

MOBILE TELESYSTEMS OJSC
Form 6-K
December 09, 2013

FORM 6-K

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Report of Foreign Issuer
December 09, 2013

**Pursuant to Rule 13a-16 or 15d-16 of
the Securities Exchange Act of 1934**

Commission file number: 333-12032

Mobile TeleSystems OJSC

(Exact name of Registrant as specified in its charter)

Russian Federation

(Jurisdiction of incorporation or organization)

**4, Marksistskaya Street
Moscow 109147
Russian Federation**

(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover Form 20-F or Form 40-F.

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Form 20-F Form 40-F

Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes No

Press release

MTS Changes Coupon Rate On Series 03 Ruble Bond

December 09, 2013

Moscow, Russian Federation Mobile TeleSystems OJSC (MTS or the Company NYSE: MBT), the leading telecommunications provider in Russia and the CIS, announces a change in the coupon rate of the series 03 ruble-denominated bond (the bond) from an annual rate of 7.00% to 7.50%.

As the bond carries a six months put option, bondholders are entitled to a repurchase of their respective securities by the Company. Delivery instructions can be submitted from December 11, 2013 till December 17, 2013. The repurchase is scheduled for December 19, 2013. Gazprombank, the Lead Arranger of the bond, will act as the Repurchase Agent.

The RUB 10 billion series 03 ruble-denominated bond with maturity on June 12, 2018 and a five-year put option was issued on June 24, 2008. The coupon was to be paid semi-annually at the rate of 8.7% for the 1st-4th coupons and at the rate of 8.0% for 5th-10th coupons. On June 05, 2013, the Company changed the coupon rate for the 11th coupon to 7.00% with a six-month put option. On June 20, 2013, the Company announced the repurchase of the series 03 bond in the amount of approximately RUB 1.88 billion.

The bond is part of the A1 quotation list on the Moscow Stock Exchange.

Gazprombank, Raiffeisenbank and Troika Dialog were Lead Arrangers of the bond.

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For further information, please contact in Moscow:

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Learn more about MTS. Visit the official blog of the Investor Relations Department at www.mtsgsm.com/blog/

* * *

Mobile TeleSystems OJSC (MTS) is the leading telecommunications group in Russia, Eastern Europe and Central Asia, offering mobile and fixed voice, broadband, pay TV as well as content and entertainment services in one of the world's fastest growing regions. Including its subsidiaries, the Group services over 100 million mobile subscribers in Russia, Ukraine, Turkmenistan, Armenia and Belarus, a region that boasts a total population of more than 230 million. Since June 2000, MTS' Level 3 ADRs have been listed on the New York Stock Exchange (ticker symbol MBT). Additional information about the MTS Group can be found at www.mtsgsm.com.

* * *

Some of the information in this press release may contain projections or other forward-looking statements regarding future events or the future financial performance of MTS, as defined in the safe harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995. You can identify forward looking statements by terms such as expect, believe, anticipate, estimate, intend, will, could, may or might, and such terms or other similar expressions. We wish to caution you that these statements are only predictions and that actual events or results may differ materially. We do not undertake or intend to update these statements to reflect events and circumstances occurring after the date hereof or to reflect the occurrence of unanticipated events. We refer you to the documents MTS files from time to time with the U.S. Securities and Exchange Commission, specifically the Company's most recent Form 20-F. These documents contain and identify important factors, including those contained in the section captioned Risk Factors that could cause the actual results to differ materially from those contained in our projections or forward-looking statements, including, among others, the severity and duration of current economic and financial conditions, including volatility in interest and exchange rates, commodity and equity prices and the value of financial assets; the impact of Russian, U.S. and other foreign government programs to restore liquidity and stimulate national and global economies, our ability to maintain our current credit rating and the impact on our funding costs and competitive position if we do not do so, strategic actions, including acquisitions and dispositions and our success in integrating acquired businesses, potential fluctuations in quarterly results, our competitive environment, dependence on new service development and tariff structures, rapid technological and market change, acquisition strategy, risks associated with telecommunications infrastructure, governmental regulation of the telecommunications industries and other risks associated with operating in Russia and the CIS, volatility of stock price, financial risk management and future growth subject to risks.

* * *

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

MOBILE TELESYSTEMS OJSC

By: */s/ Andrei Dubovskov*
Name: Andrei Dubovskov
Title: CEO

Date: **December 09, 2013**

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Chunghwa Telecom Co., Ltd.

Financial Statements for the

Nine Months Ended September 30, 2009 and 2008 and

Independent Accountants' Review Report

INDEPENDENT ACCOUNTANTS REVIEW REPORT

The Board of Directors and Stockholders

Chunghwa Telecom Co., Ltd.

We have reviewed the accompanying balance sheets of Chunghwa Telecom Co., Ltd. as of September 30, 2009 and 2008, and the related statements of operations and cash flows for the nine months then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to issue a report on these financial statements based on our review.

Except for the matters described in the next paragraph, we conducted our reviews in accordance with the Statement of Auditing Standards No. 36, Review of Financial Statements, issued by the Auditing Committee of the Accounting Research and Development Foundation of the Republic of China. A review consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the Republic of China, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

As discussed in Note 12 to the financial statements, we did not review all financial statements of equity-accounted investments, the investments in which are reflected in the accompanying financial statements using the equity method of accounting. The aggregate carrying values of the equity method investees were NT\$8,942,371 thousand and NT\$7,197,490 thousand as of September 30, 2009 and 2008, respectively, and the equity in earnings (losses) were NT\$(7,358) thousand and NT\$125,741 thousand for the nine months ended September 30, 2009 and 2008, respectively.

Based on our reviews, except for the effects of such adjustments, if any, as might have been determined to be necessary had we reviewed financial statements of certain equity method investees referred to in the preceding paragraph, we are not aware of any material modifications that should be made to the financial statements referred to above for them to be in conformity with the Securities and Exchange Act, the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, requirements of the Business Accounting Law and Guidelines Governing Business Accounting relevant to financial accounting standards, and accounting principles generally accepted in the Republic of China.

As discussed in Note 3 to the financial statements on January 1, 2008, the Company adopted Interpretation 96-052 issued by the Accounting and Research Development Foundation of the Republic of China that requires companies to record bonuses paid to employees, directors and supervisors as an expense rather than an appropriation of earnings. The company early adopted the new Statements of Financial Accounting Standards No. 41, Operating Segments (SFAS No. 41) beginning from September 1, 2009.

We have also reviewed the consolidated financial statements of the Company and its subsidiaries as of and for the nine months ended September 30, 2009 and 2008, and have issued a qualified review report.

October 26, 2009

Notice to Readers

The accompanying financial statements are intended only to present the financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in the Republic of China and not those of any other jurisdictions. The standards, procedures and practices to review such financial statements are those generally accepted and applied in the Republic of China.

For the convenience of readers, the accountants' review report and the accompanying financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language accountants' review report and financial statements shall prevail.

CHUNGHWA TELECOM CO., LTD.**BALANCE SHEETS****SEPTEMBER 30, 2009 AND 2008****(Amounts in Thousands of New Taiwan Dollars, Except Par Value Data)****(Reviewed, Not Audited)**

	2009		2008	
	Amount	%	Amount	%
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents (Notes 2 and 4)	\$ 50,767,239	12	\$ 98,976,773	21
Financial assets at fair value through profit or loss (Notes 2 and 5)	30,039	-	95,359	-
Available-for-sale financial assets (Notes 2 and 6)	15,851,520	4	14,931,598	3
Held-to-maturity financial assets (Notes 2 and 7)	754,882	-	35,033	-
Trade notes and accounts receivable, net of allowance for doubtful accounts of \$2,831,426 thousand in 2009 and \$3,027,162 thousand in 2008 (Notes 2 and 8)	10,612,296	2	10,786,930	2
Receivables from related parties (Notes 2 and 24)	609,230	-	284,373	-
Other monetary assets (Note 9)	2,566,008	1	3,730,033	1
Inventories, net (Notes 2 and 10)	1,008,582	-	680,654	-
Deferred income taxes (Notes 2 and 21)	72,919	-	380,923	-
Other current assets (Note 11)	6,447,837	2	7,071,529	1
Total current assets	88,720,552	21	136,973,205	28
LONG-TERM INVESTMENTS				
Investments accounted for using equity method (Notes 2 and 12)	10,140,330	2	8,392,002	2
Financial assets carried at cost (Notes 2 and 13)	2,236,048	1	2,246,048	1
Held-to-maturity financial assets (Notes 2 and 7)	4,331,829	1	1,315,061	-
Other monetary assets (Notes 14 and 25)	1,000,000	-	1,000,000	-
Total long-term investments	17,708,207	4	12,953,111	3
PROPERTY, PLANT AND EQUIPMENT (Notes 2, 15 and 24)				
Cost				
Land	101,258,906	24	101,872,198	21
Land improvements	1,514,307	-	1,487,827	-
Buildings	62,624,721	15	62,455,514	13
Computer equipment	15,249,625	3	14,844,193	3
Telecommunications equipment	650,698,396	152	642,472,190	134
Transportation equipment	2,233,859	-	2,732,563	1
Miscellaneous equipment	7,163,871	2	7,322,378	2
Total cost	840,743,685	196	833,186,863	174
Revaluation increment on land	5,810,342	2	5,820,548	1
	846,554,027	198	839,007,411	175

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Less: Accumulated depreciation	551,961,588	129	537,393,945	112
	294,592,439	69	301,613,466	63
Construction in progress and advances related to acquisitions of equipment	15,360,010	3	16,537,168	3
Property, plant and equipment, net	309,952,449	72	318,150,634	66
INTANGIBLE ASSETS (Note 2)				
3G concession	6,924,631	2	7,673,240	2
Other	384,396	-	323,685	-
Total intangible assets	7,309,027	2	7,996,925	2
OTHER ASSETS				
Idle assets (Note 2)	926,422	-	927,293	-
Refundable deposits	1,368,682	1	1,189,869	-
Deferred income taxes (Notes 2 and 21)	1,198,137	-	1,489,181	1
Others	1,061,040	-	694,169	-
Total other assets	4,554,281	1	4,300,512	1
TOTAL	\$ 428,244,516	100	\$ 480,374,387	100

	2009		2008	
	Amount	%	Amount	%
LIABILITIES AND STOCKHOLDERS EQUITY				
CURRENT LIABILITIES				
Financial liabilities at fair value through profit or loss (Notes 2 and 5)	\$ -	-	\$ 1,424,194	-
Trade notes and accounts payable	6,540,756	1	6,839,590	1
Payables to related parties (Note 24)	2,099,896	-	1,662,934	-
Income tax payable (Notes 2 and 21)	2,259,422	1	3,149,800	1
Accrued expenses (Notes 3 and 16)	12,476,319	3	10,477,456	2
Dividends payable (Note 18)	-	-	40,716,130	9
Other current liabilities (Notes 17, 24 and 26)	15,365,263	4	14,487,481	3
Total current liabilities	38,741,656	9	78,757,585	16
DEFERRED INCOME	2,414,029	1	1,910,574	-
RESERVE FOR LAND VALUE INCREMENTAL TAX (Note 15)	94,986	-	94,986	-
OTHER LIABILITIES				
Accrued pension liabilities (Notes 2 and 23)	5,197,001	1	5,117,717	1
Customers deposits	5,993,158	2	6,162,199	2
Deferred credit - profit on intercompany transactions (Note 24)	1,485,916	-	1,117,755	-
Others	239,778	-	395,768	-
Total other liabilities	12,915,853	3	12,793,439	3
Total liabilities	54,166,524	13	93,556,584	19

STOCKHOLDERS EQUITY (Notes 2, 15, 18 and 19)

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Common capital stock - \$10 par value; Authorized: 12,000,000 thousand shares Issued: 10,666,489 thousand shares in 2009 and 9,557,777 thousand shares in 2008	106,664,890	25	95,577,769	20
Preferred stock - \$10 par value	-	-	-	-
Capital stock to be issued	-	-	20,505,867	4
Additional paid-in capital				
Capital surplus	169,496,289	39	179,193,097	37
Donated capital	13,170	-	13,170	-
Equity in additional paid-in capital reported by equity-method investees	3	-	3	-
Total additional paid-in capital	169,509,462	39	179,206,270	37
Retained earnings				
Legal reserve	56,987,241	13	52,859,566	11
Special reserve	2,675,894	1	2,675,419	1
Unappropriated earnings	33,170,864	8	32,789,828	7
Total retained earnings	92,833,999	22	88,324,813	19
Other adjustments				
Cumulative translation adjustments	14,583	-	14,824	-
Unrecognized net loss of pension	(5)	-	(85)	-
Unrealized loss on financial instruments	(757,816)	-	(2,634,740)	-
Unrealized revaluation increment	5,812,879	1	5,823,085	1
Total other adjustments	5,069,641	1	3,203,084	1
Total stockholders' equity	374,077,992	87	386,817,803	81
TOTAL	\$ 428,244,516	100	\$ 480,374,387	100

The accompanying notes are an integral part of the financial statements.

(With Deloitte & Touche review report dated October 26, 2009)

CHUNGHWA TELECOM CO., LTD.**STATEMENTS OF INCOME****FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2009 AND 2008****(Amounts in Thousands of New Taiwan Dollars, Except Earnings Per Share Data)****(Reviewed, Not Audited)**

	2009		2008	
	Amount	%	Amount	%
NET REVENUES (Note 24)	\$ 136,596,459	100	\$ 140,057,485	100
OPERATING COSTS (Note 24)	71,095,312	52	70,011,097	50
GROSS PROFIT	65,501,147	48	70,046,388	50
OPERATING EXPENSES (Note 24)				
Marketing	18,569,125	13	19,596,625	14
General and administrative	2,461,866	2	2,466,009	2
Research and development	2,319,273	2	2,242,464	1
Total operating expenses	23,350,264	17	24,305,098	17
INCOME FROM OPERATIONS	42,150,883	31	45,741,290	33
NON-OPERATING INCOME AND GAINS				
Interest income	388,762	-	1,394,905	1
Equity in earnings of equity method investees, net	218,455	-	364,603	-
Valuation gain on financial instruments, net	129,078	-	-	-
Foreign exchange gain, net	62,023	-	-	-
Dividends income	53,286	-	107,737	-
Gain on disposal of financial instruments, net	-	-	390,515	1
Others	408,822	1	204,073	-
Total non-operating income and gains	1,260,426	1	2,461,833	2
NON-OPERATING EXPENSES AND LOSSES				
Loss arising from natural calamities	186,271	1	-	-
Loss on disposal of financial instruments, net	160,559	-	-	-
Impairment loss on assets	85,349	-	15,000	-
Loss on disposal of property, plant and equipment, net	9,627	-	56,997	-
Interest expense	2,775	-	404	-
Valuation loss on financial instruments, net	-	-	736,126	1
Foreign exchange loss, net	-	-	15,144	-
Others	105,149	-	77,663	-

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Total non-operating expenses and losses	549,730	1	901,334	1
INCOME BEFORE INCOME TAX	42,861,579	31	47,301,789	34
INCOME TAX EXPENSES (Notes 2 and 21)	9,682,660	7	10,779,702	8
NET INCOME	\$ 33,178,919	24	\$ 36,522,087	26

(Continued)

CHUNGHWA TELECOM CO., LTD.

STATEMENTS OF INCOME

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2009 AND 2008

(Amounts in Thousands of New Taiwan Dollars, Except Earnings Per Share Data)

(Reviewed, Not Audited)

	2009		2008	
	Income Before Income Tax	Net Income	Income Before Income Tax	Net Income
EARNINGS PER SHARE (Note 22)				
Basic earnings per share	\$ 4.42	\$ 3.42	\$ 4.88	\$ 3.77
Diluted earnings per share	\$ 4.41	\$ 3.41	\$ 4.87	\$ 3.76

The accompanying notes are an integral part of the financial statements.

(With Deloitte & Touche review report dated October 26, 2009)

(Concluded)

CHUNGHWA TELECOM CO., LTD.**STATEMENTS OF CASH FLOWS****FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2009 AND 2008****(Amounts in Thousands of New Taiwan Dollars)****(Reviewed, Not Audited)**

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 33,178,919	\$ 36,522,087
Provision for doubtful accounts	359,634	401,642
Depreciation and amortization	27,103,118	28,502,855
Valuation loss on inventory	-	32,224
Valuation (gain) loss on financial instruments, net	(129,078)	736,126
Amortization of premium (discount) of financial assets	11,171	(1,125)
Loss (gain) on disposal of financial instruments, net	160,559	(390,515)
Losses on disposal of property, plant and equipment, net	9,627	56,997
Impairment loss on assets	85,349	15,000
Loss arising from natural calamities	186,271	-
Equity in earnings of equity method investees	(218,455)	(364,603)
Cash dividends received from equity method investees	393,115	435,284
Deferred income taxes	280,840	(497,179)
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Financial assets held for trading	188,167	451,347
Trade notes and accounts receivable	(775,339)	(713,535)
Receivables from related parties	(266,214)	(72,748)
Other current monetary assets	(421,660)	3,321,316
Inventories	(15,973)	477,384
Other current assets	(2,438,631)	(3,823,623)
Increase (decrease) in:		
Trade notes and accounts payable	(2,635,281)	(3,468,565)
Payables to related parties	(77,413)	120,004
Income tax payable	(3,174,208)	(3,810,704)
Accrued expenses	(3,204,283)	(4,479,625)
Other current liabilities	943,460	(67,068)
Accrued pension liabilities	32,613	1,205,753
Deferred income	341,732	405,424
Net cash provided by operating activities	49,918,040	54,994,153
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of available-for-sale financial assets	(7,162,765)	(5,131,862)
Proceeds from disposal of available-for-sale financial assets	6,793,213	5,065,441
Acquisition of held-to-maturity financial assets	(1,948,505)	(852,383)
Proceeds from disposal of held-to-maturity financial assets	664,160	652,863
Acquisition of financial assets carried at cost	-	(200,000)
Proceeds from disposal of financial assets carried at cost	285,859	354,933
Acquisition of investments accounted for using equity method	(1,637,615)	(4,171,922)

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Proceeds from disposal of investments accounted for using equity method	-	44,047
Acquisition of property, plant and equipment	(16,151,324)	(18,075,615)

(Continued)

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CHUNGHWA TELECOM CO., LTD.**STATEMENTS OF CASH FLOWS****FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2009 AND 2008****(Amounts in Thousands of New Taiwan Dollars)****(Reviewed, Not Audited)**

	2009	2008
Proceeds from disposal of property, plant and equipment	\$ 2,527	\$ 1,825,836
Acquisition of intangible assets	(143,894)	(122,962)
Increase in other assets	(489,914)	(150,494)
Net cash used in investing activities	(19,788,258)	(20,762,118)
CASH FLOWS FROM FINANCING ACTIVITIES		
Decrease in customers' deposits	(59,508)	(113,105)
Decrease in other liabilities	(186,609)	(336,944)
Cash dividends paid	(37,138,775)	-
Cash paid to stockholders for capital reduction	(19,115,554)	(9,557,777)
Net cash used in financing activities	(56,500,446)	(10,007,826)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(26,370,664)	24,224,209
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	77,137,903	74,752,564
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 50,767,239	\$ 98,976,773
SUPPLEMENTAL INFORMATION		
Interest paid	\$ 36	\$ 404
Income tax paid	\$ 12,576,321	\$ 15,092,647
NON-CASH FINANCING ACTIVITIES		
Dividends payable	\$ -	\$ 40,716,130
CASH AND NON-CASH INVESTING ACTIVITIES		
Increase in property, plant and equipment	\$ 15,048,613	\$ 17,216,258
Payables to suppliers	1,102,711	859,357
	\$ 16,151,324	\$ 18,075,615

(Continued)

CHUNGHWA TELECOM CO., LTD.**STATEMENTS OF CASH FLOWS****FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2009 AND 2008**

(Amounts in Thousands of New Taiwan Dollars)

(Reviewed, Not Audited)

The acquisition of InfoExplorer Co., Ltd. (IFE) was made on January 20, 2009. The following table presents the allocation of acquisition costs of IFE to assets acquired and liabilities assumed based on their fair values on the basis of the final data on May 7, 2009:

Cash and cash equivalents	\$ 457,990
Receivables	13,479
Other current assets	14,792
Property, plant, and equipment	40,221
Identifiable intangible assets	53,001
Refundable deposits	2,468
Other assets	2,338
Payables	(83,319)
Income tax payable	(246)
Other current liabilities	(153)
Total	500,571
Percentage of ownership	49.07%
	245,630
Goodwill	37,870
Acquisition costs of acquired subsidiary (cash prepaid for long-term investments in December 2008)	\$ 283,500

(Continued)

CHUNGHWA TELECOM CO., LTD.**STATEMENTS OF CASH FLOWS****FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2009 AND 2008**

(Amounts in Thousands of New Taiwan Dollars)

(Reviewed, Not Audited)

The acquisition of Chungghwa Investment Co., Ltd. (CHI) and its subsidiaries was made on September 9, 2009. The following table presents the allocation of acquisition costs of Chungghwa Investment Co., Ltd. and its subsidiaries to assets acquired and liabilities assumed based on their fair values on the basis of the preliminary data performed:

Cash and cash equivalents	\$ 913,593
Financial assets at fair value through profit or loss	51,357
Available-for-sale financial assets	568,793
Trade notes and accounts receivables	76,258
Inventories, net	60,040
Other current assets	19,429
Investments accounted for using equity method	71,921
Financial assets carried at cost	156,764
Property, plant, and equipment	86,826
Identifiable intangible assets	24,439
Refundable deposits	7,329
Other assets	15,133
Financial liabilities at fair value through profit or loss	(66)
Short-term loans and long-term debt at current portion	(26,077)
Trade notes and accounts payables	(26,038)
Other current liabilities	(18,834)
Noncurrent liabilities	(25,789)
Subtotal	1,955,078
Minority interest	(94,207)
Total	1,860,871
Percentage of additional ownership	40%
	744,348
Goodwill	14,361
Acquisition costs of acquired subsidiary paid in cash	\$ 758,709

The accompanying notes are an integral part of the financial statements.

(With Deloitte & Touche review report dated October 26, 2009)

(Concluded)

CHUNGHWA TELECOM CO., LTD.

NOTES TO FINANCIAL STATEMENTS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2009 AND 2008

(Amounts in Thousands of New Taiwan Dollars, Unless Stated Otherwise)

(Reviewed, Not Audited)

1. GENERAL

Chunghwa Telecom Co., Ltd. (Chunghwa) was incorporated on July 1, 1996 in the Republic of China (ROC) pursuant to the Article 30 of the Telecommunications Act. Chunghwa is a company limited by shares and, prior to August 2000, was wholly owned by the Ministry of Transportation and Communications (MOTC). Prior to July 1, 1996, the current operations of Chunghwa were carried out under the Directorate General of Telecommunications (DGT). The DGT was established by the MOTC in June 1943 to take primary responsibility in the development of telecommunications infrastructure and to formulate policies related to telecommunications. On July 1, 1996, the telecom operations of the DGT were spun-off to as Chunghwa which continues to carry out the business and the DGT continues to be the industry regulator.

As a telecommunications service provider of fixed-line and GSM, Chunghwa was announced as a market dominator by the MOTC; therefore Chunghwa is subject to the applicable telecommunications regulations for market dominators of the ROC.

Effective August 12, 2005, the MOTC had completed the process of privatizing Chunghwa by reducing the government ownership to below 50% in various stages. In July 2000, Chunghwa received approval from the Securities and Futures Commission (the SFC) for a domestic initial public offering and its common shares were listed and traded on the Taiwan Stock Exchange (the TSE) on October 27, 2000. Certain of Chunghwa s common shares had been sold, in connection with the foregoing privatization plan, in domestic public offerings at various dates from August 2000 to July 2003. Certain of Chunghwa s common shares had also been sold in an international offering of securities in the form of American Depository Shares (ADS) on July 17, 2003 and were listed and traded on the New York Stock Exchange (the NYSE). The MOTC sold common shares of Chunghwa by auction in the ROC on August 9, 2005 and completed the second international offering on August 10, 2005. Upon completion of the share transfers associated with these offerings on August 12, 2005, the MOTC owned less than 50% of the outstanding shares of Chunghwa and completed the privatization plan.

As of September 30, 2009 and 2008, the Company had 24,434 and 24,690 employees, respectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements were prepared in conformity with the Securities and Exchange Act, the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, requirements of the Business Accounting Law, Guidelines Governing Business Accounting relevant to financial accounting standards, and accounting principles generally accepted in the ROC (ROC GAAP). The preparation of financial statements requires management to make reasonable estimates and assumptions on allowances for doubtful accounts, valuation allowances on inventories, depreciation of property, plant and equipment, impairment of assets, bonuses paid to employees, directors and supervisors, pension plans and income tax which are inherently uncertain. Actual results may differ from these estimates. The significant accounting policies are summarized as follows:

Classification of Current and Noncurrent Assets and Liabilities

Current assets are assets expected to be converted to cash, sold or consumed within one year from balance sheet date. Current liabilities are obligations expected to be settled within one year from balance sheet date. Assets and liabilities that are not classified as current are noncurrent assets and liabilities, respectively.

Cash Equivalents

Cash equivalents are commercial paper, bonds with maturities of three months or less from the date of acquisition. The carrying amount approximates fair value.

Financial Assets and Liabilities at Fair Value Through Profit or Loss

Financial instruments classified as financial assets or financial liabilities at fair value through profit or loss (FVTPL) include financial assets or financial liabilities held for trading and those designated as at FVTPL on initial recognition. The Company recognizes a financial asset or a financial liability when the Company becomes a party to the contractual provisions of the financial instrument. A financial asset is derecognized when the Company loses control of its contractual rights over the financial asset. A financial liability is derecognized when the obligation specified in the relevant contract is discharged, cancelled or expired.

Financial instruments at FVTPL are initially measured at fair value. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognized as expenses as incurred. Financial assets or financial liabilities at FVTPL are remeasured at fair value, subsequently with changes in fair value recognized in earnings. Cash dividends received subsequently (including those received in the period of investment) are recognized as income. On derecognition of a financial asset or a financial liability, the difference between its carrying amount and the sum of the consideration received and receivable or consideration paid and payable is recognized in earnings. A regular way purchase or sale of financial assets is accounted for using trade date accounting.

Derivatives that do not meet the criteria for hedge accounting is classified as financial assets or financial liabilities held for trading. When the fair value is positive, the derivative is recognized as a financial asset; when the fair value is negative, the derivative is recognized as a financial liability.

Available-for-sale Financial Assets

Available-for-sale financial assets are initially recognized at fair value plus transaction costs that are directly attributable to the acquisition. Changes in fair value from subsequent remeasurement are reported as a separate component of stockholders' equity. The corresponding accumulated gains or losses are recognized in earnings when the financial asset is derecognized from the balance sheet. A regular way purchase or sale of financial assets is accounted for using trade date accounting.

The recognition and derecognition of available-for-sale financial assets are similar to those of financial assets at FVTPL.

Fair values are determined as follows: Listed stocks - at closing prices at the balance sheet date; open-end mutual funds - at net asset values at the balance sheet date; bonds - quoted at prices provided by the Taiwan GreTai Securities Market; and financial assets and financial liabilities without quoted prices in an active market - at values determined using valuation techniques.

Cash dividends are recognized in earnings on the ex-dividend date, except for the dividends declared before acquisitions are treated as a reduction of investment cost. Stock dividends are recorded as an increase in the number of shares and do not affect investment income. The total number of shares subsequent to the increase of stock dividends is used for recalculate cost per share.

An impairment loss is recognized when there is objective evidence that the financial asset is impaired. If, in a subsequent period, the amount of the impairment loss decreases, for equity securities, the previously recognized impairment loss is reversed to the extent to the decrease and recorded as an adjustment to stockholders' equity; for debt securities, the amount of the decrease is recognized in earnings, provided that the decrease is clearly attributable to an event which occurred after the impairment loss was recognized.

Held-to-maturity Financial Assets

Held-to-maturity financial assets are carried at amortized cost using the effective interest method. Those financial assets are initially recognized at fair value plus transaction costs that are directly attributable to the acquisition. Gains and losses are recognized at the time of derecognition, impairment or amortization. A regular way purchase or sale of financial assets is accounted for using trade date accounting.

If there is objective evidence which indicates that a financial asset is impaired, a loss is recognized. If, in a subsequent period, the amount of the impairment loss decreases and the decrease is clearly attributable to an event which occurred after the impairment loss was recognized, the previously recognized impairment loss is reversed to the extent of the decrease. The reversal may not result in a carrying amount that exceeds the amortized cost that would have been determined as if no impairment loss had been recognized.

Revenue Recognition, Account Receivables and Allowance for Doubtful Receivables

Revenues are recognized when they are realized or realizable and earned. Revenues are realized or realizable and earned when the Company has persuasive evidence of an arrangement, the goods have been delivered or the services have been rendered to the customer, the sales price is fixed or determinable and collectibility is reasonably assured.

Revenue is measured at the fair value of the consideration received or receivable and represents amounts agreed between the Company and the customers for goods sold in the normal course of business, net of sales discounts and volume rebates. For trade receivables due within one year from the balance sheet date, as the nominal value of the consideration to be received approximates its fair value and transactions are frequent, fair value of the consideration is not determined by discounting all future receipts using an imputed rate of interest.

Usage revenues from fixed-line services (including local, domestic long distance and international long distance), cellular services, Internet and data services, and interconnection and call transfer fees from other telecommunications companies and carriers are billed in arrears and are recognized based upon minutes of traffic processed when the services are provided in accordance with contract terms.

The costs of providing services are recognized as incurred. Incentives to third party dealers for inducing business which are payable when the end user enters into an airtime contract are recognized in marketing expenses as incurred.

Other revenues are recognized as follows: (a) one-time subscriber connection fees (on fixed-line services) are deferred and recognized over the average expected customer service periods, (b) monthly fees (on fixed-line services, wireless and Internet and data services) are accrued every month, and (c) prepaid services (fixed-line, cellular and Internet) are recognized as income based upon actual usage by customers or when the right to use those services expires.

Where the Company enters into transactions which involve both the provision of air time bundled with products such as 3G data card and handset, total consideration received from handsets in these arrangements is allocated and measured using units of accounting within the arrangement based on relative fair values limited to the amount that is not contingent upon the delivery of other items or services.

Where the Company sells products to third party cellular phone stores the Company records the direct sale of the products, typically handsets, as gross revenue when the Company is the primary obligor in the arrangement and when title is passed and the products are accepted by the stores.

An allowance for doubtful receivables is provided based on a review of the collectibility of accounts receivable. The Company determines the amount of allowance for doubtful receivables by examining the aging analysis of outstanding accounts receivable.

Inventories

Inventories including merchandise and work-in-process are stated at the lower of cost (weighted-average cost) or net realizable value item by item, except for those that may be appropriate to group items of similar or related inventories. Net realizable value is the estimated selling price of inventories less all estimated costs of completion and costs necessary to make the sale. The calculation of the cost of inventory is derived using the weighted- average method.

Investments Accounted for using Equity Method

Investments in companies in which the Company exercises significant influence over the operating and financial policy decisions are accounted for by the equity method. Under the equity method, the investment is initially stated at cost and subsequently adjusted for its proportionate share in the net earnings of the investee companies. Any cash dividends received are recognized as a reduction in the carrying value of the investments.

Gains or losses on sales from the Company to equity method investees wherein the Company does not have substantial control over these equity investees are deferred in proportion to the Company's ownership percentage in the investees until such gains or losses are realized through transactions with third parties. Gains or losses on sales from equity method investees to the Company are deferred in proportion to the Company's ownership percentages in the investees until they are realized through transactions with third parties.

Effective January 1, 2006, pursuant to the revised Statement of Financial Accounting Standards No. 5, the cost of an investment shall be analyzed and the difference between the cost of investment and the fair value of identifiable net assets acquired, representing goodwill, shall not be amortized and instead shall be tested for impairment annually. If the fair value of identifiable net assets acquired exceeds the cost of investment, the excess shall be proportionately allocated as reductions to fair values of noncurrent assets except (a) financial assets other than investments accounted for using equity method, (b) assets to be disposed of by sale, (c) deferred tax assets, and (d) prepaid assets relating to pension or other postretirement benefit plans. If any excess remains after reducing the aforementioned items, the remaining excess shall be recognized as an extraordinary gain.

When the Company subscribes for additional investees shares at a percentage different from its existing ownership percentage, the resulting carrying amount of the investment in the investee differs from the amount of the Company share of the investee's equity. The Company records such a difference as an adjustment to long-term investments with the corresponding amount charged or credited to additional paid-in capital to the extent available, with the balance charged to retained earnings.

Financial Assets Carried at Cost

Investments in equity instruments that do not have a quoted price in an active market and whose fair values cannot be reliably measured such as non-publicly traded stocks are measured at their original cost. If there is objective evidence which indicates that a financial asset is impaired, a loss is recognized. A subsequent reversal of such impairment loss is not allowed.

Property, Plant and Equipment

Property, plant and equipment are stated at cost plus a revaluation increment, if any, less accumulated depreciation and accumulated impairment loss. The interest costs that are directly attributable to the acquisition, construction of a qualifying asset are capitalized as property, plant and equipment. Major renewals and betterments are capitalized, while maintenance and repairs are expensed as incurred.

When an indication of impairment is identified, any excess of the carrying amount of an asset over its recoverable amount is recognized as a loss. If the recoverable amount increases in a subsequent period, the amount previously recognized as impairment would be reversed and recognized as a gain. However, the adjusted amount may not exceed the carrying amount that would have been determined, net of depreciation, as if no impairment loss had been recognized.

An impairment loss on a revalued asset is charged to unrealized revaluation increment under equity to the extent available, with the balance is recognized as a loss in earnings. If the recoverable amount increases in a subsequent period, the amount previously recognized as impairment loss could be reversed and recognized as a gain, with the remaining credited to unrealized revaluation increment.

Depreciation expense is computed using the straight-line method over the following estimated service lives: land improvements - 10 to 30 years; buildings - 10 to 60 years; computer equipment - 6 to 10 years; telecommunications equipment - 6 to 15 years; transportation equipment - 5 to 10 years; and miscellaneous equipment - 3 to 12 years.

Upon sale or disposal of property, plant and equipment, the related cost, accumulated depreciation, accumulated impairment losses and any unrealized revaluation increment are deducted from the corresponding accounts, and any gain or loss recorded as non-operating gains or losses in the period of sale or disposal.

Intangible Assets

Intangible assets mainly include 3G Concession, computer software and patents.

The 3G license is valid through December 31, 2018. The 3G Concession fee is amortized on a straight-line basis from the date operations commence through the date the license expires. Computer software costs and patents are amortized using the straight-line method over the estimated useful lives of 3-20 years.

The Company adopted the newly advised Statements of Financial Accounting Standards No. 37, Intangible Assets. Expenditure on research shall be expensed as incurred. Development costs are capitalized when those costs meet relative criteria and are amortized using the straight-line method over estimated useful lives. Development costs that do not meet relative criteria shall be expensed as incurred.

When an indication of impairment is identified, any excess of the carrying amount of an asset over its recoverable amount is recognized as a loss. If the recoverable amount increases in a subsequent period, the amount previously recognized as impairment would be reversed and recognized as a gain. However, the adjusted amount may not exceed the carrying amount that would have been determined, as if no impairment loss had been recognized.

Idle Assets

Idle assets are carried at the lower of recoverable amount or carrying amount.

Pension Costs

For defined benefit pension plans, net periodic pension benefit cost is recorded in the statement of income and includes service cost, interest cost, expected return on plan assets, amortization of prior service costs, amortization of pension gains (losses) and curtailment or settlement gains (losses).

The Company recognizes into income, any unrecognized actuarial net gains or losses that exceed 10% of the larger of projected benefit obligations or plan assets, defined as the corridor. Amounts inside this 10% corridor are amortized over the average remaining service life of active plan participants. Actuarial net gains and losses occur when actual experience differs from any of the many assumptions used to value the plans. Differences between the expected and actual returns on plan assets and changes in interest rate, which affect the discount rate used to value projected plan obligations, can have a significant impact on the calculation of pension net gains and losses from year to year.

The curtailments and settlement gains (losses) resulted from the Chungghwa's early retirement programs. Curtailment/settlement gains or losses are equal to the changes of underfunded status plus the a pro rata portion of the unrecognized prior service cost, unrecognized net gains (losses), and unrecognized transition obligations/assets, before the settlement/curtailment event multiplied by the percentage reduction in projected benefit obligation.

The projected benefit obligation represents the actuarial present value of benefits expected to be paid upon retirement based on estimated future compensation levels.

The carrying amount of accrued pension liability should be the sum of the following amounts: (a) projected benefit obligation as of balance sheet date, (b) minus (plus) unamortized actuarial loss (gain), (c) minus unamortized prior service cost, and (d) minus the fair value of plan assets. If the amount determined by above calculation is negative, it is viewed as prepaid pension cost. The prepaid pension cost is measured at the lower of: (a) the amount determined above, and (b) the sum of the following amounts: (i) unamortized actuarial loss, (ii) unamortized prior service cost, and (iii) the present value of refunds from the plan or reductions in future contributions to the plan.

The measurement of benefit obligations and net periodic cost (income) is based on estimates and assumptions approved by the company's management such as compensation, age and seniority, as well as certain assumptions, including estimates of discount rates, expected return on plan assets and rate of compensation increases.

For employees under defined contribution pension plans, pension costs are recorded based on the actual contributions made to employees individual pension accounts during their service periods.

Expense Recognition

The costs of providing services are recognized as incurred. The cost includes incentives to third party dealers for inducing business which are payable when the end user enters into an airtime contract.

Treasury Stock

Treasury stock is recorded at cost and shown as a reduction to stockholders' equity. Upon cancellation of treasury stock, the treasury stock account is reduced and the common stocks as well as the capital surplus are reversed on a pro rata basis. If capital surplus is not sufficient for debiting purposes, the difference is charged to retained earnings.

Income Tax

The Company applies inter-period allocations for its income tax, whereby deferred income tax assets and liabilities are recognized for the tax effects of temporary differences and unused tax credits. Valuation allowances are provided to the extent, if any, that it is more likely than not that deferred income tax assets will not be realized. A deferred tax asset or liability is classified as current or noncurrent in accordance with the classification of its related asset or liability. However, if a deferred tax asset or liability does not relate to an asset or liability in the financial statements, then it is classified as either current or noncurrent based on the expected length of time before it is realized or settled.

Any tax credits arising from purchases of machinery, equipment and technology, research and development expenditures, personnel training, and investments in important technology-based enterprises are recognized using the flow-through method.

Adjustments of prior years' tax liabilities are added to or deducted from the current year's tax provision.

Income taxes (10%) on undistributed earnings is recorded in the year of stockholders' approval which is the year subsequent to the year the earnings are generated.

Foreign-currency Transactions

Foreign-currency transactions are recorded in New Taiwan dollars at the rates of exchange in effect when the transactions occur. Exchange gains or losses derived from foreign-currency transactions or monetary assets and liabilities denominated in foreign currencies are recognized in earnings. At the balance sheet date, monetary assets and liabilities denominated in foreign currencies are revalued at prevailing exchange rates with the resulting gains or losses recognized in earnings.

The financial statements of foreign equity investees are translated into New Taiwan dollars at the following exchange rates. Assets and liabilities - spot rates at period end; stockholders' equity - historical rates, income and expenses - average rates during the period. The resulting translation adjustments are recorded as a separate component of stockholders' equity.

Hedge Accounting

A hedging relationship qualifies for hedge accounting only if, all of the following conditions are met: (a) at the inception of the hedge, there is formal documentation of the hedging relationship and the entity's risk management objective and strategy for undertaking the hedge; (b) the hedge is expected to be highly effective in achieving offsetting changes in fair value attributable to the hedged risk, consistently with the risk management strategy documented for that particular hedging relationship; (c) the effectiveness of the hedge can be reliably measured; (d) the hedge is assessed on an ongoing basis and determined actually to have been highly effective throughout the financial reporting periods for which the hedge was designated.

The gain or loss from remeasuring the hedging instrument at fair value and the gain or loss on the hedged item attributable to the hedged risk are recognized in earnings.

3. EFFECT OF CHANGES IN ACCOUNTING PRINCIPLE

The Company early adopted the Statement of Financial Accounting Standards No. 41 Operating Segments (SFAS No. 41) starting from September 1, 2009. This Statement supersedes the Statement of Financial accounting Standards No. 20 Segment Reporting . For comparative purpose, the segment information for the nine months ended September 30, 2008 was presented in accordance with SFAS No. 41

The Company adopted the newly-revised Statements of Financial Accounting Standards No. 10, Accounting for Inventories, (SFAS No. 10) beginning from January 1, 2009, which requires inventories to be stated at the lower of cost (weighted-average cost) or net realizable value item by item, except for those that may be appropriate to group items of similar or related inventories. The inventory - related incomes and expenses shall be classified as operating cost. The adoption of the revised SFAS No. 10 does not have significant impact on the Company s net income and basic earnings per share (after income tax) for the nine months ended September 30, 2009. The Company reclassified non-operating losses of \$32,224 thousand to operating costs for the nine months ended September 30, 2008.

In March 2007, the ARDF issued an Interpretation 96-052 that requires companies to recognize bonuses paid to employees, directors and supervisors as an expense rather than an appropriation of earnings beginning from January 1, 2008.

4. CASH AND CASH EQUIVALENTS

	September 30	
	2009	2008
Cash		
Cash on hand	\$ 83,616	\$ 138,775
Bank deposits	10,146,655	16,461,692
Negotiable certificate of deposit, annual yield rate - ranging from 0.15%-0.23% and 1.94%-2.643% for 2009 and 2008, respectively	38,350,000	63,761,675
	48,580,271	80,362,142
Cash equivalents		
Commercial paper purchased, annual yield rate - ranging from 0.16% and 1.96%-3.762% for 2009 and 2008, respectively	2,186,968	18,614,631
	\$ 50,767,239	\$ 98,976,773

As of September 30, 2009 and 2008, foreign deposits in bank were as following:

	September 30	
	2009	2008
United States of America - New York (US\$610 thousand and US\$290,563 thousand for 2009 and 2008, respectively)	\$ 19,653	\$ 9,335,788
Hong Kong (US\$20,603 thousand, EUR139 thousand, JPY13,798 thousand and GBP228 thousand for 2008)	-	685,893
	\$ 19,653	\$ 10,021,681

5. FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	September 30	
	2009	2008
Derivatives - financial assets		
Currency swap contracts	\$ 30,039	\$ -
Index future contracts	-	95,359
	\$ 30,039	\$ 95,359
Derivatives - financial liabilities		
Currency option contracts	\$ -	\$ 1,095,310
Forward exchange contracts	-	328,626
Index future contracts	-	258
	\$ -	\$ 1,424,194

Chunghwa entered into investment management agreements with well-known financial institutions (fund managers) to manage its investment portfolios in 2006. The investment portfolios managed by these fund managers aggregated to an original amount of US\$100,000 thousand. Chunghwa terminated the investment management agreements on March 2, 2009 and asked fund managers to dispose all the investment portfolios. The fund managers had disposed all investment portfolios before June 23, 2009 and returned the proceeds to Chunghwa.

Chunghwa entered into currency swap contracts, forward exchange contracts and index future contracts to reduce its exposure to foreign currency risk and variability in operating results due to fluctuations in exchange rates and stock prices. However, the aforementioned derivatives did not meet the criteria for hedge accounting and were classified as financial assets or financial liabilities held for trading.

Outstanding currency swap contracts and forward exchange contracts on September 30, 2009 and 2008 were as follows:

			Contract Amount
	Currency	Maturity Period	(In Thousands)
<u>September 30, 2009</u>			
Currency swap contracts	USD/NTD	2009.10	USD45,000/NTD1,477,195
<u>September 30, 2008</u>			
Forward exchange contracts - sell	EUR/USD	2008.11	EUR 6,550
	JPY/USD	2008.11	JPY 447,000
	GBP/USD	2008.11	GBP 2,140
	USD/EUR	2008.11	USD 2,131
	USD/GBP	2008.11	USD 327
	USD/NTD	2008.12	USD 320,000

The Company did not have any outstanding index future contracts on September 30, 2009.

Outstanding index future contracts on September 30, 2008 were as follows:

	Maturity Date	Units	Contract Amount (In Thousands)	
September 30, 2008				
AMSTERDAM IDX FUT	2008.10	13	EUR	985
CAC40 10 EURO FUT	2008.10	14	EUR	576
IBEX 35 INDX FUTR	2008.10	7	EUR	761
DAX INDEX FUTURE	2008.12	3	EUR	454
MINI S&P/MIB FUT	2008.12	37	EUR	992
FTSE 100 IDX FUT	2008.12	19	GBP	966
TOPIX INDEX FUTURE	2008.11	36	JPY	437,364
S&P 500 FUTURE	2008.12	16	USD	5,009
S&P 500 EMINI FUTURE	2008.12	55	USD	3,403

As of September 30, 2008, the deposits paid for index future contracts were \$54,540 thousand.

In September 2007, Chunghwa entered into a 10-year, foreign currency derivative contract with Goldman Sachs Group Inc. (Goldman) and valuations are made biweekly starting from September 20, 2007 which are 260 valuation periods in total. Under the terms of the contract, if the NT dollar/US dollar exchange rate is less than NT\$31.50 per U.S. dollar at any two consecutive bi-weekly valuation dates during the valuation period starting from October 4, 2007 to September 5, 2017, Chunghwa was required to make a cash payment to Goldman. The settlement amount is determined by the difference between the applicable exchange rates and the base amount of US\$4,000 thousand. Conversely, if the NT dollar/US dollar exchange rate was above NT\$31.50 per US dollar using the same valuation methodology, Goldman would have a settlement obligation to Chunghwa determined using a base amount of US\$2,000 thousand. Further, if the exchange rate is at or above NT\$32.70 per US dollar starting from December 12, 2007 at any time, the contract will be terminated at that time. In accordance with the terms of the contract, Chunghwa deposited US\$3,000 thousand with Goldman with annual yield rate of 8%. On October 21, 2008, the exchange rate was above NT\$32.70 per US dollar, so the contract was terminated at that time.

Net gain arising from financial assets and liabilities at fair value through profit or loss for the nine months ended September 30, 2009 were \$67,027 thousand (including realized settlement loss of \$54,600 thousand and valuation gain of \$121,627 thousand) and net loss arising from financing assets and liabilities at fair value through profit or loss for the nine months ended September 30, 2008 was \$343,410 thousand (including realized settlement gain of \$424,375 thousand and valuation loss of \$767,785 thousand).

6. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	September 30	
	2009	2008
Open-end mutual funds	\$ 15,694,200	\$ 14,032,320
Real estate investment trust fund	154,615	211,285
Domestic listed stocks	2,705	-
Foreign listed stocks	-	687,993
	\$ 15,851,520	\$ 14,931,598

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For the nine months ended September 30, 2009 and 2008, movements of unrealized gain or loss on financial instruments mentioned above were as follows:

	Nine Months Ended September 30	
	2009	2008
Balance, beginning of period	\$ (2,255,905)	\$ 35,232
Recognized in stockholder's equity	1,426,091	(2,957,767)
Transferred to profit or loss	69,424	302,617
Balance, end of period	\$ (760,390)	\$ (2,619,918)

Global economic and financial circumstances have significantly changed. As a result, Chunghwa determined that the impairment losses of available-for-sale financial assets is other-than-temporary in nature, and recorded impairment losses of \$85,349 thousand and nil for the nine months ended September 30, 2009 and 2008, respectively. Chunghwa recorded impairment losses of \$1,139,105 thousand for the year ended December 31, 2008.

7. HELD-TO-MATURITY FINANCIAL ASSETS

	September 30	
	2009	2008
Corporate bonds, nominal interest rate ranging from 0.752%-4.75% and 2.13%-2.95% for 2009 and 2008, respectively; effective interest rate ranging from 0.752%-2.95% and 2.13%-2.95% for 2009 and 2008, respectively	\$ 4,384,755	\$ 1,099,746
Financial institution bonds, nominal interest rate ranging from 1.95%-2.24% and 3.51% for 2009 and 2008, respectively; effective interest rate ranging from 1.14%-2.9% and 2.9% for 2009 and 2008, respectively	697,256	202,570
Collateralized loan obligation, nominal and effective interest rates were both 2.175% for 2009 and 2008	4,700	47,778
	5,086,711	1,350,094
Less: Current portion	754,882	35,033
	\$ 4,331,829	\$ 1,315,061

8. ALLOWANCE FOR DOUBTFUL ACCOUNTS

	Nine Months Ended September 30	
	2009	2008
Balance, beginning of period	\$ 2,992,143	\$ 3,290,123
Provision for doubtful accounts	353,193	397,407
Accounts receivable written off	(513,910)	(660,368)
Balance, end of period	\$ 2,831,426	\$ 3,027,162

9. OTHER CURRENT MONETARY ASSETS

	September 30	
	2009	2008
Accrued custodial receipts from other carriers	\$ 573,121	\$ 655,021
Receivable from disposal of financial instruments	135,780	1,217,525
Other receivable	1,857,107	1,857,487
	\$ 2,566,008	\$ 3,730,033

10. INVENTORIES, NET

	September 30	
	2009	2008
Work in process	\$ 683,324	\$ 322,679
Merchandise	325,258	357,975
	\$ 1,008,582	\$ 680,654

The operating costs related to inventories were \$3,711,971 thousand and \$3,064,779 thousand (including the valuation loss on inventories of \$32,224 thousand) for the nine months ended September 30, 2009 and 2008, respectively.

11. OTHER CURRENT ASSETS

	September 30	
	2009	2008
Prepaid expenses	\$ 2,901,038	\$ 3,115,354
Spare parts	2,453,230	2,762,710
Prepaid rents	872,619	890,325
Miscellaneous	220,950	303,140
	\$ 6,447,837	\$ 7,071,529

12. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

	September 30			
	2009		2008	
	Carrying Value	% of Ownership	Carrying Value	% of Ownership
Listed				
Senao International Co., Ltd. (SENAO)	\$ 1,279,942	29	\$ 1,271,196	29
Non-listed				

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Light Era Development Co., Ltd. (LED)	2,936,402	100	2,987,971	100
Chunghwa Investment Co., Ltd. (CHI)	1,623,434	89	853,148	49
Chunghwa Telecom Singapore Pte., Ltd. (CHTS)	1,403,076	100	784,461	100

(Continued)

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	September 30			
	2009		2008	
	Carrying Value	% of Ownership	Carrying Value	% of Ownership
Chunghwa System Integration Co., Ltd. (CHSI)	\$ 721,879	100	\$ 791,904	100
Taiwan International Standard Electronics Co., Ltd. (TISE)	464,265	40	572,470	40
CHIEF Telecom Inc. (CHIEF)	439,382	69	408,203	69
InfoExploer Co., Ltd. (IFE)	282,652	49	-	-
Viettel-CHT Co., Ltd. (Viettel-CHT)	271,002	30	97,711	33
Donghwa Telecom Co., Ltd. (DHT)	226,291	100	216,011	100
Chunghwa International Yellow Pages Co., Ltd. (CIYP)	161,091	100	120,697	100
Skysoft Co., Ltd. (SKYSOFT)	88,842	30	81,022	30
Chunghwa Telecom Global, Inc. (CHTG)	69,682	100	86,931	100
KingWay Technology Co., Ltd. (KWT)	68,410	33	76,207	33
Spring House Entertainment Inc. (SHE)	52,532	56	44,070	56
So-Net Entertainment Taiwan (So-net)	40,060	30	-	-
Chunghwa Telecom Japan Co., Ltd. (CHTJ)	11,388	100	-	-
New Prospect Investments Holdings Ltd. (B.V.I.) (New Prospect)	-	100	-	100
Prime Asia Investments Group Ltd. (B.V.I.) (Prime Asia)	-	100	-	100
	8,860,388		7,120,806	
	\$ 10,140,330		\$ 8,392,002	

(Concluded)

On March 27, 2009, the board of directors of Chunghwa resolved to purchase 48,000 thousand common shares of Senao International Co., Ltd. (SENAO) through SENAO's private placement. However, Chunghwa and SENAO did not complete the required procedures within the legal payment period; therefore, Chunghwa and SENAO decided to discontinue the private placement. SENAO engages mainly in selling and maintaining mobile phone and its peripheral products.

Chunghwa established 100% shares of Light Era Development Co., Ltd. (LED) by prepaying \$3,000,000 thousand in January 2008. LED completed its incorporation on February 12, 2008. LED engages mainly in development of property for rent and sale.

Chunghwa invested in Chunghwa Investment Co., Ltd. (CHI) in September 2009 for \$758,709 thousand. Chunghwa increased its ownership interest in CHI from 49% to 89%. CHI engages mainly in professional investing in telecommunication business, the telecommunication valued-added services, and system integration.

Chunghwa established Chunghwa Telecom Singapore Pte., Ltd. (CHTS) in July 2008, for a purchase price of \$200,000 thousand, and increased its investment in CHTS for \$610,659 thousand and \$579,280 thousand in July 2009 and September 2008. CHTS engages mainly in telecommunication wholesale, internet transfer services, international data, long distance call wholesales to carriers and the world satellite business. ST-1 telecommunications satellite is expected be retired in 2011; therefore, CHTS and SingTelSat Pte., Ltd. established a joint venture, ST-2 Satellite Ventures Pte., Ltd. (SSVP) in Singapore in October 2008 in order to maintain the current service. SSVP will engage in the installation and the operation of ST-2 telecommunications satellite.

Chunghwa prepaid \$283,500 thousand to invest in InfoExplorer Co., Ltd. (IFE) and the record date of capital increase of IFE was January 5, 2009. Chunghwa acquired 49% of ownership. Chunghwa has control over IFE by obtaining above half of seats of the board of directors of IFE on January 20, 2009, which was IFE s stockholder s meeting. IFE mainly engages in information system planning and maintenance, software development, and information technology consultation services.

Chunghwa established Viettel-CHT Co., Ltd. (Viettel-CHT) with Viettel Co., Ltd. in Vietnam in April 2008, by investing NT\$91,239 thousand cash. Chunghwa participated in the capital increase of Viettel-CHT in September 2009, by investing \$197,088 thousand cash but its ownership interest of Viettel-CHT was decreased from 33% to 30%. Viettel-CHT engages mainly in IDC services.

Chunghwa invested in Donghwa Telecom Co., Ltd. (DHT) in September 2008 for a purchase price of \$189,833 thousand. DHT engages mainly in international telecommunications, IP fictitious internet and internet transfer services.

Chunghwa invested in KingWay Technology Co., Ltd. (KWT) in January 2008, for a purchase price of \$71,770 thousand. KWT engages mainly in publishing books, data processing and software services.

Chunghwa increased its ownership of Spring House Entertainment Inc. (SHE) from 30% to 56% in January 2008, for a purchase price of \$39,800 thousand, and SHE becomes a subsidiary of Chunghwa. SHE engages mainly in network services, producing digital entertainment contents and broadband visual sound terrace development.

Chunghwa participated in So-net Entertainment Co., Ltd. s capital increase on April 3, 2009, by investing \$60,008 thousand cash, and acquired 30% of its shares. So-net Entertainment Co., Ltd. engages mainly in online service and sale of computer hardware.

Chunghwa established Chunghwa Telecom Japan Co., Ltd. (CHTJ), a 100% owned subsidiary in October 2008 by investing \$6,140 thousand cash, and increased its investment on CHTJ by investing \$11,151 thousand cash in January 2009. CHTJ engages mainly in telecommunication business, information processing and information providing service, development and sale of software and consulting services in telecommunication.

Chunghwa has established New Prospect Investments Holdings Ltd. (B.V.I.) (New Prospect) and Prime Asia Investments Group Ltd. (B.V.I.) (Prime Asia) in March 2006, but not on operation stage yet. Both holding companies are operating as investment companies and Chunghwa has 100% ownership right in an amount of US\$1 in each holding company.

The equity in earnings (losses) of equity investees for the nine months ended September 30, 2009 and 2008, are based on unreviewed financial statements except the equity in earnings of SENAO.

The aggregate carrying values of the equity method investments whose financial statements have not been reviewed were \$8,942,371 thousand and \$7,197,490 thousand as of September 30, 2009 and 2008, respectively. The equity in earnings (losses) were \$(7,358) thousand and \$125,741 thousand for the nine months ended September 30, 2009 and 2008, respectively.

13. FINANCIAL ASSETS CARRIED AT COST

	September 30			
	2009	%	2008	%
	Carrying Value	of Ownership	Carrying Value	of Ownership
Non-listed:				
Taipei Financial Center (TFC)	\$ 1,789,530	12	\$ 1,789,530	12
Industrial Bank of Taiwan II Venture Capital Co., Ltd. (IBT II)	200,000	17	200,000	17
Global Mobile Corp. (GMC)	127,018	11	127,018	11
iD Branding Ventures (iDBV)	75,000	8	75,000	8
RPTI International (RPTI)	34,500	10	34,500	12
Essence Technology Solution, Inc. (ETS)	10,000	9	20,000	9
	\$ 2,236,048		\$ 2,246,048	

Chunghwa invested in IBT II in January 2008, for a purchase price of \$200,000 thousand. IBT II completed its incorporation on February 13, 2008 and engages mainly in investment activities.

Chunghwa invested in GMC in December 2007, for a purchase price of \$168,038 thousand for 16,796 thousand shares. GMC engages mainly in wire communication services and computer software wholesale and circuit engineering. The National Communications Commission (NCC) informed Chunghwa with the Communication Letter (#0974102087) on April 1, 2008 that its investment in GMC was not authorized by NCC, and notified Chunghwa on May 5, 2008 that Chunghwa should dispose of its investment in GMC no later than June 30, 2008; otherwise, NCC would fine Chunghwa according to the Telecommunication Act. In April 2008, Chunghwa disposed of a portion of its investment in GMC (4,100 thousand shares) and filed an appeal to NCC to suspend the enforcement. In July 2008, NCC resolved that according to the Administrative Penalty Act, Chunghwa could not divest of its investment in the short time period provided and that Chunghwa would not be subject to fines as noted above. In October 2008, NCC revoked the original decree about Chunghwa's investment in GMC therefore, Chunghwa did not dispose of its remaining holding in GMC.

After evaluating the investment carried at cost, Chunghwa determined the investment in RPTI was impaired and recognized an impairment loss of \$15,000 thousand for the nine months ended September 30, 2008 and also recognized an impairment loss of \$10,000 thousand in ETS in the fourth quarter in 2008.

Chunghwa participated in TFC's capital increase in October 2008 and prepaid \$285,859 thousand. However, TFC is not expected to be able to collect enough amount of capital increase within a specific period; therefore TFC's board of directors held a meeting on April 10, 2009 and resolved to withdraw its capital increase plan from Securities and Futures Bureau of Financial Supervisory Commission, Executive Yuan (SFB). TFC returned the prepayment to Chunghwa on May 8, 2009.

The above investments that do not have a quoted market price in an active market and whose fair values cannot be reliably measured are carried at original cost.

14. OTHER NONCURRENT MONETARY ASSETS

	September 30	
	2009	2008
Piping Fund	\$ 1,000,000	\$ 1,000,000

As part of the government's effort to upgrade the existing telecommunications infrastructure, Chunghwa and other public utility companies were required by the ROC government to contribute a total of \$1,000,000 thousand to a Fixed-Line Fund administered by the Taipei City Government. This fund was used to finance various telecommunications infrastructure projects.

15. PROPERTY, PLANT AND EQUIPMENT

	September 30	
	2009	2008
Cost		
Land	\$ 101,258,906	\$ 101,872,198
Land improvements	1,514,307	1,487,827
Buildings	62,624,721	62,455,514
Computer equipment	15,249,625	14,844,193
Telecommunications equipment	650,698,396	642,472,190
Transportation equipment	2,233,859	2,732,563
Miscellaneous equipment	7,163,871	7,322,378
Total cost	840,743,685	833,186,863
Revaluation increment on land	5,810,342	5,820,548
	846,554,027	839,007,411
Accumulated depreciation		
Land improvements	937,395	885,231
Buildings	17,063,296	15,997,345
Computer equipment	11,690,281	11,487,918
Telecommunications equipment	514,138,890	500,163,851
Transportation equipment	2,040,143	2,591,062
Miscellaneous equipment	6,091,583	6,268,538
	551,961,588	537,393,945
Construction in progress and advances related to acquisition of equipment	15,360,010	16,537,168
Property, plant and equipment, net	\$ 309,952,449	\$ 318,150,634

Pursuant to the related regulations, Chunghwa revalued its land owned as of April 30, 2000 based on the publicly announced values as of July 1, 1999. These revaluations which were approved by the Ministry of Auditing resulted in increases in the carrying values of property, plant and equipment of \$5,986,074 thousand, liabilities for land value incremental tax of \$211,182 thousand, and stockholder's equity-other adjustments of \$5,774,892 thousand.

The amendment to the Land Tax Act, relating to the article to permanently lower land value incremental tax, went effective from February 1, 2005. In accordance with the lowered tax rates, Chunghwa recomputed its land value incremental tax, and reclassified the reserve for land value incremental tax of \$116,196 thousand to stockholder's equity - other adjustments. As of September 30, 2009, capital surplus from revaluation of land had decreased to \$5,812,879 thousand by disposal of some revaluated assets.

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Depreciation on property, plant and equipment for the nine months ended September 30, 2009 and 2008 amounted to \$26,299,984 thousand and \$27,752,894 thousand, respectively. No interest expense was capitalized for the nine months ended September 30, 2009 and 2008.

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16. ACCRUED EXPENSES

	September 30	
	2009	2008
Accrued salary and compensation	\$ 6,735,762	\$ 5,950,140
Accrued franchise fees	1,681,359	1,799,405
Accrued employees' bonus and remuneration to directors and supervisors	1,261,057	1,148,037
Other accrued expenses	2,798,141	1,579,874
	\$ 12,476,319	\$ 10,477,456

17. OTHER CURRENT LIABILITIES

	September 30	
	2009	2008
Advances from subscribers	\$ 6,014,455	\$ 5,800,071
Amounts collected in trust for others	2,481,843	2,646,872
Payables to constructors	1,847,980	953,902
Refundable customers' deposits	1,026,561	964,655
Payables to equipment suppliers	945,640	1,300,021
Miscellaneous	3,048,784	2,821,960
	\$ 15,365,263	\$ 14,487,481

18. STOCKHOLDERS EQUITY

Under Chunghwa's Articles of Incorporation, Chunghwa's authorized capital is \$120,000,000,000 which is divided into 12,000,000,000 common shares (at \$10 par value per share), among which 10,666,488,999 shares are issued and outstanding as of September 30, 2009.

On March 28, 2006, the board of directors approved the issuance of the 2 preferred shares, and the MOTC purchased the 2 preferred shares at par value on April 4, 2006. In accordance with the Articles of Incorporation of Chunghwa, the preferred shares would be redeemed by Chunghwa three years from the date of issuance at their par value. These preferred shares expired on April 4, 2009 and were redeemed on April 6, 2009.

For the purpose of privatizing Chunghwa, the MOTC sold 1,109,750 thousand common shares of Chunghwa in an international offering of securities in the form of American Depositary Shares (ADS) amounting to 110,975 thousand units (one ADS represents ten common shares) on the New York Stock Exchange on July 17, 2003. Afterwards, the MOTC sold 1,350,682 thousand common shares in the form of ADS amounting to 135,068 thousand units on August 10, 2005. Subsequently, the MOTC and Taiwan Mobile Co., Ltd. sold 505,389 thousand and 58,959 thousand common shares of Chunghwa, respectively, in the form of ADS totally amounting to 56,435 thousand units on September 29, 2006. The MOTC and Taiwan Mobile Co., Ltd. have sold 3,024,780 thousand common shares in the form of ADS amounting to 302,478 thousand units. As of September 30, 2009, the outstanding ADSs were 1,194,657 thousand units, which equaled approximately 119,466 thousand common shares and represented 11.20% of Chunghwa's total outstanding common shares.

The ADS holders generally have the same rights and obligations as other common stockholders, subject to the provision of relevant laws. The exercise of such rights and obligations shall comply with the related regulations and deposit agreement, which stipulate, among other things, that ADS holders can, through deposit agents:

- a. Exercise their voting rights,
- b. Sell their ADSs, and
- c. Receive dividends declared and subscribe to the issuance of new shares.

Under the ROC Company Law, additional paid-in capital may only be utilized to offset deficits. For those companies having no deficits, additional paid-in capital arising from capital surplus can be used to increase capital stock and distribute to stockholders in proportion to their ownership at the ex-dividend date. Also, such amounts can only be declared as a stock dividend by Chunghwa at an amount calculated in accordance with the provisions of existing regulations. The combined amount of any portions capitalized each year may not exceed 10 percent of common stock issued. However, where a company undergoes an organizational change (such as a merger, acquisition, or reorganization) that results in the capitalization of undistributed earnings after the organizational change, the above restriction does not apply.

In addition, before distributing a dividend or making any other distribution to stockholders, Chunghwa must pay all outstanding taxes, recover any past losses and set aside a legal reserve equal to 10% of its net income, and depending on its business needs or requirements, may also set aside a special reserve. In accordance with the Articles of Incorporation, no less than 50% of the remaining earnings comprising remaining balance of net income, if any, plus cumulative undistributed earnings shall be distributed in the following order: (a) from 2% to 5% of distributable earnings shall be distributed to employees as employee bonus; (b) no more than 0.2% of distributable earnings shall be distributed to board of directors and supervisors as remuneration; and (c) cash dividends to be distributed shall not be less than 50% of the total amount of dividends to be distributed. If cash dividends to be distributed is less than NT\$0.10 per share, such cash dividend shall be distributed in the form of common shares.

Chunghwa operates in a capital-intensive and technology-intensive industry and requires capital expenditures to sustain its competitive position in high-growth market. Thus, Chunghwa's dividend policy takes into account future capital expenditure outlays. In this regard, a portion of the earnings may be retained to finance these capital expenditures. The remaining earnings can then be distributed as dividends if approved by the stockholders in the following year and will be recorded in the financial statements of that year.

For the nine months ended September 30, 2009 and 2008, the accrual amounts for bonuses to employees and remuneration to directors and supervisors is based on management estimates including past experience and probable amount to be paid in accordance with Chunghwa's Articles of Incorporation and Implementation Guidance for the Employee's Bonus Distribution of Chunghwa Telecom Co., Ltd.

If the initial accrual amounts of the aforementioned bonus are significantly different from the amounts proposed by the board of directors, the difference is charged to the earnings of the year making the initial estimate. Otherwise, the difference between initial accrual amounts and the amounts resolved in the shareholders' meeting is charged to the earnings of the following year as a result of change of accounting estimate.

Under the ROC Company Law, the appropriation for legal reserve shall be made until the accumulated reserve equals the aggregate par value of the outstanding capital stock of Chunghwa. This reserve can only be used to offset a deficit, or when reaching 50% of the aggregate par value of the outstanding capital stock of Chunghwa, up to 50% of the reserve may, at the option of Chunghwa, be declared as a stock dividend and transferred to capital.

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The appropriations and distributions of the 2008 and 2007 earnings of Chunghwa have been approved by the stockholders on June 19, 2009 and June 19, 2008 as follows:

	Appropriation and Distribution		Dividend Per Share	
	2008	2007	2008	2007
Legal reserve	\$ 4,127,675	\$ 4,823,356	\$ -	\$ -
Special reserve	475	-	-	-
Reversal of special reserve	-	3,304	-	-
Cash dividends	37,138,775	40,716,130	3.83	4.26
Stock dividends	-	955,778	-	0.10
Employee bonus - cash	-	1,303,605	-	-
Employee bonus - stock	-	434,535	-	-
Remuneration to board of directors and supervisors	-	43,454	-	-

The amounts for bonuses to employees and remuneration to directors and supervisors approved in the stockholders meeting on June 19, 2009, were \$1,629,915 thousand and \$38,807 thousand, respectively. The bonus to employees was all settled in cash. The aforementioned approved amounts of the bonus to employees and the remuneration to directors and supervisors were different from the accrual amounts of \$1,723,921 thousand and \$40,886 thousand, respectively, reflected in the statement of income for the year ended December 31, 2008. The differences of \$94,006 thousand and \$2,079 thousand, respectively, were treated as change in estimates and were adjusted against earnings for the six months ended June 30, 2009.

Information on the appropriation of Chunghwa's 2008 earnings, employee bonus and remuneration to directors and supervisors resolved by the board of directors and approved by the stockholders is available at the Market Observation Post System website.

The stockholders, at a meeting held on June 19, 2009, resolved to transfer capital surplus in the amount of \$9,696,808 thousand to common capital stock. The abovementioned 2009 capital increase proposal was effectively registered with SFB. The board of directors authorized the chairman of directors to decide the ex-dividend date of the aforementioned proposal and the chairman decided the ex-dividend date as August 9, 2009.

The stockholders, at the stockholders meeting held on June 19, 2009, also resolved to reduce the amount of capital in Chunghwa by a cash distribution to its stockholders in order to improve the financial condition of Chunghwa and better utilize its excess funds. The abovementioned 2009 capital reduction proposal was effectively registered with SFB. The board of directors of Chunghwa further authorized the chairman of board of directors of Chunghwa to designate the record date of capital reduction as of October 26, 2009.

The stockholders, at a special meeting held on August 14, 2008, resolved to transfer capital surplus in the amount of \$19,115,554 thousand to common capital stock. The abovementioned 2008 capital increase proposal was effectively registered with SFB. The board of directors resolved the ex-dividend date of the aforementioned proposal as October 25, 2008.

The stockholders, at the stockholders meeting held on August 14, 2008, also resolved to reduce the amount of capital in Chunghwa by a cash distribution to its stockholders in order to improve the financial condition of Chunghwa and better utilize its excess funds. The capital reduction plan was effected by a transfer of capital surplus in the amount of \$19,115,554 thousand to common capital stock and was effectively registered with SFB. Chunghwa designated December 30, 2008 as the record date and March 9, 2009 as the stock transfer date of capital reduction. Subsequently, common capital stock was reduced by \$19,115,554 thousand and a liability for the same amount of cash to be distributed to stockholders was recorded. Such cash payment to stockholders was made in March 2009.

The stockholders, at a meeting held on June 15, 2007, resolved to transfer capital surplus in the amount of \$9,667,845 thousand to common capital stock, and the capital increase proposal was effectively registered with SFB.

The stockholders, at the stockholders meeting held on June 15, 2007, also resolved to reduce the amount of capital in Chunghwa by a cash distribution to its stockholders in order to improve the financial condition of Chunghwa and better utilize its excess funds. The capital reduction plan was effected by a transfer of capital surplus in the amount of \$9,667,845 thousand to common capital stock and was effectively registered with SFB. Chunghwa designated October 19, 2007 and December 29, 2007 as the record date and the stock transfer date of capital reduction, respectively. Subsequently, common capital stock was reduced by \$9,667,845 thousand and a liability for the actual amount of cash to be distributed to stockholders of \$9,557,777 thousand was recorded. The difference between the reduction in common capital stock and the distribution amount represents treasury stock of \$110,068 thousand held by Chunghwa and concurrently cancelled. Such cash payment to stockholders was made in January 2008.

19. TREASURY STOCK (COMMON STOCK IN THOUSANDS OF SHARES)

	Nine Months Ended September 30	
	2009	2008
Balance, beginning of period	-	110,068
Decrease	-	(110,068)
Balance, end of period	-	-

According to the Securities and Exchange Law of the ROC, total shares of treasury stock shall not exceed 10% of Chunghwa's stock issued. The total amount of the repurchased shares shall not be more than the total amount of retained earnings, capital surplus and realized additional paid-in capital. The Company shall neither pledge treasury stock nor exercise stockholders' rights on these shares, such as rights to receive dividends and to vote.

In order to maintain its credit and stockholders' equity, Chunghwa repurchased 121,075 thousand treasury stock for \$7,217,562 thousand from August 29, 2007 to October 25, 2007. On December 29, 2007, Chunghwa cancelled 11,007 thousand shares of treasury stock by reducing common stock of \$110,068 thousand. The remaining treasury stock of 110,068 thousand shares amounted \$7,107,494 thousand was cancelled on February 21, 2008.

20. COMPENSATION, DEPRECIATION AND AMORTIZATION EXPENSES

	Nine Months Ended September 30, 2009		
	Operating		
	Cost of Services	Expenses	Total
Compensation expense			
Salaries	\$ 9,081,304	\$ 6,197,076	\$ 15,278,380
Insurance	719,816	499,502	1,219,318
Pension	1,210,960	861,146	2,072,106
Other compensation	6,206,061	4,184,134	10,390,195
	\$ 17,218,141	\$ 11,741,858	\$ 28,959,999
Depreciation expense	\$ 24,884,906	\$ 1,415,078	\$ 26,299,984

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Amortization expense	\$ 683,182	\$ 119,299	\$ 802,481
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	Nine Months Ended September 30, 2008		
	Cost of Services	Operating Expenses	Total
Compensation expense			
Salaries	\$ 9,054,779	\$ 6,222,985	\$ 15,277,764
Insurance	616,423	421,274	1,037,697
Pension	1,201,143	857,298	2,058,441
Other compensation	5,714,436	3,893,124	9,607,560
	\$ 16,586,781	\$ 11,394,681	\$ 27,981,462
Depreciation expense	\$ 26,232,253	\$ 1,520,641	\$ 27,752,894
Amortization expense	\$ 647,808	\$ 101,499	\$ 749,307

21. INCOME TAX

- a. A reconciliation between income tax expense computed by applying the statutory income tax rate of 25% to income before income tax and income tax payable is as follows:

	Nine Months Ended September 30	
	2009	2008
Income tax expense computed at statutory income tax rate of 25% to income before income tax	\$ 10,715,385	\$ 11,825,437
Add (deduct) tax effect of:		
Permanent differences	(141,822)	(396,987)
Temporary differences	4,445	640,826
Additional tax at 10% on undistributed earnings	6,441	-
Investment tax credits	(1,043,990)	(1,053,332)
Income tax payable	\$ 9,540,459	\$ 11,015,944

- b. Income tax expense consists of the following:

	Nine Months Ended September 30	
	2009	2008
Income tax payable	\$ 9,540,459	\$ 11,015,944
Income tax - separated	55,684	223,196
Income tax - deferred	280,840	(497,179)
Adjustments of prior years income tax	(194,323)	37,741
	\$ 9,682,660	\$ 10,779,702

In May 2009, the Legislative Yuan passed the amendment of Article 5 of the Income Tax Law, which reduces the income tax rate of profit-seeking enterprises from 25% to 20% since 2010. The Company recalculated its deferred income tax assets and liabilities in accordance with the amended Article and recorded the resulting difference as an income tax expense or benefit.

c. Net deferred income tax assets (liabilities) consists of the following:

	September 30	
	2009	2008
Current		
Provision for doubtful accounts	\$ 364,658	\$ 474,975
Unrealized accrued expense	64,491	-
Unrealized foreign exchange loss	14,520	12,819
Valuation (gain) loss on financial instruments, net	(18,574)	335,390
Other	12,482	32,714
	437,577	855,898
Valuation allowance	(364,658)	(474,975)
Net deferred income tax assets-current	\$ 72,919	\$ 380,923
Noncurrent		
Accrued pension cost	\$ 1,133,974	\$ 1,395,793
Impairment loss	64,163	80,418
Loss on disposal of property, plant and equipment	-	12,970
Net deferred income tax assets - noncurrent	\$ 1,198,137	\$ 1,489,181

d. The related information under the Integrated Income Tax System is as follows:

	September 30	
	2009	2008
Balance of Imputation Credit Account (ICA)	\$ 146,047	\$ 13,820,421

The actual creditable rates distribution of Chunghwa s of 2008 and 2007 for earnings were 30.61% and 28.81%, respectively.

e. Undistributed earnings information

All Chunghwa s earnings generated prior to September 30,1998 have been appropriated.

Chunghwa s income tax returns have been examined by tax authorities through 2005.

22. EARNINGS PER SHARE

EPS was calculated as follows:

	Amount (Numerator)		Weighted-average Number of Common Shares Outstanding (Denominator)	Earnings Per Share (Dollars)	
	Income			Income Before Income Tax	Net Income
	Before Income Tax	Net Income			
<u>Nine months ended September 30, 2009</u>					
Basic EPS					
Income available to stockholders	\$ 42,861,579	\$ 33,178,919	9,696,808	\$ 4.42	\$ 3.42
Effect of dilutive potential common stock					
SENAO's stock options	(4,215)	(4,215)	-		
Employee bonus	-	-	29,742		
Diluted EPS					
Income available to stockholders	\$ 42,857,364	\$ 33,174,704	9,726,550	\$ 4.41	\$ 3.41
<u>Nine months ended September 30, 2008</u>					
Basic EPS					
Income available to stockholders	\$ 47,301,789	\$ 36,522,087	9,696,808	\$ 4.88	\$ 3.77
Effect of dilutive potential common stock					
SENAO's stock options	(14,479)	(14,479)	-		
Employee bonus	-	-	18,313		
Diluted EPS					
Income available to stockholders	\$ 47,287,310	\$ 36,507,608	9,715,121	\$ 4.87	\$ 3.76

In March 2007, the ARDF issued an Interpretation 96-052 that requires companies to recognize bonuses paid to employees, directors and supervisors as an expense rather than an appropriation of earnings beginning from January 1, 2008. According to the Interpretation 97-169 issued by ARDF in May 2008, Chunghwa presumed that the employees bonuses to be paid will be settled in shares and takes those shares into consideration when calculating the weighted average number of outstanding shares used in the calculation of diluted EPS if the shares have a dilutive effect for the nine months ended September 30, 2009. The number of shares is calculated by dividing the amount of bonuses by the closing price of the Chunghwa's shares of the balance sheet date. The dilutive effect of the shares needs to be considered until the stockholders resolve the number of shares to be distributed to employees in their meeting in the following year.

The diluted earnings per share for the nine months ended September 30, 2009 and 2008 was due to the effect of potential common stock of stock options by SENAO.

The weighted average number of outstanding shares for EPS calculation has been retroactively adjusted for employee stock bonuses issued in 2008 as a result of the distribution of 2007 earnings and the issuance of stock dividends. The retroactive adjustments caused the basic EPS before income tax and after income tax for the nine months ended September 30, 2008 to decrease from NT\$4.95 to NT\$4.88 and decrease from NT\$3.82 to NT\$3.77, respectively, and the diluted EPS before income tax and after income tax for the nine months ended September 30, 2008, to decrease from NT\$4.94 to NT\$4.87 and decrease from NT\$3.81 to NT\$3.76, respectively.

23. PENSION PLAN

Chunghwa completed privatization plans on August 12, 2005. Chunghwa is required to pay all accrued pension obligations including service clearance payment, lump sum payment under civil service plan, additional separation payments, etc. upon the completion of the privatization in accordance with the Statute Governing Privatization of Stated-owned Enterprises. After paying all pension obligations for privatization, the plan assets of Chunghwa should be transferred to the Fund for Privatization of Government-owned Enterprises (the Privatization Fund) under the Executive Yuan. On August 7, 2006, Chunghwa transferred the remaining balance of fund to the Privatization Fund. However, according to the instructions of MOTC, Chunghwa would, on behalf of the MOTC to pay all accrued pension obligations including service clearance payment, lump sum payment under civil service plan, additional separation payments, etc. upon the completion of the privatization.

The pension plan under the Labor Pension Act of ROC (the LPA) is effective beginning July 1, 2005 and this pension mechanism is considered as a defined contribution plan. Based on the LPA, Chunghwa makes monthly contributions to employees individual pension accounts at 6% of monthly salaries and wages.

Chunghwa s pension plan is considered as a defined benefit plan under the Labor Standards Law that provide benefits based on an employee s length of service and average six-month salary prior to retirement at retirement. Chunghwa contributes an amount at 15% or less of salaries paid each month to their respective pension funds (the Funds), which are administered by the Labor Pension Fund Supervisory Committee (the Committee) and deposited in the names of the Committees in the Bank of Taiwan.

The balance of Chunghwa s plan assets subject to defined benefit plan were \$6,095,935 thousand and \$3,629,884 thousand as of September 30, 2009 and 2008, respectively.

Pension costs of Chunghwa were \$2,126,884 thousand (\$2,049,176 thousand subject to defined benefit plan and \$77,708 thousand subject to defined contribution plan) and \$2,121,602 thousand (\$2,061,053 thousand subject to defined benefit plan and \$60,549 thousand subject to defined contribution plan) for the nine months ended September 30, 2009 and 2008, respectively.

24. TRANSACTIONS WITH RELATED PARTIES

The ROC Government, one of Chunghwa s customers held significant equity interest in Chunghwa. Chunghwa provides fixed-line services, wireless services, Internet and data and other services to the various departments and institutions of the ROC Government and other state-owned enterprises in the normal course of business and at arm s-length prices. The information on service revenues from government bodies and related organizations have not been provided because details of the type of transactions were not summarized by Chunghwa. Chunghwa believes that all costs of doing business are reflected in the financial statements.

- a. Chunghwa engages in business transactions with the following related parties:

Company	Relationship
Senao International Co., Ltd. (SENAO)	Subsidiary
Light Era Development Co., Ltd. (LED)	Subsidiary
Chunghwa Telecom Singapore Pte., Ltd. (CHTS)	Subsidiary
CHIEF Telecom, Inc. (CHIEF)	Subsidiary
InfoExplorer Co., Ltd. (IFE)	Subsidiary
Chunghwa Telecom Japan Co., Ltd. (CHTJ)	Subsidiary
Chunghwa International Yellow Pages Co., Ltd. (CIYP)	Subsidiary

(Continued)

Company	Relationship
Chunghwa System Integration Co., Ltd. (CHSI)	Subsidiary
Spring House Entertainment Inc. (SHE)	Subsidiary
Chunghwa Telecom Global, Inc. (CHTG)	Subsidiary
Donghwa Telecom Co., Ltd. (DHT)	Subsidiary
New Prospect Investments Holdings Ltd. (B.V.I.) (New Prospect)	Subsidiary
Prime Asia Investments Group Ltd. (B.V.I.) (Prime Asia)	Subsidiary
Chunghwa Investment Co., Ltd. (CHI)	Equity-method investee before Chunghwa obtained control over CHI on September 9, 2009
Chunghwa Investment Holding Company (CIHC)	Subsidiary of CHI before Chunghwa obtained control over CHI on September 9, 2009
Chunghwa Precision Test Tech. Co., Ltd. (CHPT)	Subsidiary of CHI before Chunghwa obtained control over CHI on September 9, 2009
Unigate Telecom Inc. (Unigate)	Subsidiary of CHIEF
CHIEF Telecom (Hong Kong) Limited (CHK)	Subsidiary of CHIEF
Chief International Corp. (CIC)	Subsidiary of CHIEF
Concord Technology Co., Ltd. (Concord)	Subsidiary of CHSI
Glory Network System Service (Shanghai) Co., Ltd. (Glory)	Subsidiary of Concord
Taiwan International Standard Electronics Co., Ltd. (TISE)	Equity-method investee
So-net Entertainment Taiwan (So-net)	Equity-method investee
Skysoft Co., Ltd. (SKYSOFT)	Equity-method investee
Senao Networks, Inc. (SNI)	Equity-method investee of SENAO
ELTA Technology Co., Ltd. (ELTA)	Equity-method investee before Chunghwa sold all shares in July 2008

(Concluded)

b. Significant transactions with the above related parties are summarized as follows:

	September 30			
	2009		2008	
	Amount	%	Amount	%
1) Receivables from related parties				
Trade notes, accounts receivable and other receivables				
SENAO	\$ 382,723	63	\$ 168,874	59
CHSI	124,623	20	50	-
CIYP	29,200	5	33,366	12
CHIEF	21,227	4	27,307	10
CHTG	20,973	3	46,198	16
DHT	10,604	2	-	-
SHE	7,626	1	8,224	3
Others	12,254	2	354	-
	\$ 609,230	100	\$ 284,373	100

	September 30			
	2009		2008	
	Amount	%	Amount	%
2) Payables				
Trade notes payable, accounts payable and accrued expenses				
TISE	\$ 718,339	35	\$ 160,501	10
SENAO	674,209	32	797,535	48
CHSI	212,492	10	134,463	8
DHT	46,484	2	9,062	1
CHIEF	45,899	2	19,734	1
CHTG	44,941	2	24,136	1
CIYP	41,682	2	4,823	-
SNI	-	-	25,045	2
Others	20,974	1	17,502	1
	1,805,020	86	1,192,801	72
Payable to constructors				
TISE	15,412	1	19,978	1
CHSI	-	-	3,152	-
	15,412	1	23,130	1
Amounts collected in trust for others				
SENAO	255,005	12	318,277	19
CIYP	21,095	1	117,738	7
Others	3,364	-	10,988	1
	279,464	13	447,003	27
	\$ 2,099,896	100	\$ 1,662,934	100

3) Revenue in advance - land (included in other current liabilities)

LED	\$ -	-	\$ 243,460	2
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	Nine Months Ended September 30			
	2009		2008	
	Amount	%	Amount	%
4) Revenues				
SENAO	\$ 597,522	1	\$ 1,447,021	1
CHIEF	178,630		152,199	-
So-net	49,174		-	-
CHTG	42,552		140,957	-
SKYSOFT	25,677		24,682	-
DHT	18,832	-	297	-
CIYP	13,913		18,068	-
CHSI	12,008		20,768	-
Others	33,178		12,599	-
	\$ 971,486	1	\$ 1,816,591	1

	Nine Months Ended September 30			
	2009		2008	
	Amount	%	Amount	%
5) Operating costs and expenses				
SENAO	\$ 4,067,833	5	\$ 5,328,404	6
TISE	764,174	1	396,925	1
CHSI	362,686	-	294,113	-
CHIEF	228,951	-	121,886	-
CHTG	49,560	-	50,561	-
SHE	45,170	-	30,089	-
CIYP	35,621	-	109,784	-
DHT	28,627	-	71,668	-
SNI	217	-	8,050	-
ELTA	-	-	189,744	-
Others	27,315	-	3	-
	\$ 5,610,154	6	\$ 6,601,227	7

6) Acquisition of property, plant and equipment

TISE	\$ 780,611	5	\$ 313,803	2
CHSI	363,175	2	474,891	3
CHTG	21,360	-	57,675	-
IFE	819	-	-	-
SENAO	268	-	725	-
	\$ 1,166,233	7	\$ 847,094	5

Chunghwa sold the land with a carrying value of \$703,125 thousand to Light Era Development Co., Ltd. (LED) at the price of \$1,820,880 thousand during the nine months ended September 30, 2008. However, since the gain on disposal of land amounting to \$1,117,755 thousand is unrealized, the gain was recognized as deferred credit - profit on intercompany transactions, and will not be recognized as revenue till the gain is realized in the future. As of September 30, 2009, the deferred credit-profit on intercompany transactions amounting \$1,485,916 thousand included the unrealized gain on land sold to LED in the fourth quarter of 2008.

The foregoing transactions with related parties were conducted as arm's length transactions, except for the transactions with SENAO, CHIEF and CIYP were determined in accordance with mutual agreements.

25. SIGNIFICANT COMMITMENTS AND CONTINGENCIES

As of September 30, 2009, Chunghwa's remaining commitments under non-cancelable contracts with various parties were as follows:

- a. Acquisitions of land and buildings of \$241,832 thousand.
- b. Acquisitions of telecommunications equipment of \$21,032,748 thousand.
- c. Contracts to print billing, envelopes and selling gifts \$79,313 thousand.

- d. Chunghwa also has non-cancelable operating leases covering certain buildings, computers, computer peripheral equipment and operating system software under contracts that expire in various years. Future lease payments were as follows:

Year	Rental Amount
2009 (from October 1, 2009 to December 31, 2009)	\$ 486,944
2010	1,391,668
2011	1,148,203
2012	867,601
2013 and thereafter	902,807

- e. A commitment to contribute \$2,000,000 thousand to a Piping Fund administered by the Taipei City Government, of which \$1,000,000 thousand was contributed by Chunghwa on August 15, 1996 (classified as long-term investment - other monetary assets). When the fund is not sufficient, Chunghwa will contribute the remaining \$1,000,000 thousand upon notification from the Taipei City Government. Based on Chunghwa's understanding of the Piping Fund terms, if the project is considered to be no longer necessary by the ROC government, Chunghwa will receive back its proportionate share of the net equity of the Piping Fund upon its dissolution. Chunghwa does not know when its contribution to the Piping Fund will be returned; therefore, Chunghwa did not discount the face amount of its contribution on the Piping Fund.
- f. A portion of the land used by Chunghwa during the period July 1, 1996 to December 31, 2004 was co-owned by Chunghwa and Chunghwa Post Co., Ltd. (the former 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 Chunghwa to reimburse Chunghwa Post Co., Ltd. in the amount of \$767,852 thousand for land usage compensation due to the portion of land usage area in excess of Chunghwa's ownership and along with interest calculated at 5% interest rate from June 30, 2005 to the payment date. Chunghwa stated that both parties have the right to use co-management land without consideration. Chunghwa Post Co., Ltd. can not request payment for land compensation. Furthermore, Chunghwa believes that the computation used to derive the land usage compensation amount is inaccurate because most of the compensation amount has expired as result of the expiration clause. Therefore, Chunghwa filed an appeal at the Taiwan Taipei District Court. On March 30, 2009, the Taiwan Taipei District Court rendered its judgment that Chunghwa only need to pay \$16,870 thousand along with interest calculated at 5% per annum from July 23, 2005 and 4% of the court fees as the court judgment compensation. Chunghwa had filed an appeal at the Taiwan High Court within the statutory period. As of the date of the review report, the appeal is still in process.
- g. Giga Media filed a civil action against Chunghwa with the Taiwan Taipei District Court (the Court) on June 12, 2008. The complaint alleged that Chunghwa infringed Giga Media's ROC Patent No. I 258284 which is a Point-to-Point Protocol over Ethernet (PPPoE) technique used to launch fixed IP of ADSL. Giga Media is seeking damages of \$500,000 thousand and interest calculated at 5% for the period from one day following the date Chunghwa received the official notification from the Court to the payment date. Giga Media withdrew this civil action on October 2, 2009.

26. FAIR VALUE OF FINANCIAL INSTRUMENTS

a. Fair values of financial instruments were as follows:

	2009		September 30		2008	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets						
Cash and cash equivalents	\$ 50,767,239	\$ 50,767,239	\$ 98,976,773	\$ 98,976,773		
Financial assets at fair value through profit or loss	30,039	30,039	95,359	95,359		
Available-for-sale financial assets	15,851,520	15,851,520	14,931,598	14,931,598		
Held-to-maturity financial assets - current	754,882	754,882	35,033	35,033		
Trade notes and accounts receivable, net	10,612,296	10,612,296	10,786,930	10,786,930		
Receivables from related parties	609,230	609,230	284,373	284,373		
Other current monetary assets	2,566,008	2,566,008	3,730,033	3,730,033		
Investments accounted for using equity method	10,140,330	12,263,692	8,392,002	9,423,134		
Financial assets carried at cost	2,236,048	2,236,048	2,246,048	2,246,048		
Held-to-maturity financial assets - noncurrent	4,331,829	4,331,829	1,315,061	1,315,061		
Other noncurrent monetary assets	1,000,000	1,000,000	1,000,000	1,000,000		
Refundable deposits	1,368,682	1,368,682	1,189,869	1,189,869		
Liabilities						
Financial liabilities at fair value through profit or loss	-	-	1,424,194	1,424,194		
Trade notes and accounts payable	6,540,756	6,540,756	6,839,590	6,839,590		
Payables to related parties	2,099,896	2,099,896	1,662,934	1,662,934		
Accrued expenses	12,476,319	12,476,319	10,477,456	10,477,456		
Dividends Payable	-	-	40,716,130	40,716,130		
Amounts collected in trust for others (included in other current liabilities)	2,481,843	2,481,843	2,646,872	2,646,872		
Payables to contractors (included in other current liabilities)	1,847,980	1,847,980	953,902	953,902		
Refundable customers deposits (included in other current liabilities)	1,026,561	1,026,561	964,655	964,655		
Payables to equipment suppliers (included in other current liabilities)	945,640	945,640	1,300,021	1,300,021		
Hedging derivative financial liabilities (included in other current liabilities)	-	-	6,460	6,460		
Customers deposits	5,993,158	5,993,158	6,162,199	6,162,199		

b. Methods and assumptions used in the determination of fair values of financial instruments:

- 1) The fair values of certain financial instruments recognized in the balance sheet generally correspond to the market prices of the financial assets. Because of the short maturities of these instruments, the carrying value represents a reasonable basis to estimate fair values. This method does not apply to the financial instruments discussed in Notes 2 and 3 below.
- 2) If the financial assets/liabilities at fair value through profit or loss and the available-for-sale financial assets have quoted market prices in an active market, the quoted market prices are viewed as fair values. If the market prices of the available-for-sale financial assets are not readily available, valuation techniques are used incorporating estimates and assumptions that are consistent with prevailing market conditions.
- 3) Long-term investments are based on the net asset values of the investments in investees, if quoted market prices are not available.

c. Fair values of financial instruments were as follow:

	Amount Based on Quoted Market Price September 30		Amount Determined Using Valuation Techniques September 30	
	2009	2008	2009	2008
Assets				
Financial assets at fair value through profit or loss	\$ 30,039	\$ 95,359	\$ -	\$ -
Available-for-sale financial assets	15,851,520	14,931,598	-	-
Liabilities				
Financial liabilities at fair value through profit or loss	-	328,884	-	1,095,310
Hedging derivative financial liabilities (classified as other current liabilities)	-	6,460	-	-

d. Information about financial risks

1) Market risk

The foreign exchange rate fluctuations would result in Chunghwa's foreign-currency-dominated assets and liabilities, outstanding currency swap contracts, forward exchange contracts and currency option contracts exposed to rate risk.

The fluctuations of market price would result in the index future contracts exposed to price risk.

The financial instruments categorized as available-for-sale financial assets are mainly listed stocks and open-end mutual funds. Therefore, the market risk is the fluctuations of market price. In order to manage this risk, Chunghwa would assess the risk before investing therefore, no material market risk are anticipated.

2) Credit risk

Credit risk represents the potential loss that would be incurred by Chunghwa if the counter-parties or third-parties breached contracts. Financial instruments with positive fair values at the balance sheet date are evaluated for credit risk. The counter-parties or third-parties of the aforementioned financial instruments are reputable financial institutions and corporations. Management does not expect Chunghwa's exposure to default by those parties to be material.

3) Liquidation risk

Chunghwa has sufficient operating capital to meet cash needs upon settlement of derivative financial instruments. Therefore, the liquidation risk is low.

The financial instruments of the Company categorized as available-for-sale financial assets are publicly-traded, easily converted to cash. Therefore, no material liquidation risk are anticipated. The financial instruments categorized as financial assets carried at cost are investments that do not have a quoted market price in an active market. Therefore, material liquidation risk are anticipated.

4) Cash flow interest rate risk

Chunghwa engages in investments in fixed-interest-rate debt securities. Therefore, cash flows from such securities are not expected to fluctuate significantly due to changes in market interest rates.

In addition, Chunghwa engages in investments in floating-interest-rate debt securities. The changes in market interest rate would impact the floating-interest rate; therefore, cash flows from such securities are expected to fluctuate due to changes in market interest rates.

e. Fair value hedge

Chunghwa entered into currency swap contracts and forward exchange contracts is mainly to hedge the fluctuation in exchange rates of beneficiary certificates denominated in foreign currency, which is fair value hedge. The transaction was assessed as highly effective for the nine months ended September 30, 2009 and 2008.

None of the hedge currency swap contracts and forward exchange contracts existed as of September 30, 2009.

The outstanding forward exchange contracts of hedging as of September 30, 2008:

	Currency	Maturity Date	Contract Amount (In Thousands)
<u>September 30, 2008</u>			
Forward exchange contracts - sell	USD/NTD	2008.12	US\$ 65,000

As of September 30, 2008, the forward exchange contract measured at fair value resulting in hedging derivative financial liability of \$6,460 thousand (classified as other current liabilities).

According to the regulations of Securities and Futures Bureau, Chunghwa should disclose the derivative transactions of Chunghwa's investees, SENA O, which was as follows:

1) Holding period and contract amounts

SENA O entered into a forward exchange contract for the nine months ended September 30, 2009 and 2008 to reduce the exposure to foreign currency risk.

The outstanding forward exchange contracts as of September 30, 2009 and 2008:

	Currency	Maturity Date	Contract Amount (In Thousands)
<u>September 30, 2009</u>			
Forward exchange contracts - buy	USD/NTD	2009.10	NT\$ 252,968
<u>September 30, 2008</u>			
Forward exchange contracts - buy	USD/NTD	2008.10	NT\$ 197,981

2) Market risk

The foreign exchange rate fluctuations would result in SENA O's foreign-currency-dominated assets and liabilities and open forward exchange contracts exposed to rate risk.

The financial instruments categorized as available-for-sale financial assets are mainly beneficiary certificates. Therefore, the market risk is the fluctuations of market price. In order to manage this risk, SENAO would assess the risk before investing; therefore, no material market risk are anticipated.

3) Credit risk

Credit risk represents the potential loss that would be incurred by SENAO if the counter-parties or third-parties breached contracts. Financial instruments with positive fair values at the balance sheet date are evaluated for credit risk. The counter-parties or third-parties to the aforementioned financial instruments are reputable financial institutions. Management does not expect SENAO's exposure to default by those parties to be material. The maximum credit exposures of SENAO's financial instruments are the same as its carrying amounts.

4) Liquidation risk

SENAO has sufficient operating capital to meet cash needs upon settlement of derivative financial instruments. Therefore, the liquidation risk is low.

SENAO's investments in domestic open-end mutual funds are traded in active markets and can be disposed readily approximately to their fair values. The financial instruments categorized as financial assets carried at cost are investments that do not have a quoted market price in an active market; therefore, material liquidation risk would be anticipated on financial assets carried at cost.

27. ADDITIONAL DISCLOSURES

Following are the additional disclosures required by the SFB for Chunghwa and its investees:

- a. Financing provided: Please see Table 1.
- b. Endorsement/guarantee provided: None.
- c. Marketable securities held: Please see Table 2.
- d. Marketable securities acquired and disposed of at costs or prices at least \$100 million or 20% of the paid-in capital: Please see Table 3.
- e. Acquisition of individual real estate at costs of at least \$100 million or 20% of the paid-in capital: Please see Table 4.
- f. Disposal of individual real estate at prices of at least \$100 million or 20% of the paid-in capital: None.
- g. Total purchase from or sale to related parties amounting to at least \$100 million or 20% of the paid-in capital: Please see Table 5.
- h. Receivables from related parties amounting to \$100 million or 20% of the paid-in capital: Please see Table 6.

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- i. Names, locations, and other information of investees on which the Company exercises significant influence: Please see Table 7.
- j. Financial transactions: Please see Notes 5 and 26.
- k. Investment in Mainland China: Please see Table 8.

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28. THE FINANCIAL INFORMATION OF OPERATING SEGMENTS

a. Segment information. Please see Table 9.

b. Information about geographical areas

The revenue from oversea customers attributed is not material and the company does not have material non-current assets in foreign operations for the nine months ended September 30, 2009.

c. Major customers information

The export sales revenue of the Company is less than 10% of the operating income.

TABLE 1**CHUNGHWA TELECOM CO., LTD.****FINANCINGS PROVIDED****NINE MONTHS ENDED SEPTEMBER 30, 2009****(In Thousands of New Taiwan Dollars, Unless Specified Otherwise)**

No.	Company	Counter-party	Financial Statement Account	Maximum Balance for the Year	Ending Balance	Interest Rate (Note 5)	Type of Financing Transaction (Note 2)	Reason for Short-term Financing (Note 3)	Collateral Allowance for Bad Debt/Item Value		Borrowing Company Limit (Note 3)	Financing Company's Financing Amount Limit (Note 4)
									\$	\$		
9	Chunghwa Telecom Singapore Pte., Ltd.	ST-2 Satellite Ventures Pte., Ltd.	Other receivable	\$ 122,850	\$ 122,850	6.38%	a (Note 6)	Operating capital management	\$ -	\$ -	\$ 1,403,076	\$ 1,403,076
				SG\$ (5,400)	SG\$ (5,400)						SG\$ (61,674)	SG\$ (61,674)

Note 1: Significant transactions between the Company and its subsidiaries or among subsidiaries are numbered as follows:

- a. 0 for the Company.
- b. Subsidiaries are numbered from 1 .

Note 2: Reasons for financing are as follows:

- a. Business relationship.
- b. For short-term financing.

Note 3: The upper limit of loans lending to any other party is no more than 100% of the net value of the latest financial statement of the lender.

Note 4: The upper limit of loans lending to all other parties is no more than 100% of the net value of the latest financial statement of the lender.

Note 5: It s equals to the prime rate of Singapore plus 1%

Note 6: Chunghwa Telecom Singapore Pte., Ltd. signed the joint venture contract with SingTel Sat Pte., Ltd. to establish ST-2 Satellite Ventures Pte., Ltd. which mainly engages in the installation and the operation of ST-2 telecommunications satellite. In the contract, it stated that Chunghwa Telecom Singapore Pte., Ltd. is obligated to rent the ST-2 telecommunications satellite from ST-2 Satellite Ventures Pte., Ltd. when the satellite is accomplished.

TABLE 2**CHUNGHWA TELECOM CO., LTD.****MARKETABLE SECURITIES HELD****SEPTEMBER 30, 2009****(Amounts in Thousands of New Taiwan Dollars, Unless Otherwise Specified)**

No.	Held Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	September 30, 2009				
					Shares (Thousands/Thousand Units)	Carrying Value (Note 5)	Percentage of Ownership	Market Value or Net Asset Value	Note
0	Chunghwa Telecom Co., Ltd.	<u>Stocks</u>							
		Senao International Co., Ltd.	Subsidiary	Investments accounted for using equity method	71,773	\$ 1,279,942	29	\$ 3,387,693	Note 4
		Light Era Development Co., Ltd.	Subsidiary	Investments accounted for using equity method	300,000	2,936,402	100	2,936,872	Note 1
		Chunghwa Investment Co., Ltd.	Subsidiary	Investments accounted for using equity method	178,000	1,623,434	89	1,700,518	Note 1
		Chunghwa Telecom Singapore Pte. Ltd.	Subsidiary	Investments accounted for using equity method	37,569	1,403,076	100	1,403,076	Note 1
		Chunghwa System Integration Co., Ltd.	Subsidiary	Investments accounted for using equity method	60,000	721,879	100	648,340	Note 1
		Taiwan International Standard Electronics Co., Ltd.	Equity-method investee	Investments accounted for using equity method	1,760	464,265	40	683,695	Note 1
		CHIEF Telecom Inc.	Subsidiary	Investments accounted for using equity method	37,942	439,382	69	389,075	Note 1
		InfoExplorer Co., Ltd.	Subsidiary	Investments accounted for using equity method	22,498	282,652	49	229,496	Note 1
		Donghwa Telecom Co., Ltd.	Subsidiary	Investments accounted for using equity method	51,590	226,291	100	226,291	Note 1
		Chunghwa International Yellow Pages Co., Ltd.	Subsidiary	Investments accounted for using equity method	15,000	161,091	100	161,091	Note 1
		Viettel-CHT Co., Ltd.	Equity-method investee	Investments accounted for using equity method	-	271,002	30	271,002	Note 1

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Skysoft Co., Ltd.	Equity-method investee	Investments accounted for using equity method	4,438	88,842	30	49,475	Note 1
Chunghwa Telecom Global, Inc.	Subsidiary	Investments accounted for using equity method	6,000	69,682	100	90,057	Note 1
KingWay Technology Co., Ltd.	Equity-method investee	Investments accounted for using equity method	1,703	68,410	33	16,026	Note 1
Spring House Entertainment Inc.	Subsidiary	Investments accounted for using equity method	5,996	52,532	56	37,391	Note 1
So-net Entertainment Taiwan	Equity-method investee	Investments accounted for using equity method	3,429	40,060	30	22,206	Note 1
Chunghwa Telecom Japan Co., Ltd.	Subsidiary	Investments accounted for using equity method	1	11,388	100	11,388	Note 1
New Prospect Investments Holdings Ltd. (B.V.I.)	Subsidiary	Investments accounted for using equity method	-	US\$ (1 dollar)	100	US\$ (1 dollar)	Note 2
Prime Asia Investments Group Ltd. (B.V.I.)	Subsidiary	Investments accounted for using equity method	-	US\$ (1 dollar)	100	US\$ (1 dollar)	Note 2
Taipei Financial Center	-	Financial assets carried at cost	172,927	1,789,530	12	1,368,535	Note 1
Industrial Bank of Taiwan II Venture Capital Co., Ltd. (IBT II)	-	Financial assets carried at cost	20,000	200,000	17	222,243	Note 1
Global Mobile Corp.	-	Financial assets carried at cost	12,696	127,018	11	112,659	Note 1
iD Branding Ventures	-	Financial assets carried at cost	7,500	75,000	8	72,742	Note 1
PRTI International	-	Financial assets carried at cost	4,765	34,500	10	34,792	Note 1
Essence Technology Solution, Inc.	-	Financial assets carried at cost	2,000	10,000	9	3,414	Note 1
REITS							
Fubon No. 1 Fund	-	Available-for-sale financial assets	7,656	76,560	-	82,761	Note 4
Cathay No. 2 REIT	-	Available-for-sale financial assets	548	5,480	-	5,579	Note 4
Gallop No. 1 REIT	-	Available-for-sale financial assets	8,750	87,500	-	65,275	Note 4
Stock							
U-Ming Marine Transport Corp.	-	Available-for-sale financial assets	50	2,765	-	2,705	Note 4

(Continued)

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				September 30, 2009					
No.	Held Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	Shares	Carrying Value (Note 5)	Percentage of Ownership	Market Value or Net Asset Value	Note
					(Thousands/ Thousand Units)				
		<u>Beneficiary certificates (mutual fund)</u>							
		Polaris /P-shares Taiwan Dividend + ETF	-	Available-for-sale financial assets	600	\$ 15,000	-	\$ 13,675	Note 3
		PCA Well Pool Fund	-	Available-for-sale financial assets	194,181	2,500,000	-	2,520,058	Note 3
		Yuan Ta Wan Tai Bond Fund	-	Available-for-sale financial assets	173,683	2,500,000	-	2,511,958	Note 3
		central Diamond Bond Fund	-	Available-for-sale financial assets	126,106	1,500,000	-	1,503,577	Note 3
		Polaris De-Li	-	Available-for-sale financial assets	129,654	2,008,787	-	2,021,195	Note 3
		Fuh-Hwa Bond Fund	-	Available-for-sale financial assets	108,849	1,500,000	-	1,502,863	Note 3
		Fidelity US High Yield Fund	-	Available-for-sale financial assets	535	206,588	-	178,560	Note 3
		MFS Meridian Funds - Strategic Income Fund	-	Available-for-sale financial assets	316	132,592	-	136,748	Note 3
		PCA Asia Pacc Infrastructure Fund	-	Available-for-sale financial assets	3,061	30,000	-	30,024	Note 3
		Fuh Hwa global Fixed Income FOFs Fund	-	Available-for-sale financial assets	2,492	30,000	-	29,875	Note 3
		Fidelity European High Yield Fund	-	Available-for-sale financial assets	324	126,425	-	125,076	Note 3
		Parvest Europe Convertible Bond Fond	-	Available-for-sale financial assets	78	443,097	-	423,755	Note 3
		JPMorgan Funds - Global Convertibles Fund (EUR)	-	Available-for-sale financial assets	868	491,450	-	473,549	Note 3
		Fuh-Hwa Aegis Fund	-	Available-for-sale financial assets	17,813	234,684	-	229,905	Note 3
		AGI Global Quantitative Balanced Fund	-	Available-for-sale financial assets	20,000	232,731	-	227,800	Note 3
		Capital Value Balance Fund	-	Available-for-sale financial assets	11,285	200,000	-	183,517	Note 3
		Fuh Hwa Life Goal Fund	-	Available-for-sale financial assets	8,074	120,000	-	133,065	Note 3
		Fuh Hwa Asia Pacific Balanced	-	Available-for-sale financial assets	7,764	100,000	-	80,901	Note 3
		Asia-Pacific Mega - Trend Fund	-	Available-for-sale financial assets	13,059	175,000	-	155,402	Note 3
		AIG Flagship Global Balanced Fund of Funds	-	Available-for-sale financial assets	25,679	350,000	-	333,316	Note 3
		Franklin Templeton Global Bond Fund of Funds	-	Available-for-sale financial assets	18,967	210,000	-	232,509	Note 3
		Cathay Global Aggressive Fund of Funds	-	Available-for-sale financial assets	15,570	210,000	-	188,082	Note 3

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Polaris Global Emerging Market Funds	-	Available-for-sale financial assets	12,161	180,000	-	157,237	Note 3
HSBC Global Fund of Bond Funds	-	Available-for-sale financial assets	22,838	250,000	-	256,996	Note 3
JPM (Taiwan) JF Balanced Fund	-	Available-for-sale financial assets	2,462	50,000	-	46,977	Note 3
MFS Meridian Funds - Global Equity Fund (A1 class)	-	Available-for-sale financial assets	253	262,293	-	211,999	Note 3
Fidelity Fds International	-	Available-for-sale financial assets	128	163,960	-	118,475	Note 3
Fidelity Fds America	-	Available-for-sale financial assets	937	163,960	-	127,551	Note 3
JPMorgan Funds - Global Dynamic Fund (B)	-	Available-for-sale financial assets	303	165,640	-	120,726	Note 3
MFS Meridian Funds - Research International Fund (A1 share)	-	Available-for-sale financial assets	173	131,920	-	99,034	Note 3
Fidelity Fds Emerging Markets	-	Available-for-sale financial assets	144	122,175	-	76,773	Note 3
Credit Suisse Equity Fund (Lux) Global Resources	-	Available-for-sale financial assets	13	162,990	-	101,897	Note 3
Fidelity Euro Balanced Fund	-	Available-for-sale financial assets	794	506,139	-	422,113	Note 3
Fidelity Fds World	-	Available-for-sale financial assets	295	171,568	-	117,733	Note 3
Fidelity Fds Euro Blue Chip	-	Available-for-sale financial assets	259	233,543	-	157,890	Note 3
MFS Meridian Funds - European Equity Fund (A1 share)	-	Available-for-sale financial assets	171	178,920	-	132,186	Note 3
Henderson Horizon Fund - Pan European Equity Fund	-	Available-for-sale financial assets	230	180,886	-	149,818	Note 3
JPM (Taiwan) Global Balanced Fund	-	Available-for-sale financial assets	11,121	155,000	-	162,385	Note 3

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No.	Held Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	September 30, 2009				
					Shares (Thousands/Thousand Units)	Carrying Value (Note 5)	Percentage of Ownership	Market Value or Net Asset Value	Note
		Bonds							
		Mega Securities Corp. 1st Unsecured Corporate Bonds in 2007	-	Held-to-maturity financial assets	-	\$ 150,000	-	\$ 150,000	Note 6
		KGI Securities 1st Unsecured Corporate Bonds 2007 - B Issue	-	Held-to-maturity financial assets	-	100,000	-	100,000	Note 6
		Mega Financial Holding 1st Unsecured Corporate Bond 2007 - B Issue	-	Held-to-maturity financial assets	-	200,000	-	200,000	Note 6
		Mega Securities Corp. 1st Unsecured Corporate Bond 2008 - A issue	-	Held-to-maturity financial assets	-	300,000	-	300,000	Note 6
		Formosa Petrochemical Corp.	-	Held-to-maturity financial assets	-	99,870	-	99,870	Note 6
		Taiwan Power Company 3rd Boards in 2008	-	Held-to-maturity financial assets	-	149,939	-	149,939	Note 6
		GreTai Company 1st Unsecured Corporate Bonds-A issue in 2008	-	Held-to-maturity financial assets	-	100,000	-	100,000	Note 6
		Fubon Financial Holding Company 2005 1st Unsecured Debenture	-	Held-to-maturity financial assets	-	99,581	-	99,581	Note 6
		Formosa Petrochemical Corporation 3rd Unsecured Corporate Bonds Issue in 2008.	-	Held-to-maturity financial assets	-	49,933	-	49,933	Note 6
		Taiwan Power Company 5th Boards in 2008	-	Held-to-maturity financial assets	-	272,725	-	272,725	Note 6
		Yuanta Securities Finance Co. Ltd. 1st Unsecured Corporate Bonds-A Issue in 2007	-	Held-to-maturity financial assets	-	100,028	-	100,028	Note 6
		Formosa Petrochemical Corporation 4th Unsecured Corporate Bonds Issue in 2006	-	Held-to-maturity financial assets	-	300,861	-	300,861	Note 6
		NAN YA Company 2nd Unsecured Corporate Bonds Issue in 2008	-	Held-to-maturity financial assets	-	408,127	-	408,127	Note 6

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Taiwan Power Company 3rd Boards in 2006	-	Held-to-maturity financial assets	-	201,154	-	201,154	Note 6
Taiwan Power Co. 1st Unsecured Bond-B Issue in 2001	-	Held-to-maturity financial assets	-	181,450	-	181,450	Note 6
Formosa Petrochemical Corporation Bond Issue in 2006	-	Held-to-maturity financial assets	-	201,543	-	201,543	Note 6
NAN YA Company 3rd Unsecured Corporate Bonds Issue in 2008	-	Held-to-maturity financial assets	-	204,898	-	204,898	Note 6
China Development Financial Holding Corporation 1st Unsecured Corporate Bonds Issue in 2006	-	Held-to-maturity financial assets	-	404,570	-	404,570	Note 6
China Development Financial Holding Corporation 1st Unsecured Corporate Bonds - A Issue in 2008	-	Held-to-maturity financial assets	-	103,915	-	103,915	Note 6
Taiwan Power Co. 4th secured Bond-B Issue in 2008	-	Held-to-maturity financial assets	-	52,106	-	52,106	Note 6
Formosa Petrochemical Corporation 2nd Unsecured Corporate Bonds Issue in 2008	-	Held-to-maturity financial assets	-	103,190	-	103,190	Note 6
Formosa Petrochemical Corporation 1st Unsecured Corporate Bonds Issue in 2009	-	Held-to-maturity financial assets	-	201,266	-	201,266	Note 6
NAN YA Company 1st Unsecured Corporate Bonds Issue in 2009	-	Held-to-maturity financial assets	-	99,884	-	99,884	Note 6
MLPC 1st Unsecured Corporate Bonds Issue in 2008	-	Held-to-maturity financial assets	-	199,683	-	199,683	Note 6

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September 30, 2009									
Shares									
	Marketable	Relationship	Financial	Shares	Carrying	Percentage	Market		
Held Company	Securities Type	with the	Statement	(Thousands/ Thousand	Value	of	Value	or Net	Note
No.	Name	Company	Account	Units)	(Note 5)	Ownership	Asset	Value	
		-	Held-to-maturity financial assets	-	\$ 100,032	-	\$ 100,032		Note 6
	China Steel Corporation 2nd Unsecured Corporate Bonds - A Issue in 2008								
	China Development Industrial B	-	Held-to-maturity financial assets	-	198,107	-	198,107		Note 6
	Cathay United Bank 9th Financial Debentures - 03 Issue in 2004	-	Held-to-maturity financial assets	-	199,964	-	199,964		Note 6
	China Development Industrial Bank 5th Financial Debentures issue in 2006	-	Held-to-maturity financial assets	-	198,576	-	198,576		Note 6
	TaipeiFubon Bank 1st Financial Debentures - BA Issue in 2006	-	Held-to-maturity financial assets	-	100,609	-	100,609		Note 6
	Enterprise Debt Securitization Cathay United Bank CLO 96-1	-	Held-to-maturity financial assets	-	4,700	-	4,700		Note 6
1	Senao International Co., Ltd.	Senao Networks, Inc.	Equity-method investee	Investments accounted for using equity method	15,295	284,073	42	284,073	Note 1
		N.T.U. Innovation Incubation Corporation	-	Financial assets carried at cost	1,200	12,000	9	11,962	Note 1
		<u>Beneficiary certificates (mutual fund)</u>							
		Prudential Financial Bond Fund	-	Available-for-sale financial assets	3,306	50,000	-	50,013	Note 3
		IBT Bond Fund	-	Available-for-sale financial assets	3,694	50,000	-	50,014	Note 3
		Fuh Hwa Global Short-term Income Fund	-	Available-for-sale financial assets	4,850	50,000	-	50,000	Note 3
2	CHIEF Telecom Inc.	Unigate Telecom Inc.	Subsidiary	Investments accounted for using equity method	200	1,798	100	1,798	Note 1
		CHIEF Telecom (Hong Kong) Limited	Subsidiary	Investments accounted for using equity	400	1,099	100	1,099	Note 1

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	Chief International Corp.	Subsidiary	method	Investments accounted for using equity method	200	7,419	100	7,419	Note 1
	eASPNet Inc.	-		Financial assets carried at cost	1,000	-	2	-	Note 1
	3 Link Information Service Co., Ltd.	-		Financial assets carried at cost	374	3,450	10	6,478	Note 1
3	Chunghwa System Integration Co., Ltd.	Concord Technology Co., Ltd.	Subsidiary	Investments accounted for using equity method	500	12,917	100	12,917	Note 1
	Cathy Global Aggressive Fund of Fund	-		Available-for-sale financial assets	1,233	15,000	-	14,900	Note 3
	Cathy Global Infrastructure Fund	-		Available-for-sale financial assets	1,418	15,000	-	11,518	Note 3
18	Concord Technology Co., Ltd.	Glory Network System Service (Shanghai) Co., Ltd.	Subsidiary	Investments accounted for using equity method	500	12,912	100	12,912	Note 1
14	Chunghwa Investment Co., Ltd	<u>Stocks</u>							
	Chunghwa Precision Test Tech. Co., Ltd.	Subsidiary		Investments accounted for using equity method	10,317	111,269	54	111,269	Note 1
	Tatung Technology Inc.	Equity-method investee		Investments accounted for using equity method	5,000	37,043	28	37,043	Note 1
	PandaMonium Company Ltd.	Equity-method investee		Investments accounted for using equity method	602	14,645	43	14,645	Note 1
	Chunghwa Investment Holding (CIH)	Subsidiary		Investments accounted for using equity method	589	10,954	100	10,954	Note 1