handsets;

- Taking advantage of our superior brand and network quality to attract our competitors customers; and

- Expanding our HSDPA coverage and enhancing the data rate to 7.2 Mbps and 21 Mbps to attract more 3.5G mobile internet customers.

Internet: Our strategy for internet services is to continue to build on the success of our HiNet internet services and enhance our internet value-added services.

- We are developing new media to provide both higher-speed access as well as attractive content to our customers. We are also continually enhancing our internet value-added services, such as online games, internet music, internet banking and internet protocol video services, including hiChannel, an internet platform where customers can view videos and multimedia content.

- We have installed hiCloud CaaS servers and are planning to construct a cloud computing center for the provision of internet data center and cloud computing services.

Integrated services: We believe integrated services are effective in encouraging usage and enhancing customer loyalty. We intend to increase our offerings for integrated services. In particular, we believe we are positioned to provide our customers with fully integrated solutions across fixed communications, mobile communications and internet platforms. Our Friends and Family service, which offers customers preferential rates, has attracted over 1.62 million mobile customers. In addition, we provide a wide range of integrated services customized to meet the needs of our corporate customers, such as integrated network management services, integrated information and communication services, secure internet services, enterprise push mail services, 3G mobile office and mPro business service, which is designed for business professionals who need to access information, such as their email, calendar, contacts and news, wirelessly.

Emphasize quality of service and customer satisfaction

Quality of service is critical in attracting and retaining customers and enhancing our long-term profitability. In order to continually enhance and improve the quality of our services, we have, in addition to the quality assurance function of our regular operating units, established a number of dedicated task forces to monitor our network performance. Our senior management sets our quality evaluation criteria and regularly reviews the quality of our performance.

In order to ensure that our quality of service will translate into strong customer loyalty, we plan to continue to focus on and invest in the provision of a full range of services that emphasize customer care from the point of sale onward. For example, we have extended the focus of our corporate customer services from major accounts to include small and medium-sized enterprises and in January 2007 established our Enterprise Business Group. As of December 31, 2009, our Enterprise Business Group is staffed by approximately 271 professionals and offers packaged and customized services, customer-oriented solutions and integrated information and communications services. We have completed the integration of our call centers, all of which can now be reached by calling a single number 123. We offer 24-hour customer service, including the handling of service and billing inquiries with the assistance of an Interactive Voice Response, or IVR, system. We also offer consolidated billing for our customers who use multiple services. We began to provide an e-bill service option to our customers in August 2005. Moreover, we have put in place processes to enhance bill collection and improve the quality of our billing services. To improve the quality of our customer services, we implemented a customer relationship management system, which encompass, among other things, a customer complaint system, a business information database for the use of our call centers, and a data mining system to enhance our sales and market analysis efforts.

Improve operational efficiency and cost structure

We have historically been focused, and will continue to focus, on cost control, particularly in the areas of network efficiencies and personnel costs. We expect to be able to further improve our operational efficiency and cost structure by migrating to more advanced networks and sophisticated operational support systems, and efficiently managing our workforce.

Capital expenditures. Our long-term goal is to optimize our capital expenditures by focusing on investing in innovative products and services with attractive return profiles. We have commenced a project for gradually upgrading our entire public switched telephone network to a next-generation network. Next-generation internet protocol switches will have substantially more capacity and greater upgrade flexibility and should result in savings from a reduced number of switching centers and a reduction in related property, materials and personnel costs. We have also devoted resources toward the expansion of our 3G mobile network and the continuing build-out of our FTTx infrastructure.

Personnel costs. We seek to improve our operational efficiency by reducing our personnel costs. For example, we offered voluntary retirement programs once each year between 2005 and 2009, which resulted in reductions of 4,902 employees. We also hired more than 2,582 new employees after our privatization in August 2005. Since then, we continued to align our organizational structure by integrating various operating units and departments. We will also continue to reallocate our personnel from traditional fixed line services to our growing businesses and to our marketing and customer services departments, as well as exploring outsourcing opportunities where we deem appropriate.

Expand our business through alliances, acquisitions and investments

We plan to expand our business in high-growth areas, such as interactive multimedia broadband services, content delivery services and value-added services, through alliances, acquisitions and investments. We believe that our experience, operational scale and large customer base make us an attractive ally for other service providers.

Alliances. We have formed and will continue to pursue alliances with information content providers, multimedia service platform providers, customer premises equipment providers, internet portal operators, information and communication technology solutions partners to diversify our business operations and enhance our service offerings. As of the date of this annual report, we have collaborated with more than 440 information content providers, more than 205 customer premises equipment providers, more than seven internet service providers, more than one internet portal operator and more than 30 information and communication technology solution partners.

Acquisitions and Investments. We have focused our acquisition strategy on making acquisitions of companies that we believe to be complementary to our long-term strategic goals. In January 2007, we became a 31.3% stockholder of a mobile handset distributor, SENAO International Co., Ltd., or Senao, by way of a public

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tender offer and obtained majority board representation in April 2007, upon which it became a consolidated subsidiary of ours. Senao is one of the largest mobile handset distributors in Taiwan with a significant market share in Taiwan. Our acquisition of Senao has increased our competitiveness in the mobile services business, strengthened our sales of mobile handsets and logistics management and benefited our financial condition. In January 2008, we acquired a 16.67% share of Industrial Bank of Taiwan II Venture Capital Co., Ltd. in order to expand our overseas network of investment companies and increase investment opportunities in emerging markets. Also in January 2008, we became a 33.4% stockholder of Kingwaytek Technology Co., Ltd., whose core businesses are the production and sales of electronic maps, technical assistance with computer peripherals and creation and development of specialized system applications. By combining our resources, we seek to build a high-quality geographic information system, or GIS, database and to develop applications related to GIS, location-based services, telematics and intelligent transportation systems to further revenue growth from our GIS-related services. In April 2008, we acquired a 33.33% equity interest in Viettel-CHT IDC, or Viettel, an internet database center provider in Vietnam. In acquiring and developing a working relationship with Viettel, we seek to strengthen our overseas network, further our global expansion strategy and capture the growth opportunities in the Vietnamese economy and telecommunications industry. In January 2009, we became a 49% stockholder in InfoExplorer Co., Ltd., a company whose core businesses include IT solution provision, IT application consultation, system integration and package solution. The combination of InfoExplorer s IT expertise with our communication technology capabilities will boost our information and communication technology profile.

In order to reinforce our satellite capabilities by replacing the ST-1 telecommunications satellite, in September 2008 we established ST-2 Satellite Ventures Pte., Ltd. in Singapore with our partner SingTelSat Pte., Ltd. Our ownership in ST-2 Satellite Ventures Pte., Ltd. is 38% and we have invested NT$409.1 million in this entity through to the end of 2009.

In April 2009, we acquired a 30% equity interest in So-net Entertainment Taiwan Limited, or So-net, the fourth largest ISP in Taiwan. Our purpose for acquiring the equity interest in So-net is so we can transform So-net into one of our sub-brands in order to compete against other cable internet service providers.

In September 2009, we increased our stake in Chunghwa Investment from 49% to 89% by purchasing outstanding shares in order to fully control the company.

Our equity stake in Viettel was reduced slightly from 33.33% to 30% in September 2009 because of our relatively lower capital injection in Viettel s second round of capital increase compared with the first round.

After our privatization, we have focused our investment strategy on the development of new businesses and the enhancement of our operation efficiency. In January 2008, we established a wholly owned subsidiary named Light Era Development Co., Ltd., a company that engages in the real estate development business. The management team of Light Era Development Co., Ltd. has extensive experience in real estate development. Their experience will provide support for our strategy of redeveloping our real estate holdings. However, due to the general weakness in the economy and property market in Taiwan, we plan to focus on managing rental revenues from our existing properties and several new properties that will begin leasing in the near future. To further our expansion into the international telecommunications market overseas, we established two wholly owned subsidiaries, Chunghwa Telecom Singapore Pte., Ltd. and Chunghwa Telecom Japan Co., Ltd., in July and September 2008, respectively. The core businesses of these subsidiaries include data wholesale, IP transiting services, international private leased circuit, or IPLC, IP VPN and voice wholesale. Both companies have successfully obtained all the necessary and relevant local telecommunication licenses and permits to operate. Through these subsidiaries, we hope to strengthen our overseas sales channels, generate sales from Taiwanese and other multinational corporations, increase international incoming voice traffic and IP transiting services and increase our overseas revenues.

Going forward, we may consider making other equity investments and acquisitions that we believe are complementary to our business and strategic goals. Our future investment will be aimed at expanding our business scale and scope, making better use of our research and development resources and operational

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experience and increasing our revenues through investing in core telecom businesses as well as value-added services. We expect to target the markets of our overseas investments from Southeast Asia to China while carefully evaluating the risks involved.

Maintain focus on maximizing stockholder value

We are committed to maximizing stockholder value and intend to maintain our high dividend payout policy. Following our privatization, we have more flexibility to implement capital management initiatives, including possible repurchases of our outstanding common shares and increases in our leverage through debt financing. We bought back 192,000,000 shares between February 10, 2006 and April 7, 2006 and cancelled those shares on June 30, 2006. We bought back 121,075,000 shares between August 29, 2007 and October 25, 2007 and cancelled those shares on December 29, 2007 and February 21, 2008, respectively.

At the annual general stockholders meeting held on June 15, 2007, it was resolved to reduce the amount of capital by a cash distribution to our stockholders in order to improve our financial condition and better utilize our excess funds. The capital reduction plan was effected by a transfer of capital surplus in the amount of NT$9.7 billion to capital stock. Subsequently, capital stock was reduced by NT$9.6 billion and a liability for the actual amount of cash to be distributed to stockholders of NT$9.7 billion was recorded. The difference between the reduction in capital stock and the distribution amount represents treasury stock of NT$0.1 million, which was concurrently cancelled. Such cash payment to stockholders was made on January 9, 2008. On August 14, 2008, we held an extraordinary general meeting and passed a capital reduction plan. We transferred NT$19.1 billion (US$0.6 billion) from capital surplus to capital stock and the same amount was later reduced from capital stock. The cash payment of NT$19.1 billion was made on March 20, 2009 to our stockholders.

At the annual general stockholders meeting held on June 19, 2009, it was resolved to reduce the amount of capital by a cash distribution to our stockholders in order to increase our return on equity and return excess funds to our shareholders. The capital reduction plan was effected by a transfer of capital surplus in the amount of NT$9.7 billion to capital stock and the same amount was later reduced from capital stock. The cash payment of NT$9.7 billion was made on February 8, 2010 to our stockholders.

B. Business Overview

Our Principal Lines of Business

Our core business segments are our domestic fixed communications business, mobile communications business, internet business and international fixed communications business.

Domestic Fixed Communications Business

The provision of domestic fixed communications services is one of our principal business activities. Our domestic fixed communications business includes local and domestic long distance telephone services, broadband access services, local and domestic long distance leased line services, multimedia on demand services, domestic data services and domestic other services. We are the largest provider of local and domestic long distance telephone services in Taiwan. We also provide interconnection with our fixed line network to other mobile and fixed line operators. Since June 2001, three new operators have begun offering fixed line services. Our revenues from domestic fixed communications services were NT$74.3 billion, or 37.6% of our revenues, in 2007, NT$73.1 billion, or 36.2% of our revenues, in 2008 and NT$71.5 billion (US$2.2 billion), or 36.0% of our revenues in 2009. Owing primarily to the expansion of our broadband and mobile communications services, we expect that revenues from our domestic fixed communications business as a percentage of our total revenues will continue to decline.

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Local Telephone

The following table sets forth our revenues from local telephone services for the periods indicated.

	Year ended December 31,			
	2007	2008	2009	
	NT$	NT$	NT$	US$
		(in billions)		(in millions)
Local telephone revenues:				
Usage	12.4	11.5	10.6	331.2
Subscription	18.0	17.7	17.2	538.9
Interconnection	2.6	2.5	2.5	78.0
Pay telephone	0.3	0.7	0.6	19.5
Other	2.4	2.2	2.3	72.1
Total	35.7	34.6	33.2	1,039.7

We provide local telephone services to approximately 12.45 million customers in Taiwan. Our fixed line network reaches virtually all homes and businesses in Taiwan. Revenues from local telephone services comprised 18.1%, 17.1% and 16.7% of our total revenues in 2007, 2008 and 2009, respectively. Approximately 74.9% of our local telephone customers as of December 31, 2009 were residential customers, accounting for 60.0% of our local telephone revenues in 2009. We are currently the leader of the local telephone service market, with an average market share of approximately 97.4%, 97.3% and 97.1% in 2007, 2008 and 2009, respectively.

The following table sets forth information with respect to our local telephone customers and penetration rates as of the dates indicated.

	As of December 31,		
	2007	2008	2009
	(in thousands, except percentages and per household data)		
Taiwan population[(1)]	22,958	23,037	23,120
Fixed line customers:			
Residential	9,691	9,530	9,328
Business	3,261	3,203	3,120
Total	12,952	12,733	12,448
Growth rate (compared to the same period in the prior year)	(1.3)%	(1.7)%	(2.2)%
Penetration rate (as a percentage of the population)	56.4%	55.3%	53.8%
Lines in service per household	1.29	1.24	1.19

(1) Data from the Department of Population, Ministry of the Interior, Republic of China.

Demand for local customer lines has historically been driven by population growth. However, with the development of mobile technologies, this trend has been declining. The number of fixed line customers decreased by 1.7% in 2008 compared to 2007 due to customers replacing fixed lines with mobile services. The number of fixed line customers decreased by 2.2% in 2009 compared to 2008 due to customers replacing fixed lines with mobile services and also as a result of the adverse economic conditions.

The following table sets forth information with respect to local telephone usage for the periods indicated.

	Year ended December 31,		
	2007	2008	2009
	(in millions, except percentages)		

Minutes from local calls[(1)(2)]	17,268	15,877	14,602
Growth rate (compared to the same period in the prior year)	(7.0)%	(8.1)%	(8.0)%

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(1) Includes minutes from local calls made on pay telephones.
(2) Calls to our HiNet internet service, which are recorded as part of our internet services, are not included in our local call minutes or revenues.

Minutes from local calls declined due to adverse economic conditions and traffic migration to mobile services as well as VoIP services. However, we believe the rate of migration of traffic from fixed communication services to VoIP and mobile communications services is slowing.

We charge our local telephone service customers a monthly fee and a usage fee. We also charge separate fees for some value-added services. The monthly fees for our primary tariff plans are NT$70 with a deductible on usage fees of NT$25 for residential customers and NT$295 for business customers. Our primary peak time usage fee is NT$1.6 for three minutes or NT$2.7 for ten minutes, depending on the tariff plan selected by the customer, and our off-peak usage fee is NT$1.0 for ten minutes. Our usage fees are the same for residential and business customers.

The following table sets forth information with respect to the average local telephone usage charge per minute for the periods indicated.

	Year ended December 31,		
	2007	**2008**	**2009**
Average local telephone usage fee (per minute)	NT$ 0.73	NT$ 0.74	NT$ 0.74
Growth rate (compared to the same period in the prior year)	1.4%	1.4%	0.4%

Average per minute usage charges increased from NT$0.73 per minute in 2007 to NT$0.74 per minute in 2008 and NT$0.74 per minute in 2009. The increases were primarily due to a decline in demand for our discounted internet tariff packages as a result of a migration of non-HiNet dial-up customers to our ADSL services.

Part of our competitive strategy is to offer customers innovative products and services intended to both secure customer loyalty and enhance revenues. In particular, our value-added services are designed to increase our call revenues by increasing the number of calls our customers make and by receiving fees for usage of the value-added services. These services include call waiting, caller identification, call forwarding, three-party calls, ring back tone and voicemail.

Domestic Long Distance Telephone

We provide domestic long distance telephone services in Taiwan. Total revenues from domestic long distance telephone services comprised 4.6%, 4.2% and 3.7% of our revenues in 2007, 2008 and 2009, respectively. Our average market share in the domestic long distance market was approximately 86.5%, 85.2% and 82.9% in 2007, 2008 and 2009, respectively. Residential customers accounted for 59.8% of our domestic long distance revenues in 2009.

The following table sets forth information with respect to usage of our domestic long distance telephone services for the periods indicated.

	Year ended December 31,		
	2007	**2008**	**2009**
	(in millions, except percentages)		
Domestic long distance telephone service usage (minutes)	4,325	4,000	3,649
Growth rate (compared to the same period in the prior year)	(6.8)%	(7.5)%	(8.8)%

Minutes of use for domestic long distance calls have been declining as a result of adverse economic conditions and traffic migration to mobile services, competition from other fixed line operators and increased use of VoIP. We expect declines in minutes of use for fixed line services to continue in the future for the same reasons.

The following table sets forth information with respect to the average domestic long distance telephone usage charge per minute for the periods indicated.

	Year ended December 31,		
	2007	2008	2009
Average domestic long distance telephone usage fee (per minute)	NT$ 1.66	NT$ 1.68	NT$ 1.68
Growth rate (compared to the same period in the prior year)	0.6%	1.2%	0.3%

All domestic long distance calls, regardless of the distance between the calling parties, have the same tariff. We changed the unit of billing from a per-minute basis to a per-second basis effective February 1, 1999. In addition, we reduced our peak hour domestic long distance rate in April 2001 from NT$0.045 per second to our current rate of NT$0.035 per second. Our current domestic long distance rate for off-peak hours is NT$0.025 per second. The rates for both peak hours and off-peak hours are the same for residential and business customers. Our average domestic long distance usage charge per minute increased 1.2% in 2008 due to a 22.59% increase in the unit price for domestic long distance calls from public phones over 2007 and increased 0.3% in 2009 due to a 0.15% increase in the unit price of long distance direct dial services and a 11.7% increase in the unit price of domestic long distance calls from public phones over 2008.

We provide so-called intelligent network services over our domestic long distance network, including toll-free calling, universal number, televoting, premium rate service and VPNs. We also focus on offering our customers an increasing number of value-added services and flexible tariff packages.

Broadband (ADSL+ and FTTx) Access

We provide broadband internet access through connections based on ADSL and our FTTx technology. FTTx generally offers a faster access medium for our internet customers compared to ADSL by using fiber optic technology. We are continuing the build-out of our FTTx infrastructure. The majority of our FTTx deployments consist of fiber-to-the-node with some fiber-to-the-building deployments. The majority of the local loops still use copper wires, and we do not have any present plans to upgrade the local loops to fiber optic lines. Because we typically realize higher average revenue per user for our FTTx internet services, we are offering various incentives for our ADSL and other internet customers to switch to our FTTx services.

We provide ADSL access services to other internet service providers that do not have their own network infrastructure, and as a result, our ADSL customers also include some customers that use us only for the ADSL data access line and choose another provider for ISP services. We began providing our ADSL service in August 1999 and had approximately 2.7 million customers as of December 31, 2009. Our ADSL service allows for transmission of data at high access rates and offers high-speed broadband internet access services. As of December 31, 2009, approximately 76.6%, or 2.0 million, of our ADSL customers were also our HiNet subscribers. As a result of increased migration to our higher-bandwidth FTTx services, the number of our ADSL customers declined in 2009.

The following table sets forth our revenues from our broadband access services for the periods indicated.

	Year ended December 31,		
	2007	2008	2009
	NT$	NT$	NT$
		(in billions)	
Broadband access revenues:			
Broadband access (ADSL and FTTx)	20.0	20.0	19.9

We provide FTTx internet services, with downlink speeds of 10, 20, 50 and 100 Mbps, in 2009. The number of our FTTx customers increased significantly in 2008 and 2009 as prices became more affordable, coverage areas expanded and customer demand for higher bandwidth heightened. Many of new FTTx customers have migrated from using our HiNet dial-up and ADSL internet services. Of the approximately 1.6 million FTTx customers as of December 31, 2009, approximately 84.0% were those that migrated from our ADSL services. We also provide FTTx access services to other internet service providers that do not have their own network infrastructure, and as a result, our FTTx customers also include some customers that only use us for the FTTx data access line and choose another ISP to provide internet services. Of the approximately 1.6 million FTTx customers as of December 31, 2009, approximately 1.5 million were also our HiNet subscribers. We currently offer various promotional packages to encourage more migration of our HiNet dial-up and ADSL subscribers to our FTTx service. As of December 31, 2009, 36.5% of HiNet subscribers accessed the internet through our FTTx service, and we expect this ratio to increase in the future as a result of these promotional measures.

Our market share of Taiwan s broadband market was approximately 87.0%, 83.8% and 83.0% in 2007, 2008 and 2009, respectively.

The following table sets forth our ADSL service customers as of each of the dates indicated.

	As of December 31,		
	2007	**2008**	**2009**
Our ADSL service customers (in thousands)	3,715	3,241	2,666
Average downlink speed (Mbps)(1)	2.66	4.33	5.1

(1) Average downlink speed is calculated by dividing the total subscribed downlink speed by the total number of customers as of the relevant date. Starting from 2008, FTTx customers are included in the calculation of the average downlink speed.

Our ADSL service offers downlink speeds that range from 256 kilobits per second to 8 Mbps and uplink speeds that range from 64 kilobits per second to 640 Kbps. In December 2001, we began providing symmetrical digital service with uplink and downlink speeds of 512 kilobits per second. After our promotions in 2004 to increase customer access speeds, including our promotions for customers to upgrade to higher-speed access, the average uplink and downlink speeds of our customers have increased substantially. As of December 31, 2007, more than 69.1% our customers have subscribed to downlink speeds of over 2 Mbps, and our average downlink speed was 3.56 Mbps for all of our ADSL and FTTx customers. As of December 31, 2008, approximately 72.5% of our customers had subscribed for downlink speeds of over 2 Mbps, and our average downlink speed was 4.33 Mbps for all of our ADSL and FTTx customers. As of December 31, 2009, over 76.3% of our customers had subscribed for downlink speeds of over 2 Mbps, and our average downlink speed was 5.1 Mbps. Our FTTx service offers downlink speeds of 10, 20, 50 and 100 Mbps matched with uplink speeds of 2, 3 and 5 Mbps, respectively.

We have experienced limited competition in the ADSL and FTTx service market because other fixed line operators and cable operators have not established a nationwide network infrastructure to provide this service.

Our revenues from providing internet access are generated from installation fees, monthly subscription fees and usage fees from fixed line telephone calls made by dial-up customers to access HiNet, which are recorded as domestic data services revenues rather than as local revenues. Usage fees from fixed line telephone calls made to access internet service providers other than HiNet are recorded as local revenues.

Charges for our HiNet dial-up service include a monthly fee entitling the customer to a fixed number of minutes of service, with an additional charge per minute when the fixed number of minutes is exceeded. Alternatively, we offer our customers an unlimited number of minutes for a fixed monthly fee. Charges for our ADSL and FTTx services include one-time installation charges and monthly subscription fees. These charges for our ADSL and FTTX services vary based on connection speed.

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The following table sets forth our average revenue per user for each of the periods indicated.

	Year ended December 31,		
	2007	2008	2009
	NT$	NT$	NT$
Average revenue per user for HiNet dial-up services per month(1)	31	33	24
Average revenue per user for ADSL services per month(2)	749	701	638
Average revenue per user for FTTx services per month(3)	1,028	1,085	1,022

(1) Average revenue per user for HiNet dial-up services per month is calculated by dividing the sum of local telephone usage revenues generated by HiNet dial-up subscribers and internet access revenues by the average of the number of our HiNet dial-up subscribers on the first and last days of the period and dividing the result by the number of months in the relevant period.

(2) Average revenue per user for ADSL service services per month is calculated as the sum of (a) ADSL access revenues for the relevant period divided by the average of the number of our ADSL customers on the first and last days of the period divided by the number of months in the relevant period and (b) HiNet ADSL service revenues divided by the average of the number of HiNet ADSL subscribers on the first and last days of the period divided by the number of months in the relevant period.

(3) Average revenue per user for FTTx service services per month is calculated as the sum of (a) FTTx access revenues for the relevant period divided by the average of the number of our FTTx service customers on the first and last days of the period divided by the number of months in the relevant period and (b) HiNet FTTx internet service provider revenues divided by the average of the number of HiNet FTTx subscribers on the first and last days of the period divided by the number of months in the relevant period.

Our average revenue per user has declined over the last three years due to increasing competition. In addition, we were requested by the National Communications Commission to reduce our ADSL tariffs in April 2007, resulting in our ADSL tariffs decreasing by 5.4% on average, and to further reduce our tariffs in April 2010, resulting in our ADSL tariffs decreasing by a percentage calculated by subtracting 4.816% from the previous year s consumer price index, released by the Directorate-General of Budget, Accounting and Statistics of the Executive Yuan. However, we expect our average revenue per user for broadband services to decline more gradually going forward, as customers migrate towards more expensive, higher bandwidth internet services.

Leased Line Services Local and Domestic Long Distance

We are the leading provider of domestic leased line services in Taiwan. Leased line services involve offering exclusive lines that allow point-to-point connection for voice and data traffic. Leased lines are used by business customers to assemble their own private networks and by telecommunications service providers to establish networks to offer telecommunications services.

We provide data transmission services to major corporate customers in Taiwan. We also provide leased lines to other mobile and fixed line service operators for interconnection with our fixed line network and for connection within their networks.

The following table shows the bandwidth of local and domestic long distance lines leased to third parties as of each of the dates indicated.

	As of December 31,		
	2007	2008	2009
	(in gigabits per second, or Gbps)		
Total bandwidth	563.0	790.0	1,069.4

Rental fees for local leased lines are generally based on transmission speed while domestic long distance leased line rental fees are generally based on transmission speed and distance.

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We continue to experience a decline in rental fees for all of our leased line products. The decline in rental fees since 2000 has been substantial partly as a result of broadband services substitution and other service providers constructing their own lines. In response, we continue to implement marketing and service campaigns to retain our high-value corporate customers.

We launched our wireless local area network service in May 2002. As of December 31, 2009, we had a total of approximately 61,205 residential and business customers that lease our access points. In addition, we have established 1,152 hot spots in public areas, such as airports and international convention centers, where individuals can access our wireless local area network.

Multimedia on Demand Services

We launched our multimedia-on-demand, or MOD, service in Taipei County and Keelung City in March 2004. As of December 31, 2009, we have expanded this service to all 22 counties and cities of Taiwan. Using video streaming technology through a set top box that connects to our FTTx and ADSL data connections, our customers can access TV programs and other services. We had over 88 broadcasting channels and over 8,000 hours worth of on-demand programs and served approximately 0.7 million customers as of December 31, 2009. In addition, our video-on-demand service provides movies, dramas, animations, documentaries, e-learning and music programs for home entertainment. Also, we currently offer three high definition, or HD, channels and other HD video-on-demand programming, such as sports, movies and knowledge materials. We are planning to offer more HD programming in the future in order to enhance our service content and satisfy our customers needs. MOD revenues accounted for NT$0.4 billion, NT$0.6 billion and NT$0.9 billion (US$28.2 million) in 2007, 2008 and 2009, respectively.

Domestic Other Services

Our domestic other services include information and communication technology services, corporate solution and bill handling services and the leasing of real estate.

Mobile Communications Business

Mobile communications services are one of our principal business activities. Our mobile communications services include mobile and paging services, sales of mobile handsets and data cards and mobile other services.

Mobile Services

We are Taiwan s largest provider of mobile services in terms of both revenues and customers. In 2007, we generated revenues of NT$73.6 billion, or 37.3% of our total revenues, from mobile services. In 2008, we generated revenues of NT$72.4 billion (US$2.2 billion), or 35.9% of our total revenues, from mobile services. In 2009, we generated revenues of NT$71.4 billion (US$2.2 billion), or 35.9% of our total revenues, from mobile services.

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Since 2008, we account for revenues from short messaging service air time charges under mobile data instead of interconnection. The following table sets forth our revenues from mobile services for the periods indicated.

	Year ended December 31,			
	2007	2008	2009	
	NT$	NT$	NT$	US$
		(in billions)		(in millions)
Mobile services revenues:				
Usage[1]	59.2	56.4	54.4	1,702.0
Interconnection[2]	7.2	7.2	7.0	217.9
Mobile data[2]	5.6	7.0	8.4	264.4
Other	1.6	1.8	1.6	49.8
Total mobile services	73.6	72.4	71.4	2,234.1

(1) Includes monthly fees.

(2) Due to reclassification of our business segments in 2009, non-core value-added service revenues are now included under mobile data. Revenues for 2007 and 2008 have been recalculated to reflect the new classifications. Prior to the reclassification, non-core value-added service revenues were included under our former all others business segment.

As the market for mobile services has continued to expand, we have experienced substantial growth in our mobile customer base. We are the largest mobile operator in Taiwan in terms of revenues and number of customers. We had 9.27 million mobile customers, for a market share of approximately 34.4% of total mobile customers and approximately 33.1% of total mobile services revenues in Taiwan, as of December 31, 2009.

We offer digital mobile service through our dual band GSM network. We are one of the three national licensed providers of GSM services. We have been allocated 15 MHz in the 900 MHz frequency band and 11.25 MHz in the 1800 MHz frequency band for GSM services and general packet-switched radio services, or GPRS, and 15 MHz paired spectrum plus 5 MHz unpaired spectrum in the 2 GHz frequency band for 3G mobile services. This is the largest frequency spectrum allocation to any mobile operator in Taiwan. In February 2002, the Ministry of Transportation and Communications granted 3G mobile services concessions to five companies, including us. In March 2002, we paid NT$10.2 billion to the government for our concession. Our 3G mobile services license is valid until December 31, 2018. In July 2005, we launched our 3G mobile services using WCDMA technology. We also offer the largest international roaming network among Taiwan mobile service providers. In particular, our 2G customers have access to 338 networks in 179 countries through our GSM service roaming network and 227 networks in 113 countries through our GPRS roaming network. In addition, our 3G service system includes 101 networks in 52 counties.

As of December 31, 2009, we had approximately 15,627 cellular base stations (including both GSM base stations and 3G cellular base stations) covering substantially all of Taiwan s population. We use these base stations to support both our GSM network and 3G networks. In 2009, we upgraded more than 2,259 3G cellular base stations with HSDPA capacity and 1,000 GSM base stations with EDGE capacity in the larger metropolises of Taiwan. We will continue this process of implementing HSDPA and EDGE upgrades in the major areas of Taiwan.

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The following table sets forth information regarding our mobile service operations and our mobile customer base for the periods indicated.

	As of or for the year ended December 31,		
	2007	2008	2009
Taiwan population (in thousands)(1)	22,958	23,037	23,120
Total mobile customers in Taiwan (in thousands)(2)	24,302	25,413	26,959
Penetration (as a percentage of the population)(2)	105.9%	110.3%	116.6%
Total mobile revenues in Taiwan (in billions)(3)	NT$ 218.5	NT$ 215.9	NT$ 198.5
Number of our mobile customers (in thousands)(2)(4)	8,699	8,947	9,269
Our market share by customers(2)	35.8%	35.2%	34.4%
Our market share by revenues	33.7%	33.5%	33.1%
Number of our prepaid customers (in thousands)(4)	632	728	839
Our prepaid customers as a percentage of our total customers	7.3%	8.1%	9.0%
Annualized churn rate(5)	12.24%	11.81%	11.21%
Minutes of usage (in millions of minutes)			
Incoming	10,636	10,442	10,500
Outgoing	9,586	9,595	9,702
Average minutes of usage per user per month(2)(6)	196	189	185
Average revenue per user per month(2)(7)(8)	NT$ 714	NT$ 684	NT$ 653

(1) Data from the Department of Population, Ministry of the Interior, Republic of China

(2) The number of mobile customers is based on the number of subscriber identification module, or SIM, cards. Since 2006, the total number of mobile customers in Taiwan included personal handy-phone system, PHS and 3G customers.

(3) Data from the statistical monthly release by the National Communications Commission in the Republic of China, which include mobile revenues 2G, 3G and PHS.

(4) Includes GSM, GPRS and 3G services.

(5) Measures the rate of customer disconnections from mobile service, determined by dividing (a) our aggregate voluntary and involuntary deactivations (excluding deactivations due to customers switching from one of our mobile services to another) during the relevant period by (b) the average number of customers during the period (calculated by averaging the number of customers at the beginning of the period and the end of the period), and multiplying the result by the fraction where (c) the numerator is 12 and (d) the denominator is the number of months in that period.

(6) Average minutes of usage per user per month is calculated by dividing the total minutes of usage during the period by the average of the number of our mobile customers on the first and last days of the period and dividing the result by the number of months in the relevant period.

(7) Average revenue per user per month is calculated by dividing our aggregate mobile services revenues during the relevant period by the average of the number of our mobile customers on the first and last days of the period and dividing the result by the number of months in the relevant period.

(8) Due to reclassification of our business segments in 2009, non-core value-added service revenues are now included under mobile services. Revenues for 2007 and 2008 have been recalculated to reflect the new classifications.

The mobile services market in Taiwan has grown rapidly since the liberalization of the market in 1997. Total mobile customers in Taiwan have reached approximately 27 million as of December 31, 2009. Mobile penetration was approximately 116.6% on the same date. The number of mobile customers in Taiwan continue to grow, However, the overall mobile services market experienced a slight decrease of 0.8% in revenues in 2009. We believe that any future growth in the number of mobile customers will depend largely upon continuing improvements in wireless technologies and wireless data applications and the availability of advanced mobile handsets.

We began offering prepaid card services in October 2000 and prepaid 3G card services in February 2008. As of December 31, 2009, we had approximately 0.8 million prepaid customers representing approximately 9.0% of our total mobile customers. Prepaid customers do not pay monthly fees but pay a higher usage charge on a per second basis. Once the prepayment has been fully utilized, a prepaid customer can make additional prepayments to continue the service. Alternatively, the customer may convert to become a post-paid customer while retaining the same telephone number.

We offer incentives, such as mobile handset subsidies, when new customers agree to sign a service contract with us or when existing customers renew their contracts with us ranging from 18 months to 30 months. We generally offer subsidies on mobile handsets equipped with more advanced data functions to promote the expansion of our GPRS and 3G mobile services. In 2009, the average amount of subsidies we offered was NT$3,736 per customer, up from NT$3,488 per customer in 2008 primarily due to an increase in the proportion of subsidies offered for 3G mobile handsets, which are more costly than subsidies for 2G mobile handsets. We expect the average amount of our subsidies to slightly decline in the foreseeable future, with a decrease in subsidies for 2G mobile handsets generally offset by higher subsidies for 3G mobile handsets.

Traffic growth has been stable, and while pricing has declined, the number of post-paid customers has increased. We have also experienced a significant increase in the number of short messaging service, or SMS, messages sent by our customers, which continued to have a positive impact on traffic volume. The average minutes of usage per customer declined in 2007 because the 2.2% growth in incoming calls was lower than the 2.5% growth in the number of customers. The average minutes of usage per customer slightly declined in both 2008 and 2009 due to the deteriorating macroeconomic conditions in Taiwan.

Our tariffs for post-paid mobile customers primarily consist of usage fees and monthly fees. When our customers are outside Taiwan, they pay roaming charges plus international long distance charges and, where applicable, local charges in roaming destinations. We negotiated with Vodafone, the largest telecommunications service provider in Europe, in November 2009 to join their global telecommunications alliance. As a result, we began offering our customers discounts on their roaming charges starting December 1, 2009. We charge a flat fee per transaction for our short messaging service and a fee per packet for our GPRS based on the volume of data transmitted. We also offer discounts on usage fees for calls made between our mobile customers to encourage subscription to our mobile service. Our 3G service also provides a monthly flat rate service to our customers using our 3G service for internet purposes.

Our average revenue per user per month decreased from NT$714 in 2007 to NT$683 in 2008 due to decreased call volume caused by the deteriorating economic conditions Our average revenue per user per month decreased from NT$683 in 2008 to NT$652 in 2009 due to increased price competition with our competitors. In order to continue to reduce the decline in average revenue per user, we intend to continue introducing new value-added services and promote our 3G and 3.5G and wireless internet services.

In addition to our basic mobile services, we also offer a broad range of value-added telecommunications and information services. In August 2001, we introduced a platform of integrated mobile value added services under the brand name emome. Our emome services offer a broad range of value-added services, including financial information, transaction services, emergency services access numbers, directory information, time, weather and traffic reports. In addition, we launched other mobile value-added services, such as JAVA games, unstructured supplementary service data, mobile internet and multimedia messaging services. After the launch of our 3G mobile services, we began providing video phone, video-on-demand and other related 3G mobile value-added services as well. In 2009, we successfully created a business model integrating smart phones with customer-tailored services, promoted our mobile internet service business, created the Hami value-added service platform and led the industry in providing e-book service. In addition to creating additional sources of revenues, we believe these services enhance customer loyalty and satisfaction and increase mobile traffic. Revenues from mobile data services represented 7.6%, 9.7% and 11.8% of our total mobile services revenues in 2007, 2008 and 2009, respectively.

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Paging Services

Due to substitution by mobile services and a decline in demand for our paging services in recent years, beginning in February 2007, we started downsizing our paging services by limiting access to certain telephone prefixes. We are planning to discontinue our paging services in the near future.

Sales of Mobile Handsets and Data Cards

We engage in the distribution and sales of mobile handsets for use on our mobile network to customers through our directly-owned stores and also through third-party retailers. In January 2007, we acquired 31.33% equity ownership of Senao, a major distributor of mobile handsets in Taiwan, and obtained majority board representation in April 2007, upon which it became a consolidated subsidiary of ours. The addition of Senao significantly enhanced our mobile handset distribution and sales capabilities. Beginning in April 2007, we started accounting for the revenues from our subsidiary, Senao, under our mobile handset business segment.

We began sales of HSDPA data cards in 2006 for high-speed mobile internet access service for notebook users. Currently, the maximum internet access speed for our HSDPA data cards is 14.4 Mbps. We are planning to provide higher speed HSPA+ internet access data cards in the future.

Mobile Other Services

Our mobile other services include information and communication technology services, corporate solution and bill handling services and the leasing of real estate.

Internet Business

We have experienced continued growth in our internet services. Our internet business includes HiNet, our internet service provider, internet value-added services, or VAS, data communication services, internet data center services, and internet other services. Our internet revenues represented 10.6%, 11.4% and 11.9% of our revenues in 2007, 2008 and 2009, respectively.

HiNet Internet Service

We are the largest internet service provider, or ISP, in Taiwan, with a market share of 71.8% as of December 31, 2009. As of December 31, 2009, HiNet had approximately 4.1 million subscribers, and our number of subscribers decreased by a 0.2% compound annual growth rate over the two years ended December 31, 2009. Our HiNet internet service generated revenues of NT$16.7 billion, NT$17.7 billion and NT$17.3 billion (US$0.5 billion) in 2007, 2008 and 2009, respectively.

The following table sets forth HiNet s subscribers as of each of the dates indicated.

	As of December 31,		
	2007	2008	2009
		(in thousands, except percentages)	
Total internet subscribers in Taiwan	5,974	6,027	5,668
HiNet subscribers:			
HiNet dial-up subscribers	626	580	534
HiNet ADSL subscribers	2,919	2,498	2,043
HiNet FTTx subscribers	528	1,016	1,486
Other access technology subscribers	10	9	4
Total HiNet subscribers	4,083	4,103	4,067
Market share[(1)]	68.3%	68.1%	71.8%

(1) Based on data provided by the National Communications Commission.

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We have maintained our leading market position despite a highly competitive market with over 176 internet service providers in Taiwan. We expect the competitive conditions currently prevailing in the internet service provider market to continue to intensify.

Internet Value-added Services

Our HiNet portal at *www.hinet.net* provides value-added services to our customers, such as network security, Blog, travel, games, e-learning, financial information, music, video, anti-virus and links to other portals. We charge fees for some of these services. We also receive commissions for transactions completed on some of these other portals. Our internet video portal at *www.hichannel.hinet.net* offers online entertainment services through the internet. In particular, our HiNet broadband (ADSL and FTTx) subscribers can access music, television programs, movies and other multi-media content on demand. We charge access fees for some of this content. We expect the revenues generated from these value-added services to grow as a percentage of our total internet services revenues. The information contained in our HiNet portal and internet video portal is not a part of this annual report.

Data Communication Services and Internet Data Center Services

We provide a wide range of managed data services, including frame relay services, asynchronous transfer mode services, and VPN services. Frame relay services provide high-speed data communications linking remote sites. Asynchronous transfer mode services are used to handle high-bandwidth, integrated voice, video, data and internet traffic between sites.

Internet data centers are facilities providing the physical environment necessary to keep computer network servers running at all times. These facilities are custom-designed with high-volume air conditioning temperature control systems, secure access, reliable electricity supply and connections to high-bandwidth internet networks. Data centers house, protect and maintain network server computers that store and deliver internet and other network content, such as web pages, applications and data. We currently have the greatest number of internet data centers in Taiwan compared to our competitors in Taiwan. We offer co-location, web hosting and application service provider services. To expand our internet data center services and strengthen our cooperation with international telecommunications operators, we acquired a 70% equity interest of Chief Telecom in September 2006, which increased our internet data center market share to over 50%. We are planning to construct a cloud computing center for the provision of cloud computing services.

Internet Other Services

Our internet other services include government services, corporate solution and information and communications technology, or ICT, services and the leasing of real estate.

International Fixed Communications Business

Our international fixed communications business include international long distance telephone services, international leased line services, international data services, satellite services and international other services.

International Long Distance Telephone

We provide international long distance telephone services in Taiwan. Total revenues from international long distance telephone services comprised 7.2%, 7.0% and 6.5% of our revenues in 2007, 2008 and 2009, respectively. Residential customers generated 40.7% of our international long distance revenues during 2009. In addition, we provide wholesale international long distance services to international simple resale operators that do not possess their own telephone network or infrastructure.

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Since international fixed communication services have been open for competition since 2001, we expect competition in this line of business will continue to intensify. We believe other fixed communication operators consider the international long distance market to be their primary focus. Our average market share of the international long distance market was approximately 61.6%, 59.5% and 60.3% in 2007, 2008 and 2009, respectively. Our market share increased in 2009 primarily because of increases in our international long distance wholesale and transit businesses. Our international long distance services consist primarily of international direct dial services and our discounted Super eCall services, which we introduced in April 2000. Under Super eCall, we use VoIP technology through international dedicated circuits which connect to our major correspondent carriers that route calls internationally. Super eCall customers are offered rates that are approximately 30% lower than those for our international direct dial service. Calls made over Super eCall represented 8.1% and 4.7% of our total outgoing international traffic in 2008 and 2009, respectively. This decrease in proportion is a result of decreased Super eCall traffic, which resulted from a change in the promotion strategy for Super eCall as discounts are now only applied to the first nine minutes of a call instead of to the entire call, in conjunction with increased overall international long distance traffic.

We commenced the wholesale of international long distance minutes to licensed international resale operators and other international carriers in 2001. International resale operators require a fixed line operator in Taiwan to complete their long distance telephone services originating in Taiwan. In addition, other international carriers often find it less expensive to route international calls through Taiwan. These resale operators and carriers purchase from us large numbers of minutes at discounted rates. Our international long distance wholesale business has grown rapidly since its introduction. In 2007, 2008 and 2009, we sold 1,039.9 million, 1,158.9 million and 1,296.7 million of wholesale outgoing minutes, which represented approximately 43.5%, 48.8% and 51.3% of our total outgoing international long distance minutes, respectively. Revenues from the wholesale of international long distance minutes increased by 11.9% from NT$2,266 million in 2008 to NT$2,536 million in 2009. As the international long distance market becomes more competitive, we believe the wholesale business will allow us to generate increases in international minutes without accelerating the decrease in international long distance rates in the more profitable retail segment.

International calls to our top five destinations represented 72.8% of our outgoing international long distance call traffic in 2009. International calls from our top five destinations represented 53.8% of our incoming international long distance call traffic in 2009.

The following table shows the percentage of total outgoing international long distance minutes for our top five outgoing destinations in 2009.

Destination	**Percentage of total outgoing minutes**
Mainland China	39.5%
Philippines	9.5
Indonesia	8.8
Vietnam	8.6
United States	6.4
Total of top five destinations	72.8%

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The following table shows the percentage of total incoming international long distance minutes for our top five incoming destinations in 2009.

Destination	Percentage of total incoming minutes
Mainland China	23.2%
United States	12.1
Japan	8.6
Canada	5.5
Malaysia	4.4
Total of top five destinations	53.8%

The following table sets forth information with respect to usage of our international long distance services for the periods indicated.

	As of December 31,		
	2007	2008	2009
	(in thousands, except percentages and incoming/outgoing ratio)		
Incoming minutes	1,666	1,948	1,865
Growth rate (compared to the same period in the prior year)	23.0%	16.9%	(4.3)%
Outgoing minutes	2,389	2,375	2,527
Growth rate (compared to the same period in the prior year)	6.7%	(0.6)%	6.4%
Total minutes	4,055	4,323	4,392
Incoming/outgoing ratio	0.70	0.82	0.74

Total outgoing international long distance minutes decreased by 0.6% from 2007 to 2008 primarily due to foreign workers transitioning to using mobile prepaid cards from other service providers instead of our prepaid calling cards and increased 6.4% from 2008 to 2009 primarily due to increases in our international long distance wholesale and transit businesses. Our incoming call volume increased by 16.9% from 2007 to 2008 due to an increase of 16 overseas bilateral arrangement partners and decreased 4.3% from 2008 to 2009 primarily due to decreased traffic as a result of deteriorating economic conditions.

Outgoing calls made by customers in Taiwan and by customers from foreign destinations using Taiwan direct service are billed in accordance with our international long distance rate schedule for the destination called. Rates vary depending on the time of day at which a call is placed. Customers are billed on a per minute basis for Super eCall services, whereas customers are billed on a six second unit basis for international direct dial services.

The following table sets forth information with respect to the average international long distance usage charge per minute that we received for outgoing international calls during the periods indicated:

	Year ended December 31,		
	2007	2008	2009
Average international long distance usage charge (per minute)	NT$ 4.5	NT$ 4.2	NT$ 3.6
Growth rate (compared to the same period in the prior year)	(4.3)%	(6.7)%	(15.0)%

Tariffs for international long distance calls have generally been declining worldwide and we expect this trend to continue. In anticipation of new competition, we substantially reduced our international tariffs by an average of 37% in April 2001 to defend our business and market share. In addition, we offered our customers significant promotional packages and discounts during off-peak hours in 2007, 2008 and 2009 to maintain their loyalty. In particular, we increased the discounts offered to our high-usage international long distance customers in each of these three years. However, we anticipate that an increase in the international call traffic may partially offset the decline in tariffs.

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We pay for the use of networks of carriers in foreign destinations for outgoing international calls and receive payments from foreign carriers for the use of our network for incoming international calls. Traditionally, these payments have been made pursuant to settlement arrangements under the general auspices of the International Telecommunications Union. Settlement payments are generally denominated in U.S. dollars and are made on a net basis.

The following table sets forth information with respect to our gross international settlement receipts and payments during the periods indicated.

	Year ended December 31,			
	2007	2008	2009	2009
	NT$	NT$	NT$	US$
		(in billions)		(in millions)
Gross international settlement receipts	3.2	3.7	3.5	110.8
Gross international settlement payments	4.7	4.1	4.3	134.5

Our payments on an aggregate basis to international carriers have been more than our receipts from these carriers primarily because our customers outgoing minutes exceeded incoming minutes.

In order to compete more effectively in the international long distance market, we have implemented innovative and customized discount calling plans and marketing campaigns directed at high-usage business customers. We also continue to promote our intelligent network services, including international VPNs, international toll free calling and calling card services, and our international long distance minutes wholesale business. Our subsidiary, Chief Telecom, launched its 070 phone-to-phone VoIP service in April 2009. When demand for 070 VoIP service grows, we will bundle Chief Telecom s 070 VoIP service with other services we provide to meet customers needs. We currently do not have any plans to launch 070 VoIP number service because the National Communications Commission has not given us the right to set the tariffs for outbound calls from 070 numbers.

Leased Line Services International

We are a leading provider of international leased line services in Taiwan. Leased line services involve offering exclusive lines that allow point-to-point connection for voice and data traffic. Leased lines are used by business customers to assemble their own private networks and by telecommunications service providers to establish networks to offer telecommunications services.

We provide data transmission services to major corporate customers in Taiwan. Since August 2001, licenses have been awarded to four undersea cable operators to engage in leased line services. Demand for high-speed data transmission services has been growing rapidly, as a result of growing consumer demand and lower tariffs due to increased competition. In particular, the total bandwidth of our lines leased increased by 90.8% over the three years ended December 31, 2009.

The following table shows the bandwidth of international lines leased to third parties as of each of the dates indicated.

	As of December 31,		
	2007	2008	2009
	(in gigabits per second, or Gbps)		
Total bandwidth	33.1	43.3	63.1

Rental fees for international long distance leased line rental fees are generally based on transmission speed and distance.

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We continue to experience a decline in rental fees for all of our leased line products. The decline in rental fees since 2000 has been substantial, particularly for international leased lines, partly as a result of competition from new international leased line service providers. In response, we continue to implement marketing and service campaigns to retain our high-value corporate customers.

International Data Services

Our international data services include international IP VPN services and Taiwan internet gateway services. Due to growth of the international corporations in Taiwan, we expect demand for IP VPN and Taiwan internet gateway services to increase and our revenues from our international data services to continue to grow.

Satellite Services

We are a 50% owner of the ST-1 telecommunications satellite. Singapore Telecommunications Ltd. owns the remaining 50%. ST-1 was launched on August 26, 1998 and began commercial operations on December 1, 1998. We lease out transponder capacity on ST-1 and provide satellite lease circuits. In addition, we have two satellite communication centers that enable us to provide satellite value-added services and back up systems for use in major emergencies. We also provide satellite services to Southeast Asia. We are currently constructing the ST-2 telecommunications satellite together with Singapore Telecommunications Ltd. and plan to launch this satellite by 2011. We expect to retire the ST-1 telecommunications satellite after the launch of the ST-2 telecommunications satellite.

We have entered into a contract with ST-2 Satellite Ventures Pte., Ltd. on March 12, 2010 to lease capacity on the ST-2 satellite. This contract is valid until December 31, 2026 and the total contract value is approximately NT$6.0 billion (US$187.8 million).

International Other Services

Our international other services include corporate solution service and the leasing of real estate.

Others

Our others business segment include revenues from our non-telecom services, including our educational training programs and technology transfer income.

Interconnection

We provide interconnection of our fixed line network with other mobile operators and, since July 2001, with other fixed line operators.

The following table sets forth our interconnection fee revenues and costs for the periods indicated. These revenues and costs are included, depending on the nature of the call made, in domestic fixed communications or mobile communications revenues and expenses, respectively.

	Year ended December 31			
	2007	2008	2009	
	NT$	NT$	NT$	US$
	(in billions)			(in millions)
Interconnection fee revenues:				
Local	2.6	2.5	2.5	78.0
Domestic long distance	0.9	0.8	0.4	12.2
Mobile[1]	7.6	7.7	7.5	234.3
Interconnection costs:				
Fixed line	0.2	0.2	0.2	5.7
Mobile	6.9	7.1	7.2	224.5

(1) Includes SMS air time charges.

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Currently, tariffs for telephone calls between our fixed line customers and mobile customers of other mobile operators are set by the mobile operators. The mobile operators pay us interconnection fees based on minutes of usage, regardless of who initiated the call. Furthermore, the National Communications Commission issued a notice on January 17, 2008, stipulating the party who initiates the call will decide the fees starting from January 1, 2011.

The National Communications Commission approved new fixed line interconnection rates that became effective January 1, 2009. The interconnection rate for calls initiated by mobile customers to fixed line customers is NT$0.5219 per minute during peak times and NT$0.2718 per minute during off-peak times. The interconnection rate for calls initiated by fixed line customers to mobile customers is NT$0.8729 per minute during peak times and NT$0.6228 per minute during off-peak times. The interconnection rate between fixed line customers and other fixed line customers is NT$0.32 per minute during peak times and NT$0.09 per minute during off-peak times. The interconnection rate for fixed line customers to domestic or international long distance is NT$0.32 per minute.

In accordance with governmental regulations, the contracts governing our interconnection arrangements must specifically address a number of prescribed issues. For example, our interconnection charge should reflect our costs with respect to the network elements used. In addition, cost increases are subject to approval by the regulatory authorities. We expect that our interconnection contracts will generally be reviewed annually, although we may also enter into long-term contracts.

Cross-segment Businesses

We provide some services that cross our various business segments. These include our ICT services and telephone directory services.

Information and Communications Technology

Our information and communications technology, or ICT, services includes integrated services such as our Intelligent Energy Network, or iEN, and our Intelligent Transportation System, or ITS, services. Our iEN service helps companies and corporations implement energy saving measures through computer analysis of data. Our ITS service provides navigation, real-time traffic information and infotainment through mobile devices for cars and drivers.

Marketing, Sales and Distribution

Marketing Strategy

In order to retain and expand our large customer base and to encourage our customers to increase their use of our services and products, we continue to focus our marketing strategy on the following areas.

Services, Products and Bundled Offerings. We continually develop new value-added services and products, and bundle our services and products based on different market segments, with the aim of increasing our high-usage customers and enhancing customer loyalty. For example, we entered into an agreement with Apple Inc. and are currently a reseller of the iPhone 3G and iPhone 3GS in Taiwan. We anticipate that the iPhone 3G and iPhone 3GS, combined with our mPro service, will attract market attention, spur new customer growth, help retain existing customers and generate revenues through the increased use of our value-added services.

Pricing and Promotions. We design flexible pricing packages that allow customers to select structures best tailored to their usage patterns, and design special promotional packages to encourage usage. For example, we have provided our Friends and Family , Genki Plan and Let s Talk promotion package to attract mobile customers.

Distribution Channels. We seek to facilitate customer subscription by adding more service points. In addition, we seek to broaden our distribution reach by strengthening our cross-industry alliances and marketing relationships. Furthermore, we seek to expand our sales channels by implementation of a sales agent system. In 2009, we began a collaboration with Tsann Kuen Trans-Nation Group, allowing the registration of mobile numbers at electronics stores for the first time, effectively increasing our points of sale. We also developed staff incentive programs to better motivate our sales staff.

Business Customers. We expanded our customer focus to include small and medium-sized enterprises in addition to large corporations. We seek to serve the needs of large corporate customers by devoting a project manager or project engineer to service these customers. These account managers are responsible for developing customized solutions and tariff packages to meet the specific needs of our customers. We continually update and expand our service offerings so that we can remain a one-stop telecommunications services provider to our corporate customers and provide for all of their telecommunications needs. Our dedicated local teams serve the needs of small and medium-sized enterprises. These teams also use our data bank to identify and target potential clients for promoting our e-commerce and mobile services. In addition, we help our corporate customers improve their efficiency and competitiveness by creating information systems for them.

Advertising. We are committed to further strengthening the Chunghwa Telecom brand and image as well as strengthening and expanding market recognition of our specialized product brands, such as HiNet and emome. We plan to leverage our leading market position and status to strengthen the overall advantage of our product brands.

Sales and Distribution

Our marketing department at our corporate headquarters in Taipei is responsible for central business planning and formulating our marketing strategies and objectives. We have multiple marketing departments for our various businesses which are responsible for business and marketing planning.

We also have 23 operations offices, 317 service centers and 218 exclusive service stores located throughout Taiwan that are responsible for operations, sales and customer service in their respective local areas.

Customer Service and Billing

We believe our reputation for quality customer service has helped us attract new customers and maintain customer loyalty. We regularly survey our customers to improve our service and better understand market demand and customer preferences, and seek to develop products and services accordingly.

We provide the following services to our customers:

- 24-hour customer service and technical support through our service centers, call centers and website;

- English billing documents available upon request;

- free of charge itemized billing for international and domestic long distance calls;

- bill payment services at 24-hour convenience stores, bank service counters, automatic teller machines, and service centers throughout Taiwan, via direct debit, over the phone, online at our website (www.cht.com.tw), on MOD, and on mobile handset emome;

- online information and bill payment services at our website (www.cht.com.tw) and customer service hotline for telephone payment; and consolidated and automated billing for all services.

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Network Infrastructure

Our network infrastructure consists of transmission networks that convey voice and data traffic, switching networks that route traffic between networks, and mobile, paging, internet, leased line and data switching networks.

We purchase most of our network equipment from well-known international suppliers. As part of the purchase contract, these suppliers deliver and install the equipment for us. We also purchase from local suppliers a variety of components such as transmission lines, switches, telephone sets, MOD set-top boxes, and radio transmitters.

Approximately 14,100 of our employees were engaged in network infrastructure development, maintenance, operation and planning as of December 31, 2009.

Internet Protocol Broadband Backbone Network

Our internet protocol broadband backbone network consists of an inner core network and an outer core network. We completed the construction of our high-speed internet protocol backbone network at the end of 2008 with 14 sets of 1.2 Tbps gigabit switch routers for the inner core network and more than 54 sets of 640 Gbps/320 Gbps/80 Gbps gigabit switch routers for the outer core network. We believe this network will enable us to meet the increasing demand for broadband access and broadband multimedia services.

Transmission Networks

As of December 31, 2009, our transmission networks consisted of approximately 1.18 million fiber kilometers of fiber optic cable for trunking and approximately 2.84 million fiber kilometers of fiber optic cable for local loop.

Between 1999 and 2002, we made significant progress in the upgrading of our plesiochronous digital hierarchy network transmission facilities to synchronous digital hierarchy network transmission facilities. Plesiochronous digital hierarchy is the traditional technology for voice network transmission systems.

Synchronous digital hierarchy architecture is an advanced technology that allows for instantaneous rerouting and eliminates downtime in the event of a fiber cut. In addition, synchronous digital hierarchy offers better reliability and performance for optical fiber transmissions at a lower operating cost. In December 2002, we installed synchronous transport module 64 multiplexer and 32-wavelength dense wavelength division multiplexing equipment on our long-haul backbone network. Our synchronous transport module 64 multiplexer can multiplex several low speed signals into a 10 gigabits per second, or Gbps, high-speed signal. Dense wavelength division multiplexing equipment uses a technology that puts data from different sources together on an optical fiber with each signal carried on its own separate wavelength. Both synchronous transport module 64 multiplexer and dense wavelength division multiplexing equipment can increase our network capacity. Furthermore, between 2003 and 2007, we deployed 32-wavelength optical add-drop multiplexer rings in Taipei, Taichung, Tainan and Kaohsiung. Between 2007 and 2011, we will deploy 40/80-wavelength Re-configurable Optical Add-Drop Multiplexer, or ROADM, rings for backbone transmission network in order to provide new data services such as gigabit Ethernet, fiber channel, 2.5 gigabit and 10 gigabit packet over synchronous digital hierarchy and 10 gigabit Ethernet. We have already completed the deployment of 397l ROADM rings by the end of 2009. To meet the demand for broadband services, we will install an optical cross-connect, or OXC, network and a next generation synchronous digital hierarchy network, which provides gigabit Ethernet over synchronous digital hierarchy service, between 2009 and 2013.

Based on the transmission network described above, we have been providing connection circuit service of 10 gigabit packet over synchronous digital hierarchy and 10 gigabit Ethernet to the government s Taiwan Advanced Research and Education Network since November 2006 and continued the service until May 2010.

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As part of our strategic focus on the internet and data markets, our local loop connections use ADSL technology. This enables us to deliver high-speed internet, multimedia and other data services to our customers. Substantially all of our installed telephone lines are capable of delivering ADSL services. As of December 31, 2009, we had approximately 4.27 million lines of ADSL and had 2.67 million ADSL customers. In addition, the Ethernet-based FTTx system is also introduced into our access network to provide broadband services, such as MOD, high speed internet access and VPN. As of December 31, 2009, we have constructed approximately 2.81 million FTTx ports and had 1.63 million FTTx customers. Our FTTx service can offer high-speed broadband internet access rates up to 100 Mbps.

Switching Networks

Domestic telecommunications network. Our domestic public switched telephone network consists of 19 message areas connected by a long distance network. As of December 31, 2009, we had 38 long distance exchanges, which are interconnection points between our telecommunications network.

In 2008, we completed our NGN core network, which has a local telephone capacity of 507,000 subscribers, comprising of 448,000 Session Initiation Protocol-based, or SIP-based, and 59,000 Access Gateway-based, or AG-based, subscribers. In 2009, we initiated a new extension of 53,000 AG-based subscribers. AG-based subscribers will be provided with the original services. SIP-based subscribers access the NGN core network through broadband circuits and will have access to innovative value-added services in the future along with the original services.

Our NGN Managed IP backbone network consists of an inner core network and an outer core network. We completed the construction of our high-speed NGN Managed IP backbone network in May 2008 with six sets of 640 Gbps gigabit switch routers for the inner core network and more than 34 sets of 640 Gbps gigabit switch routers for the outer core network. The bandwidth of the network is approximately 260 Gbps as of the end of the 2009. We believe this network will enable us to meet the increasing demand for NGN services, such as VoIP, and all managed services, including MOD and VPN.

We currently have intelligent networks installed over our public switched telephone networks for our domestic long distance and international networks, as well as a local intelligent network in the Taipei, Taichung and Kaohsiung metropolitan areas. Our intelligent network is designed to facilitate the use of value-added services by providing more information about calls and allowing greater management of those calls.

As of December 31, 2009, our domestic network included 17.2 million installed telephone lines, and reached virtually all homes and businesses in Taiwan.

International network. Our international transmission infrastructure consists of both submarine cable and satellite transmission systems, which link our national network directly to 100 telecommunications service providers in 47 international destinations.

International calls are routed between Taiwan and international destinations through one of our two international switching centers, one located in Taipei and the other in Kaohsiung. Each center had two time-division multiplexing, or TDM, international gateway switches and one NGN international gateway switch. In total, we had a trunk capacity of 125,040 channels as of December 31, 2009.

As of December 31, 2009, we have invested in 16 submarine cables, seven of which land in Taiwan. While the number of submarine cables we invest in has decreased from 19 in 2008, we have increased the capacity of each of our current submarine cables, increasing our aggregate total capacity from 570 Gbps in 2008 to 596 Gbps in 2009.

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Mobile Services Network

Our mobile services network consists of:

- cell sites, which are physical locations equipped with a base station consisting of transmitters, receivers and other equipment used to communicate through radio channels with customers mobile handsets within the range of a cell;
- base station controllers, which connect to, and control, the base station within each cell site;
- cellular switching service centers, which control the base station controllers and the processing and routing of telephone calls;
- gateway GPRS support nodes, which connect our GPRS network to the internet;
- serving GPRS support nodes, which connect the GPRS network to the base station controllers; and
- transmission lines, which link (i) with respect to the GSM network, the mobile switching service centers, base station controllers, base stations and the public switched telephone network, and (ii) with respect to the GPRS network, the base station controllers, the support nodes and the internet.

The following table sets forth selected information regarding our mobile networks as of the dates indicated.

	As of December 31,		
	2007	2008	2009
GSM system			
GSM base stations	9,042	9,466	9,384
Switches	51	49	49
Lines of capacity (in thousands)	8,500	8,500	7,700
Taiwan population coverage	99.9%	99.9%	99.9%

	As of December 31,		
	2007	2008	2009
3G system			
3G base stations	4,471	5,689	6,243
Servers / gateways	8/11	8/11	8/15
Lines of capacity (in thousands)	2,400	3,000	3,000
Taiwan population coverage	89.0%	91.0%	93.1%
System (Home Location Register) capacity (in thousands)	4,800	4,800	5,400

	As of December 31, 2009
Packet-switched system after consolidation of GSM and 3G	
GPRS gateway support nodes	24
Direct IP access locations / capacity (in Gbps)	6/7.2
Serving support nodes	8

We provide mobile services based on the GSM network standards. We have the 900 MHz and 1800 MHz frequency bands paired with spectrums of 15 MHz and 11.25 MHz, respectively, for our GSM services. We began providing mobile communications services based on the

GPRS network standards in August 2001, using emome as the portal name. We completed a system expansion of our mobile services network to accommodate more than 8.5 million customers, including 2.0 million GPRS customers, at the end of 2003. As of December 31, 2009, we have constructed 9,384 base stations, providing up to 99.9% population coverage. Since the launch of our 3G mobile services, we have gradually transitioned GSM subscribers to 3G and have started to consolidate our GSM network. As a result, the number of switches and network capacity has reduced to 49 and 7.7 million lines, respectively, as of the end of 2009.

We have installed an intelligent network on our mobile services network infrastructure to enable us to provide prepaid services as well as a wide range of advanced call features and value-added services. As of the end of 2009, our intelligent network has 1.4 million prepaid customers and 1.0 million mobile virtual private network customers.

We have 15 MHz paired spectrum plus 5 MHz unpaired spectrum in the 2 GHz frequency band for our 3G mobile services, which was launched in July 2005. We contracted Nokia Siemens Networks to provide the core network, radio access network, service network, transmission network and maintenance network for our 3G network. To promote mobile internet use, we upgraded our network to 3.5G in September 2006, with downlink and uplink speeds of 7.2 Mbps and 2.0 Mbps, respectively. As of December 31, 2009, we have completed the construction of 6,243 3G base stations with a network capacity of 3.0 million lines and 5.4 million subscribers.

In order to operate our packet-switched network more efficiently, we started to integrate GSM and 3G serving support nodes into a single core network. With the introduction of high speed networks and terminals to promote our mobile internet business, we added direct local IP access to six locations and expanded the capacity to 7.2 Gbps as of the end of 2009.

Paging Network

The primary components of our paging network are:

- paging control systems, which receive and encode incoming messages; and
- base stations, which transmit messages to the customer s pager.

Our paging network uses, among other technologies, the open paging protocol developed by Motorola. This technology provides higher data rate, larger content capacity, longer battery life and better error correction capabilities than other existing paging technologies. As of December 31, 2009, we had fewer than 600 subscribers to our paging network. We plan to discontinue our paging service after migrating paging service subscribers to our 3G network by using incentives. However, the National Communications Commission does not allow us to do that before May 5, 2013, the termination date of our paging license. We are currently negotiating with the National Communications Commission for a solution.

Internet Network

HiNet, our internet service provider, has the largest internet access network in Taiwan, with 33 points of presence, approximately 2,040 dial-up ports, approximately 5,414,862 broadband remote access server ports and a backbone bandwidth of approximately 1,051 Gbps as of December 31, 2009. We plan to increase HiNet s points of presence and backbone bandwidth to approximately 1,348 Gbps by the end of 2010.

HiNet s total international connection bandwidth is 186.3 Gbps as of December 31, 2009. As we expect that internet traffic flows to and from the United States will continue to increase, we plan to expand our bandwidth to the United States. We also plan to increase our links to other countries, including Japan, Korea, Hong Kong, Singapore, Mainland China, Malaysia and Thailand.

Leased Line and Data Switching Networks

We operate leased line networks on both a managed and unmanaged basis. In addition, we operate a number of switched digital networks used principally for the provision of packet-switched, frame relay, asynchronous transfer mode technology and a multi protocol label switching internet protocol VPN. We have completed the construction of a digital cross connect system for provisioning and managing voice-grade data services throughout Taiwan with a total of 50 nodes. As of December 31, 2009, we had 2,377 frame relay ports, 3,118 X.25 ports, 8,095 asynchronous transfer mode ports and approximately 60,576 multi protocol label switching internet protocol VPN virtual ports.

Our data networks support a variety of transmission technologies, including X.25 protocol, frame relay and asynchronous transfer mode technology. We have also built up our HiLink VPN that combines internet protocol and asynchronous transfer mode technologies. The advantage of a HiLink VPN based on multi protocol label switching technology is that it can carry different classes of services, such as video, voice and data together to provide services with various qualities of service, high performance transmission and fast forward solution in an enhanced security network. A HiLink VPN can be accessed by an ADSL and can include built-in mechanisms that can deal with overlapping internet protocol addresses. Therefore, the network potentially is less costly and requires less management for business applications.

Competition

We face competition in virtually all aspects of our business.

Domestic Fixed Communications

We are the largest domestic fixed communications service provider in Taiwan, with a market share of approximately 97.1% in terms of customers for local telephone services, approximately 82.9% in terms of traffic for domestic long distance telephone services in 2009, and approximately an 83.0% share of the broadband internet access market in terms of customers. Three new providers, namely, Taiwan Fixed Network, New Century Infocomm Tech. Co., Ltd. and Asia Pacific Telecom Co. Ltd., have provided fixed communication services since June 2001. Our domestic long distance services compete with mobile services as people increasingly use mobile handsets. We believe that the fixed line competition in Taiwan will be primarily based on price, quality of service, network coverage and customer services, such as call centers and unified billing.

We are required by Republic of China regulations to provide number portability and unbundled local loop access.

Our primary competitors in leased line services and broadband services include:

- Leased line service providers: Taiwan Fixed Network, New Century Infocomm Tech. Co., Ltd., Asia Pacific Telecom Co. Ltd., East Asia Netcom Taiwan, Reach Global Services Ltd., FLAG Telecom and Taiwan International Gateway Corporation.

- Broadband internet access providers: kbro Co., Ltd., Taiwan Fixed Network and New Century Infocomm Tech. Co., Ltd., China Network System Co., Ltd.; and

- Cable operators: kbro Co., Ltd., China Network Systems Co., Ltd., Taiwan Broadband Communications Co., Ltd., Pacific Broadband Co., Ltd., and Taiwan Infrastructure Technology Co., Ltd.

Mobile Communications

There are currently three major GSM mobile operators in Taiwan, namely, Taiwan Mobile Co., Ltd., FarEasTone Telecommunications Co., Ltd. and us. Based on data provided by the National Communications Commission, as of December 31, 2009, we were the largest mobile operator in Taiwan, with a 46.4% market share in terms of 2G customers. In addition, there are two new 3G mobile operators in Taiwan, namely Asia Pacific Telecom Co., Ltd. and Vibo Telecom Inc., as well as one personal handyphone system operator, First International Telecom. Furthermore, the government issued a total of 13 mobile virtual network operator, or MVNO, licenses, which allow operators without a spectrum allocation to provide mobile services by leasing the capacity and facilities of a mobile service network from a licensed mobile service provider. We are currently cooperating with Carrefour Telecom Co., Ltd. We may cooperate with other mobile virtual network operators in the future. The National Communications Commission auctioned off six WiMAX licenses to telecommunications service providers in July 2007. As of January 2010, four of these service providers have commenced WiMAX services. The other two service providers plan to start their WiMAX services in 2010. We compete in the wireless services market primarily on the basis of price, quality of service, network reliability and attractiveness of service packages.

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Internet

Our primary competitors in internet services are other internet services providers, including SeedNet, Asia Pacific Online and So-net Taiwan.

We are the largest provider of internet services in Taiwan. As of December 31, 2009, we had a 71.8% share of the Taiwanese internet service market in terms of customers. We compete in the internet services market primarily on the basis of price, technology, speed of transmission, amount of bandwidth available for use, network coverage and value-added services.

International Fixed Communications

We are the largest international fixed communications service provider in Taiwan, with a market share of approximately 60.3% in terms of traffic for international long distance telephone services in 2009. Three new providers, namely, Taiwan Fixed Network, New Century Infocomm Tech. Co., Ltd. and Asia Pacific Telecom Co. Ltd., have provided fixed line services since June 2001. We believe these operators are primarily focused on international long distance services. In addition, we anticipate that these operators will focus on corporate customers, which typically generate higher profit margins than residential customers. Since August 2001, four undersea cable services licenses have been granted. These undersea cable operators, as well as internet service providers and international simple resale operators, have begun offering international leased line services to other fixed line operators, internet service providers and international simple resale operators.

Our international long distance services compete with international long distance resale services and alternative mediums for making international calls, including VoIP technologies, such as those provided by Skype.

Properties

Our properties consist mainly of land, land improvements and buildings located throughout Taiwan. We own approximately 411 hectares of land and 3.5 million square meters of building floor space. In January 2008, we established Light Era Development Co., Ltd. for the purpose of developing our real estate properties. Until now, we have transferred six properties to Light Era and three of these properties are under development. The Wan-Xi project, one of our properties under development, is expected to be completed in 2012. Following the gradual completion of land rezoning, we have focused our real estate development more towards multiuse and diverse projects. Hence, besides the six properties we transferred to Light Era, we have developed more properties for commercial use and participated in government urban redevelopment plans. We expect to receive approximately NT$585 million (US$18.3 million) in rental income in 2010 from such properties.

Insurance

We do not carry comprehensive insurance for our properties or any insurance for business disruptions. We do, however, maintain in-transit insurance for key materials, such as cables, equipment and equipment components. We also carry insurance for the ST-1 satellite while it is in orbit. However, we will not carry insurance for the ST-2 satellite since we only lease the repeaters for our operation instead of having ownership of the ST-2 satellite. As part of our efforts to enhance our risk management capabilities, we have been assessing our equipment that requires the most time and cost to repair or replace, in order to determine whether and to what extent we should carry fire insurance for such equipment.

Employees

Please refer to Item 6. Directors, Senior Management and Employees D. Employees for a discussion of our employees.

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Our Pension Plans

Currently, we offer two types of employee retirement plans our defined contributions plan and defined benefits plan which are administered in accordance with the Republic of China Labor Standards Act and the Republic of China Labor Pension Act.

Legal Proceedings

A portion of the land used by us during the period between July 1, 1996 and December 31, 2004 was jointly owned by us and Chunghwa Post Co., Ltd., Directorate General of Postal Service. In accordance with the claims process in Taiwan, on July 12, 2005, the Taiwan Taipei District Court sent a claim notice to us requiring us to reimburse Chunghwa Post Co., Ltd. in the amount of NT$768.0 million for land usage compensation due to the portion of land usage area in excess of our ownership, along with interest calculated at 5% interest rate from June 30, 2005 to the payment date. However, we believe that both parties have the right to use co-managed land without consideration and thus Chunghwa Post Co., Ltd. does not have the right to request land compensation payments. Furthermore, we also believe that the computation used to derive the land usage compensation amount is inaccurate because most of the compensation amount has expired as a result of the expiration clause. On March 30, 2009, the Taiwan Taipei District Court rendered its judgment that we only need to pay approximately NT$17 million (USS$0.5 million), along with interest calculated at 5% per annum from July 23, 2005, and 4% of Chunghwa Post Co., Ltd. s court fees as compensation. Chunghwa Post Co., Ltd. appealed to the Taiwan High Court on April 22, 2009. We also filed an appeal to the Taiwan High Court within the statutory period. On April 7, 2010, the Taiwan High Court rendered its judgment, ruling that we need to pay approximately NT$23 million (US$0.7 million), in addition to the approximately NT$17 million from the Taiwan Taipei District Court judgment, along with interest calculated at 5% per annum from July 23, 2005, and 12.5% of Chunghwa Post Co., Ltd. s court fees from its original suit and subsequent appeal as compensation.

On June 12, 2008, we received a complaint from the Taiwan Taipei District Court in which GigaMedia alleges that we infringed on a patent and is seeking NT$500 million in damages. GigaMedia later retracted their complaint and we submitted a notice to the Taipei District Court agreeing to GigaMedia s retraction on October 2, 2009. We were not subject to any settlement fees or other financial claims.

On September 30, 2008, the Taiwan Kaohsiung Administrative High Court ruled that we are required to pay NT$428 million in land usage fees to the Kaohsiung City Government. We have filed an appeal with the Supreme Administrative Court and the case is currently pending. While we cannot give any assurance regarding the eventual resolution of the litigation, we do not believe the final outcome will have a material adverse effect on our results of operations or financial condition. During the quarter ending December 31, 2009, we recognized the maximum possible amount of NT$428 million in connection with this litigation as an expense under operating costs.

We are involved in various legal proceedings of a nature considered in the ordinary course of our business. It is our policy to provide for reserves related to these legal matters when it is probable that a liability has been incurred and the amount is reasonably estimable.

We believe that the various asserted claims and litigation in which we are involved will not materially affect our financial condition or results of operations although no assurance can be given with respect to the ultimate outcome of any such claim or litigation.

Capital Expenditures

See Item 5. Operating and Financial Review and Prospects B. Liquidity and Capital Resources Capital Expenditures for a discussion of our capital expenditures.

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Enforceability of Judgments in Taiwan

We are a company limited by shares and incorporated under the Republic of China Company Law and the Statute of Chunghwa Telecom Co., Ltd. All of our directors and executive officers, our supervisors and some of the experts named in this annual report are residents of Taiwan and a substantial portion of our assets and the assets of those persons are located in Taiwan. As a result, it may not be possible for investors to effect service of process upon us or those persons outside of Taiwan, or to enforce against them judgments obtained in courts outside of Taiwan. We have been advised by our Republic of China counsel that in their opinion any final judgment obtained against us in any court other than the courts of the Republic of China in connection with any legal suit or proceeding arising out of or relating to the ADSs will be enforced by the courts of the Republic of China without further review of the merits only if the court of the Republic of China in which enforcement is sought is satisfied that:

- the court rendering the judgment has jurisdiction over the subject matter according to the laws of the Republic of China;
- the judgment and the court procedure resulting in the judgment are not contrary to the public order or good morals of the Republic of China;
- if the judgment was rendered by default by the court rendering the judgment, we were served within a reasonable period of time in accordance with the laws and regulations of the jurisdiction of the court or process was served on us with judicial assistance of the Republic of China; and
- judgments at the courts of the Republic of China are recognized and enforceable in the court rendering the judgment on a reciprocal basis.

A party seeking to enforce a foreign judgment in the Republic of China would be required to obtain foreign exchange approval from the Central Bank of the Republic of China (Taiwan) for the payment out of Taiwan of any amounts recovered in connection with the judgment denominated in a currency other than NT dollars if a conversion from NT dollars to a foreign currency is involved.

Regulation

Overview

We were subject to the Statute of Chunghwa Telecom Co., Ltd. prior to our privatization. Although we have been privatized, the Legislative Yuan has not yet abolished the Statute of Chunghwa Telecom Co., Ltd., and at this time, the Statute of Chunghwa Telecom Co., Ltd. is still applicable to us.

Regulatory Authorities

Prior to March 1, 2006, we were under the supervision of the Ministry of Transportation and Communications and the Directorate General of Telecommunications. On March 1, 2006, the National Communications Commission was formed in accordance with the National Communications Commission Organization Law, or the Organization Law, which was intended to transfer regulatory authority over the Taiwan telecommunications industry from the Ministry of Transportation and Communications and the Directorate General of Telecommunications to the National Communications Commission. The National Communications Commission was comprised of nine commissioners who were recommended by the government and opposition political parties in the Legislative Yuan, as well as recommended by the Executive Yuan and approved by the Legislative Yuan. However, the Executive Yuan considered the composition of the National Communications Commission unconstitutional and petitioned the Grand Justices of the Republic of China, or the Grand Justices, to interpret the constitutionality of the formation of the National Communications Commission and the procedure for nominating commissioners to serve on the National Communications Commission. On July 21, 2006, the Grand Justices rendered an interpretation and held that the relevant provisions under the Organization Law as to the nomination procedures for the commissioners of the National Communications Commission were unconstitutional. However, the Grand Justices granted a grace period allowing such provisions of the Organization Law to remain in effect until December 31, 2008.

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On January 9, 2008, an announcement issued by the President amended the Organization Law, or New Amendment, amending the unconstitutional formation articles and reducing the total number of commissioners to seven with a term of four years. The commissioners will be nominated by the premier of the Executive Yuan and approved and appointed by the Legislative Yuan.

The new nomination method under the New Amendment became effective on February 1, 2008 when the Legislative Yuan started its new term. The nine incumbent commissioners continued to serve until July 31, 2008, when their terms ended. The premier of the Executive Yuan nominated new commissioners on July 1, 2008, and they were approved and appointed by the Legislative Yuan on July 18, 2008. The new commissioners took office on August 1, 2008.

In accordance with the National Communications Commission Organization Law, the National Communications Commission is responsible for:

- formulating, implementing and interpreting telecommunications laws and regulations;
- issuing telecommunications licenses and regulating the operation of telecommunications industry participants;
- assessing and testing telecommunication systems and equipment;
- drafting and promulgating technical standards for telecommunications and broadcasting;
- classifying and censoring the contents of telecommunications and broadcasting;
- managing telecommunications and media resources in Taiwan;
- maintaining competition order in the telecommunication and broadcasting industries;
- governing technical standards in connection with the safety of information communications;
- managing and facilitating the resolution of disputes pertaining to the Taiwan telecommunications and broadcasting industries;
- managing offshore matters relating to Taiwan s telecommunications and broadcasting industries including matters of international cooperation;
- managing funds allocated for the development of Taiwan s telecommunications and broadcasting industries;
- monitoring, investigating and determining matters in relating to Taiwan s telecommunications and broadcasting industries;
- enforcing restrictions under telecommunications and broadcasting laws and punishing violators; and

supervising other matters in relation to communications and media.

Telecommunications Act

The Telecommunications Act and the regulations under the Telecommunications Act establish the framework and govern the various aspects of the Taiwan telecommunications industry, including:

licensing of telecommunications services;

telecommunication numbers;

restrictions on dominant telecommunications service providers;

tariff control and price cap regulation;

accounting separation system;

- interconnection arrangements;
- bottleneck facilities;
- spectrum allocation;
- provision of universal services;
- equal access;
- number portability; and
- ownership limitations.

Each of these aspects is described below. The Telecommunications Act also establishes a non-auction pricing system for assignment of radio frequencies.

Licensing of Telecommunications Services

Type I and Type II Service Providers

Under the Telecommunications Act, telecommunications service providers are classified into two categories:

Type I. Type I service providers are providers that install network infrastructure, such as network transmission, switching and auxiliary equipment for the provision of telecommunications services. Type I services include fixed line services such as local, domestic long distance and international long distance services, as well as interconnection, leased line, ADSL and satellite services and wireless services such as mobile, including 3G mobile, paging, mobile data and trunked radio services.

Type II. Type II service providers are defined as all telecommunications service providers other than Type I service providers. Type II services are divided into special services and general services. Special services include simple resale, VoIP international leased circuit and other services specified by the Ministry of Transportation and Communications before March 1, 2006 or by the National Communications Commission from March 1, 2006. General services include any Type II service other than special services.

Until 1996, we were the sole provider of Type I services in Taiwan. In 1996, the government opened the market for mobile, paging and trunked radio, mobile data and digital low power cordless telephone services. In 1998, the government opened the market for fixed line and mobile satellite services. In June 2001, the government granted licenses to three operators for establishing fixed line services, thereby opening the market for fixed line services. Since August 2000, the government has permitted four undersea cable operators to engage in the undersea cable leased-circuit business.

Commencing in 2007, the National Communications Commission began accepting applications for licenses to provide fixed line services in March, June, September and December of each year. The National Communications Commission started to accept applications for fixed line services on a daily basis beginning in 2008. There is no limit on the number of fixed line licenses that they may decide to issue.

Granting of Licenses

Type I

Type I service providers are more closely regulated than Type II service providers. The government has broad powers to limit the number of providers and their business scope and to ensure that they meet their facilities roll-out obligations. Under the Telecommunications Act, Type I service providers are subject to pre-licensing merit review of their business plans and tariff rates.

Before March 1, 2006, licenses for Type I services were granted by the Ministry of Transportation and Communications through a three-step procedure. Applicants obtained a concession from the Ministry of Transportation and Communications. After obtaining a concession, the applicant obtained a network construction permit and an assignment of spectrum, in the case of mobile telephone services and satellite services, from the Directorate General of Telecommunications or the Ministry of Transportation and Communications prior to applying for a license. Upon completion of construction of its network and review by the Directorate General of Telecommunications, the applicant was granted a Type I license. The Ministry of Transportation and Communications had the authority to grant Type I licenses for each of fixed line services, wireless services and satellite services. Type I licenses have different minimum paid-in capital requirements for applicants and varying durations depending on the particular type of service.

Since March 1, 2006, the same procedure applies except that the licenses are granted by the National Communications Commission.

The Telecommunications Act further authorizes the competent authority, now the National Communications Commission, to promulgate separate regulations governing each Type I service, including the business scope of the Type I service provider, as well as the procedures and conditions for granting special permits and the length of the period of the special permits of each Type I service. Each holder of a Type I license will pay a fee ranging from 0.5% to 2% of or their bid price ratio (Article 2 of the Type I Service Provider Special Tariff Standards) multiplied by their annual revenues generated from the particular Type I service for which a license has been granted.

Fixed Line Services. Under the Telecommunications Act, the Fixed Network Regulations govern the issuance of fixed line service licenses and the business scope of fixed line providers. Fixed line service licenses are subdivided into the following categories:

- integrated services, including local, domestic long distance, international long distance telephone services;
- local telephone services;
- domestic long distance telephone services;
- international long distance telephone services; and
- local, domestic long distance and international long distance leased line services. We conduct our fixed line services through a license for integrated services.

Licenses for local telephone and integrated services are valid for 25 years. Licenses for domestic long distance and international long distance telephone services are valid for 20 years. Licenses for leased line services are valid for 15 years. If the service provider wishes to continue operating, the service provider needs to apply for a license renewal to the National Communications Commission between nine months and six months before the expiration of their license. The Fixed Network Regulations were amended on September 2, 2009. The minimum paid-in capital requirements for integrated services providers that applied for a license before June 30, 2004, between July 1, 2004 and January 31, 2008 and on or after February 1, 2008 are NT$21 billion, NT$8.4 billion and NT$6.4 billion, respectively. The minimum paid-in capital requirements for both domestic and international long distance telephone service providers that applied for a license between July 1, 2004 and January 31, 2008 and on or after February 1, 2008 are NT$1.05 billion and NT$800 million, respectively. The minimum paid-in capital requirements for international undersea leased cable service providers that applied for a license before June 30, 2004, between July 1, 2004 and January 31, 2008 and on or after February 1, 2008 are NT$420 million, NT$420 million and NT$320 million, respectively. The minimum paid-in capital requirement for local telephone service providers that applied for a license between July 1, 2004 and January 31, 2008 and on or after February 1, 2008 are NT$6.3 billion and NT$4.8 billion, respectively, multiplied by the Local Network Operation Weights for the regions in which local network managerial rights have been granted to the service

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provider. The Local Network Operation Weights are calculated as the population of the region as a proportion of the entire population of Taiwan and are announced by the competent authority every three years. If an applicant for license is also a Type I service provider, they will need to combine the minimum paid-in-capital requirements for all relevant services.

In March 2000, the government granted three new concessions to fixed line services providers for integrated services. Recipients of these concessions are required to apply for a network construction permit to deploy broadband local access networks. Each recipient of these concessions is required to have capacity for 150,000 customers before they are able to apply for a fixed line license to launch their proposed services. The three fixed line service providers have since obtained fixed line licenses and are required to achieve capacity for one million customers by the sixth year following the date of the grant of the network construction permit awarded. Operators that applied for integrated service provider licenses before June 30, 2004, between July 1, 2004 and January 31, 2008 and on or after February 1, 2008 must achieve a capacity for 1.0 million, 0.4 million and 0.3 million customers, ports or a combination of both, respectively, by the fourth year following the date of the grant of the network construction permit.

Wireless Services. Under the Telecommunications Act, the Wireless Regulations promulgated by the Ministry of Transportation and Communications before March 1, 2006 or by the National Communications Commission from March 1, 2006 continue to govern the issuance of wireless services licenses and the business scope of wireless service providers. Wireless service licenses are subdivided into the following categories:

- mobile services;
- paging services;
- mobile data services;
- digital low-power cordless telephone services; and
- trunked radio services.

Wireless service licenses are granted to both regional and national service providers through review and bidding procedures.

Wireless services licenses for mobile and paging services are valid for 15 years, and licenses for mobile data, digital low-power cordless telephone and trunked radio are valid for ten years. The minimum paid-in capital requirement for regional mobile service providers and national mobile service providers is NT$2 billion and NT$6 billion, respectively.

We are licensed to provide mobile and paging services in Taiwan.

Third Generation Mobile Services. The Ministry of Transportation and Communications promulgated the Third Generation Mobile Telecommunications Services Regulations on October 15, 2001. The National Communications Commission amended the above regulations on July 5, 2007, designating itself as the authority in charge of the third generation, or 3G, mobile services regulations and further amended such regulations on December 30, 2008 for the establishment of base stations. The regulations govern voice and non-voice telecommunications services provided using the spectrum assigned by the Ministry of Transportation and Communications, and now governed by the National Communications Commission, that utilizes the IMT-2000 technical standards as announced by the International Telecommunications Union. Licenses for 3G mobile services were granted by the Ministry of Transportation and Communications and are now granted by the National Communications Commission. We have received our 3G mobile services license, which is valid from May 26, 2005 to December 31, 2018.

Under the *Third Generation Mobile Telecommunications Services Regulations*, a company holding a 3G mobile license and having 200 or more shareholders is required to become a public company, which is subject to

the stringent disclosure requirements under the securities regulations of the R.O.C. A company holding a 3G mobile license is also required to submit a report to the National Communications Commission within 20 days after its shareholders approves the capital reduction of such company, the entering into, modification or termination of any contracts regarding leasing of all business, outsourcing of operations or joint operations, the transfer of the whole or substantial part of business or assets of such company, taking over of the whole of the business or assets of any other company which would have significant impact on such company s operations. The National Communications Commission revised the *Third Generation Mobile Telecommunications Services Regulations* on January 20, 2010 to add additional regulations regarding audio-visual content and provision, including requiring service providers who set up a platform for audio-visual content providers to sell content, duly notify customers the costs and charges of using these audio-visual content and limit access of inappropriate content to minors.

Satellite Services. Under the Telecommunications Act, the Satellite Regulations promulgated by the Ministry of Transportation and Communications govern the issuance of satellite services licenses and the business scope of satellite service providers. The National Communications Commission amended the above regulations on July 20, 2007, designating itself as the authority to govern the issuance of satellite services licenses, and further amended the license renewal section on November 20, 2008. Satellite services licenses are subdivided into fixed satellite services licenses and mobile satellite services licenses.

Satellite services licenses are valid for 10 years. Minimum paid-in capital requirements for fixed satellite services providers and mobile satellite services providers are NT$100 million and NT$500 million, respectively.

We currently hold a fixed satellite services license, valid from December 10, 2008 to December 9, 2018.

Type II

The Telecommunications Act was amended in 1996 to open the market for all Type II services. Under the Type II Services Regulations as last amended on March 6, 2009, Type II services are divided into special services and general services. Special services include simple resale, VoIP, network telephone service of E.164 and non-E.164 user numbers (IP Phone Numbers), international leased circuit and other services specified by governing authority. General services include any Type II service other than special services. The policy for granting a Type II service license is as follows:

- there is no limit on the number of licenses to be issued;
- licenses were granted by the Directorate General of Telecommunications before March 1, 2006 and are now granted by the National Communications Commission; and
- no bidding procedure is required.

We hold a license to operate all Type II services. Type II service licenses issued before November 15, 2005 are valid for ten years and may be renewed by application made two months prior to the expiration date. Type II service licenses issued or renewed on or after November 15, 2005 are valid for three years and may be renewed during the period commencing two months prior to the expiration date. There is no minimum paid-in capital requirement for Type II service providers. Our license to operate Type II services is included in our license to operate integrated services, and is valid from July 29, 2000 to July 28, 2025.

Under regulations governing the fees payable for Type II licenses, operators of simple resale or network telephone services of E.164 or non-E.164 user numbers must pay an annual license fee equal to 1% of annual revenues generated from these services during the previous year. Type II service operators providing services other than simple resale or network telephone services of E.164 or non-E.164 user numbers must pay license fees ranging from NT$6,000 to NT$150,000 depending on their respective paid-in capitals. The regulations do not apply to integrated services providers who are permitted to provide Type II services without additional Type II Licenses. The annual license fee for an integrated services provider operating Type II businesses is 1% of its annual revenues generated from its Type II services.

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The Directorate General of Telecommunications started to process the applications for allocating E.164 and non-E.164 user numbers (IP phone numbers) on November 15, 2005. A few operators, including our company, have applied for IP phone numbers. We applied to the National Communications Commissions for E.164 user numbers and as of January 30, 2008, we have received approval to build a network with a capacity of 30,000 numbers. As we are governed by fixed line regulations, we need to receive approval from the National Communications Commission for our operation rules, tariff and service agreement for IP phone numbers before we can commence E.164 service.

Telecommunications Numbers

According to the Telecommunications Act, numbering codes, subscriber numbers, identification numbers and other telecommunication numbers will be distributed and managed by the National Communications Commission. These telecommunication numbers may not be used or changed without approval by the National Communications Commission. In order to maintain effective use of available telecommunication numbers, the Telecommunications Act empowers the National Communications Commission to reallocate and retrieve and to collect a usage fee for distributed telecommunication numbers. The National Communications Commission promulgated the *Fee Standards for Special Telecommunication Numbers* on March 18, 2010, effective immediately, requiring telecommunications service providers to pay 70% of revenues collected from the auctioning off and selection of golden numbers and the standard usage rates for special identification numbers in use.

Restrictions on Dominant Telecommunications Services Providers

Under the Telecommunications Act, the regulations governing dominant telecommunications services providers apply only to Type I service providers. A Type I service provider is deemed to be dominant if it meets any of the following criteria and was declared by the Ministry of Transportation and Communications or now the National Communications Commission as dominant:

- controls key basic telecommunications infrastructure;
- has dominant power over market price; or
- has more than a 25% market share in terms of customers or revenues.

We have been declared by the former competent authority Ministry of Transportation and Communications as a dominant Type I service provider for fixed line and mobile services.

Under the Telecommunications Act, a dominant Type I service provider must not engage in the following activities:

- directly or indirectly hinder a request for interconnection with its proprietary technology by other Type I service providers;
- refuse to release to other Type I service providers the calculation methods of its interconnection fees and other relevant materials;
- improperly determine, maintain or change its tariffs or means of services;
- reject, without due cause, a request for leasing network components by other Type I service providers;
- reject, without due cause, a request for leasing lines by other service providers or customers;

reject, without due cause, a request for negotiation or testing by other service providers or customers;

reject, without due cause, a request for negotiation for co-location by other service providers;

discriminate, without due cause, against other service providers or customers; or

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abuse its position as a dominant provider, or engage in other unfair competition activities as determined by the regulatory authorities. In addition, a dominant Type I service provider is subject to special regulations limiting its tariff changes.

Tariff Control and Price Cap Regulation

In order to promote competition in the telecommunications market, and as part of the government s overall policy toward deregulation, the Telecommunications Act was amended in 1999 to abolish the former rate of return system on tariff setting in favor of price cap regulation of Type I services.

Under the Regulations Governing Tariffs of Type I Service Providers, a dominant Type I service provider must submit its proposed adjustment in primary tariffs and promotional packages to the National Communications Commission from for approval at least 14 days prior to the date of the proposed tariff changes and announce such change on media, website and business locations on the next day after the National Communications Commission grants the approval. The tariff change will come into effect seven days after the announcement.

Primary tariffs include:

- for fixed line local telephone services: monthly fees, usage fees, monthly rental fees of leased lines and pay telephone usage fees;
- for fixed line domestic long distance telephone services: usage fees and monthly rental fees of leased lines;
- for fixed line international long distance telephone services: usage fees and leased line monthly rental fees;
- for wireless services, including 3G mobile services: monthly rental fees and usage fees;
- for internet services provided by dominant Type I service providers: connection and usage fees; and
- other fees or tariffs announced by the Directorate General of Telecommunications before March 1, 2006 or by the National Communications Commission from March 1, 2006.

In addition, a dominant Type I service provider is required to set wholesale prices for the provision of its telecommunication services to other telecommunication enterprises. These telecommunication services and their suitable targets, all of which are subject to annual reviews by the National Communications Commission, include:

- interface circuits (local and long distance) between internet access service providers and customers for Type I and Type II service providers
- interface circuits (local and long distance) between internet access service providers for Type I and Type II service providers that are internet access service providers
- interconnection circuits between Type I service providers and between Type I and Type II service providers of international simple resale, or ISR, and E.164 VoIP services

- DSL-family (xDSL) circuits for fixed line service providers and internet service providers

- other local and long distance data circuits for Type I and Type II service providers

- broadband internet interconnection for Type I and Type II service providers that are internet access service providers.

The initial wholesale prices set by a dominant Type I service provider may be the retail price less fees and expenses which need not be incurred, but shall not be higher than its promotional pricing. Changes in the

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wholesale price charged by a dominant Type I service provider may not be greater than (i) the retail price less fees and expenses which need not to be incurred but not greater than the promotional pricing; or (ii) the annual growth rate of the consumer price index in Taiwan minus the constant set by the National Communications Commission, whichever is the lower. The Regulations Governing Tariffs of Type I Service Providers further prohibits a dominant Type I service provider from practicing unfair competition against other telecommunication enterprises.

In comparison, all non-dominant Type I service providers are required to notify the National Communications Commission and the public of their proposed tariff adjustments seven days prior to the date of the proposed tariff change with respect to all tariffs. In addition, changes in tariffs charged by Type I service providers (notwithstanding the type of their respective services) may not, in any event, be greater than the annual growth rate of the consumer price index in Taiwan adjusted by a set constant, which will be periodically determined and announced by the National Communications Commission. For example, if:

- the annual growth rate of the consumer price index in Taiwan minus the set constant is positive, the increased percentage of tariffs must not exceed such positive figure;
- the annual growth rate of the consumer price index in Taiwan minus the set constant is negative, the decreased percentage of tariffs must be at least the absolute value of such negative figure, and the tariffs used in the given year must not be higher than the decreased tariff; and
- the annual growth rate of the consumer price index in Taiwan minus the set constant equals to zero, no increase in tariffs is allowed to be made by any Type I service providers.

On January 29, 2010, the National Communications Commission announced that effective from April 1, 2010 to March 31, 2013:

- the set constant to be applied to the tariff adjustment for the fixed line integrated services is 4.816% and covers the following:
  - dominant providers of fixed line services
  - tariffs of the following:
    - the monthly fee for ADSL leased line and the usage fee for domestic long distance telephone services (excluding public pay phones)
    - wholesale prices of the following:
      - the monthly fee for leased lines services (including local and domestic long distance leased lines) between internet service providers and their customers
      - the monthly fee for leased lines services (including local and domestic long distance leased lines) between an internet service provider and another internet service provider

the monthly fee for the interconnection (including local and domestic long distance lines) between a Type 1 telecommunication service provider and another Type 1 telecommunication service provider; the monthly fee for the interconnection (including local and domestic long distance lines) between a Type 1 telecommunication service provider and a Type 2 telecommunication service provider who provides simple resale and network telephone service of E.164 user numbers.

the monthly fee for other local and domestic long distance leased lines

the interconnection fee for internet bandwidth interconnection

no set constant to be applied to the call charges for the domestic fixed communication services during the following periods:

the integrated services operators and the domestic telephone services operators can determine the tariff adjustment for the domestic telephone services during the specific period and seek National Communications Commission s approval or recognition

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the specific periods include 11.00pm to 8.00am from Monday to Friday, 12.00am Saturday to 8.00am Monday, and the whole day of a national holidays

the set constant to be applied to the tariff adjustment for the mobile services and the 3G mobile services is 5% and covers the following:

2G mobile service and 3G mobile service operators

tariffs of the following:

domestic short messaging services

calls made from a 2G mobile services customer or from a 3G service network to a domestic fixed communication network

calls made from a 2G mobile services customer or from a 3G service network to a 2G mobile service network, a 3G mobile service network, a 1900MHz Digital Low-Tier Cordless Telephone Services, or PHS, or WiMAX services

the set constant to be applied to the cellular voice access charge will be announced separately after the amendment to the relevant regulations.

the set constant to be applied to the tariff adjustment for other Type 1 telecommunication services is the annual growth rate of the consumer price index in Taiwan

The National Communications Commission required the service operators which are subject to the above tariff restrictions shall submit their tariff adjustment plans by March 12, 2010 to the National Communications Commission for approval. The tariff reduction plans submitted to the National Communications Commission by all operators have been announced by the National Communications Commission on March 24, 2010.

Type II service providers are free to establish their own tariff schemes, but are required to notify the National Communications Commission and the public upon adoption and upon any subsequent adjustments. The National Communications Commission approved our tariff adjustment plan on March 24, 2010.

Regulatory Reporting Requirements

The Telecommunications Act requires that a Type I service provider, including one who concurrently offers Type II services, separately calculate the profits and losses for its different services and prohibits any cross-subsidization among services that will impede fair competition.

Interconnection Arrangements

The Telecommunications Act requires all Type I service providers to allow other Type I service providers access to their networks. It further requires Type I service providers, within three months upon request by the other Type I service provider, to reach an agreement on the relevant terms for the interconnection. Prices charged for interconnection must be based on cost. If the parties fail to reach an agreement within three months, the National Communications Commission may, either at the request of the parties or on its own accord, arbitrate and determine the interconnection terms for the parties. The Telecommunications Act authorizes the Directorate General of Telecommunications or, from March 1, 2006, the National Communications Commission to issue rules and regulations pertaining to interconnection. Under the Administrative Rules for Network Interconnection Between Telecommunication Service Providers, the tariffs for communications (except for international communications) between a mobile telecommunications network and a fixed line telecommunications network shall be collected by the call-originating services provider from its customers pursuant to the tariff schedules set by the mobile services provider, and the revenues or any uncollectible accounts from such tariffs shall go to the mobile services provider. This is applicable to communications between E.164 user numbers provided by a dominant local phone service provider and a mobile telecommunications network. In addition, tariffs for communications within mobile telecommunications networks shall be collected by the call-originating services provider from its customers pursuant to the tariff schedules set by such provider, and the revenues or any uncollectible accounts from such tariffs shall be for the account of to the call-originating services provider.

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When a Type I service provider leases unbundled network components to another Type I service provider, the parties are required to negotiate the rental fee. Unbundled network components include:

- local loops;
- local switch transmission equipment;
- local trunks;
- toll switch transmission equipment;
- long distance trunks;
- international switch transmission equipment;
- network interfaces;
- directory equipment and services; and
- signaling network equipment.

Under the Administrative Rules for Network Interconnection, we, as a dominant telecommunication service provider for fixed line and mobile services, are required to unbundle our network and provide cost-based interconnection charges calculated with reference to the total element long-run incremental cost incurred by us. We are required to submit our proposed calculations of the total element long-run incremental cost to the National Communications Commission, for its approval each year. Local loop unbundlings for both voice and data have been completed.

The National Communications Commission amended the Administrative Rules for Network Interconnection on August 5, 2008, indicating when Type I telecommunication operators provide E.164 user number (IP phone number) services relating to mobile, fixed line or mobile satellite services, the call-originating service provider will set transmission price and collect transmission fees as their operating revenues. However, when dominant telecommunication service providers for fixed line services provide E.164 user number (IP phone number) services, the call-originating service provider will collect transmission fees in accordance with the price of mobile network services and categorize the operating revenues resulting from such services as mobile network revenues. As a market leader in fixed line communications, we will accelerate the provision of voice over broadband, or VoBB, services and other multimedia value-added services, but do not have any present plans to launch 070 prefix for our phone-to-phone VoIP service. However, our subsidiary, Chief Telecom, has already launched 070 phone-to-phone VoIP service.

The National Communications Commission issued a notice to fixed line service providers on January 17, 2008 stipulating that, starting from January 1, 2011, the call-originating party will set the transmission fees. However, special provisions were placed on dominant telecommunications service providers. According to the notice, because we are a dominant telecommunications service provider, our fixed line customers who use mobile services between 2011 and 2016 will have to pay extra transition fees in addition to access charges. We have lodged a complaint and have asked the National Communications Commission to amend such measures.

Bottleneck Facilities

Under the Telecommunications Act, when a Type I service provider cannot construct bottleneck facilities within a reasonable period of time or substitute those facilities with other available technologies, it may request for co-location on a fee basis from the owner of the facilities located at the bottleneck of the relevant telecommunications network. The owner of the facilities so requested may not reject these requests without due cause. The Ministry of Transportation and Communications had the authority, now held by the National Communications Commission, to prescribe facilities as bottleneck facilities, and has prescribed bridges, tunnels, lead-in tubes and telecommunications chambers located within buildings and horizontal and vertical telecommunications cables and lines as bottleneck facilities in relation to fixed line telecommunications networks. The National Communications Commission, in an announcement on December 21, 2006, has defined local loop facilities as the bottleneck of the telecommunications network and amended the Administrative Rules for Network Interconnection Between Telecommunication Service Providers in April 2007, providing that we, as a Type I service provider, can only charge other local telephone service providers at cost for local loop services. The rental tariff is derived from a cost basis and must be approved by the National Communications Commission each year.

Spectrum Allocation

The National Communications Commission, previously the Ministry of Transportation and Communications, allocates all telecommunications related frequencies primarily according to the standards set by the International Telecommunications Union. The 900 MHz and 1,800 MHz frequency bands have been allocated for mobile applications. A total of 40 MHz spectrum around the 800 MHz frequency band and a total of 130 MHz of spectrum around the 2 GHz band have been allocated for 3G mobile services.

Frequency allocation for fixed wireless platforms, such as wireless local loop and local multipoint distribution services, has already been set. Only some bands of the spectrum made available for these services are completely clear and there is partial usage in all other bands. The cost of frequency usage will be based on quantity.

Provision of Universal Services

Under the Telecommunications Act, a Type I service provider may be required by the National Communications Commission, previously the Ministry of Transportation and Communications, to provide universal telecommunications services in remote or unprofitable areas. These services include voice communication services, such as public phones, and data communication services, such as internet provision for libraries and public primary and secondary schools. All Type I service providers and certain Type II service providers designated by the National Communications Commission, previously the Ministry of Transportation and Communications, will be required to contribute a fixed portion of their annual revenues to a universal services fund. Such a fund will be used to compensate for any losses, bad debts and management fees incurred by the relevant Type I service provider in providing the universal services. All providers of universal services cannot refuse any request for service, unless for legitimate reasons, and cannot charge more than the predetermined tariffs.

Equal Access

As a result of the liberalization of Taiwan s telecommunications industry, a Type I service provider, including a 3G mobile services provider, is required to provide its customers with equal access to the domestic and international long distance telephone services provided by other service providers. A Type I service provider may provide equal access through pre-selection or call-by-call selection. Before July 1, 2005, all Type I service providers, including us, provide equal access only through call-by-call selection. When a customer makes a call using call-by-call selection, such customer has the option to select a service provider by dialing the network identification prefix assigned to the service provider of his choice. This will result in the automatic selection of the preferred service provider for the provision of relevant telecommunication services. Starting from July 1, 2005, all Type I service providers also provide equal access through pre-selection in Keelung City, Taipei City/County, Taichung City/County and Kaohsiung City/County. Equal access through pre-selection is available throughout Taiwan since January 1, 2006. The pre-selection function allows any customer to select in advance a long distance or international service provider of his or her choice. When such customer makes a call using this function, the communications network will automatically interconnect to the long distance or international network previously selected by such customer.

Number Portability

The Ministry of Transportation and Communications has adopted principles on fixed line number portability, enabling customers to migrate their local and toll free fixed line telephone numbers. Under these regulations, we are required to provide fixed line number portability in seven major cities and counties in Taiwan upon the grant of the first fixed line license to a new entrant. We are also required to provide such number portability in other service areas no later than 181 days from the grant of such license and upon six months advanced written notification received from the new fixed line service provider. Since May 2002, fixed line number portability has been made available to all customers in accordance with the then prevailing Fixed Network Regulations.

In November 2003, the Directorate General of Telecommunications promulgated the Administration Rules Governing Number Portability governing both fixed line and mobile services and the Fixed Network Regulations were revised to reflect such new regulation. Under the Administration Rules Governing Number Portability, which rules were amended on July 5, 2007, customers may migrate their telephone numbers when changing Type I service providers. The number portability for wireless services commenced on October 15, 2005.

Local Loop Unbundling

In December 2006, the National Communications Commission defined the local loop as facilities at the bottleneck of telecommunications networks in accordance with the Regulations Governing Fixed Network Telecommunications Businesses. The National Communications Commission requires us to unbundle the local loops and allow other telecommunications operators to use these connections. The local loop or last mile connections are the physical wire connections between the telephone exchange s central office to the customer s premises usually owned by the incumbent telephone company. The National Communications Commission further amended the Administrative Rules for Network Interconnection between Telecommunication Service Providers in April 2007 which provides that we can only charge other local telephone service providers at cost for local loop services instead of on the basis of commercial negotiations.

Co-location

We have been declared by the former competent authority Ministry of Transportation and Communications as a dominant Type I service provider for fixed line and mobile services. According to the Telecommunication Act, the Regulations Governing Fixed Network Telecommunications Businesses and the Administrative Rules for Network Interconnection between Telecommunication Service Providers, if any other service provider requests for co-location, we must negotiate with them, unless otherwise provided by laws or regulations. As of the end of 2009, we are currently co-locating 29 POI sites and two cable stations with other Type I fixed line service providers and 13 POI sites with other Type I mobile service providers.

Ownership Limitations

The laws of the Republic of China limit foreign ownership of our common shares. Prior to March 1, 2006, the Ministry of Transportation and Communications, as the competent authority under the Telecommunications Act, had the power to prescribe the limits on foreign ownership of our common shares. After the formation of the National Communications Commission on March 1, 2006, the National Communications Commission replaced the Ministry of Transportation and Communications as the competent authority under the Telecommunications Act pursuant to the Organization Law. On July 18, 2006, the Ministry of Transportation and Communications and the National Communications Commission reached an agreement where the Ministry of Transportation and Communications will have the authority to adjust foreign ownership limits only after negotiations with the National Communications Commission. On June 14, 2007, we applied to both the National Communications Commission and the Ministry of Transportation and Communications, asking for an increase in the limitation of direct and indirect foreign ownership of our common shares. After consultation with the National Communications Commission, the Ministry of Transportation and Communications increased our foreign ownership limitation of and total direct and indirect shareholdings from 49% to 55%. Our foreign ownership limitation of total direct shareholdings remained at 49%.

Under the current Telecommunications Act, the Chairman of a Type I service provider is required to be a citizen of the Republic of China.

Administrative Fee Law

According to the Administrative Fee Law, central and local governments, government agencies and schools are empowered to collect administrative fees from us and other telecommunications services providers for the telecommunications facilities built on public roads and properties. Under the Administrative Fee Law, Urban Road Act and Local Road Act, road authorities of municipal governments may collect usage fees from users of local roads, including us, for establishing lines along with the local roads. The fee schedule is set up in the Standard for Usage Fees of Local Roads.

Under the Public Road Law, administrative authorities of public roads may collect usage fees from the users of public roads. According to the Rules Governing Collection of Usage Fees on Public Roads, the relevant collection agencies, including agencies designated by the Ministry of Transportation and Communications and municipal governments, depending on the types of public roads, may collect usage fees from users, including us, for establishing lines along with the public roads.

The members of the Transportation Committee in the Legislative Yuan are currently reviewing an amendment to Article 72 of the Public Road Law that seeks to reduce state compensation and improve the government s image. Clauses amended include stipulations that manhole covers need to be level with the road after repairs, with the difference in road surface heights within a three meter radius to be no more than 0.6 centimeters. The amendment is currently under secondary review in the Legislative Yuan and passage of the amendment may raise our maintenance costs in the future.

Personal Data Protection

Under the Computer-Processed Personal Data Protection Act, or CPPDPA, every entity regulated by the CPPDPA, such as government agencies or departments, credit investigation companies, hospitals, telecommunications companies and financial institutions shall register with the relevant regulatory authorities and obtain a license pursuant to the CPPDPA for collecting, processing by computer or transmitting internationally and using personal data. In addition, before the collection or process by computers of individual s personal data, we, as one of the regulated entity, are also required to obtain such individual s prior written consent or have contractual or quasi-contractual relationship with such individual.

The CPPDPA requires that personal data shall be collected or used with due respect for the rights and interests of the data subject in an honest and credible manner which does not overstep the necessary scope of registered specific purposes. If an individual suffers any monetary or non-monetary losses due to a regulated entity s violation of the CPPDPA, the amount of damages that can be claimed by such individual is up to NT$100,000 unless such individual could prove that his/her losses are higher than that amount. The ceiling of the aggregate amount of damages payable by a violator for a single violation is NT$20 million regardless of how many persons have suffered such losses. In addition, the violator will be subject to an administrative fine of NT$20,000 to NT$100,000. Serious violation could cause the regulated entity s license obtained pursuant to the CPPDPA being cancelled.

At present, the Legislative Yuan is evaluating proposals to amend the current law, including one proposal that significantly increases the ceiling of the aggregate amount of damages payable by a violator for failure to protect a customer s personal data. Such an amendment would increase our potential liability for failing to protect a customer s personal data.

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Statute of Chunghwa Telecom Co., Ltd.

The Executive Yuan, on February 26, 2008, proposed a motion for the abolishment of the Statute of Chunghwa Telecom Co., Ltd. for legislative approval. We cannot determine when this motion will be approved by the Legislative Yuan. Under Republic of China law, the Statute of Chunghwa Telecom Co., Ltd will continue in effect until the Legislative Yuan formally approves the motion and the President of the Republic of China pronounces the abolishment of the law.

Approval of Ministry of Transportation and Communications

While the continued application of the Statute of Chunghwa Telecom Co., Ltd. remains unclear and it may be abolished in the near future, under that statute we are required to obtain approval of the Ministry of Transportation and Communications for:

- the adoption of and any changes to our articles of incorporation and board of directors organization rules;
- any changes to our authorized capital and any issuance of our common shares;
- any changes to primary tariffs for Type I services; and
- any changes to operational procedures of Type I services.

Employee Subscription Rights for New Issues of Our Common Shares

In accordance with the Statute of Chunghwa Telecom Co., Ltd., our employees have rights to subscribe for not more than 10% of a new issuance of our common shares in accordance with subscription rules which were to be announced by the Ministry of Transportation and Communications. However, no such rules were ever announced. In addition, under the Republic of China Company Law, unless exempted by the relevant government authorities, a Republic of China company must give its employees pre-emptive rights to subscribe for between 10-15% of any new issue of shares by us.

C. Organizational Structure

Set forth below is a diagram indicating our organization structure as of March 31, 2010.

D. Property, Plant and Equipment

Please refer to B. Business Overview for a discussion of our property, plant and equipment.

ITEM 4A. UNRESOLVED STAFF COMMENTS

None.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

You should read the following discussion of our financial condition and results of operations together with the consolidated financial statements and the notes to such statements included in this annual report.

For the convenience of readers, NT dollar amounts used in this section for, and as of, the year ended December 31, 2009 have been translated into U.S. dollar amounts using US$1.00=NT$31.95, the noon buying rate of the Federal Reserve Bank of New York on December 31, 2009. The U.S. dollar translation appears in parentheses next to the relevant NT dollar amount.

Overview

A number of recent and expected future developments have had, and in the future may have, a material impact on our financial condition and results of operations. These developments include:

- changes in our revenue composition and sources of revenue growth;
- increased competition in the fixed line, leased line and mobile services markets;
- tariff adjustments;
- capital expenditures as a result of technological improvements and changes in our business;
- provisions for pension payments and other stock-based compensations to our employees; and
- taxation.

Each of these developments is discussed below.

Changes in our revenue composition and sources of revenue growth

Our domestic fixed communications business revenues are derived primarily from the provision of local, domestic long distance, broadband access, leased line service, MOD, domestic data services and domestic other services including information and communication technologies, corporate solution services, billing handling services and the leasing of real estate properties. In addition, we also derive fixed line revenues from providing interconnection services to other carriers. Our revenues from mobile communications business are principally derived from the provision of mobile services, paging services, sales of mobile handsets and data cards and mobile other services. Our revenues from internet business are generated principally from HiNet internet service, internet VAS, data communication services, internet data center, and internet other services including government services and corporate solution services. Our revenues from international fixed communications business derived primarily from international long distance, international leased line, international data services, satellite services, and international other services. Our other revenues are principally derived from non-telecom services.

The table below sets forth the revenues from our principal lines of business as a percentage of total revenues for the periods indicated.

	Year ended December 31,		
	2007[1]	2008[1]	2009
Revenues:			
Domestic fixed communications business	37.6%	36.2%	36.0%
Mobile communications business	43.5	44.0	43.6
Internet business	10.6	11.4	11.9
International fixed communications business	8.0	7.9	7.7
Others	0.2	0.4	0.7
Total	100.0%	100.0%	100.0%

(1) Beginning in September 2009, we redefined our financial reporting segments into five operating segments: (i) domestic fixed communications business, (ii) mobile communications business, (iii) internet business, (iv) international fixed communications business and (v) others. Prior to September 1, 2009, Chunghwa Telecom had seven operating segments: (i) local operations, (ii) domestic long distance operations, (iii) international long distance operations, (iv) mobile service operations, (v) internet and data operations, (vi) mobile handset sales and (vii) all others.

Over the past three years, the composition of our revenue base has undergone a change as a result of our strategy to diversify our revenues and focus on generating increased revenues from higher growth businesses, such as internet business.

Our domestic fixed communications business has been an important source of revenues over the last three years. We derive domestic fixed communications from the provision of ADSL and FTTx access services that provides customers with data access lines. Increasing internet penetration in Taiwan and higher data traffic have contributed to a significant increase in our revenues from domestic fixed communications services in recent years. The percentage of revenues from domestic fixed communications within total revenues decreased in 2009 compared to 2008, mainly due to the fact that of greater decreases in local and domestic long distance calls due to the adverse economic conditions. However, we believe that domestic fixed communications business will continue to generate a significant portion of our revenues.

Revenues from our mobile communications business have also an important source of our revenues over the last three years. Most of our revenue from our mobile communications business is generated by our mobile services. While competition with other mobile service providers and the general adverse economic conditions have caused a decline in revenues, we have experienced a significant increase in revenues generated by our mobile value-added services due to increased smart phone and mobile internet use by our subscribers. As a result, we believe that our mobile communications business will continue to generate a significant portion of our revenues.

Our internet business has been another important source of revenues over the last three years. We derived internet business revenues from the provision of HiNet internet service and internet value-added services. The percentage of revenues from internet services within total revenues increased in 2009 compared to 2008, mainly due to growth of our internet VAS and internet other services. However, we believe that internet business will continue to generate a growing portion of our revenues.

Our international fixed communications business is also an important source of our revenues over the last three years. We derived our international fixed communications revenues mainly from international long distance telephone services, international leased line services and international data services. The percentage of our revenues from our international fixed communications business decreased from 2008 to 2009 because of a

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decrease in revenues from our international long distance telephone services due to adverse economic conditions, which was partially offset by increases in international leased line and international data revenues. As a result, we believe that our international fixed communications business will continue to contribute to our revenues.

Increased competition in the fixed line, leased line and mobile services markets, including the 3G mobile services market

Three operators in addition to us have been providing fixed line services in Taiwan since June 2001. We believe that these competitors are largely targeting business customers, which generally generate higher revenues per customer as compared with residential customers. We are facing significant competition, particularly in the international long distance telephone services market, from these competitors. As of the date of this annual report, there are 13 mobile virtual network operators. The increased competition in the areas of fixed line, leased line and mobile services has led to, and may continue to lead to, further declines in our tariffs, which may result in a decrease in our revenues from these services. At the same time, the increased competition has stimulated consumer demand for telecommunications services, with results including higher international telephone usage and increased international bandwidth demand. We seek to minimize loss of customers from the increased competition by continuing to offer incentives, such as mobile phone subsidies, more competitive pricing packages, our Friends and Family and Let s Talk packages and mobile VPNs for our corporate customers.

Since August 2001, the Ministry of Transportation and Communications has awarded undersea cable service licenses to four additional operators. Moreover, in February 2002, the Ministry of Transportation and Communications awarded five concessions to provide 3G mobile services. Two of these new concessions were awarded to new mobile operators. In addition, the government issued six mobile virtual network operator licenses in 2004 and began to allow mobile number portability services in October 2005. In addition, as of the end of 2009, three Type I service providers Sparq and Taiwan Fixed Network and us and two Type II service providers Taiwan Infrastructure Technology Company and one of our subsidiaries, Chief Telecom have obtained VoIP phone numbers. Our subsidiary, Chief Telecom, has been granted 070 VoIP phone numbers from the National Communications Commission and has launched its 070 phone-to-phone VoIP service in April 2009.

The National Communications Commission completed the auction WiMAX licenses on July 26, 2007. Six providers three in the southern Taiwan region and three in the northern Taiwan region received licenses. As of January 2010, four service providers, Tatung InfoComm Co., Ltd., FarEasTone Telecommunications Co., Ltd, Global Mobile Corporation and VMAX Telecom Co., Ltd. have commenced WiMAX service in Penghu and Kaohsiung, Taichung, Hsinchu, and Taipei, respectively The other two service providers, Vee Telecom Multimedia Co., Ltd. and First International Telecom Corp, plan to commence their WiMAX service in 2010.

As mobile WiMAX devices have not reached maturity and handheld WiMAX devices will not be available in the short term, we believed the diversified broadband services that we currently provide, such as ADSL, with speeds up to 8Mbps, FTTx, with speeds up to 100Mbps, and 3G/HSDPA, with speeds up to 7.2Mbps, will be able to satisfy our customers broadband internet demands.

Tariff adjustments

We adjust our tariffs and offer promotional packages from time to time primarily in response to market conditions. We also from time to time are required to adjust our pricing in line with domestic regulations.

In April 2005, we reduced monthly rental fees for part of our ADSL services by an average of 2%. For downlink speeds of 256k services, the reduction rate was as high as 47%.

In June 2005, we reduced short messaging service fees from NT$1.5 to NT$1.3 per message for intra-network messages and from NT$2 to NT$1.7 per message for inter-network messages.

In December 2005, we reduced mobile dialing fees for calls to local telephone numbers by an average of 7%.

In December 2006, we began providing wholesale prices for the following services: ATM domestic leased lines, TWIX domestic leased lines and peering bandwidth, domestic type I carriers, interconnection leased lines and other domestic leased lines, to facilitate the National Communications Commission s request that market leaders provide wholesale prices to Type I and Type II telecommunications operators.

The National Communications Commission passed a resolution on December 21, 2006 adopting a price reduction plan requiring the continuous reduction in telecommunication tariffs over three years. Minimum reductions of 4.88% for fixed line to mobile call tariffs, 4.88% for the tariffs of our highest monthly rate plan, 4.88% for mobile prepaid calling card tariffs and 5.35% for ADSL tariffs must be made each year. The price reduction plan also required us to stop collecting a NT$5.0 monthly maintenance fee from our fixed line customers who have paid at least 20 years worth of tariffs and those who chose self-maintenance customers starting January 1, 2008 and a NT$70.0 fixed line basic charge from our ADSL customers who only use data services. On April 1, 2007, we made reductions of 4.88% to our fixed line to mobile call tariffs, 4.8875% to the tariffs of our highest monthly rate plan, 5.20% to our mobile prepaid calling card tariffs and 5.40% to our ADSL tariffs. On April 1, 2008, we made reductions of 4.899% to our fixed line to mobile call tariffs, 4.8908% to the tariffs of our highest monthly rate plan, 4.885% to our mobile prepaid calling card tariffs and 8.61% to our ADSL tariffs. On April 1, 2009, we made final reductions of 4.886% to our fixed line to mobile call tariffs, 4.887% to the tariffs of our highest monthly rate plan, 4.958% to our mobile prepaid calling card tariffs and 5.35% to our ADSL tariffs. On January 29, 2010, the National Communications Commission announced a new tariff reduction plan starting on April 1, 2010 to March 31, 2013. The formula for determining the decrease percentage is the previous year s consumer price index, released by the Directorate-General of Budget, Accounting and Statistics of the Executive Yuan, minus 4.816% for IP peering fees, wholesale domestic leased-line fees, ADSL access fees and domestic long distance tariffs and 5.000% for mobile calls to other networks or to fixed lines and domestic mobile SMSs.

We expect to continue to adjust tariffs and offer a variety of promotional packages from time to time in response to increasing competition and in order to take advantage of our pricing power from economies of scale. We may also be required to adjust our pricing due to changes in domestic regulations.

Capital expenditures as a result of technological improvements and changes in our business

In recent years, we have focused on modernizing and upgrading our mobile services network and on developing our FTTx network, which enables transmission of digital information at a high bandwidth over fiber loops. In particular, we have enhanced our telecommunications services through:

- the introduction of a IP-based exchange system in our long distance telephone network;
- the implementation of a network modernization program, including a gradual transfer from our public switched telephone network to a system based on internet protocol, to remain at the forefront of new technologies;
- the development of an intelligent network for fixed line services;
- the deployment of a high-capacity long-haul reconfigurable optical add drop multiplexing system and a nationwide internet protocol backbone network with 640 Gbps gigabit switching routers for internet and internet protocol VPN services; and
- the expansion and upgrade of our mobile services network to improve indoor 3G mobile network coverage and transmission speed for mobile internet.

As a result, we made aggregate capital expenditures of NT$131.3 billion over the period from January 1, 2005 to December 31, 2009.

Our long-term goal is to optimize our capital expenditures by focusing on investing in innovative products and services with attractive return profiles. We evaluate our investment opportunities by benchmarking them

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against internal return requirements. We are currently finalizing plans for the gradual upgrade of our entire public switched telephone network to a next-generation network. Next-generation internet protocol switches will have substantially more capacity and greater upgrade flexibility and should result in increased operational efficiencies from reduced switching centers and related property, materials and personnel costs. We have also devoted resources toward the effective upgrade of our 3G mobile network to 3.5G and 3.75G and the continuing build-out of our FTTx infrastructure.

Provisions for pension payments to our employees

Personnel expenses constitute a significant portion of our operating costs and expenses. In 2007, 2008 and 2009, personnel expenses represented 29.6%, 28.6% and 29.4% of our total operating costs and expenses, respectively, and pension costs represented 2.2%, 2.0% and 1.9%, of our personnel expenses, respectively. The table below sets forth information regarding our personnel expenses and as a percentage of our total operating costs and expenses for the periods indicated.

	For the year ended December 31,					
	2007		2008		2009	
	(in billions of NT$, except percentages)					
Personnel expenses:						
Salaries	21.3	15.5%	22.1	15.5%	22.4	15.8%
Insurance	1.6	1.2	1.6	1.1	1.8	1.3
Pension	3.0	2.2	2.9	2.0	2.7	1.9
Other	14.7	10.7	14.3	10.0	14.8	10.4
Total personnel expenses	40.6	29.6%	40.9	28.6%	41.7	29.4%
Total operating costs and expenses	137.1	100.0%	143.1	100.0%	42.0	100.0%

At the time of our privatization, our then existing defined benefit pension obligations were settled in full. After completion of our privatization, our continuing employees were deemed to have commenced employment as of the date our privatization was completed for seniority purposes under our pension plans in effect after privatization. Under applicable Republic of China regulations, upon our privatization, the Ministry of Transportation and Communications assumed the obligation to make annuity payments to our employees who retired before our privatization.

Taxation

In May 2009, the Legislative Yuan passed an amendment to Article 5 of the Income Tax Law, which reduces the income tax rate of profit-seeking enterprises from 25% to 20% effective in 2010. We benefit from tax incentives generally available to technology companies in the Republic of China, including tax credits of up to 30% of the amount of some of our research and development, automation and employee training expenditures. Due to the expiration of the Statute for Upgrading Industries at the end of 2009, we will no longer receive tax credits for relevant investments in equipment and technology purchased after January 2010. We also qualify for tax benefits at the rate of 5% to 20% of the amount of our investment in qualified equipment and technology. As a result, our effective tax rate was 21.1%, 23.3% and 22.3% in 2007, 2008 and 2009, respectively.

In 1997, the Income Tax Law of the Republic of China was amended to integrate corporate income tax and stockholder dividend tax to eliminate the double taxation effect for resident stockholders of Taiwan companies. Under the amendment, all retained earnings generated from January 1, 1998 and not distributed to stockholders as dividends in the following year are assessed with a 10% retained earnings tax. See Item 10. Additional Information E. Taxation Republic of China Taxation Dividends. Historically, this has not had an impact on our financial results of operations, because the majority of our earnings were distributed to the government by way of dividends.

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Critical Accounting Policies

Summarized below are our accounting policies that we believe are both important to the portrayal of our financial results and involve the need for management to make estimates about the effect of matters that are uncertain in nature. Actual results may differ from these estimates, judgments and assumptions. Certain accounting policies are particularly critical because of their significance to our reported financial results and the possibility that future events may differ significantly from the conditions and assumptions underlying the estimates used and judgments made by our management in preparing our financial statements. The following discussion should be read in conjunction with the consolidated financial statements and related notes, which are included in this annual report.

Revenue Recognition

We recognize revenues when we have persuasive evidence of an arrangement, the goods have been delivered or the services have been rendered to the customer, the sales price is fixed or determinable and collectibility is reasonably assured. We measure revenues at the fair value of the consideration received or receivable and represents amounts agreed between us and the customers for goods sold in the normal course of business, net of sales discounts and volume rebates. The costs of providing services are recognized as incurred. Under ROC GAAP, we recognize the incentives, such as mobile handset subsidies, paid to third party dealers as a marketing expense at the time the customer signs a service contract, whereas under US GAAP, the timing of the expense recognition is the same; however, we account for such subsidies as operating costs.

Usage revenues from domestic fixed communications services, mobile communications services, internet services, international fixed communications services and interconnection and call transfer fees from other telecommunications companies and carriers are billed in arrears and are recognized based upon minutes of traffic processed when the services are provided in accordance with contract terms.

We recognize other revenues as follows: (i) one-time subscriber connection fees (on fixed-line services) are deferred and recognized over the average expected customer service periods, (ii) monthly fees (on fixed-line services, wireless and internet services) are accrued every month, and (iii) prepaid services (fixed line, mobile and internet) are recognized as income based upon actual usage by customers or when the right to use those services expires. Where we enter into transactions which involve both the provision of air time bundled with products such as 3G data card and handset, total consideration received from handsets in these arrangements is allocated and measured using units of accounting within the arrangement based on relative fair values limited to the amount that is not contingent upon the delivery of other items or services.

Allowance for Doubtful Accounts

We maintain allowances for doubtful accounts for estimated losses that result from the inability of our customers to make required payments. We base our allowances on the likelihood of recoverability of accounts receivable by operating segment based on past experience and current collection trends that we expect to continue. Our evaluation also includes the length of time the receivables are past due, geographic concentrations and the general business environment. If changes in these factors occur, or the historical data we use to calculate the allowance provided for doubtful accounts does not reflect the future ability to collect outstanding receivables, additional provisions for doubtful accounts may be needed and our future results of operations could be materially and adversely affected. Even as revenues have increased in recent years, the allowance for doubtful accounts has decreased due to stricter credit investigations for new customers and more efficient collection activities for outstanding accounts.

Estimated Useful Lives of Long-Lived Assets

A significant portion of our total assets consists of long-lived assets, primarily property, plant and equipment and definite-lived intangibles. We estimate the useful lives of property, plant and equipment and other long-lived assets with finite lives in order to determine the amount of depreciation and amortization expense to be recorded. The useful lives are estimated at the time assets are acquired and are based on historical experience with similar assets as well as the anticipated technological evolution or other environmental changes. If technological changes were to occur more rapidly than anticipated or in a different form than anticipated, the useful lives assigned to these assets may need to be shortened, resulting in the recognition of increased depreciation and amortization in the relevant periods. Alternatively, technological obsolescence could result in a write-down in the value of the assets to reflect impairment. We review these types of assets for impairment quarterly, or when events or circumstances indicate that the carrying amount may not be recoverable over the remaining life of an asset. In assessing impairments, we use estimated cash flows that take into account management s estimates of future operations. We did not have significant impairment losses of long-lived assets in 2008 and 2009.

Investments in Unconsolidated Companies

We hold investments in other companies that we account for under the equity method or cost method of accounting, depending on our ability to exert significant influence over the investee company. The amounts for our equity method investments generally represent our cost of the initial investment adjusted for our share of the investee company s income or loss and any dividends received. The amounts for our cost method investments where the securities are not publicly traded generally represent our cost of the initial investment less any adjustments we make when we determine that an investment s net realizable value is less than its carrying cost. Estimating the net realizable value of investments in privately held companies can be inherently subjective and may contribute to significant volatility in our reported results of operations.

The process of assessing whether a particular cost method investment s net realizable value is less than its carrying cost requires a significant amount of judgment. We periodically evaluate these long-term investments based on quoted market prices, if available, the financial condition of the investee company, economic conditions in the industry and our intent and ability to hold the investment for a long period of time. If quoted market prices are not available, we estimate the fair value using the net asset values as well as the financial condition of the investee company. This information may be based on information that we request from the investee companies and may not be subject to the same disclosure and audit requirements as required of U.S. companies, and as such, the reliability and accuracy of the information may vary. If we deem the fair value of an investment to be less than the book value based on the above factors, and the decline in value is deemed to be other than temporary, we record the difference as impairment in the period of occurrence. In 2008, we recognized impairment losses of NT$15 million for PRTI International and NT$10 million for Essence Technology Solution due to adverse changes in the market. In 2009, we recognized impairment losses of NT$10 million (US$0.3 million) for Essence Technology Solution and NT$10 million (US$0.3 million) for Digimax Inc. due to poor operating performance.

Pension Benefits

The amounts recognized in our consolidated financial statements related to pension benefits are determined on an actuarial basis that utilizes several different assumptions in the calculation of such amounts. Significant assumptions used in determining our pension benefits are the discount rate, the expected long-term rate of return on plan assets, the rate of increase in compensation levels, and the average remaining years of service for employees.

We use long-term historical actual return information and estimate future long-term investment returns by reference to external sources to develop the expected long-term return on plan assets. The discount rate is assumed based on the rates available on high-quality fixed-income debt instruments with the same period to maturity as the estimated period to maturity of the pension benefit. We assume the rate of increase in compensation levels and average remaining years of service based on historical data. Any changes in one or more of these assumptions could impact our pension benefits.

Accounting for Income Taxes

Deferred income taxes represent the effect of temporary differences between the amounts of assets and liabilities recognized for financial reporting purposes and the amounts recognized for income tax purposes. We measure deferred tax assets and liabilities using statutory tax rates that, if changed, would result in either an increase or a decrease in the provision for income taxes in the period of change.

We record a valuation allowance to reduce our deferred tax assets to the amount of future tax benefit that is more likely than not to be realized. While we have considered future taxable income and ongoing prudent and feasible tax planning strategies in assessing the need for the valuation allowance, we cannot assure you that we would not need to increase the valuation allowance to cover additional deferred tax assets that may not be realizable. Any increase in the valuation allowance could have a material adverse effect on our income tax provision and net income in the period in which such determination is made.

We had a valuation allowance of NT$411 million (US$13 million) on our deferred tax asset balance as of December 31, 2009. We do not have a full valuation allowance on the deferred tax asset, as we believe these benefits will be fully realizable based on our projection of future operating income. If we experience a significant decrease in our future operating income, our ability to realize the deferred tax assets could be negatively impacted, and thus an increase in the valuation allowance might be required.

Any tax credits arising from purchases of machinery, equipment and technology, research and development expenditures, personnel training, and investments in important technology based enterprises are recognized using the flow through method. Adjustments of prior years tax liabilities are added to or deducted from the current year s tax provision. Under R.O.C. GAAP, income taxes of 10% on undistributed earnings are recorded in the year of stockholders approval which is the year subsequent to the year the earnings are generated. Under US GAAP, the 10% tax on unappropriated earnings is accrued during the period the earnings arise and adjusted to the extent that distributions are approved by the stockholders in the following year.

Effective January 1, 2007, we adopted a guidance prescribing the recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return under U.S. GAAP. This guidance also provides guidance on derecognition, classification, interest and penalties, disclosure and transition. The evaluation of a tax position in accordance with this guidance is a two step process. The first step is recognition, where we evaluate whether an individual tax position has a likelihood of greater than 50% of being sustained upon examination based on the technical merits of the position, including resolution of any related appeals or litigation processes. For tax positions that are currently estimated to have a less than 50% likelihood of being sustained, zero tax benefit is recorded. For tax positions that have met the recognition threshold in the first step, we perform the second step of measuring the benefit to be recorded. The actual benefits ultimately realized may differ from the estimates. The adoption of this guidance did not have a material impact on our report.

Our Financial Reporting Obligations

Our ongoing financial reporting in our Form 20-F annual reports and interim financial reporting furnished to the SEC on Form 6-K had been based on U.S. GAAP through fiscal year 2007. Beginning with our first quarter interim financial report furnished on Form 6-K and our Form 20-F annual report for fiscal year 2008, we prepared our financial statements under R.O.C. GAAP, with reconciliations to U.S. GAAP.

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A. Operating Results

The following table sets forth our revenues, operating costs and expenses, income from operations and other financial data for the periods indicated.

	For the year ended December 31,			
	2007	2008	2009	
	NT$	NT$	NT$	US$
	(in billions)			
Revenues:				
Domestic fixed communications	74.3	73.1	71.5	2.2
Mobile communications	85.9	88.8	86.5	2.7
Internet	21.0	23.0	23.7	0.7
International fixed communications	15.8	15.9	15.2	0.5
Others	0.5	0.8	1.5	0.1
Net revenues	197.4	201.7	198.4	6.2
Operating costs and expenses:				
Operating costs	106.7	113.5	112.7	3.5
Operating expenses:				
Marketing	23.7	22.7	22.3	0.7
General and administrative	3.4	3.7	3.8	0.1
Research and development	3.3	3.2	3.2	0.1
Total operating costs and expenses	137.1	143.1	142.0	4.4
Income from operations	60.3	58.6	56.4	1.8
Other income, net	1.5	1.1	0.8	
Income before income tax expense	61.8	59.7	57.2	1.8
Income tax expense	13.1	13.9	12.7	0.4
Consolidated net income	48.7	45.8	44.5	1.4
Attributable to:				
Stockholders of the parent	48.2	45.0	43.8	1.4
Minority interests	0.5	0.8	0.7	

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The following table sets forth our revenues, operating costs and expenses, income from operations and other financial data as a percentage of our total revenues for the periods indicated.

	For the year ended December 31,		
	2007	2008	2009
	(as percentages of total revenues)		
Revenues:			
Domestic fixed communications	37.6%	36.2%	36.0%
Mobile communications	43.5	44.0	43.6
Internet	10.6	11.4	11.9
International fixed communications	8.0	7.9	7.7
Others	0.2	0.4	0.7
Total revenues	100.0%	100.0%	100.0%
Operating costs and expenses:			
Operating costs	54.0%	56.3%	56.8%
Operating expenses:			
Marketing	12.0	11.3	11.2
General and administrative	1.7	1.8	1.9
Research and development	1.7	1.6	1.6
Total operating costs and expenses	69.4	71.0	71.5
Income from operations	30.6	29.0	28.5
Other income, net	0.7	0.5	0.4
Income before income tax expense	31.3	29.5	28.9
Income tax expense	6.6	6.9	6.4
Consolidated net income	24.4%	22.6%	22.5%
Attributable to:			
Stockholders of the parent	24.4	22.3	22.1
Minority interests	0.3	0.3	0.4

Beginning in September 2009, we redefined our financial reporting segments into five operating segments: (i) domestic fixed communications business, (ii) mobile communications business, (iii) internet business, (iv) international fixed communications business and (v) others. Prior to September 1, 2009, Chunghwa Telecom had seven operating segments: (i) local operations, (ii) domestic long distance operations, (iii) international long distance operations, (iv) cellular service operations, (v) internet and data operations, (vi) mobile handset sales and (vii) others. Operating segments are defined as components of an enterprise regarding which separate financial information is available for regular evaluation of the chief operating decision maker, or decision making group, in deciding how to allocate resources and in assessing performance. The redefinition of our operating segments is to facilitate our management s ability to assess our performance by conforming to international trends of other telecommunications companies in general. We also early adopted SFAS No. 41 regarding operating segments starting from September 1, 2009. For comparison purposes, segment information for the years ended December 31, 2007 and 2008 have been presented in accordance with SFAS No. 41.

Each of our operating segments is managed separately because each represents a strategic business unit that serves a different market. We measure our segment performances mainly based on revenues and income before tax.

The year ended December 31, 2009 compared with the year ended December 31, 2008

Revenues

Our revenues decreased by 1.6% from NT$201.7 billion in 2008 to NT$198.4 billion (US$6.2 billion) in 2009 This decrease was primarily due to a decrease in operating revenues from domestic fixed communications, mobile communications and international fixed communications.

Domestic fixed communications

Domestic fixed communications revenues comprised 36.2% and 36.0% of our revenues in 2008 and 2009, respectively. Our domestic fixed line revenues decreased by 2.2% from NT$73.1 billion in 2008 to NT$71.5 billion (US$2.2 billion) in 2009.

Local telephone services. Our local telephone revenues decreased from NT$34.6 billion in 2008 to NT$33.2 billion (US$1.0 billion) in 2009. This reflects an 8.0% decline in traffic volume from 15.9 billion minutes in 2008 to 14.6 billion minutes in 2009, offset by a 0.4% increase in average local usage fees. The decline in traffic volume was primarily due to the continued traffic migration from fixed line services to mobile services and the general adverse economic conditions. We expect this trend to continue as broadband and mobile services become more widely adopted in Taiwan. However, we believe the rate of traffic migration from fixed line services to broadband and mobile services is slowing. Our local interconnection revenues increased by NT$35 million (US$1.1 million) between these two years because of local interconnection tariff increases mandated by the National Communications Commission.

Domestic long distance telephone services. Our domestic long distance telephone revenues decreased by 12.7% from NT$8.5 billion in 2008 to NT$7.4 billion (US$0.2 billion) in 2009. This decrease was mainly due to a decrease in traffic volume from 4.0 billion minutes in 2008 to 3.6 billion minutes in 2009. The decrease in traffic volume was primarily due to the continued traffic migration from fixed line services to mobile services and VoIP and the general adverse economic conditions. Our interconnection revenues also decreased as a result of domestic long distance interconnection tariff decreases mandated by the National Communications Commission.

Broadband access. The number of our ADSL customers decreased from 3.2 million in 2008 to 2.7 million in 2009 due to customer migration to our FTTx services. There was an increase in the number of FTTx customers from approximately 1.1 million in 2008 to approximately 1.6 million in 2009.

Domestic leased line. While demand for higher speed leased lines continues to increase, our overall leased line tariffs have continued to be adversely affected by competition from other fixed line operators, as well as the continued migration of domestic leased line customers to broadband services.

MOD. Our MOD revenues increased by 41.8% from NT$0.6 billion in 2008 to NT$0.9 billion (US$28.2 million) in 2009. This increase was mainly due to an increase in the average revenue per user.

Mobile communications

Revenues from our mobile communications business segment comprised 44.0% and 43.6% of our revenues in 2008 and 2009, respectively. Revenues from our mobile communications business segment decreased by 2.6% from NT$88.8 billion in 2008 to NT$86.5 billion (US$2.7 billion) in 2009. This decrease was principally due to the decrease in mobile service and handset sales revenues as a result of market competition and adverse economic conditions.

Mobile services. Revenues from our mobile services comprised 35.9% and 36.0% of our revenues in 2008 and 2009, respectively. Revenues from our mobile services decreased by 1.4% from NT$72.4 billion in 2008 to NT$71.4 billion (US$2.2 billion) in 2009 due to market competition with other mobile service providers and adverse economic conditions.

Sales of mobile handsets and data cards. Revenues from our sales of mobile handsets and data cards comprised 8.1% and 7.6% of our revenues in 2008 and 2009, respectively. Revenues from our sales of mobile handsets and data cards decreased by 8.3% from NT$16.3 billion in 2008 to NT$15.0 (US$0.5 billion) in 2009. This decrease was principally due to the adverse economic conditions.

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Internet

Our revenues attributable to our internet business increased by 2.7% from NT$23.0 billion in 2008 to NT$23.7 billion (US$0.7 billion) in 2009. The increase was mainly due to the growth in revenues from our internet VAS and internet other services. Our HiNet subscribers remained at approximately 4.1 million subscribers as of December 31, 2008 and 2009. As of December 31, 2009, approximately 86.8% of our broadband customers were also HiNet subscribers, using HiNet as their ISP.

International fixed communications

Our international fixed communications revenues decreased by 4.3% from NT$15.9 billion in 2008 to NT$15.2 billion (US$0.5 billion) in 2009. This decrease was mainly due to the decrease in revenues from international long distance telephone calls as a result of the adverse economic conditions, which offset increases in revenues from international leased line services and international data services.

International long distance telephone services. Our international long distance telephone revenues decreased by 8.0% from NT$14.0 billion in 2008 to NT$12.9 billion (US$0.4 billion) in 2009. Revenues from our international long distance telephone service decreased in 2009 primary due to a 16.1% decrease in international direct dialing revenues as a result of more customers using VoIP and other cost-saving services in place of international direct dialing calls. Despite a 12% increase in wholesale international long distance business from 2008 to 2009, overall international long distance revenues still decreased by 8.0%. This decrease was mainly due to (i) an overall decrease in international direct dial services due to the deteriorating global economy and (ii) competition from other service providers in the market for prepaid phone cards targeted towards foreign workers which caused a reduction in unit price by 14.8%. Our international settlement revenues decreased by 5.4% from NT$3.7 billion in 2008 to NT$3.5 billion (US$0.1 billion) in 2009. This decrease was primarily due to the 4.3% decrease in incoming traffic volume.

Operating Costs and Expenses

Our operating costs and expenses decreased by 0.8% from NT$143.1 billion in 2008 to NT$142.0 billion (US$4.4 billion) in 2009. This decrease was primarily due to decreases in operating costs and marketing expenses. As a percentage of revenues, operating costs and expenses increased from 71.0% in 2008 to 71.5% in 2009.

Operating Costs

Operating costs include personnel expenses, international settlement costs, spectrum usage and license fees, costs of materials and maintenance and interconnection fees among mobile operators.

Our operating costs decreased by 0.7% from NT$113.5 billion in 2008 to NT$112.7 billion (US$3.5 billion) in 2009. This decrease was principally a result of a decrease of NT$1.8 billion (US$55.7 million) related to depreciation and amortization and a NT$0.6 billion (US$19.1 million) decrease in taxes, partially offset by a NT$2.0 billion (US$62.6 million) increase in ICT costs, MOD related costs and government service costs due to the increase in revenue.

Marketing

Our marketing expenses, which include personnel expenses, provisions for bad debt and expenses relating to advertising and other marketing-related activities, decreased by 1.9% from NT$22.7 billion in 2008 to NT$22.3 billion (US$0.7 billion) in 2009. This decrease was principally a result of a NT$0.3 billion (US$7.8 million) decrease in promotional expenses.

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General and administrative

Our general and administrative expenses increased by 2.3% from NT$3.7 billion in 2008 to NT$3.8 billion (US$0.1 billion) in 2009. This increase was principally a result of a NT$0.1 billion (US$4.0 million) increase due to the consolidation of our subsidiaries.

Research and development

Our research and development expenses remained flat at NT$3.2 billion (US$0.1 billion) between 2008 and 2009. Our research and development expenses increased as a percentage of our revenues from 1.56% in 2008 to 1.60% in 2009. This increase was principally a result of a NT$0.1 billion (US$3.4 million) increase in personnel expenses.

Operating Costs and Expenses by Business Segment

	Domestic Fixed Communications	Mobile Communications	Internet	International Fixed Communications	Others	Adjustment	Total
For the year ended December 31, 2009							
Operating costs and expenses	67.6	58.3	15.1	14.2	4.6	(17.8)	142.0
Depreciation and amortization	24.0	8.4	2.3	1.4	0.2		36.3
For the year ended December 31, 2008							
Operating costs and expenses	69.5	57.7	13.5	14.6	3.8	(16.0)	143.1
Depreciation and amortization	25.5	8.9	2.4	1.3	0.1		38.2

Domestic fixed communications

Our domestic fixed communications costs and expenses decreased by 2.6% from NT$69.5 billion in 2008 to NT$67.6 billion (US$2.0 billion) in 2009, primarily due to a NT$0.6 billion (US$18.5 million) decrease in material costs and expenses. Our depreciation and amortization expenses relating to our domestic fixed communications business decreased by 5.9% from NT$25.5 billion in 2008 to NT$24.0 billion (US$0.7 billion) in 2009. The decrease was primarily due to a decrease in depreciation expenses reflecting a slowdown in capital expenditures.

Mobile communications

Our mobile communications operating costs and expenses increased by 1.0% from NT$57.7 billion in 2008 to NT$58.3 billion (US$1.8 billion) in 2009. This increase was primarily due to an increase of NT$1.1 billion (US$33.8 million) in leased line expenses and an NT$0.3 billion (US$9.7 million) increase in connection fees. Our depreciation and amortization expenses relating to mobile communications business decreased by 5.5% from NT$8.9 billion in 2008 to NT$8.4 billion (US$0.3 billion) in 2009. This decrease was mainly due to a decrease in depreciation expenses reflecting a slowdown in capital expenditures.

Internet

Our internet operating costs and expenses increased by 11.5% from NT$13.5 billion in 2008 to NT$15.1 billion (US$0.5 billion) in 2009. This increase was primarily due to a NT$0.6 billion (US$19.4 billion) increase in leased line expenses and a NT$0.5 billion (US$14.7 million) increase in expenses related to our corporate solution services and ICT. Our depreciation and amortization expenses relating to our internet business decreased by 1.1% from NT$2.4 billion in 2008 to NT$2.3 billion (US$0.1 million) in 2009. The decrease is mainly due to a slowdown in capital expenditures.

International fixed communications

Our international fixed communications costs and expenses decreased by 2.6% from NT$14.6 billion in 2008 to NT$14.2 billion (US$0.4 billion) in 2009. The decrease was primarily due to a decrease of NT$0.6 billion (US$18.5 million) in interconnection fees and a NT$0.3 billion (US$9.4 million) decrease in connection fees. Our depreciation and amortization expenses relating to international fixed communications business increased by 5.9% from NT$1.3 billion in 2008 to NT$1.4 billion (US$43.9 million) in 2009. The slight increase is mainly due to an increase in capital expenditures.

Others

Our costs and expenses from our other business increased by 21.1% from NT$3.8 billion in 2008 to NT$4.6 billion (US$0.1 billion) in 2009. The increase was primarily due to the consolidation of our subsidiaries.

Operating Income and Operating Margin

As a result of the foregoing, our operating income decreased by 3.7% from NT$58.6 billion in 2008 to NT$56.4 billion (US$1.8 billion) in 2009. Our operating margin decreased from 29.0% in 2008 to 28.4% in 2009.

The following table sets forth certain information regarding our operating income by business segment for the periods indicated.

	Domestic Fixed Communications	Mobile Communications	Internet	International Fixed Communications	Others	Adjustment	Total
			(in billions of NT$)				
For the year ended December 31, 2009*							
Service revenues from external customers	71.5	86.5	23.7	15.2	1.5		198.4
Intersegment service revenues	13.7	1.9	0.7	1.5		(17.8)	
Interest income					0.5		0.5
Other income		0.1	0.1		0.7		0.9
	85.2	88.5	24.5	16.7	2.7	(17.8)	199.8
Segment income before tax	17.4	30.2	9.3	2.6	(2.3)		57.2
For the year ended December 31, 2008*							
Service revenues from external customers	73.1	88.8	23.0	15.9	0.8		201.7
Intersegment service revenues	11.9	1.9	0.6	1.6		(16.0)	
Interest income					1.9		1.9
Other income	0.2	0.2			1.0		1.4
	85.2	90.9	23.6	17.5	3.7	(16.0)	205.0
Segment income before tax	15.5	33.2	10.1	2.9	(2.0)		59.7

(*) Due to the redefinition of our financial reporting segments into five operating segments for fiscal year 2009, segment disclosures for 2008 have been changed to conform to the segment disclosures of 2009.

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As a result of the foregoing, in 2008 compared to 2009: segment income before tax for our domestic fixed communications business increased by 12.8% from NT$15.5 billion to NT$17.4 billion (US$0.5 billion); segment income before tax for our mobile communications business decreased by 9.0% from NT$33.2 billion to NT$30.2 billion (US$0.9 billion); segment income before tax for our internet business decreased by 7.2% from NT$10.1 billion to NT$9.3 billion (US$0.3 billion); segment income before tax for our international fixed communications business decreased by 12.4% from NT$2.9 billion to NT$2.6 billion (US$79.8 million); and segment loss for our others business segment increased by 17.5% from NT$2.0 billion to NT$2.3 billion (US$72.1 million).

Other Income, Net

Our other income, net decreased by 24.4% from NT$1.1 billion in 2008 to NT$0.8 billion (US$26.4 million) in 2009. This decrease was primarily to a NT$1.4 billion (US$45.0 million) decrease in interest income, partially offset by a NT$1.1 billion (US$33.1 million) decrease in the impairment loss on assets.

Income Tax

Our income tax was NT$13.9 billion in 2008, compared to NT$12.7 billion (US$0.4 billion) in 2009. Our effective tax rate was 23.3% in 2008 and 22.3% in 2009.

Net Income

As a result of the foregoing, our net income attributable to stockholders of the parent decreased by 2.8% from NT$45.0 billion in 2008 to NT$43.8 billion (US$1.4 billion) in 2009. Our net margin was 22.3% in 2008 and 22.1% in 2009.

The year ended December 31, 2008 compared with the year ended December 31, 2007

Revenues

Our revenues increased by 2.2% from NT$197.4 billion in 2007 to NT$201.7 billion in 2008. This increase was primarily due to an increase in operating revenues from mobile communications, internet and international fixed communications.

Domestic fixed communications

Domestic fixed line revenues comprised 37.6% and 36.2% of our revenues in 2007 and 2008, respectively. Our domestic fixed line revenues decreased by 1.6% from NT$74.3 billion in 2007 to NT$73.1 billion in 2008.

Local telephone services. Our local telephone revenues decreased from NT$35.7 billion in 2007 to NT$34.6 billion in 2008. This reflects an 8.1% decline in traffic volume from 17.3 billion minutes in 2007 to 15.9 billion minutes in 2008, offset by a 1.4% increase in average local usage fees. The decline in traffic volume was primarily due to the continued traffic migration from fixed line services to mobile services. We expect this trend to continue as broadband and mobile services become more widely adopted in Taiwan. However, we believe the rate of traffic migration from fixed line services to broadband and mobile services is slowing. The decline in traffic volume reflects a continued decrease in the number of customers of our discounted internet tariff package. Our local interconnection revenues decreased by NT$0.1 billion between these two years because of a decrease in local interconnection volume.

Domestic long distance telephone services. Our domestic long distance telephone revenues decreased by 6.8% from NT$9.1 billion in 2007 to NT$8.5 billion in 2008. This decrease was mainly due to a decrease in traffic volume from 4.3 billion minutes in 2007 to 4.0 billion minutes in 2008. The decrease in traffic volume

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was primarily due to the continued traffic migration from fixed line services to mobile services and VoIP. The rate of migration from fixed line services to mobile services has been slowing in the past two years as the mobile market becomes increasingly saturated. Our interconnection revenues also decreased as a result of more direct connections between private operators.

Broadband access. The number of our ADSL customers decreased from 3.7 million 2007 to 3.2 million in 2008. These decreases mainly reflect customer migration to our FTTx services. There was an increase in the number of FTTx customers from approximately 0.5 million in 2007 to approximately 1.1 million in 2008.

Domestic leased line. We continue to derive a substantial portion of our data revenues from leased line services. While demand for higher speed leased lines continues to increase, our overall leased line tariffs have continued to be adversely affected by competition from other fixed line operators, as well as the continued migration of domestic leased line customers to broadband services.

MOD. Our MOD revenues increased by 76.1% from NT$0.4 billion in 2007 to NT$0.6 billion in 2008 primarily due to an increase in the number of customers.

Mobile communications

Mobile communications revenues comprised 43.5% and 44.0% of our revenues in 2007 and 2008, respectively. Our mobile communications revenues increased by 3.4% from NT$85.9 billion in 2007 to NT$88.8 billion in 2008. While we experienced a slight increase in outgoing traffic volume of 0.1% from 9.6 billion minutes in 2008, we experienced an overall decrease in total traffic volume in 2008 mainly due to a decline in incoming traffic volume of 1.8% compared to 2007 as a result of the deteriorating global economy.

Sales of mobile handsets and data cards. Revenues from our sales of mobile handsets and data cards comprised 6.6% and 8.1% of our revenues in 2007 and 2008, respectively. Revenues from our mobile handset business segment increased by 24.1% from NT$13.2 billion in 2007 to NT$16.3 billion in 2008. This increase was principally due to a significant increase in sales of 3G mobile handsets and data cards, which led to an increase in Senao s revenues in 2008. This increase was also attributed to the fact that we consolidated the results of operations of our subsidiary, Senao, for the full year in 2008 but for only 8.5 months in 2007.

Internet

Internet revenues comprised 10.6% and 11.4% of our revenues in 2007 and 2008, respectively. Our revenues attributable to internet business increased by 9.8% from NT$21.0 billion in 2007 to NT$23.0 billion in 2008. The increase was also due to a 2.0% increase in the number of our total HiNet broadband subscribers from approximately 3.4 million as of December 31, 2007 to approximately 3.5 million as of December 31, 2008. Our HiNet subscribers remained at approximately 4.1 million subscribers as of December 31, 2007 and 2008. As of December 31, 2008, approximately 81.5% of our broadband customers were also HiNet subscribers, using HiNet as their ISP.

International fixed communications

Our international fixed communications revenues increased by 0.9% from NT$15.8 billion in 2007 to NT$15.9 billion in 2008. This increase was mainly due to an increase in revenues from our international leased line services and international data services, partially offset by a slight decrease in revenues of our international long distance telephone service.

International long distance telephone services. Our international long distance telephone revenues decreased by 1.4% from NT$14.3 billion in 2007 to NT$14.0 billion in 2008. This decrease was mainly due to (i) an overall decrease in international direct dial services due to the deteriorating global economy and (ii) competition from other service providers in the market for prepaid phone cards targeted towards foreign

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workers, which resulted in a decrease of 0.6% in outgoing traffic volume from 2007 to 2008. Our international settlement revenues increased by 18.3% from NT$3.2 billion in 2007 to NT$3.7 billion in 2008. This increase was primarily due to the 16.9% increase in incoming traffic volume.

Operating Costs and Expenses

Our operating costs and expenses increased by 4.4% from NT$137.1 billion in 2007 to NT$143.1 billion in 2008. This increase was primarily due to increases in operating costs and administrative expenses. As a percentage of revenues, operating costs and expenses increased from 69.4% in 2007 to 71.0% in 2008.

Operating Costs

Operating costs include personnel expenses, international settlement costs, spectrum usage and license fees, costs of materials and maintenance and interconnection fees among mobile operators.

Our operating costs increased by 6.5% from NT$106.7 billion in 2007 to NT$113.5 billion in 2008. This increase was principally a result of a increase of NT$5.3 billion from the cost of goods sold, which resulted from the consolidation of Senao s operating costs and was partially offset by a NT$0.7 billion decrease in personnel expenses reflecting a decrease in expenses related to the special termination benefits under our early retirement programs in 2007 and 2008.

Marketing

Our marketing expenses, which include personnel expenses, provisions for bad debt and expenses relating to advertising and other marketing-related activities, decreased by 4.2% from NT$23.7 billion in 2007 to NT$22.7 billion in 2008. This decrease was principally a result of a NT$1.0 billion decrease in promotional expenses.

General and administrative

Our general and administrative expenses increased by 7.5% from NT$3.4 billion in 2007 to NT$3.7 billion in 2008. This increase was principally a result of a NT$0.2 billion increase due to the consolidation of Senao s general and administrative expenses.

Research and development

Our research and development expenses decreased by 2.9% from NT$3.3 billion in 2007 to NT$3.2 billion in 2008. Our research and development expenses decreased as a percentage of our revenues from 1.7% in 2007 to 1.6% in 2008. This decrease was principally the result of a NT$0.1 billion decrease in depreciation.

Operating Costs and Expenses by Business Segment

	Domestic Fixed Communications	Mobile Communications	Internet	International Fixed Communications	Others	Adjustment	Total
As of and for the year ended December 31, 2008							
Operating costs and expenses	69.5	57.7	13.5	14.6	3.8	(16.0)	143.1
Depreciation and amortization	25.5	8.9	2.4	1.3	0.1		38.2
As of and for the year ended December 31, 2007							
Operating costs and expenses	69.8	52.3	12.0	15.2	3.5	(15.7)	137.1
Depreciation and amortization	26.6	9.1	2.6	1.4	0.1		39.8

Domestic fixed communications

Our domestic fixed communications costs and expenses decreased by 0.5% from NT$69.8 billion in 2007 to NT$69.5 billion in 2008, primarily due to a NT$0.3 billion decrease in collection fees. Our depreciation and amortization expenses relating to our domestic fixed communications business decreased by 4.3% from NT$26.6 billion in 2007 to NT$25.5 billion in 2008. The decrease was primarily due to an increase in fully depreciated fixed assets.

Mobile communications

Our mobile communications operating costs and expenses increased by 10.3% from NT$52.3 billion in 2007 to NT$57.7 billion in 2008. This increase was primarily due to an increase of a NT$2.9 billion increase in cost of goods sold and a NT$1.5 billion increase in collection fees. Our depreciation and amortization expenses relating to mobile communications business decreased by 2.3% from NT$9.1 billion in 2007 to NT$8.9 billion in 2008.

Internet

Our internet operating costs and expenses increased by 12.9% from NT$12.0 billion in 2007 to NT$13.5 billion in 2008. This increase was primarily due to a NT$1.0 billion increase in leased line expenses and a NT$0.2 billion increase in maintenance expenses. Our depreciation and amortization expenses relating to our internet business decreased by 8.1% from NT$2.6 billion in 2007 to NT$2.4 billion in 2008. The decrease is mainly due to a slowdown in capital expenditures.

International fixed communications

Our international fixed communications costs and expenses decreased by 3.9% from NT$15.2 billion in 2007 to NT$14.6 billion in 2008. The decrease was primarily due to a decrease of NT$0.6 billion in international settlement fees. Our depreciation and amortization expenses relating to international fixed communications business increased by 1.5% from NT$1.4 billion in 2007 to NT$1.3 billion in 2008.

Others

Our costs and expenses from our other business increased by 10.5% from NT$3.5 billion in 2007 to NT$3.8 billion in 2008. The increase was primarily due to our consolidation of the results of operations of Senao, which became our subsidiary starting April 12, 2007.

Operating Income and Operating Margin

As a result of the foregoing, our operating income decreased by 3.0% from NT$60.3 billion in 2007 to NT$58.6 billion in 2008. Our operating margin decreased from 30.6% in 2007 to 29.0% in 2008.

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The following table sets forth certain information regarding our operating income by business segment for the periods indicated.

	Domestic Fixed Communications	Mobile Communications	Internet	International Fixed Communications	Others	Adjustment	Total
			(in billions of NT$)				
For the year ended December 31, 2008*							
Service revenues from external customers	73.1	88.8	23.0	15.9	0.8		201.7
Intersegment service revenues	11.9	1.9	0.6	1.6		(16.0)	
Interest income					1.9		1.9
Other income	0.2	0.2			1.0		1.4
	85.2	90.9	23.6	17.5	3.7	(16.0)	205.0
Segment income before tax	15.5	33.2	10.1	2.9	(2.0)		59.7
For the yr ended December 31, 2007*							
Service revenues from external customers	74.3	85.9	21.0	15.8	0.4		197.4
Intersegment service revenues	11.4	2.5	0.3	1.4		(15.6)	
Interest income					1.5		1.5
Other income	0.1	0.3		0.1	0.4		0.9
	85.8	88.7	21.3	17.3	2.3	(15.6)	199.8
Segment income before tax	15.7	36.3	9.3	2.1	(1.6)		61.8

(*) Due to the redefinition of our financial reporting segments into five operating segments for fiscal year 2009, segment disclosures for 2007 and 2008 have been changed to conform to the segment disclosures of 2009.

As a result of the foregoing, segment income before tax for our domestic fixed communications business decreased by 1.7% from NT$15.7 billion to NT$15.5 billion; segment income before tax for our mobile communications business decreased by 8.6% from NT$36.3 billion to NT$33.2 billion; segment income before tax for our internet business increased by 8.3% from NT$9.3 billion to NT$10.1 billion; segment income before tax for our international fixed communications business increased by 37.5% from NT$2.1 billion to NT$2.9 billion; and segment loss for our others business segment increased by 18.25% from NT$1.7 billion to NT$2.30 billion.

Other Income, Net

Our other income, net decreased by 23.1% from NT$1.5 billion in 2007 to NT$1.1 billion in 2008. This decrease was primarily to a NT$1.1 billion increase in impairment losses on assets and a NT$0.6 billion increase in loss on disposal of financial instruments, net from 2007 to 2008, partially offset by an increase of NT$1.1 billion in valuation gain on financial instruments, net from 2007 to 2008.

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Income Tax

Our income tax was NT$13.1 billion in 2007, compared to NT$13.9 billion (US$0.4 billion) in 2008. Our effective tax rate was 21.1% in 2007 and 23.3% in 2008.

Net Income

As a result of the foregoing, our net income attributable to stockholders of the parent decreased by 6.7% from NT$48.2 billion in 2007 to NT$45.0 billion (US$1.4 billion) in 2008. Our net margin was 24.4% in 2007 and 22.3% in 2008.

B. Liquidity and Capital Resources

Liquidity

The following table sets forth the summary of our cash flows for the periods indicated:

	For the year ended December 31,			
	2007	2008	2009	
	NT$	NT$	NT$	US$
		(in billions)		
Net cash provided by operating activities	89.0	91.9	77.3	2.4
Net cash used in investing activities	(38.6)	(34.5)	(29.5)	(0.9)
Net cash used in financing activities	(44.3)	(52.3)	(56.5)	(1.8)
Effect of exchange rate changes				
Effect of change in consolidated subsidiaries	(0.5)		0.7	
Net increase in cash and cash equivalents	5.6	5.1	(8.0)	(0.3)
Cash and cash equivalents at end of year	76.2	81.3	73.3	2.3

Our primary source of liquidity is cash flow from operations, which represents operating profit adjusted for non cash items, primarily depreciation and amortization and changes in current assets and liabilities. We believe that our working capital is sufficient for our present requirements.

In 2009, we generated NT$77.3 billion (US$2.4 billion) net cash from operating activities, as compared to NT$91.9 billion in 2008. The decrease in net cash from operating activities was primarily the result of a NT$4.0 billion (US$125.2 million) pension fund payment in December 2009.

In 2008, we generated NT91.9 billion net cash from operating activities, as compared to NT89.0 billion in 2007. The increase was primarily due to a NT$3.2 billion tax refund in 2008.

Historically, net cash from operating activities has been sufficient to cover our capital expenditures, including ongoing expansion and modernization of our networks.

In 2009, net cash used in investing activities was NT$29.5 billion (US$0.9 billion), a decrease from NT$34.5 billion in 2008. The decrease was primarily the result of decreases in acquisition of property, plant and equipment and held-to-maturity financial assets.

In 2008, net cash used in investing activities was NT$34.5 billion, a decrease from NT$38.6 billion in 2007. The decrease was primarily the result of a net decrease of NT$10.6 billion in available-for-sale financial assets, partially offset by an increase of NT$5.1 billion in acquisitions of property, plant and equipment.

In 2009, our net cash used in financing activities totaled NT$56.5 billion (US$1.8 billion), which mainly reflected NT$19.1 billion (US$0.6 billion) of cash distribution to our stockholders for a capital reduction plan and NTS37.8 (US$1.2 billion) billion of payment of dividends during that period.

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In 2008, our net cash used in financing activities totaled NT$52.3 billion, which mainly reflected NT$9.6 billion of cash distribution to our stockholders for a capital reduction plan and NT$41.2 billion of payment of dividends during that period.

Capital Resources

We have historically financed our capital expenditure requirements with our cash flows from operations. In future years, we expect to have capital expenditure requirements for the ongoing expansion and upgrade of our networks combined with anticipated outlays for the introduction of new services, including our NGN services. We also expect to make dividend payments on an ongoing basis. See Item 8. Financial Information A. Consolidated Statements and Other Financial Information. Furthermore, we may require working capital from time to time to finance purchases of materials for our maintenance and other overhead expenses. We expect to primarily rely on cash generated from operations and, to a lesser extent, loans from commercial banks to meet our planned capital expenditures, make our planned dividend payments, repay debts and fulfill other commitments over the next twelve months.

As of December 31, 2009, our primary source of liquidity was NT$73.3 billion (US$2.3 billion) in cash and cash equivalents.

On November 18, 2005, our subsidiary Chief Telecom Inc. obtained a secured loan in the amount of NT$23 million from Chinatrust Commercial Bank at an annual interest rate of 3.05%, with interest and principle payable monthly. This secured loan was repaid in full on November 18, 2007. As of December 31, 2008 and 2009, Chief Telecom has short-term unsecured loans in the amount of NT$258 million and NT$235 million (US$7.4 million) at interest rates at 1.7% and 1.15%, respectively. As of December 31, 2009, Chief Telecom has long-term unsecured loans in the amount of NT$310 million (US$9.7 million) at interest rates ranging from 2.01% to 2.04%.

Our subsidiary, Senao, obtained an unsecured loan of NT$20.0 million from Industrial Bank of Taiwan. Interest and principal are payable semiannually and the loan was repaid in full on May 4, 2008.

Our subsidiary, Spring House Entertainment Inc. applied for a secured loan from the Industrial Development Bureau of the Ministry of Economic Affairs for research and development purposes and obtained the loan from Taiwan Business Bank. As of December 31, 2008 and 2009, Spring House Entertainment Inc. has secured loans of NT$37.8 million (US$1.2 million) and NT$10.5 million (US$0.3 million), respectively, all with an interest rate of 1.0%.

As of December 31, 2009, Light Era Development Co., Ltd. has a secured loan from First Commercial Bank in the amount of NT$488 million (US$15.2 million) at an interest rate of 0.81%.

As of December 31, 2009, Chunghwa Precision Test Technology Co., Ltd., a subsidiary of Chunghwa Investment Co., Ltd. had unsecured loans of NT$40.0 million (US$1.3 million) at interest rates ranging from 1.20% to 1.23% from the Bank of Taiwan and E.SUN Bank and a secured loan of NT$18.2 million (US$0.6 million) from E.SUN Bank at an interest rate of 1.37%.

As a part of the government s effort to upgrade the existing telecommunication infrastructure, we and other public utility companies were required by the R.O.C. government to contribute a total of NT$4,500 million to funds called the Fixed Line Fund and the Piping Fund. Under the Fixed Line Fund, we contributed NT$1,000 million to the fund, administered by the R.O.C. Ministry of Interior Affair, on June 30, 1995. Under the Piping Fund, we contributed NT$1.0 billion to the fund, administered by the Taipei City Government, on August 15, 1996. We accounted for both contributions as other assets on our balance sheets.

Through the use of Piping Fund, governmental agencies constructed new underground fixed lines and conduits and perform ongoing maintenance operations. This fund was used to finance various telecommunications infrastructure projects.

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In August 2007, the R.O.C. government decided to dissolve the Fixed Line Fund and refund money to the contributors within one year. Therefore, we reclassified the Fixed Line Fund from other assets to other current assets and received the full amount of our original contribution of NT$1.0 billion million on January 11, 2008.

We have not entered into any financial guarantees or similar commitments to guarantee the payment obligations of third parties. In addition, we do not have any written options on non-financial assets.

Capital Expenditures

The following table sets forth a summary of our capital expenditures for the periods indicated.

	For the year ended December 31,					
	2007		2008		2009	
	(NT$ in billions, except percentages)					
Capital Expenditures:						
Domestic fixed communications business	15.5	62%	20.7	69%	15.9	62%
Mobile communications business	5.4	22	5.2	17	5.0	20
Internet business	1.7	7	2.2	7	2.1	8
International fixed communications business	1.9	8	1.2	4	1.3	5
Others	0.6	1	0.8	3	1.2	5
Total capital expenditures	25.1	100%	30.1	100%	25.5	100%

The following table sets forth a summary of our planned capital expenditures for the year ending December 31, 2010.

	For the year ending December 31, 2010 (NT$ in billions, except percentages)	
Capital Expenditures:		
Domestic fixed communications business	20.5	65.3%
Mobile communications business	5.2	16.6
Internet business	2.8	8.9
International fixed communications business	1.9	6.0
Others	1.0	3.2
Total capital expenditures	31.4	100.0%

We expect our total capital expenditures to be approximately NT$31.4 billion in 2010. In future periods, we expect our total capital expenditures to rise due to the launch of new businesses, FTTx network expansion, access bandwidth enhancement and 3G/3.5G/3.75G mobile network expansion. We expect to finance these capital expenditures with our cash flows from operations.

Inflation

We do not believe that inflation in Taiwan has had a material impact on our results of operations in 2007, 2008 and 2009.

Recent Accounting Pronouncements

In December 2008, the FASB issued new guidance relating to the disclosure requirements for defined benefit plans, which provides guidance on an employer s disclosures about plan assets of a defined benefit pension or other postretirement plan. As discussed in Note 28, pension funds are administered by the Labor Pension Fund Supervisory Committee, or the Committee, and the investment policies, strategies and plan assets allocation is under the Committee s control. In addition, the Committee does not provide detailed information to the public for the investment portfolios of the pension plan assets. Therefore, we cannot meet the pension plan asset disclosure requirements included in the new guidance.

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We adopted the newly-revised Statements of Financial Accounting Standards No. 10, Accounting for Inventories , or SFAS No. 10, beginning from January 1, 2009, which requires inventories to be stated at the lower of cost (weighted-average cost) or net realizable value item by item, except for those that may be appropriate to group items of similar or related inventories. The adoption of the revised SFAS No. 10 did not have a significant impact on our financial position or results of operations for the year ended December 31, 2009.

In April 2009, the ARDF issued Statement of Financial Accounting Standards No. 41 Operating Segments , or SFAS No. 41. This statement supersedes the Statement of Financial Accounting Standards No. 20 Segment Reporting . This new statement allows users of financial statements to see performance of segments from viewpoint of chief operating decision maker. We early adopted SFAS No. 41 starting from September 1, 2009.

In June 2009, the FASB issued the FASB Accounting Standards Codification, or the Codification, The Codification has become the single source for all authoritative GAAP recognized by the FASB to be applied for financial statements issued for periods ending after September 15, 2009. We applied the Codification to our quarterly report for the period ended September 30, 2009. The Codification does not change GAAP and we believe it did not have a material impact on our financial position or results of operations for the year ended December 31, 2009.

In June 2009, the FASB issued new guidance relating to the disclosure requirements for transfers of financial assets. This new guidance is intended to improve the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial statements about transfers of financial assets. The new guidance is effective for annual reporting periods that begin after November 15, 2009, for interim periods within that first annual reporting period and for interim and annual reporting periods thereafter. We are currently evaluating the impact of the adoption of the guidance.

In June 2009, the FASB issued new guidance to improve financial reporting by enterprises involved with variable interest entities. This accounting standard clarified that the determination of whether a company is required to consolidate an entity is based on, among other things, an entity s purpose and design and a company s ability to direct the activities of the entity that most significantly impact the entity s economic performance. This accounting standard is effective as of the beginning of each reporting entity s first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period, and for interim and annual reporting periods thereafter. We are currently evaluating the impact of the adoption of this standard.

In September 2009, the FASB issued new guidance relating to revenue arrangements with multiple deliverables which established the accounting and reporting guidance for arrangements under which the vendor will perform multiple revenue-generating activities. Specifically, the update addresses how to separate deliverables and how to measure and allocate arrangement consideration to one or more units of accounting. The update is effective for fiscal years beginning on or after June 15, 2010. We are currently evaluating the impact of the adoption of the update.

In January 2010, the FASB issued new guidance to clarify that the scope of the decrease in ownership provisions and provides amendments that affect the accounting and reporting by an entity that exchanges a group of assets that constitutes a business or nonprofit for an equity interest in another entity. The new accounting standard is effective beginning for the first interim and annual reporting period on or after December 15, 2009. We do not expect that the new accounting standard will have a material impact on our financial statements.

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U.S. GAAP Reconciliation

Our consolidated financial statements are prepared in accordance with R.O.C. GAAP, which differ in certain material respects from U.S. GAAP. The following table sets forth a comparison of our net income and stockholders equity in accordance with R.O.C. GAAP and U.S. GAAP as of and for the periods indicated.

	For the year ended December 31,			
	2007	2008	2009	
	NTS	NTS	NTS	US$
	(in billions)			
R.O.C. GAAP:				
Consolidated net income	48.7	45.8	44.5	1.4
Attributable to:				
Stockholders of the parent	48.2	45.0	43.8	1.4
Minority interests	0.5	0.8	0.7	
U.S. GAAP:				
Net income	49.8	44.2	45.8	1.4
Attributable to:				
Stockholders of the parent	49.5	43.7	45.1	1.4
Noncontrolling interests	0.3	0.5	0.7	

	As of December 31,			
	2007	2008	2009	
	NTS	NTS	NTS	US$
	(in billions)			
Total stockholders equity:				
R.O.C. GAAP	397.8	379.7	379.0	11.9
U.S. GAAP	320.5	305.9	306.5	9.6

Note 34 to our audited consolidated financial statements included elsewhere in this annual report provides a description of the significant difference between R.O.C. GAAP and U.S. GAAP as they related to us and a reconciliation of net income and stockholders equity.

C. Research, Development, Patents and Licenses, Etc.

Research and Development

Our research and development efforts are focused on the development of advanced network services and operation technologies as well as the development of core technologies for the domestic telecommunications market. For 2007, 2008 and 2009, our research and development expenses were approximately NT$3.3 billion, NT$3.2 billion and NT$3.2 billion (US$99.3 million), respectively, or approximately 1.6%, 1.6% and 1.6% of our revenues, respectively.

As of March 31, 2010, we have more than 1,282 researchers focusing on the following areas:

- wireless communication;
- broadband transmission and access;
- internet and multimedia applications;

- network operation support;
- customer service information;
- advanced technologies research; and
- customer premises equipment.

We have developed a number of advanced network services, operation technologies and applications and value-added services, including our ADSL deployment, internet-based call center, e-commerce platform, global standard for mobile communications billing system, a new telecommunications operation service system for all business units of our company, government public key infrastructure, a leased line testing and monitoring system and an intelligent transportation system. As of March 31, 2010, we have been granted 346 domestic patents and 53 foreign patents.

D. Trend Information

See Overview for a discussion of the most significant recent trends that have had, and in the future may have, a material impact on our results of operations, financial condition and capital expenditures. In addition, see discussions included in this Item for a discussion of known trends, uncertainties, demands, commitments or events that we believe are reasonably likely to have a material effect on our net operating revenues, income from continuing operations, profitability, liquidity or capital resources, or that would cause reported financial information not necessarily to be indicative of future operating results or financial condition.

E. Off-Balance Sheet Arrangements

We entered into forward exchange contracts and index future contracts and currency options to reduce our exposure to foreign currency risk and variability in operating results due to fluctuations in exchange rates and in stock prices for the years ended December 31, 2007, 2008 and 2009. Net gains and losses arising from derivative financial instruments for the years ended December 31, 2007, 2008, and 2009 were NT$866 million (including realized settlement losses of NT$271 million and valuation losses of NT$595 million), NT$486 million (including realized settlement losses of NT$38 million and valuation gains of NT$524 million) and NT$72 million (US$2.3 million) (including realized settlement losses of NT$26 million (US$0.8 million) and valuation gain of NT$98 million (US$3.1 million), respectively.

In September 2007, we entered into a ten-year foreign currency derivative contract with Goldman Sachs Group Inc., or Goldman Sachs, in order to hedge foreign currency fluctuation risks caused by capital expenditure payments and international call settlement fees, which were primary denominated in U.S. dollars. In accordance with the terms of the contract, we deposited US$3.0 million with Goldman Sachs, with Goldman Sachs offering an annual interest rate of 8% on this deposit. Under the terms of the contract, if the spot exchange rate of NT dollars against U.S. dollars was less than NT$31.50 per US$1.00 at any two consecutive bi-weekly valuation dates during the valuation period starting from October 4, 2007 to September 5, 2017, we were required to make a cash payment to Goldman Sachs. The amount of payment is determined by the difference between the applicable exchange rates and using a base amount of US$4.0 million. Conversely, if the spot exchange rate of NT dollars against U.S. dollars was above NT$31.50 per US$1.00 using the same valuation methodology, Goldman Sachs would have a payment obligation in an amount determined using a base amount of US$2.0 million. On October 21, 2008, the derivative contract was automatically terminated under the knock-out clause because the spot exchange rate of NT dollars against U.S. dollars rose above NT$32.70.

F. Tabular Disclosure of Contractual Obligations

Set forth below are our total contractual obligations as of December 31, 2009.

	Payments due by period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
	(NT$ in billions)				
Contractual Obligations[1]					
Short-term loans	0.8	0.8			
Long-term loans	0.3	0.1		0.2	
Obligations related to ST-2 satellite	6.0	2.4	3.6		
Operating leases[2]	5.4	1.7	2.4	1.3	
Total	12.5	5.0	6.0	1.5	

(1) Accrued pension liabilities of NT$1.2 billion (US$38.1 million) as of December 31, 2009 have not been included in the table above.
(2) Operating leases obligations are described in note 31 to our audited consolidated financial statements included elsewhere in the annual report.

As of December 31, 2009, we had remaining commitments under non-cancelable contracts with various parties, including acquisition of lands and buildings of NT$230 million (US$7.2 million), and acquisition of telecommunications equipment of NT$18.0 billion (US$564.0 million), and contacts for printing bills, envelopes and telephone directories of NT$60 million (US$1.9 million).

G. Foreign Exchange

Our revenues and costs and expenses are largely denominated in NT dollars. Our principal expenses denominated in foreign currencies are capital expenditures on telecommunications equipment and settlement payments for the use of networks of carriers in foreign countries for outgoing international calls. Settlement receipts have been a principal source of foreign currency for us. While future fluctuations of the NT dollar against foreign currencies could impact our financial condition and results of operations, we have not been materially affected by the fluctuation of the NT dollar against foreign currencies.

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

A. Directors and Senior Management

The following table sets forth the name, age, position and tenure of each of our directors and supervisors and such person s position as of March 31, 2010. There is no family relationship among any of these persons. All of our directors and supervisors were elected at our annual general stockholders meeting held on June 15, 2007 and have terms from June 15, 2007 to June 14, 2010.

Name	Age	Position
Shyue-Ching Lu	61	Chairman, chief executive officer and director
Shaio-Tung Chang	63	President and director
Mu-Shun Lin	60	Director
Guo-Shin Lee	48	Director
Gordon S. Chen	56	Director
Yi-Bing Lin	49	Director
Jennifer Yuh-Jen Wu	49	Director
Shih-Wei Pan	55	Director
Jing-Twen Chen(1)	56	Director
Zse-Hong Tsai(1)	49	Director
Shih-Peng Tsai	61	Director
Shu-Chen Chen	56	Supervisor
Ming-Shyan Yang	54	Supervisor
Yung An Yen	65	Supervisor

(1) Independent director.

Shyue-Ching Lu is a director and our chairman and chief executive officer. Dr. Lu had served as our president from May 1996 until he was appointed our chairman in August 2008. Prior to that, Dr. Lu was the Director General of the Department of Posts and Communications of the Ministry of Transportation and Communications from 1993 to 1994 and the deputy director general of the Directorate General of Telecommunications from 1994 to 1996. Dr. Lu holds a Ph.D. degree in electrical engineering from the University of Hawaii and a bachelor s degree in engineering from the National Cheng Kung University in Taiwan.

Shaio-Tung Chang is the president of our company. Mr. Chang served as a senior vice president of our company from March 2007 to August 2008 and an executive vice president of our company and manager of our Mobile Business Group from July 2004 to March 2007. He also served as executive vice president of our company and manager of our International Business Group from December 2002 to July 2004. Mr. Chang holds a master s degree in management science from the National Chiao Tung University in Taiwan.

Mu-Shun Lin is a director of our company. Mr. Lin is also a director of Personnel Department at the Ministry of Transportation and Communications. Mr. Lin holds a master s degree in law from Ming-Chuan University in Taiwan.

Guo-Shin Lee is a director of our company. Mr. Lee is currently the director of the accounting department at the Ministry of Transportation and Communications. He graduated from the department of accounting at Tamkang University with a bachelor s degree.

Gordon S. Chen is a director of our company, and also the Chairman of Gre Tai Securities Market. Dr. Chen has more than 28 years of services in financial sector. He gained in-depth financial expertise and hands-on banking experience from several government positions, such as chairman of Taiwan Stock Exchange Corporation and chairman of Taiwan Certificate Authority Corporation. Dr. Chen obtained a Ph.D. degree from the National Taiwan University, a master s degree in Public Finance from National Chengchi University and a bachelor s degree in economics at the Chinese Culture University.

Yi-Bing Lin is a director of our company. Dr. Yi-Bing Lin received his bachelor s degree from the National Cheng Kung University in Tainan, Taiwan in 1983, and his Ph.D. from the University of Washington in Seattle in 1990. From 1990 to 1995, he was a research scientist with Bellcore (Telcordia). He then joined the National Chiao Tung University, or NCTU, in Taiwan where he remains. In 1996, he served as the deputy director of Microelectronics and Information Systems Research Center at the NCTU. Between 1997 and 1999, Dr. Lin was chairman of the Department of Computer Science & Information Engineering at the NCTU. Since 2000, he has also been appointed as an adjunct research fellow at the Academia Sinica. Between 2004 and 2006, Dr. Lin was appointed the vice president of the office of research and development at the NCTU. Since 2007, Dr. Lin has served as the dean of the College of Computer Science at the NCTU.

Jennifer Yuh-Jen Wu is a director of our company. Dr. Wu is also currently the deputy director general of the Institute of Transportation at the Ministry of Transportation and Communications. Dr. Wu was the director of the information systems division of the Institute of Transportation from 1995 to August 2008 and also worked as the secretary-general of the Ministry of Transportation and Communications in 2000. Dr. Wu holds a Ph.D. degree from the Institute of Traffic and Transportation from the National Chiao Tung University. She also holds two master s degrees from Northwestern University, one in electrical engineering and computer science and one in industrial engineering and management science.

Shih-Wei Pan is a director of our company. Dr. Pan is also currently the political deputy minister at the Council of Labor Affairs. Dr. Pan holds a Ph.D. degree in industrial and labor relations from Cornell University.

Jing-Twen Chen is an independent director of our company. Dr. Chen is also a professor at the finance department of the National Central University in Taiwan. Dr. Chen holds a Ph.D. degree in finance from the National Taiwan University of Science and Technology.

Zse-Hong Tsai is an independent director of our company. Dr. Tsai is also currently a professor of electrical engineering at the National Taiwan University. His research interest includes broadband networking, performance evaluation and telecommunication regulations. Dr. Tsai holds a Ph.D. degree and a master s of science degree in electrical engineering from the University of California, Los Angeles, and a bachelor of Science degree in electrical engineering from the National Taiwan University.

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Shih-Peng Tsai is a director of our company. Mr. Tsai replaced Hsu-Chung Simon Chang as a director on March 16, 2009. Mr. Tsai is also currently a representative of the Member s Convention of the Chunghwa Telecom Workers Union and serves as a manager of Min-Syong service centers. Mr. Tsai graduated from Ta Tung Junior Technological College of commerce.

Shu-Chen Chen is a supervisor of our company. Ms. Chen is the office director of the Secretary-General Office of the Executive Yuan. She holds a master s degree in public administration and policy from the National Taipei University.

Ming-Shyan Yang is a supervisor of our company. Mr. Yang is also currently the director of the second bureau of the Directorate General of Budget, Accounting and Statistics at the Executive Yuan. Mr. Yang holds a bachelor s degree in accounting from the National Chengchi University in Taiwan.

Yung An Yen is a supervisor of our company. Mr. Yen is also the vice president of Taiwan Post Co., Ltd. He has worked for Taiwan Post Co., Ltd. over 35 years. His former positions include the director of the department of savings and remittances and the director of the department of capital operations. Mr. Yen holds a master s degree in law from the National Chengchi University in Taiwan.

The following people served as directors or supervisors on our board during 2009 but are no longer serving with us due to resignations or replacements.

Yu Cheng was a director of our company until he resigned in March 2009. Mr. Cheng was the vice chairman of the Fair Trade Commission of the Executive Yuan from 2001 to 2002, the president of Taiwan Television Enterprise, Corp. from 2002 to 2006, and the chairman of Radio Taiwan International from 2006 to 2008. Mr. Cheng holds a Master s of Business Administration degree from National Cheng Chi University and bachelor s degree in economics from the National Taiwan University.

Hsu-Chung Simon Chang was a director of our company until he was replaced by Shih-Peng Tsai in March 2009. Mr. Chang was the president of the Chunghwa Telecom Workers Union. He holds a master s degree in public affairs management from the National Sun Yat-Sen University and a bachelor s degree in Foreign Languages & Literature from National Cheng Kung University. Mr. Chang is currently a student in the Ph.D. program at the Institute of Public Affair Management of the National Sun Yat-Sen University.

Yuan-Hui Cheng was a director of our company. Mr. Cheng was replaced by Yi-Bing Lin as a director in May 2009. Mr. Cheng is a senior secretary at the Ministry of Transportation and Communications. Mr. Cheng holds a bachelor s degree in Chinese from Tamkang University in Taiwan.

Chao-I Hsieh was a director of our company. Mr. Hsieh was replaced by Gordon S. Chen as a director in May 2009. Mr. Hsieh is also a senior counselor of the Ministry of Transportation and Communications. He holds Ph.D. & M.A. degrees from the University of Pennsylvania and he majored in city planning and real estate management.

Jiann-Yen Chen was a director of our company. Mr. Chen resigned as a director on July 29, 2009. Mr. Chen is currently the general secretary of the Ministry of Transportation and Communications. Mr. Chen was the director of the Taiwan Area National Freeway Bureau from 2005 to 2006. He holds a bachelor s degree in law from Soochow University in Taiwan.

Tay-Shing Lee was a director of our company. Mr. Lee was replaced by Guo-Shin Lee as a director on January 25, 2010. Mr. Lee is currently the chief of the Taichung Harbor Bureau. Mr. Lee was previously the deputy director of the Budget Bureau of General Affairs of the Directorate General of Budget, Accounting and Statistics at the Executive Yuan. Mr. Lee holds a bachelor s degree in accounting from Feng Chia University in Taiwan.

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Judy Fu-Meei Ju was a supervisor of our company but was replaced by Shu-Chen Chen in June 2009. Ms. Ju currently serves as a public prosecutor in the Taiwan Superior Court Prosecutor s Officer. Ms. Ju was previously the director of the third department of the Executive Yuan and the director of the office of the Minister of the Executive Yuan. Ms. Ju holds a Ph.D. degree in law from the National Taiwan University.

The following table sets forth the name, age, position and tenure of each of our executive officers and such person s position as of March 31, 2010. There is no family relationship among any of these persons.

Name	Age	Position
Shu Yeh	52	Chief financial officer and senior vice president
Jen-Hon Lin	64	Senior vice president
Tzong-Yen Chang	61	Senior vice president
Yen-Sung Lee	61	Senior vice president
Tzu-Han Huang	60	Executive vice president
Chi-Mau Sheih	56	Executive vice president
Mu-Piao Shih	57	Executive vice president
Shyang-Yih Chen	58	Executive vice president
Hsiu-Gu Huang	57	Executive vice president
Tai-Feng Leng	61	Executive vice president

Shu Yeh is our chief financial officer. Dr. Yeh served as an independent director of our company from June 2007 to January 2010. Dr. Yeh also served as a professor of accounting at National Taiwan University. Dr. Yeh holds a Ph.D. degree in accounting from the University of California, Los Angeles, a master s degree in professional accounting from the University of Texas at Austin, and a bachelor s degree in economics from the National Taiwan University.

Jen-Hon Lin is a senior vice president of our company. Mr. Lin is also a director on the board of Taipei Financial Center Corporation. Mr. Lin previously served as executive vice president and general manager of our Mobile Business Group from March 2007 to September 2009. He also previously served as executive vice president of our company and manager of our International Business Group from January 2006 to March 2007. Mr. Lin graduated from New York Institute of Technology with master s degree in electrical engineering.

Tzong-Yen Chang is a senior vice president of our company. Mr. Chang is also a director of the Taiwan International Standard Electronics Ltd. Mr. Chang served as assistant vice president of our company and deputy manager of our Northern Taiwan Business Group from August 2003 to January 2006. Prior to that, he was a manager of the Banciao operation department. Mr. Chang holds a master s degree in management science from the National Chiao Tung University in Taiwan.

Yen-Sung Lee is a senior vice president of our company. Dr. Lee is also a director of SENAO International Co., Ltd. Dr. Lee previously served as an executive vice president and the manager of our Industrial Customer Group of our company from February 2007 to August 2008. Mr. Lee was an executive vice president and manager of the Data Communications Business Group of our company from January 2002 to April 2005 and was the president of the Telecom Laboratories from April 2005 to February 2007. Mr. Lee holds a Ph. D. degree in information engineering from National Chiao Tung University.

Tzu-Han Huang is an executive vice president of our company and a manager of our Northern Taiwan Business Group. Dr. Huang is also a director of SENAO International Co., Ltd. He served as assistant vice president of our company and deputy manager of our Northern Taiwan Business Group from February 2006 to January 2008 and as senior managing director of the Marketing Department from July 2004 to February 2006. He holds a Ph.D. degree in applied mathematics from the National Chung-Hsing University in Taiwan.

Chi-Mau Sheih is an executive vice president of our company and a manager of our Southern Taiwan Business Group. Mr. Sheih was the manager of our Central Taiwan Business Group from January 2006 to March

2007. He served as a president of the department of network from September 2001 to January 2004. He also served as assistant vice president of our company and deputy manager of our Central Taiwan Business Group from January 2004 to September 2006. Mr. Sheih holds a Master of Business Administration degree from the National Taiwan University.

Mu-Piao Shih is an executive vice president and general manager of our Mobile Business Group. Mr. Shih is also a director of Chunghwa Investment Co., Ltd. Mr. Shih served as assistant vice president and deputy manager of our Mobile Business Group from March 2005 to September 2009. He also served as the senior chief engineer of our Mobile Business Group from October 2001 to March 2005. Mr. Shih holds a master s degree in electronic engineering from the National Taiwan University.

Shyang-Yih Chen is an executive vice president and a manager of our Data Communications Business Group. Mr. Chen was the senior managing director of our value-added service department of our Data Communications Business Group from May 1997 to January 2005 and was an assistant vice president of our company and deputy manager of our Data Communications Business Group from January 2005 to September 2006. Mr. Chen holds a master s degree in electronic engineering from National Taiwan University.

Hsiu-Gu Huang is an executive vice president and a manager of Enterprise Business Group. Mr. Huang served as an assistant vice president of our company and deputy manager of our Enterprise Business Group from January 2007 to September 2008. Mr. Huang holds a master s degree in management science from the National Chiao Tung University in Taiwan.

Tai-Feng Leng is an executive vice president of our company and a manager of our International Business Group. Miss Leng is also a director of Chief Telecom Inc., Donghwa Telecom Co., Ltd. and Chunghwa Telecom Singapore Pte., Ltd. Miss Leng served as vice president of our International Business Group from July 2004 to December 2007 and as senior managing director of the marketing department from October 2001 to July 2004. Miss Leng holds a master s degree in management science from the National Chiao Tung University in Taiwan.

The following people served as our executive officers during 2009 but are no longer serving with us due to resignations or replacements.

Joseph C.P. Shieh is the chairman of Chunghwa Investment Co., Ltd. Dr. Shieh served as our chief financial officer from January 2007 to February 2010. Before joining us, Dr. Hsieh served as an executive vice president and spokesman for Mega Financial Holding Company from February 2003 to January 2007. During this time, he was also the chairman of Megan Venture Investment Co., Ltd. from October 2004 to January 2007 and the chief executive officer of the Investment Banking Business Group at Mega Financial Holding Company from July 2004 to January 2007. Dr. Hsieh holds a Ph.D. in finance from Kent State University in Ohio.

John C.C. Hsueh is the chairman of SENAO International Co., Ltd. Dr. Hsueh served as a senior vice president of our company from September 2006 to September 2009. He served as an executive vice president of our company from October 2000 to September 2006, when he was also a manager of our Northern Taiwan Business Group. Prior to joining us, Dr. Hsueh was the president of Telecom Laboratories from October 1998 to October 2000. Dr. Hsueh holds a Ph.D. in electrical engineering and computer science from Northwestern University.

Minsky Luo is the chairman of Taiwan International Standard Electronics Ltd. Dr. Luo served as a senior vice president of our company from November 2007 to September 2009. He was a director of ICT at R.R. Donnelly Financial and vice president of Life, a Disney/Hearst company, in New York and has ten years of experience at AT&T Bell Laboratories in Murray Hill, New Jersey. Dr. Luo also served briefly as an executive consultant for the Institute for Information Industry and has worked in Qatar, Saudi Arabia and other countries of the Gulf Cooperation Council. Dr. Luo holds a Ph.D. in applied mathematics and a master s degree in computer science from the University of Wisconsin.

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B. Compensation

The compensation plan for our directors and supervisors, approved at our annual general stockholders meeting in 2006, stipulates that:

- the chairman of our board of directors may receive a fixed monthly income of NT$330,000 and a non-fixed income, including but not limited to performance-related bonuses or other rewards, which may not exceed his fixed income. The chairman will not receive any additional compensation for his role as a director;

- our president may receive a fixed monthly income of NT$300,000 and a non-fixed income, including but not limited to performance-related bonuses or other rewards, which may not exceed his fixed income. The president will not receive any additional compensation for his role as a director;

- independent directors who concurrently serve in military, public office or hold teaching or administrative post may receive a fixed monthly compensation of NT$8,000, and those who do not concurrently serve in military or public office or hold teaching or administrative post may receive a monthly compensation of NT$50,000;

- directors and supervisors who serve in military, public office or hold teaching or administrative post may receive a monthly compensation of NT$8,000, and those directors and supervisors who do not serve in military and public office or hold teaching or administrative post may receive a monthly compensation of NT$30,000;

Any compensation above the stipulated amounts in the compensation plan for our directors and supervisors, including but not limited to profit-based bonuses, received by our directors and supervisors who are serving as representatives of the Ministry of Transportation and Communications or other legal persons will be collected by the Ministry of Transportation and Communications or the legal persons they represent, respectively. Our chairman, president, and labor representative to our board of directors Shyue-Ching Lu, Shaio-Tung Chang, and Shih-Peng Tsai, respectively do not receive monthly compensation for acting as our directors because they receive salaries as employees.

The compensation plan was put into practice on January 1, 2006. The aggregate amount of compensation that we paid to our directors, supervisors and executive officers in 2008 and 2009 was NT$134,119,936 and NT$134,570,422, respectively. The aggregate amount of compensation in 2009 includes a NT$87,102,203 salary payment for directors, supervisors and executive officers, a NT$41,109,676 bonus for directors and supervisors and a NT$6,358,543 bonus for executive officers and a labor union director. The 2009 bonus for our directors and supervisors may not exceed 0.2% of our distributable earnings and must be approved at our 2010 annual general stockholders meeting.

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Pursuant to R.O.C. disclosure rules, we have disclosed the compensation of our directors and supervisors and the compensation ranges of our senior management for the fiscal year ended December 31, 2009 as follows:

Directors	Total Compensation	Fixed Income (in NT$)	Dividends	Business Expenses
Zse-Hong Tsai	3,273,468	600,000	2,607,468	66,000
Jing-Twen Chen	3,255,468	600,000	2,607,468	48,000
Shu Yeh	3,253,468	600,000	2,607,468	46,000
Shyue-Ching Lu	10,490,364(1)		2,607,468	
Shaio-Tung Chang	9,806,374(2)		2,607,468	
Shih-Peng Tsai	4,329,217(3)		2,607,468	
Yi-Bing Lin	1,667,697	58,581	1,591,116	18,000
Mu-Shun Lin	2,703,468	96,000	2,607,468	
Gordon S. Chen	1,830,793	219,677	1,591,116	20,000
Shih-Wei Pan	2,703,468	96,000	2,607,468	
Jennifer Yuh-Jen Wu	2,733,468	96,000	2,607,468	30,000
Tay-Shing Lee	2,723,468	96,000	2,607,468	20,000
Jiann-Ye Chen	1,562,231	55,226	1,507,005	
Yuan Hui-Cheng	1,060,781	37,420	1,023,361	
Chao-I Hsieh	1,060,781	37,420	1,023,361	
Yu Cheng	538,633	60,000	476,633	2,000
Hsu-chung Simon Chang	526,987(4)			

(1) Includes NT$7,882,896 received as salary for serving as our chief executive officer.
(2) Includes NT$7,198,906 received as salary for serving as our president.
(3) Includes NT$1,662,512 received as salary and NT$59,237 received as business expenses as our employee.
(4) Includes NT$526,987 received as salary as our employee.

Supervisors	Total Compensation	Fixed Income (in NT$)	Dividends	Business Expenses
Yung-An Yen	2,715,468	96,000	2,607,468	12,000
Ming-Shyan Yang	2,703,468	96,000	2,607,468	
Shu-Chen Chen	1,456,869	51,733	1,405,136	
Judy Fu-Meei Ju	1,260,599	44,267	1,202,332	14,000

Total Compensation	Senior Management
Below NT$2,000,000	none
NT$2,000,000 to NT$4,999,999	Yen-Sung Lee, Jen-Hon Lin, Tzong-Yen Chang, Joseph C.P. Shieh, Tzu-Han Huang, Chi-Mao Hsieh, Hsiu-Gu Huang, Mu-Piao Shih, Tai-Feng Leng, Shyang-Yih Chen, Yuan-Kuang Tu, Iee-Ray Wei, Jung-Ho Lee, John C.C. Hsueh, Minsky Luo, Lung-sing Liang
NT$5,000,000 to NT$9,999,999	none
Total	16 people

We do not have any service contracts with any directors providing for any benefits upon termination of employment.

C. Board Practices

We currently have 11 directors. As of March 31, 2009, we had 14 directors, with 13 elected in June 2007 for three-year terms, which may be renewed for any number of consecutive terms, and one appointed by the Ministry of Transportation and Communications. The term of the director appointed by the Ministry of Transportation and

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Communications began in April 2006 and expired on April 5, 2009 with the expiration of the two preferred shares the Ministry of Transportation and Communications held. One director resigned in July 2009 and one independent director resigned in January 2010. Both of these board seats remain vacant. Pursuant to the R.O.C. Company Law, the directors may be removed from office at any time by a resolution adopted at a stockholders meeting. The chairman of our board of directors is elected by our directors. Our chairman presides at all meetings of our board of directors and also has the authority to act as our representative. We have not entered into any contract with any of our directors and supervisors by which our directors or supervisors are expected to receive benefits upon termination of their employment.

Our articles of incorporation provide for a board of directors consisting of seven to fifteen members. Pursuant to the R.O.C. Securities and Exchange Act, as amended in January 2006, the R.O.C. Financial Supervisory Commission on May 28, 2006 published a rule requiring listed non-financial-institution companies with paid-in capital exceeding NT$50 billion to appoint independent directors to serve on their board of directors in accordance with the Act. The term independent director may have a different meaning when used in Taiwan than in other jurisdictions. The number of independent directors shall be not less than one-fifth of the total number of directors and not less than two in number. Pursuant to both the R.O.C. Company Law and the R.O.C. Securities and Exchange Act, Article 12 Clause 1 of our article of incorporation provides for the election of, starting from the fifth stockholders meeting, at least three independent directors out of the 7-to-15-member board. We have used a nominating process, with the stockholders choosing the independent directors from the list of nominees. Accordingly, during the stockholders meeting in 2007, we have elected three independent directors. As Shu Yeh, one of our independent directors, resigned on January 31, 2010 to become our chief financial officer, there are currently only two independent directors serving on our board of directors, which does not meet the requirements under the R.O.C. Securities and Exchange Act and our articles of incorporation. According to Article 14-2 of the R.O.C. Securities and Exchange Act, if a vacancy of an independent director will cause a company to fail to meet the requirement with respect to the minimum number of independent directors, as long as there is at least one independent director serving on the board of directors, the company is allowed to have the seat(s) vacant until the following shareholders meeting and the election of a new independent director. We have scheduled to convene a shareholders meeting in June 2010 for the election of a new independent director. With respect to certain material decisions to be made by our company as specified in the R.O.C. Securities and Exchange Act, including the adoption or amendment to our internal control system, material loans or guarantees, the issuance of equity-type securities, matters in which directors and supervisors have personal interests, the appointment and discharge of auditors, approval of financial reports, the appointment and discharge of financial, accounting or internal auditing officers and other matters prescribed by the R.O.C. Financial Supervisory Commission, the dissenting opinion or qualified opinion of an independent director is required to be noted in the minutes of the board of directors meeting.

In accordance with our articles of incorporation, we are required to have three to five supervisors. We currently have three supervisors. As of March 31, 2009, we had four supervisors, with three supervisors elected during the stockholders meeting in 2007 and one appointed by the Ministry of Transportation and Communications. The term of the supervisor appointed by the Ministry of Transportation and Communications expired on April 5, 2009 with the expiration of the two preferred shares the Ministry of Transportation and Communications held. In accordance with the R.O.C. Company Law, our supervisors are elected by our stockholders and may not concurrently serve as our directors, executive officers or other staff members. The term of office for our supervisors is three years and their term may be renewed for any number of consecutive terms. Supervisors duties and powers include, but are not limited to, supervision of our business operations, investigation of our financial condition, inspection of corporate records, verification of statements prepared by the board of directors prior to the annual general stockholders meeting, calling of and giving reports at stockholders meetings, representation of us in negotiations with our directors and giving notification, when appropriate, to the board of directors to cease acting in contravention of applicable law or regulations, our articles of incorporation or the resolutions adopted by our stockholders. The supervisors may be also removed from office at any time by a resolution adopted at a stockholders meeting.

In the event preferred shares are outstanding, the holder of these preferred shares is entitled to appoint one director and one supervisor. The appointed director and supervisor are serving the current term from April 2006 to April 2009. Under the Telecommunications Act of the R.O.C., the preferred shares may only be issued to the Ministry of Transportation and Communications. See Item 10. Additional Information B. Memorandum and Articles of Incorporation Preferred Shares.

Under the R.O.C. Company Law, a person may serve as our director or supervisor in his personal capacity or as the representative of another legal entity. A director or supervisor who serves as the representative of a legal entity may be removed or replaced at any time at the discretion of that legal entity, and the replacement director or supervisor may serve the remainder of the term of office of the replaced director or supervisor. Except for our three independent directors, all of our directors are representatives of the Ministry of Transportation and Communications. Our current supervisors consist of one representative from the Ministry of Transportation and Communications, two representatives from the Executive Yuan s National Development Foundation and one representative from Chunghwa Post Co. Ltd. The current term of the representative from the Ministry of Transportation and Communications expired on April 5, 2009. However, in accordance with the R.O.C. Securities and Exchange Act, as amended, except with the approval of the Competent Authority (i.e. The Financial Supervisory Commission), a representative of the government or of a juristic person, as a stockholder of our company, may not be concurrently selected or serve as the director or supervisor from the time of expiration of the term currently being served by our directors or supervisors.

The business address of our directors, supervisors and executive officers is the same as our registered address.

Our audit committee was established in September 2004 and is comprised of our two independent directors: Jing-Twen Chen and Zse-Hong Tsai. As Shu Yeh, one of our independent directors, resigned on January 31, 2010 to become our chief financial officer, there are currently only two independent directors serving on our board of directors as of the date of this annual report. We will appoint three independent directors to the audit committee after the stockholder s meeting in June 2010. See Item 6. Directors, Senior Management and Employees C. Board Practices .

Our audit committee is responsible for: (i) selecting our independent registered public accounting firm and determining their compensation; (ii) reviewing and discussing our annual, semi-annual and quarterly financial reports with our independent auditor; (iii) communicating with our independent auditors; (iv) approving our accounting firm s annual audit and non-audit service items; (v) negotiating the conflicts over our financial reports between our management and accounting firm; (vi) reviewing and assessing of our internal control policy; (vii) discussing and reporting other financial information and required disclosure under the Securities Exchange Act of 1934 with our management and independent auditor; and (viii) performing one self-review each year. Our board of directors has concluded that Jing-Twen Chen is our audit committee financial expert.

In addition to our audit committee, we also have a corporate strategy committee. Our corporate strategy committee is composed of five directors and is responsible for reviewing and advising on the budgets, capital requirements, financial forecasts, matters related to investments, business license matters, corporate reorganization, development plans and other major issues affecting our development. The conclusions of the corporate strategy committee are considered at a subsequent board of directors meeting. The board of directors passed a resolution on November 8, 2005 to set up a compensation committee, which is composed of five directors. The compensation committee will draft compensation proposals for the chairman, vice chairman, directors, supervisors, chief executive officer and general manager. See Item 10. Additional Information B. Memorandum and Articles of Incorporation Directors.

In November 2003, the Securities and Exchange Commission approved changes to the New York Stock Exchange s listing standards related to the corporate governance practices of listed companies. Under these rules, listed foreign private issuers, like us, must disclose any significant ways in which their corporate governance

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practices differ from those followed by New York Stock Exchange-listed U.S. companies under the New York Stock Exchange s listing standards. See Item 16G. Corporate Governance . A copy of the significant differences between our corporate governance practices and New York Stock Exchange corporate governance rules applicable to U.S. companies is available on our website *http://www.cht.com.tw*. The information contained on our website is not a part of this annual report.

D. Employees

The following section sets forth information regarding the employees.

As of December 31, 2009, we had approximately 27,915 employees on a consolidated basis. The following table is a breakdown of our employees from 2007 to 2009 on a consolidated basis.

	2007	2008	2009
Employees			
Technical	14,185	14,459	14,490
Operations	10,008	10,589	11,643
Administrative	1,961	2,117	1,782
Total	26,154	27,165	27,915

The following table is a breakdown of our employees from 2007 to 2009 on a non-consolidated basis.

	2007	2008	2009
Employees			
Technical	13,926	14,079	14,061
Operations	8,771	8,990	9,133
Administrative	1,441	1,482	1,474
Total	24,138	24,551	24,668

As of December 31, 2009, approximately 72% of our employees had university, graduate or post-graduate degrees. To improve our operational efficiency by reducing personnel costs, we offered a number of voluntary retirement programs between June 1, 2000 and December 31, 2009, which resulted in a reduction in our workforce of approximately 11,285 employees.

As of December 31, 2009, approximately 99% of our employees on a non-consolidated basis were members of our principal labor union. Our collective agreement sets forth work rules, grievance procedures and provides for union participation in performance evaluations and promotion decisions. Our union members also occupy a majority of the seats on our employee welfare and pension fund committees. In addition, we will continue to maintain a good relationship with our labor union. We strive to have good communication with our employees and the labor union by inviting representatives of our labor union to attend various meetings related to the performance of our employees.

Pursuant to our articles of incorporation, our employees are entitled to 2% to 5% of the distributable earnings as employee bonuses. Our practice in the past to determine the amount of the bonus has been based on the operating results. In the fourth quarter of 2009, we distributed an aggregate bonus to our employees of NT$1.6 billion, or 4.3% of our 2008 distributable earnings. Since the change in accounting regulations requiring bonuses in the form of stocks be recorded as an expense at their market value instead of their par value, we instead decided to distribute cash bonuses.

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E. Share Ownership

As of March 31, 2010, our directors, supervisors and executive officers personally held an aggregate 874,261 of our common shares, representing around 0.01% of our outstanding common shares. The following table sets forth information with respect to the beneficial ownership of our common shares as of March 31, 2010 by each of our directors, supervisors and executive officers.

Name	Number	%
Shyue-Ching Lu	*	*
Shaio-Tung Chang	*	*
Shih-Peng Tsai	*	*
Jen-Hon Lin	*	*
Tzong-Yen Chang	*	*
Yen-Sung Lee	*	*
Tzu-Han Huang	*	*
Chi-Mau Sheih	*	*
Mu-Piao Shih	*	*
Shyang-Yih Chen	*	*
Hsiu-Gu Huang	*	*
Tai-Feng Leng	*	*

* Stockholder beneficially owns less than 1.0% of our outstanding common shares.

Employee Stock Subscription Program

Under the Statute Governing Privatization of State-Owned Enterprises, a certain portion of our shares were required to be reserved for purchase by our employees at favorable terms, in accordance with regulations issued by the Ministry of Transportation and Communications and approved by the Executive Yuan in the process of privatization.

Under a program established pursuant to a regulation adopted by the Ministry of Transportation and Communications, our employees may subscribe for up to 476,858,252 of our common shares from the Ministry of Transportation and Communications in offerings conducted by the Ministry of Transportation and Communications prior to our privatization. As long as our employees agree not to transfer or pledge these shares for two or three years, they will be eligible to receive a discount of 10% or 20%, respectively, from the offering price. Pursuant to an amendment in June 2005 to the terms of this program, a majority of our employees who continued their employment with us after our privatization will also be eligible to receive a 50% discount if they agree not to transfer or pledge the shares for four years.

At the time we were privatized, the Ministry of Transportation and Communications implemented another stock subscription program, allocating up to 476,858,252 common shares, or 4.9% of our then outstanding common shares, for a one-time subscription by our employees. Under this program, a majority of our employees were eligible to receive a discount of 10%, 20% or 50% from the offering price of the shares if they agree not to transfer or pledge these shares for two, three or four years, respectively.

An aggregate of 762,886,886 of our common shares had been sold under the two programs mentioned above. In addition, the Ministry of Transportation and Communications has sold 85,982,280 of our common shares to our employees at par value. These two employee subscription programs administered by the Ministry of Transportation and Communications were implemented in relation to our privatization. After privatization, we do not have any plans to implement any similar type of employee stock subscription programs.

Under the Statute of Chunghwa Telecom Co., Ltd. and our articles of incorporation, whenever we issue new shares for cash, we must reserve up to 10% of the new shares for subscription by our employees.

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Our consolidated subsidiary, Senao, is publicly traded on the Taiwan Stock Exchange and maintains a stock incentive plan that grants to its employees options to purchase common stock of Senao. As of December 31, 2008 and 2009, participants in Senao s stock incentive plan had outstanding stock options to purchase 13.8 million and 9.3 million common shares of Senao, respectively.

ITEM 7. MAJOR STOCKHOLDERS AND RELATED PARTY TRANSACTIONS

A. Major Stockholders

The following table sets forth information known to us with respect to the beneficial ownership of our shares (i) as of April 1, 2010, the most recent practicable date and (ii) as of certain record dates in each of the preceding three years, for the stockholders known by us to own at least 5.0% of our outstanding common shares. Beneficial ownership is determined in accordance with Securities and Exchange Commission s rules.

Name	As of April 1, 2007		As of April 1, 2008		As of April 1, 2009		As of April 1, 2010	
	number	%	number	%	number	%	number	%
The Republic of China government[(1)]	3,473,946,787	35.93	3467,653,626	36.28	3,544,036,853	36.55	3,685,804,514	38.01
The Ministry of Transportation and Communications	3,423,082,447	35.41	3,407,782,982	35.65	3,422,148,723	35.29	3,422,148,720	35.29
Cathay Life Insurance	269,984,000	2.86	347,407,590	3.59	142,963,091	1.47	493,002,181	5.08

(1) Includes shares held through the Ministry of Transportation and Communications and other government-controlled entities
The Ministry of Transportation and Communications owned 3,407,782,982, or 35.25%, 3,748,561,283, or 35.24% and 3,746,363,593, or 35.29%, of our outstanding common shares as of December 31, 2007, 2008 and 2009, respectively. Under our articles of incorporation, the Ministry of Transportation and Communications has the right to subscribe for two preferred shares when the government s ownership of our outstanding common shares falls below 50%, and the Ministry of Transportation and Communications exercised such right on April 4, 2006. Under our articles of incorporation, the holder of preferred shares is entitled to certain rights, including the right to veto any change in our name or our business and any transfer of the whole or the main part of our business or property.

As of April 16, 2010, 32 record holders held 101,889,176 ADSs (each representing 10 ordinary shares), which represents approximately 10.5% of our total outstanding ordinary shares. Because many of these ADSs were held by brokers or other nominees, we cannot ascertain the exact number of beneficial shareholders with addresses in the United States.

B. Related Party Transactions

Related Party Transactions Policies

We have not extended any loans or credit to any of our directors, supervisors or executive officers, and we have not provided guarantees for borrowings by any of these persons. We have not entered into any fee-paying contract with any of these persons for them to provide services not within his or her capacity as a director, supervisor or executive officer of our company, except that three of our directors who are also our employees receive salaries from our company in their capacity as our employees.

We own 40% of Taiwan International Standard Electronics and 30% of Skysoft Co., Ltd. as of December 31, 2009. We purchased telecommunications exchange facilities and related supplies and replacement parts from Taiwan International Standard Electronics for approximately NT$0.9 billion in 2007, NT$0.9 billion in 2008 and NT$1.3 billion (US$41.8 million) in 2009. We acquired from Chunghwa System Integration network equipment and related supplies for approximately NT$0.6 billion in 2007. We believe that these transactions with Taiwan International Standard Electronics and Chunghwa System Integration have been conducted on arm s length terms.

On January 15, 2007, we purchased a 31.3% stake, or 70,373,000 shares, of Senao, a distributor of mobile handsets in Taiwan. On April 1, 2007, we entered into an agreement with Senao making Senao the exclusive distributor of mobile handsets to our retail outlets. Under the terms of the agreement, Senao also provides mobile handset sales services in our retail outlets and exclusively sells our SIM cards in Senao s own retail stores. Senao became a consolidated subsidiary on April 12, 2007 upon our obtaining an additional 40% stake and majority board representation.

On December 20, 2007 we acquired 100% equity ownership of Chunghwa System Integration Co., Ltd. and Chunghwa Telecom Global, Inc. from Chunghwa Investment Co., Ltd., for a total purchase price of NT$909 million cash, and of Donghwa Telecom Co., Ltd. from Chunghwa Investment Holding Co., for a total purchase price of NT$11 million cash. Chunghwa System Integration, Chunghwa Telecom Global and Donghwa Telecom became consolidated subsidiaries of ours on such date.

We established Senao International (Samoa) Holding Co., Ltd. and Senao International HK Limited in 2009. Senao International (Samoa) Holding Co., Ltd. will engage mainly in international investment activities and Senao International HK Limited will engage mainly in the telecommunications business. No capital was injected in either company and, as of the end of 2009, neither company was in operations.

On September 9, 2009, we acquired an additional 40% of the shares of Chunghwa Investment Co., Ltd. for NT$759 million (US$23.8 million). Our ownership in Chunghwa Investment increased from 49% to 89% and, starting from September 9, 2009, its subsidiaries are included in our consolidated financial statements. Chunghwa Investment Co., Ltd. was established in 2002 and engages mainly in telecommunication investment and telecommunication value-added services.

We established CHI One Investment Co., Ltd. in 2009. CHI One Investment Co., Ltd. engages mainly in investment activities. In January 2010, we made a capital injection of NT$14.4 million in CHI One Investment Co., Ltd.

We acquired 100% equity ownership of Yao Yong Real Property Co., Ltd. on March 1, 2010. Yao Yong Real Property Co., Ltd. engages mainly in the real estate leasing business.

On July 28, 2009, we provided a loan to our related party, ST-2 Satellite Ventures Pte., Ltd., in the amount of SG$23.9 million (NT$546.2 million) at an interest rate of 6.38% per annum. The outstanding balance of the loan and interest accrued was paid in full on April 1, 2010.

C. Interests of Experts and Counsel

Not applicable.

ITEM 8. FINANCIAL INFORMATION

A. Consolidated Statements and Other Financial Information

See Item 18 for a list of all consolidated financial statements filed as part of this annual report on Form 20-F.

Except as described in Item 4. Information on the Company B. Business Overview Legal Proceedings, we are not currently involved in material litigation or other proceedings that may have or have had in the recent past, significant effects on our financial position or profitability.

For our policy on dividend distributions, see Item 10. Additional Information B. Memorandum and Articles of Incorporation Dividends and Distributions. The following table sets forth the dividends declared on each of our common shares and in the aggregate for each of the years ended December 31, 2005, 2006, 2007, 2008 and 2009. All of these dividends were paid, in the fiscal year following the period with respect to which the dividends relate.

	Dividends per common share[1]	Total dividends[1]
		(NT$ in billions)
Year ended December 31, 2005	4.50[2]	42.6[2]
Year ended December 31, 2006	4.58[3]	44.3[3]
Year ended December 31, 2007	6.36[4]	60.8[4]
Year ended December 31, 2008	4.83 [5]	46.8 [5]
Year ended December 31, 2009	[6]	[6]

(1) Cash dividend unless otherwise indicated.
(2) Includes stock dividends of NT$0.20 per common share (equivalent to 20 shares for every 1,000 shares held) representing total stock dividends of NT$1.9 billion.
(3) Includes stock dividends of NT$1.00 per common share (equivalent to 100 shares for every 1,000 shares held) representing total stock dividends of NT$9.7 billion.
(4) Includes stock dividends of NT$2.10 per common share (equivalent to 210 shares for every 1,000 shares held) representing total stock dividends of NT$20.1 billion.
(5) Includes stock dividends of NT$1 per common share (equivalent to 100 shares for every 1,000 shares held) representing total stock dividends of NT$9.7 billion.
(6) Dividends for 2009 are expected to be declared at our annual general stockholders meeting scheduled for June 18, 2010.

We have historically distributed cash dividends to our stockholders equal to approximately 90% of our annual net income. We intend to maintain this dividend payout ratio in the future, subject to a number of commercial factors, including the interests of our stockholders, cash requirements for future capital expenditures and investments, as well as relevant industry and market practice. Prior to our privatization, the amount of our net income was determined for these purposes in accordance with Chunghwa Telecom Internal Accounting Principles, which took into account R.O.C. GAAP and relevant laws and regulations and government guidelines applicable to state-owned enterprises. Our net income after our privatization is determined in accordance with R.O.C. GAAP and relevant laws and regulations, but not subject to the government guidelines applicable to state-owned enterprises. The amount of our net income determined for purposes of calculating our annual dividend payout may differ from the amount of our net income determined in accordance with U.S. GAAP.

B. Significant Changes

Other than as disclosed elsewhere in this annual report, we have not experienced any significant changes since the date of the annual consolidated financial statements included in this annual report.

ITEM 9. THE OFFER AND LISTING

A. Offer and Listing Details

Market Price Information for Our Common Shares

Our common shares have been listed on the Taiwan Stock Exchange since October 27, 2000. There is no public market outside Taiwan for our common shares. The table below shows, for the periods indicated, the high and low closing prices and the average daily volume of trading activity on the Taiwan Stock Exchange for our common shares. The closing price for our common shares on the Taiwan Stock Exchange on April 16, 2010 was NT$61.9 per share.

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A capital reduction plan approved at the general stockholders meeting on June 15, 2007 was executed in 2007. Trading of our shares was suspended in the Taiwan Stock Exchange from December 21, 2007 to January 8, 2008. Trading of our new shares commenced on January 9, 2008. The amount of the capital reduction was NT$9,667,845,090, corresponding to 966,784,509 common shares of 10,634,629,602 total listed common shares a reduction ratio of 9.09090908834%. Every thousand shares were converted to 909.09090991165 shares. For the fractional common shares resulting from the capital reduction, we paid the stockholder cash based on the closing price on December 20, 2007, which was NT$59.9, rounded off to the nearest whole NT dollar. After the capital reduction, the share price was restated in accordance with Article 67-1 of the Operating Rules of the Taiwan Stock Exchange Corporation.

Another capital reduction plan approved at the special stockholders meeting on August 14, 2008 was executed in 2009. The last trading date for our old shares was March 2, 2009. Trading of our shares was suspended in the Taiwan Stock Exchange from March 3 to March 19, 2009. Trading of our new shares commenced on March 20, 2009. The amount of the capital reduction was NT$19,115,553,820, corresponding to 1,911,555,382 common shares of total listed common shares a reduction ratio of 16.46705301419%. Every thousand shares were converted to 835.329469858 shares. For the fractional common shares resulting from the capital reduction, we paid the stockholder cash based on the closing price on March 2, 2009, which was NT$54.9, rounded off to the nearest whole NT dollar. After the capital reduction, the share price was restated in accordance with Article 67-1 of the Operating Rules of the Taiwan Stock Exchange Corporation.

An additional capital reduction plan approved at the general shareholders meeting on June 19, 2009 was executed in 2009. The last trading date for our old shares was January 20, 2010. Trading of our shares was suspended in the Taiwan Stock Exchange from January 21 to February 7, 2010. Trading of our new shares commenced on February 8, 2010. The amount of the capital reduction was NT$9,696,808,180, corresponding to 969,680,818 common shares of total listed common shares a reduction ratio of 9.09090909006%. Every thousand shares were converted to 909.0909090994 shares. For the fractional common shares resulting from the capital reduction, we paid the stockholder cash based on the closing price on January 20, 2010, which was NT$58.1, rounded off to the nearest whole NT dollar. After the capital reduction, the share price was restated in accordance with Article 67-1 of the Operating Rules of the Taiwan Stock Exchange Corporation

	Closing price per common share(1)		
	High NT$	**Low NT$**	**Average daily trading volume (in thousands)**
2005	46.40	41.48	9,635
2006	50.56	41.89	9,484
2007	62.43	49.44	11,554
2008	73.38	54.64	28,794
First Quarter	71.50	60.76	42,785
Second Quarter	73.38	66.58	24,797
Third Quarter	71.41	64.43	22,572
Fourth Quarter	67.56	54.64	27,603
2009	64.64	63.83	25,060
First Quarter	65.50	58.06	23,587
Second Quarter	60.72	54.23	38,345
Third Quarter	62.91	58.59	22,904
Fourth Quarter	61.64	61.61	15,774
October	62.91	61.61	18,413
November	62.80	61.72	12,537
December	64.64	62.37	16,205

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	Closing price per common share(1) High NT$	Low NT$	Average daily trading volume (in thousands)
2010 (through April 16)	64.53	59.3	13,229
First Quarter	64.53	59.3	13,529
January	64.53	62.91	20,899
February	60.00	59.30	29,583
March	62.1	60.5	11,427
Second Quarter (through April 16)	61.9	61.5	11,670
April (through April 16)	61.9	61.5	11,670

(1) The historical prices and volumes of our common shares traded on the Taiwan Stock Exchange have been adjusted based on prior cash dividend payments, capital increases and capital reductions.

Market Price Information for Our American Depositary Shares

Our ADSs have been listed on the New York Stock Exchange under the symbol CHT since July 17, 2003. The outstanding ADSs are identified by the CUSIP number 17133Q106. The table below shows, for the periods indicated, the high and low closing prices and the average daily volume of trading activity on the New York Stock Exchange for our ADSs. The closing price for our ADSs on the New York Stock Exchange on April 16, 2010 was US$19.46 per ADS. Each of our ADSs represents the right to receive ten shares.

	Closing Price Per AD(1) High US$	Low US$	Average ADS Daily Trading Volume (in thousands)
2005	18.55	14.85	961
2006	20.06	15.71	1,226
2007	21.97	16.75	1,108
2008	24.36	16.02	1,785
First Quarter	24.36	17.40	2,543
Second Quarter	24.32	22.03	1,406
Third Quarter	23.70	19.92	1,249
Fourth Quarter	21.50	16.02	1,977
2009	20.14	15.85	949
First Quarter	19.57	15.85	1,025
Second Quarter	18.82	16.21	1,307
Third Quarter	19.56	17.90	817
Fourth Quarter	20.14	18.85	655
October	19.51	18.85	770
November	19.54	18.89	579
December	20.14	19.35	609
2010	20.41	17.95	668
First Quarter	20.41	17.95	691
January	20.41	18.40	578
February	18.84	17.95	659
March	19.43	18.86	810
Second Quarter (through April 16)	19.70	19.46	540
April (through April 16)	19.70	19.46	540

(1) The historical prices and volumes of our ADSs traded on the New York Stock Exchange have been adjusted based on prior cash dividend payments, capital increases and capital reductions.

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As of April 16, 2010, a total of 101,889,176 ADSs and 9,696,808,181 common shares (including those represented by ADSs) were outstanding. With certain limited exceptions, holders of shares that are not Republic of China persons are required to hold these shares through a brokerage or custodial account in the Republic of China. As of April 16, 2010, 1,018,891,768 shares were registered in the name of a nominee of JP Morgan Chase Bank, the depositary under the deposit agreement.

B. Plan of Distribution

Not applicable.

C. Markets

The principal trading market for our common shares is the Taiwan Stock Exchange and the principal trading market for our ADSs is the New York Stock Exchange.

D. Selling Stockholders

Not applicable.

E. Dilution

Not applicable.

F. Expenses of the Issue

Not applicable.

ITEM 10. ADDITIONAL INFORMATION

A. Share Capital

Not applicable.

B. Memorandum and Articles of Incorporation

Set forth below is information relating to our capital structure, including brief summaries of material provisions of our articles of incorporation, the Republic of China Securities and Exchange Law, the Republic of China Company Law, the Statute of Chunghwa Telecom Co., Ltd. and the Telecommunications Act, all as currently in effect. The following summaries are qualified in their entirety by reference to our articles of incorporation, the Republic of China Securities and Exchange Law, the Republic of China Company Law, the Statute of Chunghwa Telecom Co., Ltd. and the Telecommunications Act.

Objects and Purpose

The scope of business of Chunghwa Telecom Co., Ltd. as set forth in Article 2 of our articles of incorporation, includes (i) Telecommunications Enterprise Type 1 and Type 2 businesses pursuant to the Telecommunications Act of the Republic of China, (ii) installation of the computer equipment and radio-frequency equipment whose operation is controlled by the telecommunication business, (iii) telecommunications equipment wholesale, retail and engineering businesses, (iv) design, engineering and operation of information software and hardware service businesses, (v) technique and performance arts training, (vi) tourism and hotel business, (vii) apparatus and electric appliance installation and construction business, (viii) television program production, distribution and commercial business, (ix) broadcasting program distribution and commercial business, and (x) other businesses, except any business requiring a special permit or otherwise restricted by law or regulation.

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General

Under our articles of incorporation as last amended on June 19, 2009, our authorized capital was NT$120,000,000,000, divided into 12,000,000,000 common shares, with par value of NT$10 per share. We have set aside 200,000,000 common shares for the conversion of any future issuances of preferred shares, warrants or convertible debt. Our paid-in capital is NT$96,968,081,810 divided into 9,696,808,181 common shares. We currently do not have any other equity in the form of preferred shares, convertible bonds or otherwise outstanding as of the date of this annual report.

The Ministry of Transportation and Communications, on behalf of the government of the Republic of China, owned approximately 35.29% of our outstanding common shares as of December 31, 2009. The remainder of our outstanding shares is held by public stockholders and other investors.

Directors

Under Republic of China Company Law, our board of directors, in conducting our business, shall act in accordance with laws and regulations, our articles of incorporation and the resolutions adopted at the meetings of stockholders. Where any resolution adopted by our board of directors contravenes laws, our articles of incorporation and the resolutions adopted at the meetings of stockholders, thereby causing loss or damage to us, all directors taking part in the adoption of such resolution shall be liable to compensate us for such loss or damage; however, those directors whose disagreement appears on record or is expressed in writing shall be exempted from liability.

If our board of directors decides, by resolution, to commit any act in violation of any law or our articles of incorporation, a supervisor or any stockholder who has continuously held our shares for a period of one year or longer may request our board of directors to discontinue such act. One or more stockholders who have held more than 3% of our issued and outstanding shares for over a year may require a supervisor to bring an action on our behalf against a director for losses suffered by us as a result of the director s unlawful actions or failure to act by sending a written request to a supervisor. In addition, if our stockholders meeting resolves to institute an action against a director, we shall, within 30 days from the date of such resolution, institute such an action. In the case of a lawsuit between us and a director, a supervisor shall act on our behalf, unless otherwise provided by law; and our stockholders meeting may also appoint some other person to act on our behalf in a lawsuit.

In addition, our board of directors owes fiduciary duty to us. Our directors are liable to compensate us if they breach their fiduciary duty.

According to the Republic of China Company Law, a director who has a personal interest in a matter to be discussed at the meeting of the board of directors, the outcome of which may conflict with his interests, shall abstain from voting on such matter. Our articles of incorporation also provide that commencing in the fiscal year in which our privatization is completed, we may make compensation to all directors and supervisors and such compensation shall not exceed 0.2% of our distributable earnings and may be approved only by a validly convened stockholders meeting. Our articles of incorporation do not impose a mandatory retirement age for our directors. Furthermore, our articles of incorporation do not impose a shareholding qualification for each director. According to our current internal Loan Procedures, we may not extend any loan to our directors or our supervisors.

Dividends and Distributions

At each annual general stockholders meeting, our board of directors submits to the stockholders for their approval any proposal for the distribution of dividend or the making of any other distribution to stockholders from our net income for the preceding fiscal year. All common shares outstanding and fully paid as of the relevant record date are entitled to share equally in any dividend or other distribution so approved. Dividends may be distributed in cash, in the form of common shares or a combination of the two, as determined by the stockholders at the meeting.

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We are not permitted to distribute dividends or make other distributions to stockholders in any year in which we do not have any net income or retained earnings (excluding reserves). The Republic of China Company Law also requires that 10% of our annual net income, less prior years losses and outstanding tax, if any, be set aside as a legal reserve until the accumulated legal reserve equals our paid-in capital. We may also set aside special reserve as determined by our stockholders at a stockholders meeting. In addition, our articles of incorporation provide that at least 50% of the remaining portion of the net income, less prior years losses, outstanding taxes, the legal reserve and any special reserve, plus undistributed retained earnings from prior years will be distributed as dividends to stockholders. Under our articles of incorporation, not less than 50% of the total amount of the distributed dividends must be in cash, but if the cash dividends to be distributed are less than NT$0.10 per share, the dividends may be distributed in the form of shares. Pursuant to our current articles of incorporation, prior to distributing any dividends to our stockholders, we were required to first distribute (i) between 2% and 5% of the distributable earnings to employees as bonuses and (ii) not more than 0.2% of the distributable earnings to directors and supervisors as compensation. Also, in accordance to a clarification letter issued by the Ministry of Economic Affairs of Taiwan for the explanation of Article 64 of the Business Accounting Law on January 24, 2007, starting from January 1, 2008, employee bonuses are now categorized as an expense instead of as distributable earnings.

Under our articles of incorporation, if we do not have current or retained earnings (excluding reserves) but our legal reserve exceeds 50% of our paid-in capital, we may use the excess amount to distribute dividends. In addition, under the Republic of China Company Law, if we do not incur a loss, we are also permitted to make distributions to our stockholders of additional common shares by capitalizing reserves (including the legal reserve, the premium derived from the issuance of new shares and the income from endowments received by us). However, amounts payable by capitalizing our legal reserve are limited to 50% of the total accumulated legal reserve and this capitalization can only be effected when the accumulated legal reserve exceeds 50% of our paid-in capital.

Changes in Share Capital

Under the Republic of China Company Law, any change in our authorized share capital requires an amendment to our articles of incorporation, which in turn requires approval at our stockholders meeting. Authorized but unissued common shares may be issued, subject to applicable Republic of China law, upon terms as our board of directors may determine.

Preemptive Rights

Under the Republic of China Company Law and our articles of incorporation, when we issue new shares for cash, existing stockholders who are listed on the stockholders register as of the record date have preemptive rights to subscribe for the new issue in proportion to their existing shareholdings. Under our articles of incorporation, our employees, except for the directors and executives involved with the approval and passage of the share issuance, have rights to subscribe for between 10% and 15% of any new issue.

In addition, in accordance with the Republic of China Securities and Exchange Law, a public company that intends to offer new shares for cash must offer to the public at least 10% of the shares to be sold except in certain limited circumstances. This percentage can be increased by a resolution passed at a stockholders meeting, held in accordance with the Company Law and our articles of incorporation which would diminish the number of new shares subject to the preemptive rights of existing stockholders.

Meetings of Stockholders

We are required by the Republic of China Company Law and our articles of incorporation to hold a general meeting of our stockholders within six months following the end of each fiscal year, unless for specific legitimate reason or approved otherwise by the relevant authorities. These meetings are generally held in Taipei, Taiwan.

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Special stockholders meetings may be convened by resolution of the board of directors or by the board of directors upon the written request of any stockholder or stockholders who have held 3% or more of the outstanding common shares for more than one year. Stockholders meetings may also be convened by a supervisor. Notice in writing of general meetings of stockholders, stating the place, time and agenda must be dispatched to each stockholder at least 30 days, in the case of general meetings, and 15 days, in the case of special meetings, before the date set for each meeting. Except in certain circumstances described below, a majority of the holders of all issued and outstanding common shares present at a stockholders meeting constitutes a quorum for meetings of stockholders. Stockholders of 1% or more our issued and outstanding shares are entitled to submit one written proposal each year for consideration at our annual general stockholders meeting in accordance with the Republic of China Company Law.

Voting Rights

As previously required by the Republic of China Company Law, our articles of incorporation provide that a holder of common shares has one vote for each common share. Cumulative voting applies to the election of our directors and supervisors. Separate ballots may be held for the election of independent directors.

In general, a resolution can be adopted by the holders of at least a majority of the common shares represented at a stockholders meeting at which the holders of a majority of all issued and outstanding common shares are present. Under the Republic of China Company Law, the approval by at least a majority of the common shares represented at a stockholders meeting in which a quorum of at least two-thirds of all issued and outstanding common shares are represented is required for major corporate actions, including:

- amendment to our articles of incorporation;
- entering into, modification or termination of any contracts regarding leasing of all business, outsourcing of operations or joint operations;
- transfer of the whole or substantial part of our business or assets;
- taking over of the whole of the business or assets of any other company which would have significant impact on our operations;
- distribution of any share dividend;
- dissolution;
- merger or spin-off; and
- removing of directors or supervisors.

Alternatively, the Republic of China Company Law provides that in the case of a public company, such as us, a resolution may be adopted by the holders of at least two-thirds of the common shares represented at a meeting of stockholders at which holders of at least a majority of issued and outstanding common shares are present.

A stockholder may be represented at a general or special meeting by proxy if a valid proxy form is delivered to us five days before the commencement of the general or special stockholders meeting. Except for trust enterprises or share registrar approved by the Securities and Futures Bureau of the Financial Supervisory Commission, where one person is appointed as proxy by two or more stockholders who together hold more than 3% of the total issued common shares, the votes of those stockholders in excess of 3% of the outstanding common shares shall not be counted.

Any stockholder who has a personal interest in the matter under discussion at a stockholders meeting, the outcome of which may impair our interests, shall not vote or exercise voting rights on behalf of another stockholder.

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Holders of our ADSs generally will not be able to exercise voting rights on the common shares underlying ADSs on an individual basis.

Other Rights of Stockholders

Under the Republic of China Company Law, dissenting stockholders are entitled to appraisal rights in certain major corporate actions, such as a planned transfer of the whole or part of the business or a proposed merger by us. A dissenting stockholder may request us to purchase back all of the shares owned by the stockholder at a fair price determined by mutual agreement or determined by the court if a mutual agreement cannot be reached. Stockholders may exercise their appraisal rights by serving notice in writing to us prior to the related stockholders meeting and/or by raising his objection at the stockholders meeting. Moreover, a stockholder has the right to file a petition in the court for annulment of any resolution adopted at a stockholders meeting where the procedures for convening the stockholders meeting or the method of adopting the resolutions at the meeting is contrary to law or our Articles of Incorporation. One or more stockholders who have held more than 3% of the issued and outstanding shares of a company continuously for more than one year may require a supervisor to institute, on behalf of us, an action against a director. In addition, one or more stockholders who has/have continuously held 3% or more of the total number of the outstanding shares of our company for more than one year may require the board of directors to convene a special stockholders meeting by sending a written request to the board of directors.

The Republic of China Company Law allows stockholders holding 1% or more of the total issued shares of a company to submit, during the period of time prescribed by us, one proposal in writing for discussion at the general meeting of stockholders. It also provides that a company may adopt a nomination procedure for election of directors or supervisors. We have adopted a nomination procedure for election of independent directors as stipulated in our articles of incorporation which provides that stockholders holding 1% or more of our total issued shares may submit to us a list of candidates for independent director, along with relevant information and supporting documents.

Register of Stockholders and Record Dates

Our share registrar, Taiwan Securities Co., Ltd., maintains our register of stockholders at its offices in Taipei, Taiwan, and enters transfers of common shares in our register upon presentation of, among other documents, certificates representing the common shares transferred. Under the Republic of China Company Law and our articles of incorporation, we may, by giving advance public notice, set a record date and close the register of stockholders for a specified period in order for us to determine the stockholders or pledgees that are entitled to rights pertaining to the common shares. The specified period required is as follows:

- general stockholders meeting 60 days;
- special stockholders meeting 30 days; and
- relevant record date five days.

Annual Consolidated Financial Statements

At least ten days before the annual general stockholders meeting, our annual consolidated financial statements must be available at our principal office in Taipei, Taiwan for inspection by the stockholders.

Transfer of Common Shares

The transfer of common shares in registered form is effected by endorsement and delivery of the related share certificates but, in order to assert stockholders rights against us, the transferee must have his name and address registered on our register of stockholders. Stockholders are required to file their respective specimen seals, also known as chops, with us. Chops are official stamps widely used in Taiwan by individuals and other entities to authenticate the execution of official and commercial documents.

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Acquisition of Our Own Common Shares

Under the Republic of China Company Law, with minor exceptions, we cannot acquire our own common shares. Any common shares acquired by us, under certain of such minor exceptions, must be sold at the market price within six months after their acquisition.

In addition, under the Republic of China Securities and Exchange Law, a company whose shares are listed on the Taiwan Stock Exchange or traded on the GreTai Securities Market may, pursuant to a board resolution adopted by a majority consent at a meeting attended by more than two-thirds of the directors and pursuant to the procedures prescribed by the Securities and Futures Bureau of the Financial Supervisory Commission, purchase its shares for the following purposes on the Taiwan Stock Exchange, the GreTai Securities Market or by a tender offer:

for transfers of shares to its employees;

for conversion into shares from bonds with warrants, preferred shares with warrants, convertible bonds, convertible preferred shares or certificates of warrants issued by us; and

for maintaining its credit and its stockholders equity, provided that the shares so purchased shall be cancelled thereafter.

The total shares purchased by us shall not exceed 10% of its total issued and outstanding shares. In addition, the total amount for purchase of the shares shall not exceed the aggregate amount of the retained earnings, the premium from shares issues and the realized portion of the capital surplus.

The shares purchased by us pursuant to items (1) and (2) above shall be transferred to the intended transferees within three years after the purchase; otherwise the same shall be cancelled. For the shares to be cancelled pursuant to item (3) above, we shall complete amendment registration for such cancellation within six months after the purchase.

The shares purchased by us shall not be pledged or hypothecated. In addition, we may not exercise any stockholders rights attaching to these shares. Our affiliates (as defined in Article 369-1 of the Republic of China Company Law), directors, supervisors, managers and their respective spouses and minor children and/or nominees are prohibited from selling the shares of the company held by them during the purchase period of such shares reported by the company to the Securities and Futures Bureau.

Liquidation Rights

In the event of our liquidation, the assets remaining after payment of all debts, liquidation expenses and taxes will be distributed pro rata to the stockholders in accordance with the relevant provisions of the Republic of China Company Law and our articles of incorporation.

Substantial Stockholders and Transfer Restrictions

The Republic of China Securities and Exchange Law currently requires (i) each director, supervisor, manager, as well as their respective spouses, minor children and nominees, and substantial stockholder (i.e., a stockholder who together with his or her spouse, minor children or nominees, holds more than 10% of the shares of a public company) to report any change in that person s shareholding to the issuer of the shares on a monthly basis and (ii) each director, supervisor, manager or substantial stockholder holding such common shares for more than a six month period to report his or her intent to transfer any shares listed on the Taiwan Stock Exchange or traded on the GreTai Securities Market to the Securities and Futures Bureau of the Financial Supervisory Commission at least three days before the intended transfer, unless the number of shares to be transferred is less than 10,000 shares. ADS holders holding more than 10% of our common shares, including common shares represented by ADSs, may be subject to the reporting obligation in above item (i).

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In addition, the number of shares that can be sold or transferred on the Taiwan Stock Exchange or GreTai Securities Market by any person subject to the restrictions described above on any given day may not exceed:

- 0.2% of the outstanding shares of the company in the case of a company with no more than 30 million outstanding shares;

- 0.2% of 30 million shares plus 0.1% of the outstanding shares exceeding 30 million shares in the case of a company with more than 30 million outstanding shares; or

- in any case, 5% of the average daily trading volume (number of shares) on the Taiwan Stock Exchange or the GreTai Securities Market for the ten consecutive trading days preceding the reporting day on which day the director, supervisor, manager or substantial stockholder or their respective spouse, minor child or nominee reports the intended share transfer to the Securities and Futures Bureau.

These restrictions do not apply to block trading, auction sale, purchase by auction, after-hour trading and sales or transfers of our ADSs. However, these restrictions will apply to sales of common shares upon withdrawal.

C. Material Contracts

We have not entered into any material contracts other than in the ordinary course of business and other than those described elsewhere in this annual report.

D. Exchange Controls

Foreign Investment and Exchange Controls in Taiwan

We have extracted from publicly available documents the information presented in this section. Please note that citizens of the People s Republic of China and entities organized in the People s Republic of China are subject to special Republic of China laws, rules and regulations, which are not discussed in this section.

General

Historically, foreign investments in the securities market of Taiwan were restricted. However, commencing in 1983, the Taiwan government has from time to time enacted legislation and adopted regulations to make foreign investment in the Taiwan securities market possible. Initially, only overseas investment trust funds of authorized securities investment trust enterprises established in Taiwan were permitted to invest in the Taiwan securities market. Since January 1, 1991, qualified foreign institutional investors are allowed to make investments in the Taiwan listed securities market. Since March 1, 1996, overseas Chinese, non-resident foreign institutional and individual investors (other than qualified foreign institutional investors), called general foreign investors, are permitted to make direct investments in the Taiwan securities market.

Foreign Investment in Taiwan Securities Market

On December 28, 1990, the Executive Yuan, the cabinet of the Republic of China government, approved guidelines drafted by the Securities and Futures Commission (the predecessor of the Securities and Futures Bureau), which, since January 1, 1991, has allowed direct foreign investment in Taiwan s securities that are listed on the Taiwan Stock Exchange or other Taiwan securities approved by the Securities and Futures Bureau by certain eligible qualified foreign institutional investors.

In addition to qualified foreign institutional investors, certain individual and foreign institutional investors which meet certain qualifications set by the Securities and Futures Bureau may invest in the shares of Taiwan Stock Exchange-listed companies, GreTai Securities Market (formerly known as Over-The-Counter Securities Exchange) traded companies, emerging market companies or other Taiwan securities approved by the Securities and Futures Bureau up to a limit of US$50 million (in the case of institutional investors) and US$5 million (in the case of individual investors) after obtaining permission from the Taiwan Stock Exchange.

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On September 30, 2003 and June 15, 2004, the Securities and Futures Bureau issued amendments to the Guideline Governing Investment in Securities by Overseas Chinese and Foreign Nationals and relevant regulations, in which the Securities and Futures Bureau lifted certain restrictions and simplified the procedures required for foreign investments in Taiwan s securities market. The amendment focuses mainly on the following aspects:

- The concept of qualified foreign institutional investors no longer exists. Foreign investors are reclassified as off-shore foreign institutional investors, on-shore foreign institutional investors, off-shore general foreign investors, and on-shore general foreign investors based on whether they are institutions or natural persons, and whether they have presence in Taiwan.

- For foreign investors to invest in Taiwan s securities market, registration with the Taiwan Stock Exchange, instead of the approval of the Securities and Futures Bureau, is required. The Taiwan Stock Exchange may withdraw or rescind the registration if the application documents submitted by foreign investors are untrue or incomplete, or if any material violation of the relevant regulations exists.

- Off-shore foreign investors may provide the securities they hold as the underlying shares of depositary receipts and act as selling stockholders in depositary receipts offerings.

- Off-shore foreign institutional investors are required to appoint their agent or nominee to attend the stockholders meeting of the invested company.

Currently, subject to the specific restriction imposed by relevant regulations, the off-shore foreign institutional investors may invest in the Taiwan securities market without any amount restriction. However, a ceiling will be separately determined by the Securities and Futures Bureau after consultation with the Central Bank of the Republic of China (Taiwan) for investment by offshore oversea Chinese and foreign individual investors.

Foreign Investment Approval

Other than:

- foreign institutional investors;

- foreign individual investors; and

- investors in overseas convertible bonds and depositary receipts,

foreign investors who wish to make direct investments in the shares of Taiwan companies may submit a foreign investment approval application to the Investment Commission of the Ministry of Economic Affairs of Taiwan or other government authority to qualify for benefits granted under the Statute for Investment by Foreign Nationals. The Investment Commission or other government authority reviews each foreign investment approval application and approves or disapproves the application after consultation with other governmental agencies. Any non-Taiwan person possessing a foreign investment approval may remit capital for the approved investment and repatriate annual net profits and interests and cash dividends attributable to an approved investment. Stock dividends, investment capital and capital gains attributable to the investment may be repatriated with approval of the Investment Commission or other government authority.

In addition to the general restrictions against direct investment by non-Taiwan persons in Taiwan companies, non-Taiwan persons are currently prohibited from investing in prohibited industries in Taiwan under the Negative List promulgated by the Executive Yuan from time to time. The prohibition on direct foreign investment in the prohibited industries in the Negative List is absolute with the consequence of certain specific exemption from the application of the Negative List. Under the Negative List, some other industries are restricted so that non-Taiwan persons may directly invest only up to a specified level and with the specific approval of the relevant authority which is responsible for enforcing the legislation which the negative list is intended to implement. The telecommunication industry is a restricted industry under the Negative List.

Depositary Receipts

In April 1992, the Securities and Futures Bureau began allowing Taiwan companies listed on the Taiwan Stock Exchange, with the prior approval of the Securities and Futures Bureau, to sponsor the issuance and sale of depositary receipts evidencing depositary shares. In December 1994, the Republic of China Ministry of Finance began allowing companies whose shares are traded on the GreTai Securities Market also to sponsor the issuance and sale of depositary receipts evidencing depositary shares representing shares of its capital stock. Approvals for these issuances are still required.

After the issuance of a depositary share, a holder of the depositary receipt evidencing the depositary shares may request the depositary issuing the depositary share to cause the underlying shares to be sold in Taiwan and to distribute the proceeds of the sale to or to withdraw the shares and deliver the shares to the depositary receipt holder. A citizen of the People s Republic of China is not permitted to withdraw and hold our shares.

If you are an offshore foreign institutional investor holding the depositary receipts, you must register with the Taiwan Stock Exchange as a foreign investor before you will be permitted to withdraw the shares represented by the depositary receipts. In addition to obtaining registration with the Taiwan Stock Exchange, you must also (i) appoint a qualified local agent to, among other things, open a securities trading account with a local securities brokerage firm and a bank account to remit funds, exercise stockholders rights and perform other functions as holders of ADSs may designate, (ii) appoint a custodian bank to hold the securities and cash proceeds, confirm transactions, settle trades and report and declare other relevant information and; (iii) appoint a tax guarantor as guarantor for the full compliance of the withdrawing depositary receipt holders tax filing and payment obligations in the Republic of China. A depositary receipt holder not registered as a foreign investor with the Taiwan Stock Exchange, or not has made the necessary appointments as outlined above, will be unable to hold or subsequently transfer the shares withdrawn from the depositary receipt facility.

No deposits of shares may be made in a depositary receipt facility and no depositary shares may be issued against deposits without specific Securities and Futures Bureau approval, unless they are:

(i) stock dividends;

(ii) free distributions of shares;

(iii) due to the exercise by the depositary receipt holder preemptive rights in the event of capital increases for cash; or

(iv) if permitted under the deposit agreement and custody agreement and within the amount of depositary receipts which have been withdrawn, due to the direct purchase by investors or purchase through the depositary on the Taiwan Stock Exchange or the GreTai Securities Market or delivery by investors of the shares for deposit in the depositary receipt facility. In this event, the total number of depositary receipts outstanding after an issuance cannot exceed the number of issued depositary receipts previously approved by the Securities and Futures Bureau of the Financial Supervisory Commission in connection with the offering plus any ADSs issued pursuant to the events described in (i), (ii) and (iii) above.

An ADS holder or the depositary, without obtaining further approvals from the Central Bank of the Republic of China (Taiwan) or any other governmental authority or agency of the Republic of China, may convert NT dollars into other currencies, including U.S. dollars, in respect of:

- the proceeds of the sale of common shares represented by ADSs or received as share dividends with respect to the common shares and deposited into the depositary receipt facility; and

- any cash dividends or distributions received from the common shares.

In addition, the depositary may also convert into NT dollars incoming payments for purchases of common shares for deposit in the depositary receipt facility against the creation of additional ADSs. If you withdraw the common shares underlying your ADSs and become a holder of our common shares, you may convert into NT dollars subscription payment for rights offerings. The depositary may be required to obtain foreign exchange payment approval from the Central Bank of the Republic of China (Taiwan) on a payment-by-payment basis for conversion from NT dollars into foreign currencies of the proceeds from the sale of subscription rights of new common shares. Although it is expected that the Central Bank of the Republic of China (Taiwan) will grant approval as a routine matter, required approvals may not be obtained in a timely manner, or at all.

Exchange Controls

Taiwan s Foreign Exchange Control Statute and regulations provide that all foreign exchange transactions must be executed by banks designated to handle foreign exchange transactions by the Financial Supervisory Commission and by the Central Bank of the Republic of China (Taiwan). Current regulations favor trade-related foreign exchange transactions. Consequently, foreign currency earned from exports of merchandise and services may now be retained and used freely by exporters. All foreign currency needed for the importation of merchandise and services may be purchased freely from the designated foreign exchange banks.

Aside from trade-related foreign exchange transactions, Taiwan companies and residents may remit to and from Taiwan foreign currencies of up to US$50 million (or its equivalent) and US$5 million, (or its equivalent), respectively, in each calendar year. These limits apply to remittances involving a conversion between New Taiwan dollars and U.S. dollars or other foreign currencies. A requirement is also imposed on all private enterprises to register all medium and long-term foreign debt with the Central Bank of the Republic of China (Taiwan).

In addition, a foreign person without an alien resident card or an unrecognized foreign entity may remit to and from Taiwan foreign currencies of up to US$100,000 per remittance if required documentation is provided to Taiwan authorities. This limit applies only to remittances involving a conversion between New Taiwan dollars and U.S. dollars or other foreign currencies.

E. Taxation

Republic of China Taxation

The discussion below describes the principal Republic of China tax consequences of the ownership and disposition of ADSs representing common shares and of common shares. It applies to you only if you are:

- an individual who is not a citizen of the Republic of China, who owns ADSs or common shares and who is not physically present in Taiwan for 183 days or more during any calendar year; or

- a corporation or a non-corporate body that is organized under the laws of a jurisdiction other than the Republic of China for profit-making purposes and has no fixed place of business or other permanent establishment in Taiwan.

You should also consult your tax advisors concerning the tax consequences of owning ADSs and common shares in the Republic of China and any other relevant taxing jurisdiction to which they are subject.

Dividends

Dividends declared by us out of our retained earnings and distributed to you are subject to Republic of China withholding tax, currently at the rate of 20%, on the amount of the distribution in the case of cash dividends or on the par value of the common shares in the case of stock dividends. However, a 10% Republic of China retained earnings tax paid by us on our undistributed after-tax earnings, if any, would provide a credit of up to 10% of the gross amount of any dividends declared out of such earnings that would reduce the 20% Republic of China tax imposed on these distributions.

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Share dividends paid by us out of our capital surplus which are derived from the issuance of shares at a premium are not subject to Republic of China withholding tax.

Capital Gains

Gains from the sale of property in the Republic of China are generally subject to Republic of China income tax. However, under current Republic of China law, capital gains on securities transactions (including sale of common stock) are exempt from income tax.

Sales of ADSs by you are regarded as transactions relating to property located outside the Republic of China and thus any gains derived therefrom are currently not subject to Republic of China income tax.

Preemptive Rights

Distributions of statutory preemptive rights for common shares in compliance with Republic of China law are not subject to any Republic of China tax. Proceeds derived from sales of statutory preemptive rights evidenced by securities are exempted from income tax but are subject to securities transaction tax at the rate of 0.3% of the gross amount received. Proceeds derived from sales of statutory preemptive rights which are not evidenced by securities are subject to capital gains tax at the rate of:

- 20% of the gains realized if you are a natural person; or
- 20% of the gains realized if you are an entity that is not a natural person.

Subject to compliance with Republic of China law, we, at our sole discretion, can determine whether statutory preemptive rights shall be evidenced by issuance of securities.

Securities Transaction Tax

A securities transaction tax, at the rate of 0.3% of the gross amount received, payable by the seller will be withheld upon a sale of common shares in Taiwan. Transfers of ADSs are not subject to Republic of China securities transaction tax. According to a letter issued by the Ministry of Finance of the Republic of China in 1996, withdrawal of common shares from the deposit facility will not be subject to Republic of China securities transaction tax.

Estate Taxation and Gift Tax

Republic of China estate tax is payable on any property within Taiwan of a deceased person who is a nonresident individual, and Republic of China gift tax is payable on any property within Taiwan donated by any such person. Under Republic of China estate and gift tax laws, common shares issued by Taiwan companies are deemed located in Taiwan regardless of the location of the owner. It is not clear whether the ADSs will be regarded as property located in Taiwan under Republic of China estate and gift tax laws. Starting from January 21, 2009, the estate tax and gift tax rates were reduced to 10%.

Tax Treaty

The Republic of China does not have an income tax treaty with the United States. On the other hand, the Republic of China has income tax treaties with Indonesia, Israel, Singapore, South Africa, Australia, Vietnam, New Zealand, Malaysia, Macedonia, Swaziland, the Netherlands, United Kingdom, Gambia, Senegal, Sweden, Belgium and Denmark, which may limit the rate of Republic of China withholding tax on dividends paid with respect to common shares in Taiwan companies. It is unclear whether if you hold ADSs, you will be considered to hold common shares for the purposes of these treaties. Accordingly, if you may otherwise be entitled to the benefits of the relevant income tax treaty, you should consult your tax advisors concerning your eligibility for the benefits with respect to the ADSs.

Retained Earnings Tax

Under the Republic of China Income Tax Laws, a 10% retained earnings tax will be imposed on a company for its after-tax earnings generated after January 1, 1998 which are not distributed in the following year. The retained earnings tax so paid will further reduce the retained earnings available for future distribution. When the company declares dividends out of those retained earnings, up to a maximum amount of 10% of the declared dividends will be credited against the 20% withholding tax imposed on the non-resident holders of its shares.

U.S. Federal Income Tax Considerations for U.S. Holders

The following is a summary of certain U.S. federal income tax consequences of the ownership and disposition of our shares and ADSs as of the date hereof. The discussion set forth below is applicable to beneficial owners of our shares or ADSs that hold the shares or ADSs as capital assets and that are U.S. holders and non-residents of the Republic of China. You are a U.S. holder if you are:

- an individual who is a citizen or resident of the United States;
- a corporation or other entity taxable as a corporation for U.S. federal income tax purposes created or organized in or under the laws of the United States, any state thereof or the District of Columbia;
- an estate the income of which is subject to U.S. federal income taxation regardless of its source;
- a trust that is subject to the primary supervision of a court within the United States and one or more U.S. persons have the authority to control all substantial decisions of the trust; or
- a trust that has a valid election in effect under applicable U.S. Treasury regulations to be treated as a U.S. person.

This summary is based on the provisions of the Internal Revenue Code of 1986, as amended (the Code), and regulations, rulings and judicial decisions thereunder as of the date hereof, and such authorities may be replaced, revoked or modified so as to result in U.S. federal income tax consequences different from those discussed below. It is for general purposes only and you should not consider it to be tax advice. In addition, it is also based in part on representations made by the depositary and assumes that the deposit agreement and any related agreement will be performed in accordance with their terms. This summary does not represent a detailed description of all the U.S. federal income tax consequences to you in light of your particular circumstances and does not address the effects of any state, local or non-U.S. tax laws (or other U.S. federal tax consequences, such as U.S. federal estate or gift tax consequences). In addition, it does not represent a detailed description of the U.S. federal income tax consequences applicable to you if you are subject to special treatment under the U.S. federal income tax laws, including if you are:

- a dealer in securities or currencies;
- a trader in securities if you elect to use a mark-to-market method of accounting for your securities holdings;
- a financial institution or an insurance company;
- a regulated investment company;

a real estate investment trust;

a tax-exempt organization;

a person liable for alternative minimum tax;

a person holding shares or ADSs as part of a hedging, integrated or conversion transaction, constructive sale or straddle;

a person owning, actually or constructively, 10% or more of our voting stock;

- a partnership or other pass-through entity for U.S. federal income tax purposes; or

- a person whose functional currency is not the U.S. dollar.

We cannot assure you that a later change in law will not alter significantly the tax considerations that we describe in this summary.

If a partnership holds our shares or ADSs, the tax treatment of a partner will generally depend upon the status of the partner and the activities of the partnership. If you are a partner of a partnership holding our shares or ADSs, you should consult your tax advisor.

You should consult your own tax advisor concerning the particular U.S. federal income tax consequences to you of the ownership and disposition of the shares or ADSs, as well as the consequences to you arising under the laws of any other taxing jurisdiction.

In general, for U.S. federal income tax purposes, a U.S. holder who is the beneficial owner of an ADS will be treated as the owner of the shares underlying such ADS. Deposits or withdrawals of shares, actually or constructively, by U.S. holders for ADSs will not be subject to U.S. federal income tax.

The U.S. Treasury has expressed concerns that intermediaries in the chain of ownership between the holder of an ADS and the issuer of the security underlying the ADS may be taking actions that are inconsistent with the claiming of foreign tax credits by U.S. holders of ADSs. Such actions would also be inconsistent with the claiming of the reduced rate of tax, described in Taxation of Dividends below, applicable to dividends received by certain non-corporate holders. Accordingly, the analysis of the credibility of Republic of China taxes and the availability of the reduced tax rate for dividends received by certain non-corporate holders, each described in Taxation of Dividends below, could be affected by actions taken by intermediaries in the chain of ownership between the holder of the ADS and the issuer of the security underlying the ADS.

Taxation of Dividends

The gross amount of distributions (other than certain pro rata distributions of shares to all stockholders) you receive on your shares or ADSs, including net amounts withheld in respect of Republic of China withholding taxes, will generally be treated as dividend income to you to the extent the distributions are made from our current and accumulated earnings and profits as calculated according to U.S. federal income tax principles. These amounts (including withheld taxes) will be includible in your gross income as ordinary income on the day you actually or constructively receive the distributions, which in the case of an ADS will be the date received by the depositary. You will not be entitled to claim a dividends received deduction allowed to corporations under the Code with respect to distributions you receive from us.

With respect to U.S. holders who are individuals, certain dividends received from a foreign corporation in taxable years beginning before January 1, 2011, on shares (or ADSs backed by such shares) that are readily tradable on an established securities market in the United States may be subject to reduced rates of taxation, provided further that the foreign corporation was not, in the year prior to the year in which the dividends are paid, and is not, in the year in which the dividends are paid, a passive foreign investment company (see Passive Foreign Investment Company below). Under current U.S. Treasury Department guidance, our ADSs, which are listed on the New York Stock Exchange, but not our shares, are treated as readily tradable on an established securities market in the United States. Thus, we do not believe that dividends that we pay on our shares that are not backed by ADSs currently meet the conditions required for these reduced tax rates. There can be no assurance that our ADSs will continue to be readily tradable on an established securities market in later years (or that our shares will be readily tradable on an established securities market in any given year). Individuals that do not meet a minimum holding period requirement during which they are not protected from the risk of loss, or that elect to treat the dividend income as investment income pursuant to Section 163(d)(4) of the Code, will not be eligible for the reduced rates of taxation regardless of the trading status of our shares or ADSs. In addition, the rate reduction will not apply to dividends if the recipient of a dividend is obligated to make related payments with respect to positions in substantially similar or related property. This disallowance applies even if the minimum holding period has been met. You should consult your own tax advisor regarding the application of these rules given your particular circumstances.

The amount of any dividend paid in NT dollars will equal the U.S. dollar value of the NT dollars you receive, calculated by reference to the exchange rate in effect on the date you actually or constructively receive the dividend, which in the case of an ADS will be the date received by the depositary, regardless of whether the NT dollars are actually converted into U.S. dollars. If the NT dollars received as a dividend are not converted into U.S. dollars on the date of receipt, you will have a basis in the NT dollars equal to their U.S. dollar value on the date of receipt. Any gain or loss you realize if you subsequently sell or otherwise dispose of the NT dollars will be ordinary income or loss from sources within the United States for foreign tax credit limitation purposes.

Subject to certain conditions and limitations under the Code, you may be entitled to a credit or deduction against your U.S. federal income taxes for the net amount of any Republic of China taxes that are withheld from dividend distributions made to you. In determining the amounts withheld in respect of Republic of China taxes, any reduction of the amount withheld on account of a Republic of China credit in respect of the 10% retained earnings tax imposed on us is not considered a withholding tax and will not be treated as distributed to you or creditable by you against your U.S. federal income tax. The limitation on foreign taxes eligible for credit is calculated separately with respect to specific classes of income. For purposes of calculating the foreign tax credit, dividends we pay with respect to shares or ADSs will generally be considered passive category income from sources outside the United States. Further, a U.S. holder that

- has held shares or ADSs for less than a specified minimum period during which it is not protected from risk of loss, or

- is obligated to make payments related to the dividends,

may not be allowed a foreign tax credit for foreign taxes imposed on dividends paid on shares or ADSs. The rules governing the foreign tax credit are complex. We therefore urge you to consult your tax advisor regarding the availability of the foreign tax credit under your particular circumstances.

To the extent that the amount of any distribution you receive exceeds our current and accumulated earnings and profits for a taxable year, as determined under U.S. federal income tax principles, the distribution will first be treated as a tax-free return of capital, causing a reduction in your adjusted basis in the shares or ADSs and thereby increasing the amount of gain, or decreasing the amount of loss, you will recognize on a subsequent disposition of the shares or ADSs. The balance in excess of adjusted basis, if any, will be taxable to you as capital gain recognized on a sale or exchange. However, we do not expect to keep earnings and profits in accordance with U.S. federal income tax principles. Therefore, you should expect that a distribution will generally be treated as a dividend.

It is possible that pro rata distributions of shares or ADSs to all stockholders may be made in a manner that is not subject to U.S. federal income tax. The basis of any new shares or ADSs so received will generally be determined by allocating your basis in the old shares or ADSs between the old shares or ADSs and the new shares or ADSs, based on their relative fair market values on the date of distribution.

For U.S. tax purposes, any such tax-free share distribution and any distributions in excess of current and accumulated earnings and profits generally would not result in foreign source income to you. Consequently, you may not be able to use the foreign tax credit associated with any Republic of China withholding tax imposed on such distributions unless you can use the credit (subject to applicable limitations) against U.S. federal income tax due on other foreign source income in the appropriate category for foreign tax credit purposes.

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Taxation of Capital Gains

When you sell or otherwise dispose of your shares or ADSs, you will generally recognize capital gain or loss in an amount equal to the difference between the U.S. dollar value of the amount realized for the shares or ADSs and your basis in the shares or ADSs, determined in U.S. dollars. For foreign tax credit limitation purposes, such gain or loss will generally be treated as U.S. source gain or loss. If you are an individual and have held the shares or ADSs being sold or otherwise disposed for more than one year, your gain recognized will be eligible for reduced rates of taxation. Your ability to deduct capital losses is subject to limitations.

Any Republic of China securities transaction taxes that you pay generally will not be creditable foreign taxes for U.S. federal income tax purposes, but you may be able to deduct such taxes, subject to certain limitations under the Code. You are urged to consult your tax advisors regarding the U.S. federal income tax consequences of these taxes.

Passive Foreign Investment Company

We believe that we were not a passive foreign investment company, or PFIC, for U.S. federal income tax purposes for our taxable year ending on December 31, 2009, and we do not expect to become one for our current taxable year or in the future, although there can be no assurance in this regard. If we were treated as a PFIC for any taxable year during which you held our shares or ADSs, you could be subject to additional U.S. federal income taxes on gain recognized with respect to the shares or ADSs and on certain distributions, plus an interest charge on certain taxes treated as having been deferred under the PFIC rules.

Non-corporate U.S. holders will not be eligible for reduced rates of taxation on any dividends received from us in taxable years beginning before January 1, 2011, if we are a PFIC in the taxable year in which such dividends are paid or in the preceding taxable year.

Information Reporting and Backup Withholding

In general, information reporting will apply to dividends in respect of our shares or ADSs and the proceeds from the sale, exchange or redemption of our shares or ADSs that are paid to you within the United States (and in certain cases, outside the United States), unless you are an exempt recipient such as a corporation. A backup withholding tax may apply to such payments if you fail to provide a taxpayer identification number or certification of other exempt status or fail to report in full dividend and interest income.

Any amounts withheld under the backup withholding rules will be allowed as a refund or a credit against your U.S. federal income tax liability provided the required information is furnished to the Internal Revenue Service.

F. Dividends and Paying Agents

Not applicable.

G. Statement by Experts

Not applicable.

H. Documents on Display

We have filed this annual report on Form 20-F, including exhibits, with the SEC. As allowed by the SEC, in Item 19 of this annual report, we incorporate by reference certain information we filed with the SEC. This means that we can disclose important information to you by referring you to another document filed separately with the SEC. The information incorporated by reference is considered to be part of this annual report.

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You may read and copy this annual report, including the exhibits incorporated by reference in this annual report, at the SEC s Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549 and at the SEC s regional offices in New York, New York and Chicago, Illinois. You can also request copies of this annual report, including the exhibits incorporated by reference in this annual report, upon payment of a duplicating fee, by writing information on the operation of the SEC s Public Reference Room.

The SEC also maintains a website at www.sec.gov that contains reports, proxy statements and other information regarding registrants that file electronically with the SEC. Our annual report and some of the other information submitted by us to the SEC may be accessed through this web site.

I. Subsidiary Information

Not applicable.

ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk is the risk of loss related to adverse changes in market prices, including interest rates and foreign exchange rates, of financial instruments. In the normal course of business, we are routinely subject to a variety of risks, including market risk associated with interest rate movements, currency rate movements on non-NT dollar denominated assets and liabilities and equity price movements on our portfolio of equity securities.

We regularly assess these financial instruments and their ability to address market risk and have established policies and business practices to protect against the adverse effects of these and other potential exposures.

Interest Rate Risk

We do not expect interest rate risk to have a material impact on our financial condition and results of operations. As of December 31, 2009, our subsidiaries had the following loans: (i) Light Era Development Co., Ltd., has a short-term loan in the amount of NT$488 million (US$15.3 million), which has an interest rate of 0.81% and is due in 2010, (ii) Spring House Entertainment Inc. has a secured loan of NT$10.5 million (US$0.3 million) with an interest rate of 1.0% and (iii) Chief Telecom has short-term unsecured loans in the amount of NT$235 million (US$7.4 million), which have interest rates at 1.15% and are due in 2010, and long-term unsecured loans in the amount of NT$310 million (US$9.7 million), which have interest rates ranging from 2.01% to 2.04% and are due in 2012.

Assuming an increase or decrease of 1% in the interest rates of our non-fixed interest rate loans, our interest payments in 2009 would have increased or decreased by NT$10.4 million (US$0.3 million). We have not used any derivative financial instruments to hedge interest rate risk. We have not been exposed nor do we anticipate being exposed to material risks due to changes in interest rates. We anticipate that our cash, cash equivalents and cashflow from operations will be sufficient to fund our working capital needs and capital expenditure plans for the foreseeable future. As of December 31, 2009, our cash and cash equivalents amounted to NT$73.3 billion (US$2.3 billion). The risk associated with fluctuating interest rates is principally confined to our cash deposits in banks, which is one of the many ways we manage our capital, and interest income accounts for only a very small percentage of our total revenue. Therefore, we believe our exposure to interest rate risk is immaterial.

Foreign Currency Risk

We are exposed to foreign currency risk as a result of (i) our foreign currency and derivative trading activities; (ii) our telecommunications equipment being sourced from overseas suppliers; (iii) our international settlement payments associated with our services for international calls and roaming traffic; and (iv) mutual funds denominated in foreign currencies.

Specifically, our foreign currency exposure relates primarily to our foreign currency derivative trading activities, purchase agreements denominated in foreign currencies, settlement of roaming and international traffic

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contracts in foreign currencies, and to a limited extent, cash and cash equivalents denominated in foreign currencies. We entered into currency swap contracts and forward exchange contracts to reduce our exposure to foreign currency risk due to fluctuations in exchange rates. Outstanding currency swap contracts on December 31, 2009 were as follows:

FX instrument	Currencies involved	Contract Amount
Currency swap contracts	US$/NT$	US$45,000,000
Forward exchange contracts Buy	NT$/US$	NT$86,657,000

September 2007 U.S. Dollar Derivative Contract

In September 2007, we entered into a foreign currency derivative contract with Goldman Sachs for the purchase of U.S. dollars every two weeks over a ten year period. The following table below provides information about this derivative.

Term of Contract	10 Years with settlement occurring every two weeks
Trading terms for each settlement date	If NT$/US$ ³ 31.50, we buy US$2.0 million at NT$30.00 per US$1.00 at each settlement date; or if NT$/US$ < 31.50, we buy US$4.0 million at NT$31.50 per US$1.00 at each settlement date. 260 total settlements, with first settlement on October 4, 2007.
Cancellation event (or knock-out event)	Starting from and including December 12, 2007, if the spot exchange rate of NT dollars against U.S. dollars ever trades at or above NT$32.70 per US$1.00, the knock-out event occurs and all remaining settlements for the remainder of the contract will be cancelled.
Collateral deposit	We deposit US$3.0 million with Goldman Sachs as principal, with Goldman Sachs offering an annual interest rate of 8% on this deposit.

From September 20, 2007, the date the foreign currency derivative contract was executed, to October 21, 2008, the date the derivative contract was automatically terminated under the knock-out clause, the total accumulated cash inflow was NT$30.1 million, of which NT$21.7 million was from our settlement terms and the remainder was from interest on our US$3.0 million deposit.

Net gain arising from all of our foreign currency trading hedging and derivative financial instruments for the year ended December 31, 2008 was NT$459.7 million, including realized settlement losses of NT$70.9 million and valuation gain of NT$530.6 million.

Net gain arising from all of our foreign currency trading, hedging and derivative financial instruments for the year ended December 31, 2009 was NT$63.4 million (US$2.0 million), including realized settlement losses of NT$62.9 million (US$2.0 million) and valuation gain of NT$126.3 million (US$4.0 million).

Equity Price Risk

We are exposed to equity risk as a result of the equities we hold. We entered into an investment mandate agreement with a global asset management company to manage a global portfolio of US$100 million in October 2006. In accordance with the investment guidelines and terms specified in this agreement, this mandate portfolio includes securities such as open-end bond mutual funds, global listed stocks and others. Its objective is to achieve absolute return while managing risk from a long-term perspective, and its benchmark is the three-month LIBOR rate plus 2% per annum. This investment mandate agreement was officially terminated in April 14, 2009. The accumulative return, calculated in U.S. dollars, during the term of this mandate portfolio was approximately 6.03%.

We are also exposed to equity price risk as a result of our available-for-sale equity securities, including our direct investments in other Taiwan-based companies and indirect purchases of publicly-traded equities through our participation in various investment funds. Our equity investments portfolio includes publicly-traded equities, NT dollar- and foreign currency-denominated mutual funds, exchange-traded funds, or ETFs, and real estate investment funds, or REITs, and we manage our equity investment portfolio in accordance with our internal regulations. The total value of our equity portfolio, excluding NT dollar-denominated quasi money market funds, amounted to NT$6.95 billion (US$0.2 billion) as of December 31, 2009, which is approximately 17.4% less than the total value of our equity portfolio as of December 31, 2008. This decline is mainly due to the net selling-down of our portfolio, partially offset by the increase in equity prices over 2009, and consolidation of available-for-sale equity securities (excluding NT dollar-denominated quasi money market funds) with CHI from 2009. In 2009, we recognized a net unrealized loss of NT$456.71 million (US$14.3 million) on our equity portfolio, which is approximately 78.2% less than that on our equity portfolio in 2008. This is mainly due to net selling-down of our portfolio, and the increase in equity price over 2009. For the year ended December 31, 2009, pursuant to R.O.C. and U.S. accounting regulations, we have recognized an impairment charge of NT$85.35 million (US$2.7 million) to our equity portfolio due to other than temporary impairment losses resulting from continuing adverse global financial and economic conditions during the first quarter of 2009. The value of our equity holdings fluctuates depending on the market conditions. However, we do not expect the gains and losses in the values of the equities that we hold to have a material impact on our financial condition and results of operations.

ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

A. Debt Securities

Not applicable

B. Warrants and Rights

Not applicable

C. Other Securities

Not applicable

D. American Depositary Shares

Depositary Fees

Under the terms of the deposit agreement for our ADSs, an ADS holder may have to pay the following service fees to the depositary:

Service	Fees
Issuance of ADSs	Up to US$0.05 per ADS issued
Cancellation of ADSs	Up to US$0.05 per ADS cancelled
Distribution of cash dividends or other cash distributions	Up to US$0.02 per ADS held
Distribution of ADSs pursuant to stock dividends, free stock distributions or exercises of rights.	Up to US$0.05 per ADS held
Distribution of securities other than ADSs or rights to purchase additional ADSs	Up to US$0.05 per ADS held

Depositary Charges

In addition, an ADS holder shall be responsible for the following charges:

taxes (including applicable interest and penalties) and other governmental charges;

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such registration fees as may from time to time be in effect for the registration of common shares or other deposited securities on the share register and applicable to transfers of common shares or other deposited securities to or from the name of the custodian, the depositary or any nominees upon the making of deposits and withdrawals, respectively;

such cable, telex and facsimile transmission and delivery expenses as are expressly provided in the deposit agreement to be at the expense of ADS holders and beneficial owners of ADSs;

the expenses and charges incurred by the depositary in the conversion of foreign currency; and

the fees and expenses incurred by the depositary, the custodian or any nominee in connection with the servicing or delivery of deposited securities.

Depositary fees payable upon the issuance and cancellation of ADSs are typically paid to the depositary by the brokers (on behalf of their clients) receiving the newly-issued ADSs from the depositary and by the brokers (on behalf of their clients) delivering the ADSs to the depositary for cancellation. The brokers in turn charge these transaction fees to their clients.

Depositary fees payable in connection with distributions of cash or securities to ADS holders and the depositary services fee are charged by the depositary to the holders of record of ADSs as of the applicable ADS record date. The depositary fees payable for cash distributions are generally deducted from the cash being distributed. In the case of distributions other than cash (i.e., stock dividends, rights offerings), the depositary charges the applicable fee to the ADS record date holders concurrent with the distribution. In the case of ADSs registered in the name of the investor (whether certificated or un-certificated in direct registration), the depositary sends invoices to the applicable record date ADS holders. In the case of ADSs held in brokerage and custodian accounts via the central clearing and settlement system, The Depository Trust Company, or DTC, the depositary generally collects its fees through the systems provided by DTC (whose nominee is the registered holder of the ADSs held in DTC) from the brokers and custodians holding ADSs in their DTC accounts. The brokers and custodians who hold their clients ADSs in DTC accounts in turn charge their clients accounts the amount of the fees paid to the depositary.

In the event of refusal to pay the depositary fees, the depositary may, under the terms of the deposit agreement, refuse the requested service until payment is received or may set off the amount of the depositary fees from any distribution to be made to the ADS holder.

The fees and charges ADS holders may be required to pay may vary over time and may be changed by us and by the depositary. ADS holders will receive prior notice of such changes.

Payments by Depositary

In 2009, we received the following payments from JPMorgan Chase Bank, N.A., the Depositary Bank for our ADR program:

Item	**US$ (in thousands)**
Reimbursement of investor relations efforts	783.9
Reimbursement of legal fees	309.9
Reimbursement of NYSE listing fees	183.7
Reimbursement of proxy process expenses	93.2
Reimbursement of SEC filing fees	24.4
Reimbursement of Sarbanes-Oxley and accounting related expenses in connection with ongoing SEC compliance and listing requirements	8,144.7
Reimbursement of other ADR program-related expenses	484.9
Total	10,024.7

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PART II

ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

None.

ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

None.

ITEM 15. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

As of the end of the period covered by this annual report, an evaluation has been carried out under the supervision and with the participation of our management, including our chief executive officer and our chief financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures, as such term is defined under Rules 13a-14(c) and 15d-14(c) promulgated under the Securities Exchange Act of 1934, as amended. Based on that evaluation, our chief executive officer and chief financial officer have concluded that our disclosure controls and procedures are effective in ensuring that material information required to be disclosed in this annual report is recorded, processed, summarized and reported to them for assessment, and required disclosure is made within the time period specified in the rules and forms of the Securities and Exchange Commission.

Management s Annual Report on Internal Control Over Financial Reporting.

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13a-15(f) under the Securities Exchange Act of 1934, as amended, for our company. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements in accordance with generally accepted accounting principles and includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of a company s assets, (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of consolidated financial statements in accordance with generally accepted accounting principles, and that a company s receipts and expenditures are being made only in accordance with authorizations of a company s management and directors, and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of a company s assets that could have a material effect on the consolidated financial statements.

Because of its inherent limitations, a system of internal control over financial reporting can provide only reasonable assurance with respect to consolidated financial statement preparation and presentation and may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As required by Section 404 of the Sarbanes-Oxley Act of 2002 and related rules as promulgated by the Securities and Exchange Commission, management assessed the effectiveness of our internal control over financial reporting as of December 31, 2009 using criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Based on this assessment, management concluded that our internal control over financial reporting was effective as of December 31, 2009 based on the criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

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The effectiveness of our internal control over financial reporting has been audited by Deloitte & Touche, an independent registered public accounting firm, who has also audited our consolidated financial statements for the year ended December 31, 2009. Deloitte & Touche has issued an attestation report on the effectiveness of our internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board (United States).

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Attestation Report of the Registered Public Accounting Firm

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders

Chunghwa Telecom Co., Ltd.

We have audited the internal control over financial reporting of Chunghwa Telecom Co., Ltd. and subsidiaries (the Company) as of December 31, 2009, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management s Annual Report on Internal Control over Financial Reporting . Our responsibility is to express an opinion on the Company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed by, or under the supervision of, the company s principal executive and principal financial officers, or persons performing similar functions, and effected by the company s board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2009, based on the criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with auditing standards generally accepted in the Republic of China and the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended December 31, 2009 of the Company and our report dated March 10, 2010 expressed an unqualified opinion on those financial statements and included explanatory paragraphs regarding i) the Company s early adoption of the new Statement of Financial Accounting Standards No. 41, Operating

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Segments (SFAS No. 41) beginning from September 1, 2009, ii) the reconciliation to accounting principles generally accepted in the United States of America (US GAAP) and iii) the convenience translation of New Taiwan dollar amounts into U.S. dollar amounts.

/s/ DELOITTE & TOUCHE
Deloitte & Touche
Taipei, Taiwan
The Republic of China

March 10, 2010

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during the year ended December 31, 2009 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT

Jing-Twen Chen is our audit committee financial expert and independent director. See Item 6. Directors, Senior Management and Employees C. Board Practices.

ITEM 16B. CODE OF ETHICS

We have adopted a code of ethics that applies to our directors, supervisors, employees and officers, including our chief executive officer and chief financial officer. We did not make any amendments to our code of ethics in 2008. We have posted a copy of our code of ethics on our investor relations website at http://www.cht.com.tw/CHTFinalE/Web/AboutUS.php?CatID=911.

ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The following table sets forth the aggregate fees by categories specified below in connection with certain professional services rendered by Deloitte & Touche, our principal accountant for the years indicated. We did not pay any other fees to Deloitte & Touche during the periods indicated below.