CHUNGHWA TELECOM CO LTD
Form 20-F
April 22, 2009
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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, 2008

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

178,056,795 American Depositary Shares

2 Preferred 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 x 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

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CHUNGHWA TELECOM CO., LTD.

FORM 20-F ANNUAL REPORT

FISCAL YEAR ENDED DECEMBER 31, 2008

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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.

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

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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, 2006, 2007 and 2008, and the selected balance sheet data as of December 31, 2007 and 2008 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, 2004 and 2005, and the selected balance sheet data as of December 31, 2004, 2005 and 2006 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.

	Years Ended December 31,					
	2004(1)	**2005(1)**	**2006(1)**	**2007(1)**	**2008**	
	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	182.6	183.4	184.5	197.4	201.7	6.2
Operating costs(2)	(92.0)	(92.9)	(93.8)	(106.6)	(113.5)	(3.5)
Gross profit	90.6	90.5	90.7	90.8	88.2	2.7
Operating expenses(2)	(30.4)	(31.4)	(34.4)	(30.4)	(29.6)	(0.9)
Income from operations	60.2	59.1	56.3	60.4	58.6	1.8
Non-operating income and gains(3)	1.1	1.9	1.8	2.4	3.4	0.1
Non-operating expenses and loses(3)	(0.5)	(1.4)	(0.4)	(1.0)	(2.3)	(0.1)
Income before income tax	60.8	59.6	57.7	61.8	59.7	1.8
Income tax expense	(10.9)	(11.9)	(12.8)	(13.1)	(13.9)	(0.4)
Consolidated net income	49.9	47.7	44.9	48.7	45.8	1.4
Attributed to:						
Stockholders of the parent	49.9	47.7	44.9	48.2	45.0	1.4

Minority interest	0.5	0.8

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	Years Ended December 31,					
	2004[1]	2005[1]	2006	2007	2008	
	NT$	NT$	NT$	NT$	NT$	US$
	(in billions, except for percentages and per share and per pro forma ADS data)					
Earnings per share:						
Basic	4.99	4.77	4.56	4.94	4.64	0.14
Diluted				4.93	4.63	0.14
Earnings per ADS equivalent:						
Basic	49.87	47.66	45.61	49.35	46.42	1.42
Diluted				49.35	46.31	1.41
US GAAP						
Net revenues	185.2	184.7	186.3	200.9	204.4	6.2
Operating costs and expenses	(123.7)	(139.6)	(130.0)	(138.1)	(147.1)	(4.5)
Income from operations	61.50	45.1	56.3	62.8	57.3	1.7
Non-operating income, net	0.7	0.9	1.1	1.5	1.4	
Income before income tax and minority interest	62.2	46.0	57.4	64.3	58.7	1.7
Income tax expense	(11.3)	(12.7)	(15.3)	(14.5)	(14.5)	(0.4)
Income before minority interest	50.9	33.3	42.1	49.8	44.2	1.3
Minority interest				(0.3)	(0.5)	0.0
Net income	50.9	33.3	42.1	49.5	43.7	1.3
Earnings per share:						
Basic	5.03	3.29	4.30	5.08	4.52	0.14
Diluted				5.08	4.51	0.14
Earnings per ADS equivalent:						
Basic	50.31	32.90	43.01	50.81	45.19	1.38
Diluted				50.80	45.09	1.38
Balance Sheet Data:						
ROC GAAP						
Working capital	(32.7)	36.2	47.8	60.6	48.3	1.5
Long-term investments	6.0	5.9	5.7	5.6	8.9	0.3
Properties	379.5	360.9	343.5	330.8	323.0	9.9
Goodwill			0.1	0.2	0.2	0.0
Total assets	467.1	458.9	461.4	469.6	463.6	14.2
Long-term loans	0.5	0.3				
Deferred income	0.4	0.3	1.0	1.5	2.1	0.1
Other liabilities	6.4	7.6	8.5	11.0	11.8	0.4
Total liabilities	108.0	52.0	61.3	71.8	83.9	2.6
Capital stock	96.5	96.5	96.7	96.7	97.0	3.0
Cash dividend on common shares	43.4	45.3	40.7	34.6	40.7	1.2
Stockholders equity attributable to common stockholder of the parent	359.1	406.9	400.0	395.0	376.6	11.5
Minority interest			0.1	2.8	3.1	0.1
US GAAP						
Total assets[4]	438.4	395.2	398.8	406.2	400.7	12.2
Total liabilities[4]	119.7	67.4	78.6	85.7	94.8	2.9
Minority interest			0.1	2.7	3.1	0.1
Capital stock	96.5	96.5	96.7	96.7	97.0	3.0
Stockholders equity[4]	318.7	327.8	320.1	317.8	302.8	9.2

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	Years Ended December 31,					
	2004[1]	2005[1]	2006	2007	2008	
	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	93.3	87.4	100.7	89.0	91.9	2.8
Cash used in investing activities	(31.7)	(28.3)	(18.8)	(38.6)	(34.5)	(1.0)
Cash used in financing activities	(45.9)	(46.6)	(52.9)	(44.3)	(52.3)	(1.6)
Net cash inflow	15.7	12.6	28.8	5.6	5.1	0.2
Other Financial Data:						
ROC GAAP						
Gross margin[5]	50%	49%	49%	46%	44%	44%
Operating margin[6]	33%	32%	31%	31%	29%	29%
Net margin[7]	27%	26%	24%	24%	22%	22%
Capital expenditures	22.9	22.9	27.7	25.1	30.1	0.9
Depreciation and amortization	41.1	41.6	41.0	39.8	38.2	1.2
Cash dividends declared per share	4.70(8)	4.30(8)	3.58(8)	4.26(8)	(9)	(9)
Stock dividends declared per share		0.20	1.00	2.10	(9)	(9)

(1) Certain accounts in the financial statements as of and for the years ended December 31, 2004, 2005, 2006 and 2007 have been reclassified to conform to the financial statements as of and for the year ended December 31, 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$1,318 million (US$40.2 million) in operating costs and expenses.

(3) Includes interest income of NT$224 million, NT$452 million, NT$804 million, NT$1,453 million and NT$1,916 million (US$58 million) for the years ended December 31, 2004, 2005, 2006, 2007 and 2008 respectively, and interest expense of NT$5 million, NT$2 million, NT$6 million, NT$15 million and NT$4 million for the years ended December 31, 2004, 2005, 2006, 2007 and 2008 respectively.

(4) As of December 31, 2006, we adopted SFAS 158 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.

(5) Represents gross profits divided by net revenues.

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

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

(8) Dividends for 2004, 2005, 2006 and 2007 in U.S. dollars were US$0.15, US$0.13, US$0.11 and US$0.13, respectively.

(9) Dividends for 2008 are expected to be declared at our 2009 annual general stockholders meeting scheduled for June 2009.

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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$32.76 = 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, 2008. 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
2004	33.37	34.16	31.74	31.74
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
October	32.70	33.50	32.14	32.97
November	33.10	33.42	32.77	33.29
December	33.16	33.58	32.45	32.76
2009 (through April 17)	34.10	35.21	32.82	33.81
January	33.37	33.70	32.82	33.70
February	34.24	35.00	33.61	35.00
March	34.30	35.21	33.75	33.87
April (through 17)	33.60	33.88	33.05	33.81

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 significant 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 significant 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 significantly 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 significant slowdown in the market demand for

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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 significantly.

We were privatized in August 2005, so we have a limited history of operations as a non-state-owned enterprise. We may not enjoy the benefits of privatization as quickly as we anticipate or at the level that we expect.

Before we were privatized in August 2005, our business and operations were subject to extensive regulation under Republic of China laws, rules and regulations applicable to state-owned enterprises. As a result, we only have a limited history of operations as a non-state-owned enterprise. We cannot assure you that we will be successful in achieving the benefits we expect from our privatization, such as increased management flexibility in implementing measures to improve our cost structure, efficient operations of our business and expansion into new businesses, in a timely manner or at all. Factors that may cause the actual benefits we may enjoy from privatization to deviate from our expectations include:

- adverse developments in our relations with our labor union that affect our costs, including with respect to compensation and other benefits, and efficient management of our workforce;

- increased costs with respect to our plans to incentivize employees through contributions to employee child education funds, performance-based cash bonuses and company-subsidized purchases by employees of our common shares;

- changes in regulations affecting us following our privatization; and

- the speed with which we are able to implement more efficient procurement and other management systems and the resulting levels of cost savings.

The licenses granted by the ROC government authorities for operating 2G cellular 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 cellular 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 cellular 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 cellular 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 cellular services after 2013. Along with the other two 2G mobile network operators in Taiwan, we have expressed our desire to continue operations of 2G cellular services in Taiwan and have asked the government regulators to extend the licenses. We anticipate the government will announce its plans for 2G cellular services at the end of 2009. While we believe that the government will continue to allow operations of 2G cellular services and promulgate a framework for renewing the licenses, we cannot assure you of the ultimate outcome. If we cannot continue 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.

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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 line and cellular 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.

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 December 12, 2006 that resulted in a number of price reductions in the tariff structures relating to our local telephone, cellular and ADSL services from 2007 through 2009. The National Communications Commission is currently reviewing the results of this price reduction plan and has set price control as an item on its administrative agenda for the coming year. While no details of the next price reduction plan have been released, further price reductions are expected. 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 materially and 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, cellular, 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. We have been granted 070 VoIP phone numbers from the National Communications Commission. However, we currently do not have any plans to commence 070 VoIP number service because the National Communications Commission has not given us the right to set the tariff for outbound calls from 070 numbers.

We also face increased competition due to local loop unbundling, which is the regulatory process of allowing other telecommunications operators to use the local loops or last mile connections owned by us. 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. We first entered into agreements regarding local loop unbundling of voice with Sparq in March 2004 and with Taiwan Fixed Network and Asia Pacific Broadband Telecom in May 2004. We subsequently entered into an agreement for full local loop unbundling of both voice and data with Sparq in July 2005. In January 2007, the National Communications Commission requested each dominant integrated services operator, including us, to reserve 15% of its local loop for leasing to other service operators unless the then remaining available local loop of the operator not leased out is less than 15%, in which case the operator should reserve such remaining loop. In addition, the National Communications Commission had defined local loop facilities as the bottleneck of the telecommunications network and 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 and the rental tariff must be approved by the National Communications Commission each year. The National Communications Commission approved telecommunications operators to charge NT$140 for local loop monthly rental starting from November 1, 2007. However, our proposed monthly rental submitted in July 2008 has not been approved.

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.

In addition, the focus of competition among cellular service providers in Taiwan has been shifting, as companies that traditionally offered second generation, or 2G, services, such as us, began offering third generation, or 3G, services, and as new 3G service providers started to enter the market. As a result, we expect competition in 3G services to continue to intensify. 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 materially and 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, cellular 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. 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 2008, we made capital expenditures in relation to our network infrastructure and information technology systems of NT$30.1 billion (US$0.9 billion). Of this amount, we made capital expenditures of NT$22.4 billion (US$0.7 billion) in wireline, which includes those for fixed line and Internet and data services, equipment, NT$5.2 billion (US$0.2 billion) in wireless equipment for cellular service, and NT$2.5 billion (US$0.1 billion) in other areas. 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 cellular 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 2008, we recognized an other-than-temporary impairment loss of NT$1,139 million (US$34.8 million) for available-for-sale financial assets, NT$25 million (US$0.8 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 line and cellular telecommunications 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, on December 26, 2006, a 6.9 magnitude earthquake in the southern seas of Taiwan caused significant damage to the undersea cable networks that connect Taiwan to the United States, Japan, Hong Kong, China and other countries in South East Asia. The earthquake resulted in major outages in telephone and Internet services throughout the region. It required one week to restore 90% of the capacity, and repairs were not completed until February 2, 2007, when all four affected undersea cables finally returned to normal operations. As a result of the December 2006 earthquake, we suffered repair costs of approximately NT$10 million. 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

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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, 2009, 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.

In addition, pursuant to the Telecommunications Act and our articles of incorporation, our board of directors approved the issuance of two preferred shares on March 28, 2006 to the Ministry of Transportation and Communications. As the holder of these preferred shares, the Ministry of Transportation and Communications has the right to veto any change in our name or our business and any transfer of the all or a substantial portion of our business or property and to act as a director and supervisor on the basis of its preferred shareholding. Under our articles of incorporation, these preferred shares are non-transferable and will be redeemed by us three years from their date of issuance at their par value. These preferred shares expired on April 4, 2009 and were redeemed on April 6, 2009. However, according to the Fixed Network Regulations, we are still required to submit a report to the National Communications Commission within 15 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

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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 cellular phones and base stations could lead to decreased cellular telephone usage and difficulties in increasing network coverage and could expose us to potential liability.

According to some published reports, the electromagnetic signals from cellular phones 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 cellular telecommunications devices or of base stations could have a material adverse effect on cellular service providers, including us. For example, our customer base could be reduced, our customers may reduce their usage of our cellular 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 cellular 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 cellular phones 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, 2008. 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).

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.

Our investments in real estate projects may not be profitable and will subject us to additional risks not related to our core businesses.

Our properties consist primarily of land, land improvements and buildings located throughout Taiwan. In early 2008, we established Light Era Development Co., Ltd. for the purpose of developing our real estate properties to increase their value. In March and April 2008, we started the process of transferring six properties to Light Era Development Co., Ltd. Currently, three of these properties are in development. We have no prior experience operating real estate development projects and cannot assure you that our investments will achieve their expected results. Operating or investing in real estate projects involves numerous risks for which we may not be adequately protected. Many of these risks are also beyond our control. For example, our projects may be delayed or never completed due to the failure of other parties with which we have contracted to fulfill their contractual obligations or because of unexpected problems that arise during the planning or construction phases of the projects. Any significant delay or any failure to complete our projects might result in our projects not achieving their expected return and could subject us to a loss on our investment. In addition, changes in the regulatory or economic environment relating to real estate, such as changes in interest rates affecting the financing of our projects, increases in the applicable property tax rates relating to our properties and decreases in demand for residential, commercial or resort properties, could materially and adversely affect the value of our properties and/or reduce or eliminate the profitability of our projects. If our revitalization projects do not achieve their expected results or subject us to a significant financial loss, this could have a material adverse effect on our financial condition and results of operations.

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 negatively affect the value of your investment.

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 or avian influenza, may disrupt our ability to adequately staff our business and may generally disrupt our operations. If any of our

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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 2008, the Taiwan Stock Exchange Index peaked at 9,295.2 on May 19, 2008, and reached a low of 4,089.93 on November 20, 2008. On April 21, 2009, the Taiwan Stock Exchange Index closed at 5,881.41. 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 21, 2009, foreign direct holdings of our outstanding share capital is at 37.38%. 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

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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 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.

Each year, we voluntarily publish operating results guidance for the current fiscal year prepared in accordance with R.O.C. GAAP. 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.

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:

- fixed line services, including local, domestic long distance and international long distance telephone services;
- cellular services; and
- Internet and data services, including HiNet, our Internet service provider, FTTx services, ADSL services and leased line services.

As our traditional fixed line business has matured and new technologies have become available, we have pursued new growth opportunities in the cellular and Internet and data 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 cellular services. We enjoy leading positions across a number of areas:

- we are Taiwan s largest provider of fixed line services in terms of both revenues and customers;
- we are Taiwan s largest cellular 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 2008, our revenues under R.O.C. GAAP were NT$201.7 billion (US$6.2 billion), our net income was NT$45.0 billion (US$1.4 billion) and our basic earnings per share was NT$4.64 (US$0.14).

In 2008, we made capital expenditures totaling NT$30.1 billion (US$0.9 billion), of which 75% was related to wireline equipment, 17% was related to cellular equipment and 8% was related to other items. 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 cellular and Internet and data 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. In addition, our responsiveness to market conditions has been enhanced by the shortening in May 2002 of the approval period for primary tariff adjustments and promotional packages from 40 to 14 days.

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.

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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 growing cellular and Internet and data services markets, including through our continued construction of a 3G cellular 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 line communications, cellular communications and Internet and data 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 line, cellular and data 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 local, domestic long distance and international long distance telephone services, wireless services and Internet and data services.

Broad range of communications products and services. We believe that our ability to provide an attractive and comprehensive range of telecommunications services uniquely 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, 2008, 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, 2008, network coverage of FTTx was approximately 58.0%. In addition, our cellular services network provides nationwide coverage. Our large cellular spectrum allocation together with our network of 15,155 base stations position us well for the continued expansion of our cellular 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, 320 service centers, 210 exclusive services stores and six integrated call 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 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 2007, we were also awarded the Excellence in Corporate Social Responsibility Award by the Common Wealth Magazine, the certification award by Corporate Governance Association in Taiwan and named 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 18 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 cellular and Internet services markets.

Established position in growing markets. Revenues from our cellular and Internet and data services have increased from 60.1% of revenues in 2004 to 60.7% in 2008. We expect our cellular and Internet and data 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 cellular 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 and expanded the coverage of our ADSL network. In 2008, we launched a long-term next generation network construction project that will upgrade the 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 and MOD services. 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, 2009, we employ over 1,150 research professionals and engineers whose principal focus is to develop advanced network services and operations support systems and to build selected core technologies. In 2008, 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 cellular and Internet and data 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.

Fixed line: Our strategy is to maintain our position as the market leader in fixed line communications. We will continue our promotion programs to retain our Public Switched Telephone Network, or PSTN, customers. In addition, we are working on the NGN projects to facilitate network migration. The IP Multimedia Subsystem, or IMS, forms a part of our NGN. The first stage of our IMS network was deployed in November 2007 and has been completed in March 2009. Multimedia value-added service over the NGN is scheduled to launch in the third quarter 2009. The continuous deployment of the IMS network to offer new IP services will be based on the market demand. To enhance business efficiency and reduce operational expenditures, we constructed a new Multi-Protocol Label Switching-, or MPLS-, based IP backbone to consolidate existing separated IP networks in September 2008. Furthermore, we will collaborate with the third parties to develop converged and blended services to retain our customers and generate new revenues.

Cellular: Our strategy for our existing 2G cellular 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, Java games, ring-back tone services and video streaming. Furthermore, we upgraded our 3G cellular 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 cellular 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 cellular phones, which enable our customers to enjoy the benefits of network coverage while retaining their GSM cellular phone 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 cellular 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 attractive value- added services and product packages;

- Converging fixed line and cellular services to provide customers with access to personalized information through personal computers or cellular phones;

- 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 3.6 Mbps and 7.2 Mbps to attract more 3.5G mobile Internet customers.

Internet and data: Our strategy for Internet and data services is to continue to build on the success of our HiNet Internet and broadband access services and enhance our Internet value-added 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 2008. We are the leading provider of broadband Internet access in Taiwan, with a significant market share as of December 31, 2008. We have successfully migrated many of our customers from low-speed to higher-speed Internet access services. Approximately 72.5% 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 4.3 Mbps for ADSL and FTTx and 2.4 Mbps for ADSL only as of December 31, 2008.

FTTx offers a faster access medium for our Internet and data 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 and data services, we plan to continue offering various incentives for our ADSL and other Internet customers to switch to our FTTx 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 MOD and hiChannel, an Internet platform where customers can view videos and multimedia content. We currently do not have any plans to launch 070 VoIP service because the National Communications Commission has not given us the right to set the tariffs for outbound calls from 070 numbers. Our subsidiary, Chief Telecom, plans to launch 070 phone-to-phone VoIP service in April 2009.

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 uniquely positioned to provide our customers with fully integrated solutions across fixed line, cellular and Internet platforms. Our Friends and Family service, which offers customers preferential rates, has attracted over 1.73 million cellular 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, 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, 2008, our Enterprise Business Group is staffed by approximately 242 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

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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 cellular 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 during 2005, 2006, 2007 and 2008, which resulted in reductions of 4,654 employees. We also hired more than 2,150 new employees after our privatization 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 480 information content providers, more than 145 customer premises equipment providers, more than four Internet service providers, more than two Internet portal operators and more than 20 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 cellular phone distributor, Senao, by way of a public tender offer and obtained majority board representation in April 2007, upon which it became a consolidated subsidiary of ours. Senao is the largest cellular phone distributor in Taiwan with a significant market share of the total market in Taiwan. Our acquisition of Senao has increased our competitiveness in the cellular 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 plan to invest approximately NT$1.4 billion in this entity.

After our privatization, we have focused our investment strategy on the development of new businesses and the enhancement of our operation efficiency. In February 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 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

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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.

B. Business Overview

Our Principal Lines of Business

The following table sets forth our revenues from our principal lines of business for the periods indicated.

	Year ended December 31,					
	2006* NT$		2007* NT$		2008* NT$	
	(in billions, except percentages)					
Fixed line:						
Local	37.4	20.2%	35.7	18.1%	34.6	17.1%
Domestic long distance	9.8	5.3	9.1	4.6	8.5	4.2
International long distance	14.0	7.6	14.3	7.2	14.0	7.0
Total fixed line	61.2	33.1	59.1	29.9	57.1	28.3
Cellular services	73.0	39.5	73.6	37.3	72.3	35.9
Internet and data:						
Internet	35.5	19.3	37.7	19.1	38.0	18.8
Data(1)	10.8	5.8	11.5	5.9	12.1	6.0
Total Internet and data	46.3	25.1	49.2	25.0	50.1	24.8
Cellular phone(3)			13.2	6.7	16.3	8.1
All others(1)(2)	4.0	2.3	2.3	1.1	5.9	2.9
Total revenues	184.5	100.0%	197.4	100.0%	201.7	100.0%

(1) Beginning in 2007, we no longer account for MOD revenues under our all others business segment and account for MOD revenues in data revenues under our Internet and data business segment. MOD revenues accounted for NT$0.2 billion, NT$0.4 billion and NT$0.6 billion in 2006, 2007 and 2008, respectively. In this table, MOD revenues were classified under our all others business segment in 2006 and our internet and data business segment in 2007 and 2008.

(2) Our all others business segment includes revenues from our other services, which includes (i) satellite services, (ii) telephone directories, (iii) corporate solution services and billing handling services, (iv) paging services, (v) the leasing of real estate owned by us to third parties, and (vi) other non-core value-added services.

(3) As a result of our acquisition and the obtaining of board control of Senao in 2007, we began accounting for the revenues from cellular phone sales of our consolidated subsidiary, Senao, under our cellular phone business segment beginning April 12, 2007.

(*) In order to strengthen internal management, starting from 2008, we allocated some of our costs from non-regulated services directly to other segments instead of using internal transfer pricing. The effect of the change of measurement method caused intersegment service revenues of local services and our all others business segment to decrease by approximately $8.7 billion and $4.4 billion, respectively. There was no impact on the intersegment service of domestic long distance, international long distance, cellular, and Internet and data services due to the change of measurement method. The effect of the change of measurement method caused segment income before income tax of local services and our all others business segment to decrease by approximately $0.7 billion and $0.5 billion, respectively, and that of domestic long distance, international long distance, cellular and Internet and data services to increase by approximately $0.2

billion, \$0.1 billion, \$0.6 billion and \$0.3 billion, respectively. The segment disclosure of 2006 and 2007 was changed to conform to the segment disclosure of 2008.

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Fixed Line

The provision of fixed line services is one of our principal business activities. We are the largest provider of local, domestic long distance and international long distance telephone services in Taiwan. We also provide interconnection with our fixed line network to other cellular and fixed line operators. Since June 2001, three new operators have begun offering fixed line services. Our revenues from fixed line services were NT$61.2 billion, or 33.1 % of our revenues, in 2006, NT$59.1 billion, or 29.9% of our revenues, in 2007 and NT$57.1 billion, or 28.3% of our revenues, in 2008. Owing primarily to the expansion of our broadband and cellular services, we expect that revenues from our fixed line business as a percentage of our total revenues will continue to decline.

Local Telephone

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

	Year ended December 31,		
	2006	2007	2008
	NT$	NT$	NT$
		(in billions)	
Local telephone revenues:			
Usage	13.3	12.4	11.5
Subscription	18.2	18.0	17.7
Interconnection	2.9	2.6	2.5
Pay telephone	0.4	0.3	0.7
Other	2.6	2.4	2.2
Total	37.4	35.7	34.6

We provide local telephone services to approximately 12.73 million customers in Taiwan. Our fixed line network reaches virtually all homes and businesses in Taiwan. Revenues from local telephone services comprised 20.2 %, 18.1% and 17.1% of our total revenues in 2006, 2007 and 2008, respectively. Approximately 74.8% of our local telephone customers as of December 31, 2008 were residential customers, accounting for 59.6% of our local telephone revenues in 2008. We are currently the leader of the local telephone service market, with an average market share of approximately 97.4%, 97.4% and 97.3% in 2006, 2007 and 2008, 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,		
	2006	2007	2008
	(in thousands, except percentages and per household data)		
Taiwan population[(1)]	22,877	22,958	23,037
Fixed line customers:			
Residential	9,822	9,691	9,530
Business	3,300	3,261	3,203
Total	13,122	12,952	12,733
Growth rate (compared to the same period in the prior year)	(1.0)%	(1.3)%	(1.7)%
Penetration rate (as a percentage of the population)	57.4%	56.4%	55.3%
Lines in service per household	1.33	1.29	1.24

(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. The number of fixed line customers decreased by 1.3% in 2007 compared to 2006 due to customers replacing fixed lines with cellular services. The number of fixed line customers decreased by 1.7% in 2008 compared to 2007.

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

	Year ended December 31,		
	2006	2007	2008
	(in millions, except percentages)		
Minutes from local calls[(1)(2)]	18,575	17,268	15,877
Growth rate (compared to the same period in the prior year)	(12.0)%	(7.0)%	(8.1)%

(1) Includes minutes from local calls made on pay telephones.

(2) Calls to our HiNet service, which are recorded as part of our Internet and data services, are not included in our local call minutes or revenues.

Minutes from local calls declined as non-HiNet narrowband customers migrated to broadband Internet services, which do not require dial-up telephone access. This decline was also due to traffic migration to broadband and cellular services as well as VoIP services. As a result of (i) our promotions in 2006 and 2007 of lower-speed ADSL services, (ii) an overall reduction in ADSL service tariffs since 2007 and (iii) promotional sales of FTTx service in 2008, some non-HiNet dial-up customers migrated to ADSL and FTTx service, which also contributed to a continued decline in minutes from local calls. However, we believe the rate of migration of traffic from fixed line services to broadband and cellular 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,		
	2006	2007	2008
Average local telephone usage fee (per minute)	NT$ 0.72	NT$ 0.73	NT$ 0.74
Growth rate (compared to the same period in the prior year)	2.9%	1.4%	1.4%

Average per minute usage charges increased from NT$0.72 per minute in 2006 to NT$0.73 per minute in 2007 and NT$0.74 per minute in 2008. 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 5.3%, 4.6% and 4.2% of our revenues in 2006, 2007 and 2008, respectively. Our average market share in the domestic long distance market was approximately 83.6%, 86.5% and 85.2% in 2006, 2007 and 2008, respectively. Residential customers accounted for 59.2% of our domestic long distance revenues in 2008.

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,		
	2006	2007	2008
	(in millions, except percentages)		
Domestic long distance telephone service usage (minutes)	4,643	4,325	4,000
Growth rate (compared to the same period in the prior year)	(9.5)%	(6.8)%	(7.5)%

Minutes of use for domestic long distance calls have been declining as a result of traffic migration to cellular 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,		
	2006	2007	2008
Average domestic long distance telephone usage fee (per minute)	NT$ 1.65	NT$ 1.66	NT$ 1.68
Growth rate (compared to the same period in the prior year)	0%	0.6%	1.2%

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 0.6% in 2007 due to a 1.5% increase in peak hour usage over 2006 and 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.

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.

International Long Distance Telephone

We provide international long distance telephone services in Taiwan. Total revenues from international long distance telephone services comprised 7.6%, 7.2% and 7.0% of our revenues in 2006, 2007 and 2008, respectively. Residential customers generated 42.0% of our international long distance revenues during 2008. In addition, we provide wholesale international long distance services to international simple resale operators that do not possess their own telephone network or infrastructure.

Since fixed line services have been open for competition since 2001, we expect competition in this line of business will continue to intensify. We believe other fixed line operators consider the international long distance market to be their primary focus. Our average market share of the international long distance market was approximately 58.3%, 61.6% and 59.5% in 2006, 2007 and 2008, respectively. Our market share decreased in 2008 primarily because of a decrease in our sales of prepaid card minutes. 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 7.8% and 8.1% of our total outgoing international traffic in 2007 and 2008, respectively.

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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 2006, 2007 and 2008, we sold 1,041.5 million, 1,039.9 million and 1,158.9 million of wholesale outgoing minutes, which represented approximately 46.5%, 43.5% and 48.8% of our total outgoing international long distance minutes, respectively. Revenues from the wholesale of international long distance minutes increased by 25.2% from NT$1,809 million in 2007 to NT$2,266 million in 2008. 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 65.8% of our outgoing international long distance call traffic in 2008. International calls from our top five destinations represented 64.4% of our incoming international long distance call traffic in 2008.

The following table shows the percentage of total outgoing international long distance minutes for our top five outgoing destinations in 2008.

Destination	Percentage of total outgoing minutes
Mainland China	36.4%
Philippines	11.1
Vietnam	7.5
United States	7.2
Indonesia	3.6
Total of top five destinations	65.8%

The following table shows the percentage of total incoming international long distance minutes for our top five incoming destinations in 2008.

Destination	Percentage of total ingoing minutes
Mainland China	28.4%
United States	18.1
Japan	9.6
Hong Kong	4.3
Canada	4.0
Total of top five destinations	64.4%

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

	As of December 31,		
	2006	2007	2008
	(in thousands, except percentages and incoming/outgoing ratio)		
Incoming minutes	1,354	1,666	1,948
Growth rate (compared to the same period in the prior year)	5.0%	23.0%	16.9%
Outgoing minutes	2,239	2,389	2,375
Growth rate (compared to the same period in the prior year)	11.7%	6.7%	(0.6)%
Total minutes	3,593	4,055	4,323
Incoming/outgoing ratio	0.60	0.70	0.82

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Total outgoing international long distance minutes increased by 6.7% from 2006 to 2007, primarily due to promotions and increased prepaid card minutes among foreign workers, and decreased by 0.6% from 2007 to 2008 primarily due to foreign workers transitioning to using cellular prepaid cards from other service providers instead of our prepaid calling cards. Our incoming all volume increased by 23.0% from 2006 to 2007 due to increased bilateral volume commitment arrangements and more flexible and competitive international settlement rates and increased by 16.9% from 2007 to 2008 due to an increase of 16 overseas bilateral arrangement partners.

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,		
	2006	2007	2008
Average international long distance usage charge (per minute)	NT$ 4.7	NT$ 4.5	NT$ 4.2
Growth rate (compared to the same period in the prior year)	(13.0)%	(4.3)%	(6.7)%

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 2006, 2007 and 2008 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.

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,		
	2006 NT$	2007 NT$	2008 NT$
		(in billions)	
Gross international settlement receipts	3.1	3.2	3.7
Gross international settlement payments	3.8	4.7	4.1

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, plans to launch 070 phone-to-phone VoIP service in the second half of 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.

Cellular Services

Cellular services are one of our principal business activities. We are Taiwan s largest provider of cellular services in terms of both revenues and customers. In 2006, we generated revenues of NT$73.0 billion, or 39.5% of our total revenues, from cellular services. In 2007, we generated revenues of NT$73.6 billion, or 37.3% of our total revenues, from cellular services. In 2008, we generated revenues of NT$72.3 billion (US$2.2 billion), or 35.9% of our total revenues, from cellular services.

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 cellular services for the periods indicated using our new accounting categorization described above.

	Year ended December 31,	
	2007	2008
	NT$	NT$
	(in billions)	
Cellular revenues:		
Usage[1]	59.2	56.4
Interconnection[2]	7.2	7.2
Mobile data[2]	5.6	6.9
Other	1.6	1.8
Total cellular	73.6	72.3

(1) Includes monthly fees.

(2) No data from 2006 is available because we did not calculate short messaging service air time charges separately in 2006.

The following table sets forth our revenues from cellular services for the periods indicated using the prior accounting categorization (i.e. short messaging service air time charges) to present the periods indicated on a comparative basis.

	Year ended December 31,		
	2006	2007	2008
	NT$	NT$	NT$
		(in billions)	
Cellular revenues:			
Usage[1]	59.7	59.2	56.4
Interconnection	7.3	7.6	7.7
Mobile data	4.2	5.2	6.4
Other	1.8	1.6	1.8
Total cellular	73.0	73.6	72.3

(1) Includes monthly fees.

As the market for cellular services has continued to expand, we have experienced substantial growth in our cellular customer base. We are the largest cellular operator in Taiwan in terms of revenues and number of customers. We had 8.95 million cellular customers, for a market share of approximately 35.2% of total cellular

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customers and approximately 33.5% of total cellular services revenues in Taiwan, as of December 31, 2008. Revenues from cellular services comprised approximately 39.5%, 37.3% and 35.9 % of our total revenues in 2006, 2007 and 2008, respectively.

We offer digital cellular 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 cellular services. This is the largest frequency spectrum allocation to any cellular operator in Taiwan. In February 2002, the Ministry of Transportation and Communications granted 3G cellular services concessions to five companies, including us. In March 2002, we paid NT$10.2 billion to the government for our concession. Our 3G cellular services license is valid until December 31, 2018. In July 2005, we launched our 3G cellular services using WCDMA technology. We also offer the largest international roaming network among Taiwan cellular service providers. In particular, our 2G customers have access to 330 networks in 178 countries through our GSM service roaming network and 199 networks in 104 countries through our GPRS roaming network. In addition, our 3G service system includes 81 networks in 44 counties.

As of December 31, 2008, we had approximately 15,155 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 2008, we have greatly enhanced our competitiveness by upgrading more than 5,500 3G cellular base stations with HSDPA capacity and 1,200 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.

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

	As of or for the year ended December 31,		
	2006	**2007**	**2008**
Taiwan population (in thousands)(1)	22,877	22,958	23,037
Total cellular customers in Taiwan (in thousands)(2)	23,249	24,302	25,413
Penetration (as a percentage of the population)(2)	101.6%	105.9%	110.3%
Total cellular revenues in Taiwan (in billions)(3)	NT$ 218.1	NT$ 218.5	NT$ 215.9
Number of our cellular customers (in thousands)(2)(4)	8,487	8,699	8,947
Our market share by customers(2)	36.5%	35.8%	35.2%
Our market share by revenues	33.5%	33.7%	33.5%
Number of our prepaid customers (in thousands)(4)	636	632	728
Our prepaid customers as a percentage of our total customers	7.5%	7.3%	8.1%
Annualized churn rate(5)	11.6%	12.24%	11.81%
Minutes of usage (in millions of minutes)			
Incoming	10,403	10,636	10,442
Outgoing	9,227	9,586	9,595
Average minutes of usage per user per month(2)(6)	197	196	189
Average revenue per user per month(2)(7)	NT$ 731	NT$ 714	NT$ 683

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

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

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

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

(5) Measures the rate of customer disconnections from cellular service, determined by dividing (a) our aggregate voluntary and involuntary deactivations (excluding deactivations due to customers switching from one of our cellular 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 cellular 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 cellular services revenues during the relevant period by the average of the number of our cellular customers on the first and last days of the period and dividing the result by the number of months in the relevant period.

The cellular market in Taiwan has grown rapidly since the liberalization of the market in 1997. Total cellular customers in Taiwan have reached approximately 25.4 million as of December 31, 2008. Cellular penetration was approximately 110.3% on the same date. We expect customer growth to continue to slow as a result of market saturation. In addition, the overall cellular services market experienced a slight decrease of 1.2% in revenues in 2008. We believe that any future growth in the number of cellular customers will depend largely upon continuing improvements in wireless technologies and wireless data applications and the availability of advanced cellular phones.

We began offering prepaid card services in October 2000 and prepaid 3G card services in February 2008. As of December 31, 2008, we had approximately 0.7 million prepaid customers representing approximately 8.1% of our total cellular 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 cellular phone incentives, to third-party dealers when new customers agree to sign a service contract with us ranging from 18 months to 30 months or when existing customers renew their contracts with us for a period of two years. We generally offer incentives on cellular phones equipped with more advanced data functions to promote the expansion of our GPRS and 3G cellular services. In 2008, the average amount of incentives we offered was NT$3,115 per customer, up from NT$2,452 per customer in 2007 primarily due to an increase in the proportion of incentives offered for 3G cellular phones, which are more costly than incentives for 2G cellular phones. We expect the average amount of our incentives to slightly decline in the foreseeable future, with a decrease in incentives for cellular phones generally offset by higher incentives for 3G cellular phones.

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 increased in 2006 because of low pricing packages, such as the Genki Plan, which stimulated usage. However, 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. However, the average minutes of usage per customer slightly declined in 2008 due to the deteriorating macroeconomic conditions in Taiwan.

Our tariffs for post-paid cellular 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 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 cellular customers to encourage subscription to our cellular 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$731 in 2006 to NT$714 in 2007 due to customer growth being greater than revenue growth and a reduction in GSM rate in April 2007. 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. In order to continue to increase average revenue per user reduce the negative impact caused by the economy entering recession, 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 cellular services, we also offer a broad range of value-added telecommunications and information services. In August 2001, we introduced a platform of integrated cellular 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 cellular value-added services, such as JAVA games, unstructured supplementary service data, mobile Internet and multimedia messaging services. After the launch of our 3G cellular services, we began providing video phone, video-on-demand and other related 3G cellular value- added services as well. In addition to creating additional sources of revenues, we believe these services enhance customer loyalty and satisfaction and increase cellular traffic. Revenues from mobile data services represented 5.7%, 7.6% and 9.6% of our total cellular revenues in 2006, 2007 and 2008, respectively.

Internet and Data Services

We have experienced continued growth in our Internet and data services. Our Internet and data revenues represented 25.1%, 25.0% and 24.8% of our revenues in 2006, 2007 and 2008, respectively. We provide:

Internet services, including HiNet, which is the brand name of our Internet service provider, ADSL services, FTTx services, Internet value-added services and wireless local area networks; and

data services, including leased line services, managed data services, Internet data center services and

MOD services, which was reclassified from our all others business segment beginning in 2007.

The following table sets forth our revenues from Internet and data services for the periods indicated.

	Year ended December 31,		
	2006	2007	2008
	NT$	NT$	NT$
		(in billions)	
Internet and data revenues:			
Internet	35.5	37.7	38.0
Data[(1)]	10.8	11.5	12.1
Total Internet and data	46.3	49.2	50.1

(1) Beginning in 2007, we no longer account for MOD revenues under our all others business segment and account for MOD revenues in data revenues under our Internet and data business segment. MOD revenues accounted for NT$0.2 billion, NT$0.4 billion and NT$0.6 billion in 2006, 2007 and 2008, respectively. In this table, MOD revenues were classified under our all others business segment in 2006 and our internet and data business segment in 2007 and 2008.

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Internet Services

HiNet and Internet Access

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

	Year ended December 31,		
	2006 NT$	2007 NT$ (in billions)	2008 NT$
Internet revenues:			
Narrowband access	0.1	0.1	0.0
Narrowband Internet service	0.3	0.3	0.2
Broadband access (ADSL and FTTx)	19.0	20.0	20.0
Broadband Internet service (ADSL and FTTx)	13.6	15.0	16.3
Other Internet	2.5	2.3	1.5
Total Internet	35.5	37.7	38.0

We are the largest Internet service provider, or ISP, in Taiwan, with a market share of 68.1% as of December 31, 2008. As of December 31, 2008, HiNet had approximately 4.1 million subscribers, and our number of subscribers increased by a 0.5% compound annual growth rate over the two years ended December 31, 2008.

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

	As of December 31,		
	2006	2007 (in thousands, except percentages)	2008
Total Internet access customers in Taiwan	7,037	5,974	6,027
HiNet subscribers:			
HiNet dial-up subscribers	1,043	626	580
HiNet ADSL subscribers	3,063	2,919	2,498
HiNet FTTx subscribers	180	528	1,016
Other access technology subscribers	19	10	9
Total HiNet subscribers	4,305	4,083	4,103
Market share[(1)]	61.2%	68.3%	68.1%

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

We have maintained our leading market position despite a highly competitive market with over 175 Internet service providers in Taiwan. We expect the competitive conditions currently prevailing in the Internet service provider market to continue to intensify.

Subscribers can access HiNet through various technologies. We provide narrowband dial-up Internet access through connections based on standard telephone modems. We provide broadband Internet access through connections based on ADSL and our FTTx technology. FTTx generally offers a faster access medium for our Internet and data 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 and data services, we are offering various incentives for our ADSL and other Internet customers to switch to our FTTx services.

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We are the largest broadband ISP in Taiwan in terms of customers. We provide Internet services and content through our ISP brand, named HiNet. We also 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 3.2 million customers as of December 31, 2008. Our ADSL service allows for transmission of data at high access rates and offers high-speed broadband Internet access services. As of December 31, 2008, approximately 77.1%, or 2.5 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 2008.

We originally introduced our FTTx Internet and data services, with downlink speeds of 10, 50 and 100 Mbps, in 2008. The number of our FTTx customers increased significantly in 2007 and 2008 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 1.1 million FTTx customers as of December 31, 2008, approximately 80.0% 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 1.1 million FTTx customers as of December 31, 2008, approximately 1.0 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, 2008, 24.8% 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 88.1%, 87.0% and 83.8% in 2006, 2007 and 2008, respectively.

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

	As of December 31,		
	2006	2007	2008
Our ADSL service customers (in thousands)	3,851	3,715	3,241
Average downlink speed (Mbps)(1)	2.56	2.66	4.33

(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, 2006, over 62.5% of our customers had subscribed for downlink speeds of over 2 Mbps, and our average downlink speed was 2.56 Mbps. Our FTTx service offers downlink speeds of 10, 50 and 100 Mbps matched with uplink speeds of 2, 3 and 5 Mbps, respectively. 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.

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.

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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 Internet services revenues rather than as fixed line revenues. Usage fees from fixed line telephone calls made to access Internet service providers other than HiNet are recorded as local fixed line 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.

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

	Year ended December 31,		
	2006	**2007**	**2008**
	NT$	**NT$**	**NT$**
Average revenue per user for HiNet dial-up services per month(1)	33	31	33
Average revenue per user for ADSL services per month(2)	768	749	701
Average revenue per user for FTTx services per month(3)	1,165	1,028	1,085

(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 required by the regulatory authority at that time, the Directorate General of Telecommunications, to decrease our tariffs by an average of 24% in June 2004. 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. 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.

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 broadband Internet 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

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Internet and data services revenues. The information contained in our HiNet portal and broadband Internet portal is not a part of this annual report. In 2008, in order to comply with Taiwan tax policy, our non-core value-added service revenue has now been reclassified from our Internet and data services revenues to under our all others business segment.

Wireless Local Area Network Service

We launched our wireless local area network service in May 2002. As of December 31, 2008, we had a total of approximately 37,929 residential and business customers that lease our access points. In addition, we have established 885 hot spots in public areas, such as airports and international convention centers, where individuals can access our wireless local area network.

Data Services

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

	Year ended December 31,		
	2006 NT$	2007 NT$ (in billions)	2008 NT$
Data revenues:			
Leased line	8.0	7.6	7.7
Other(1)	2.8	3.9	4.4
Total data	10.8	11.5	12.1

(1) Beginning in 2007, we no longer account for MOD revenues under our all others business segment and account for MOD revenues in data revenues under our Internet and data business segment. MOD revenues accounted for NT$0.2 billion, NT$0.4 billion and NT$0.6 billion in 2006, 2007 and 2008, respectively. In this table, MOD revenues were classified under our all others business segment in 2006 and our internet and data business segment in 2007 and 2008.

Leased Line Services

We are the leading provider of domestic leased line services in Taiwan. We are also a leading provider of overseas leased line services. 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 cellular and fixed line service operators for interconnection with our fixed line network and for connection within their networks. 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 39.8% over the three years ended December 31, 2008.

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

	As of December 31,		
	2006	2007 (in gigabits per second)	2008
Total bandwidth	469.4	596.0	833.4

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

Managed Data 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 Center Services

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 and data 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%.

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, 2008, 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 81 broadcasting channels and approximately 5,500 hours worth of on-demand programs and served approximately 0.7 million customers as of December 31, 2008. 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. Beginning in 2007, we no longer account for MOD revenues under our all others business segment and account for MOD revenues in data revenues under our Internet and data business segment. MOD revenues accounted for NT$0.2 billion, NT$0.4 billion and NT$0.6 billion in 2006, 2007 and 2008, respectively.

Cellular Phone

We engage in the distribution and sales of cellular phones for use on our cellular 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 cellular phones 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 cellular phone distribution and sales capabilities. Beginning in April 2007, we started accounting for the revenues from our subsidiary, Senao, under our cellular phone business segment.

All Others

Our all others business segment include the (i) satellite services, (ii) telephone directories, (iii) corporate solution services and billing handling services, (iv) paging services, (v) the leasing of real estate owned by us to

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third parties and (vi) other non-core value-added services. In 2007, we also transferred MOD revenues from our all others business segment to Internet and data services. In 2008, revenue from our all others business segment accounted for approximately 2.9% of our total revenues.

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.

Telephone Directories

We are the largest provider of classified advertising directory and associated products and services in Taiwan with over 60 years of experience in publishing and distributing telephone directories to households and businesses in Taiwan. We established Chunghwa International Yellow Pages Corporation in 2007. In addition to our previous paper search business, we offered a more advanced search service combining electronic yellow pages and telephone voice cross-platform services.

Corporate Solution Services and Billing Handling Services

Our corporate solution services include planning and managing integrated communications solutions for the government and other large private enterprises. We also provide a limited amount of other corporate services not directly related to telecommunications or data communications such as systems integration services. In addition, we also provide billing handling services (i) for other cellular network operators in Taiwan to collect the fees from our fixed line customers for calls that terminate on their network and (ii) for other fixed line operators in Taiwan to collect the international long distance fees from our cellular customers for international long distance calls carried on their network.

Paging Services

We offered a broad range of wireless information services, including stock quotes on our InterMessenger service, weather information, news and agricultural information. Due to substitution by cellular phones and a decline in demand for our paging services, beginning in February 2007, we stopped offering some of our paging services with telephone numbers beginning with prefixes of 060, 070, 0950, 0957 and 0959. As of March 31, 2009, we are only servicing paging telephone numbers with the prefix of 0942.

Leasing of Real Estate Owned By Us to Third Parties

We also lease real estate owned by us to third parties.

Other Non-Core Value-Added Services

In 2008, we reclassified other non-core value-added services from our Internet and data business segment to our all others business segment. Our other non-core value-added services consist of services from third parties that we offer on our platform. For example, our HiNet platform allows users to purchase railroad tickets, and we generate revenues from commissions or service processing fees that we receive from the third party providing the service or product.

Interconnection

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

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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 local, domestic long distance services or cellular revenues and expenses, respectively.

	Year ended December 31		
	2006 NT$	2007 NT$ (in billions)	2008 NT$
Interconnection fee revenues:			
Local	2.9	2.6	2.4
Domestic long distance	1.0	0.9	0.8
Cellular	7.3	7.6	7.7
Interconnection costs:			
Fixed line	0.2	0.2	0.2
Cellular	6.7	6.9	7.1

Currently, tariffs for telephone calls between our fixed line customers and cellular customers of other cellular operators are set by the cellular operators. The cellular 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.

In the interim, the former regulatory authority, the Directorate General of Telecommunications has approved, effective January 2004, an interconnection rate of NT$0.59 per minute for calls initiated by cellular customers, and NT$0.814 per minute for calls initiated by fixed line customers. The interconnection rate between our fixed line customers and other fixed line customers is approximately NT$0.32 per minute. The interconnection rate between our cellular customers and other cellular customers is approximately NT$2.15 per minute.

We expect an increase in interconnection revenues due to an increase in our cellular phone business as a result of competition from other mobile operators.

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.

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 the sole reseller of the iPhone 3G in Taiwan. We anticipate that the iPhone 3G, 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.

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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 Talks promotion package to attract cellular 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. 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 cellular 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 six business divisions, each of which has its own marketing department that is responsible for business and marketing planning.

We also have 23 operations offices, 320 service centers and 210 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, direct debit, over the phone, website (www.cht.com.tw), cellular phone emome and service centers throughout Taiwan;

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.

Network Infrastructure

Our network infrastructure consists of transmission networks that convey voice and data traffic, switching networks that route traffic between networks, and cellular, 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, 2008.

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, 2008, our transmission networks consisted of approximately 1.1 million fiber kilometers of fiber optic cable for trunking and approximately 2.4 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 10 gigabit capacity 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 gigabit per second 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 packet over synchronous digital hierarchy and 10 gigabit Ethernet. We have already completed the deployment of 200λ ROADM rings in 2008. 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 November 2009.

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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, 2008, we had approximately 5.24 million lines of ADSL and had 3.2 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, 2008, we have constructed approximately 1.9 million FTTx ports and had 1.1 million FTTx customers. Our FTTx service can offer high-speed broadband Internet access rates up to 100 Mbps. We plan to expand the number of FTTx ports access to approximately 5.0 million by 2011.

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, 2008, 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. 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 2008. 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, 2008, our domestic network included 17.3 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 99 telecommunications service providers in 51 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 95,040 channels as of March 31, 2009.

We currently invest in 19 submarine cables, seven of which land in Taiwan. Our aggregate total capacity in the undersea cables in which we invest is 570 gigabits per second.

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Cellular Services Network

Our cellular 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 cellular phones within the range of a cell;
- base station controllers, which connect to, and control, the base station within each cell site;
- mobile 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 cellular networks as of the dates indicated.

	As of December 31,		
	2006	**2007**	**2008**
GSM system			
GSM base stations	8,597	9,042	9,466
Switches	54	51	49
Lines of capacity (in thousands)	8,500	8,500	8,500
Taiwan population coverage	99.9%	99.9%	99.9%
GPRS gateway support nodes	25	25	16
GPRS Serving support nodes	20	20	17
GPRS System capacity (in thousands)	2,000	3,880	3,640

	As of December 31,	
	2007	**2008**
3G system		
3G base stations	4,471	5,689
Switches	8	8
Lines of capacity (in thousands)	2,400	3,000
Taiwan population coverage	89.0%	91.0%
GPRS gateway support nodes	16	16
Serving support nodes	11	11
System capacity (in thousands)	2,400	2,400

We provide cellular services based on the GSM network standards. We have dual band 900 MHz and 1800 MHz frequency spectrums for our GSM services. In addition, we have installed an intelligent network on our cellular services network infrastructure to enable us to provide prepaid services as well as a wide range of advanced call features and value-added services. We have also installed wireless application protocol gateways on our cellular services network that enable us to provide wireless application protocol services. We began providing cellular communications services based on the GPRS network standards in August 2001, using emome as the portal name.

The capacity of our intelligent network is one million customers. We also completed a system expansion of our cellular services network to accommodate more than 8.5 million customers (including 2 million GPRS customers) at the end of 2003. We have GPRS and 15 MHz paired spectrum plus 5 MHz unpaired spectrum in the 2 GHz frequency band for our 3G cellular services. In preparation for the launch of 3G cellular services, we contracted with Nokia Corporation to provide the core network, radio access network, service network, transmission network and maintenance network for approximately NT$12 billion over three years. As of December 31, 2008, we have completed the construction of approximately 5,690 3G base stations with a network capacity of 3.0 million lines and 4.8 million subscribers. We launched our 3G cellular services on July 26, 2005. As of December 31, 2008, we had approximately 3.5 million 3G cellular services customers registered in the network.

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 March 31, 2009, we had fewer than 2,500 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 the termination 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 5,321,640 broadband remote access server ports and a backbone bandwidth of approximately 918 gigabits per second as of December 31, 2008. We plan to increase HiNet s points of presence and backbone bandwidth to approximately 1,342 gigabits per second by the end of 2009.

HiNet s total international connection bandwidth is 119.6 gigabits per second as of December 31, 2008. 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, Thailand and Australia.

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, 2008, we had 2,426 frame relay ports, 5,273 X.25 ports, 7,867 asynchronous transfer mode ports and approximately 57,953 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.

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Competition

We face competition in virtually all aspects of our business.

Fixed Line

We are the largest fixed line service provider in Taiwan, with a market share of approximately 97.3% in terms of customers for local telephone services, approximately 85.2% in terms of traffic for domestic long distance telephone services and approximately 59.5% in terms of traffic for international long distance telephone services in 2008. Three new providers, namely, Taiwan Fixed Network, New Century Infocomm Tech. Co., Ltd. and Asia Pacific Broadband 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.

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

Our domestic long distance services compete with cellular services as people increasingly use cellular telephones. In addition, 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. 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.

Cellular

There are currently three major GSM cellular 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, 2008, we were the largest cellular operator in Taiwan, with a 42.5% market share in terms of 2G customers. In addition, there are two new 3G cellular operators in Taiwan, namely Asia Pacific Broadband Wireless Communications Inc. and Vibo Telecom Inc., as well as one personal handyphone system operator, First International Telecom. Furthermore, the government issued a total of thirteen mobile virtual network operator licenses to Hicall Telecom Co., Ltd., Save Com International Inc., KGEx.com, China Motion Telecom (Taiwan) Limited, New Century InfoComm Tech. Co., Taiwan Fixed Network, INFOTECH International Corp., President Chain Store Corp., AURORA Telecom Corporation, ARCOA Communication Co., Chunghwa Wideband Best Network, Tai Tone Telecom Co., Ltd. and Carrefour Telecom Co., Ltd., which allow operators without a spectrum allocation to provide cellular services by leasing the capacity and facilities of a cellular service network from a licensed cellular service provider. We are currently cooperating with Carrefour Telecom Co., Ltd. We may cooperate with other mobile virtual network operators in the future. We compete in the wireless services market primarily on the basis of price, quality of service, network reliability and attractiveness of service packages.

Internet and Data

Our primary competitors in Internet and data services include: Internet services:

- Internet services providers: SeedNet, Asia Pacific Online, GigaMedia and So-net Taiwan;

- Broadband Internet access providers: kbro Co., Ltd., GigaMedia, Taiwan Fixed Network and New Century Infocomm Tech. Co., Ltd.; and

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

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Data services:

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

We are the largest provider of Internet services in Taiwan. As of December 31, 2008, we had a 68.1% share of the Taiwanese Internet service market in terms of customers and an 83.8% share of the broadband Internet access market in terms of customers. We compete in the Internet and data services market primarily on the basis of price, technology, speed of transmission, amount of bandwidth available for use, network coverage and value- added services.

Properties

Our properties consist mainly of land, land improvements and buildings located throughout Taiwan. In February 2008, we established Light Era Development Co., Ltd. for the purpose of developing our real estate properties. In March and April 2008, we started the process of transferring six properties to Light Era Development Co., Ltd. Currently, three of these properties are in development. The Wan-Xi project, one of our properties under development, is expected to be completed in 2012. We presently do not have further plans to transfer any more properties to Light Era Development Co., Ltd. as we plan to focus on our core telecommunications business. Any of our properties that are unused will be rented out to generate rental income. We expect to receive approximately NT$400 million in such rental income in 2009.

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. 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.

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 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 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

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to pay approximately NT$16.9 million along with interest calculated at 5% per annum from July 23, 2005 and 4% of the court fees as compensation. Chunghwa Post Co., Ltd. has the right to appeal to the Taiwan High Court within 20 days from the receipt of the copy of the court judgment.

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. 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. As of December 31, 2008, we had not provided for any reserve in connection with the litigation.

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. 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. As of December 31, 2008, we have already 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.

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.

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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

Before March 1, 2006, the Taiwan telecommunications industry was subject to extensive regulation by and under the supervision of the former competent authorities, the Ministry of Transportation and Communications and the Directorate General of Telecommunications pursuant to the provisions of the Telecommunications Act and various other telecommunications laws and regulations, as well as regulations under various laws of general application. Since March 1, 2006, regulatory authority over the Taiwan telecommunications industry has been transferred from the Ministry of Transportation and Communications and the Directorate General of Telecommunications to the National Communications Commission.

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.

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.

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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.

Prior to our privatization, in each fiscal year, the Legislative Yuan approved the annual budget prepared by us, as a state-owned enterprise, and the Ministry of Audit under the Control Yuan audited, and adjusted, our consolidated financial statements, including our earnings and losses. Our annual budget is no longer subject to Legislative Yuan or Control Yuan approval or audit.

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;
- 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;

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- 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 cellular, including 3G cellular, 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 cellular, 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