CHUNGHWA TELECOM CO LTD
Form 6-K
April 29, 2009

1934 Act Registration No. 1-31731

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 6-K

REPORT OF FOREIGN PRIVATE ISSUER

PURSUANT TO RULE 13a-16 OR 15d-16 OF

THE SECURITIES EXCHANGE ACT OF 1934

Dated April 29, 2009

Chunghwa Telecom Co., Ltd.

(Translation of Registrant s Name into English)

21-3 Hsinyi Road Sec. 1,

Taipei, Taiwan, 100 R.O.C.

(Address of Principal Executive Office)

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

Form 20-F ____x____ 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 ____x____

(If Yes is marked, indicated below the file number assigned to the registrant in connection with Rule 12g3-2(b): Not applicable)

SIGNATURE

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

Date: 2009/04/29

Chunghwa Telecom Co., Ltd.

By: /s/ Joseph C. P. Shieh
Name: Joseph C. P. Shieh
Title: Senior Vice President CFO

Exhibit

Exhibit	Description
1	Press Release to Report Operating Results for the First Quarter of 2009 and the Forecast for the Second Quarter of 2009
2	Financial Statements for the Three Months Ended March 31, 2009 and 2008 and Independent Accountants Review Report (Stand Alone)
3	Consolidated Financial Statements for the Three Months Ended March 31, 2009 and 2008 and Independent Accountants Review Report
4	GAAP Reconciliations of Consolidated Financial Statements for the Three Months Ended March 31, 2008 and 2009

Exhibit 1

Chunghwa Telecom Reports Operating Results for the First Quarter of 2009

And the Forecast for the Second Quarter of 2009

Taipei, Taiwan, R.O.C. April 29, 2009 - Chunghwa Telecom Co., Ltd (TAIEX: 2412, NYSE: CHT) (Chunghwa or the Company), today reported its operating results for the first quarter of 2009. All figures are presented on a consolidated basis and prepared in accordance to generally accepted accounting principles in the Republic of China (ROC GAAP).

Dr. Shyue-Ching Lu, Chairman and Chief Executive Officer of Chunghwa Telecom commented, For the first quarter of 2009, we continued to executive on our strategic focus of maintaining market leadership for our core services as well as expanding our digital-converged services such as broadband and mobile value-added services, MOD/IPTV, and key enterprise solutions. As a result, we are able to stabilize our top-line performance under the current adverse economic situation. In addition, I am pleased that our Board of Directors approved a third round of capital reduction program for us to return cash to shareholders in 2009. For this round, we estimate to return a total of NT$9.7 billion, which is a strong testament of our continued commitment to maximizing shareholder value.

Given the current global economic environment, decreased visibility, and increased market volatility, we are changing our customary guidance format. We want to be as transparent as possible, but also need to be prudent with regard to comments about future outlook. As a result, CHT has decided not to provide full-year guidance for 2009; instead, we will give guidance on a quarterly basis.

(Comparisons, unless otherwise stated, are with respect to the prior year period)

Financial Highlights for 1Q09:

- Total revenue decreased by 3.6% to NT$49.1 billion

- Internet and data revenue decreased 0.5% to NT$12.5 billion

- Mobile revenue decreased 3.1% to NT$17.6 billion; mobile VAS revenue increased by 18.5%

- Net income totaled NT$10.8 billion, representing an increase of 0.7%

- Earnings per share (EPS) remained flat at NT$1.11

Revenue

Given the global economic condition and the increasing market competition, Chunghwa s total revenue for the first quarter of 2009 decreased by 3.6% year-over-year to NT$49.1 billion, of which 26.7% was from fixed-line services, 35.8% was from mobile services, 25.4% was from Internet and data services, and the remainder was mainly from handset sales from Chunghwa s subsidiary SENAO on a consolidated basis.

For the mobile business, total revenue for the first quarter of 2009 amounted to NT$17.6 billion, representing a decline of 3.1% year-over-year. We made progress by increasing our subscriber numbers by 2.9% and by enhancing our VAS service revenues by 18.5% compared to 1Q2008.

However, these successes were offset by the economic downturn and the market competition.

The Internet and data revenue slightly decreased by 0.5% year-over-year to NT$12.5 billion, mainly because of the tariff cut for ISP and ADSL services.

The fixed-line revenue totaled NT$13.1 billion, decreasing 8.9% year-over-year. The local and domestic long distance revenues were decreased by 6.2% and 10.1% respectively, for the first quarter of 2009. These decreases were mainly due to the overall economic downturn, mobile and VOIP substitution. The international long distance revenue was decreased by 14.4% year-over-year, as a result of the overall economic downturn, VOIP substitution and the market competition.

Other revenue increased by 1.1% mainly due to the reclassification of non-core value added service from Internet and data service.

Costs and expenses

For the first quarter of 2009, total operating costs and expenses increased year-over-year by 1.3% to NT$35.0 billion, primarily due to the increase in personnel expense. This personnel expense increase was mainly because the Company increased the ceiling of performance-based bonus in order to encourage its employees.

Income tax

The Company s income tax for the first quarter of 2009 was NT$3.3 billion, representing a 4.2% decrease compared to NT$3.5 billion for the first quarter of 2008. This was primarily due to the decrease in the taxable income resulted from the decline of operating profit.

EBITDA and net income

EBITDA for the first quarter of 2009 decreased by10.7% year-over-year to NT$23.4 billion, resulting in an EBITDA margin of 47.6%, down from 51.3% for the first quarter of 2008. The EBITDA decline was primarily due to the decrease in revenue and the increase in operating expenses. Net income for the first quarter of 2009 was NT$10.8 billion, representing an increase of 0.7% year-over-year. This net income growth was primarily attributable to the increase in the non-operating income and decrease in the income tax.

Capital Expenditure (Capex)

The capex for the first quarter of 2009 amounted NT$4.7 billion, a 13.8% decrease compared to that for the same period in 2008. Among the NT$4.7 billion capex, 73.6% was for wireline and 17.0% was for wireless.

Cash Flows

Net cash flow from operating activities decreased by 13.6% to NT$16.1 billion year-over year. The decrease was primarily because of the decline in EBIT year-over-year. Similarly, free cash flow for the first quarter of 2009 also decreased by 13.6% compared to the first quarter of 2008.

The Company s cash and cash equivalents amounted to NT$69.2 billion as of the end of the first quarter of 2009.

Business Performance Highlights:

Internet and Data Services

n By the end of March 2009, total HiNet subscribers decreased 0.4% year-over-year. Overall, the Company had 4.3 billion broadband subscribers (including ADSL and FTTx subscribers) at the end of March 2009, representing a 0.6% growth year-over-year. By the end of the first quarter of 2009, FTTx subscriptions with an average service speed of 10Mbps reached 1.19 million, representing 27.7% of total broadband subscribers.

n As of the end of the first quarter of 2009, Chunghwa had 686,000 MOD subscribers, equivalent to 57.6% year-over-year increase.

Mobile Services

n As of March 31, 2009, Chunghwa had 8.98 million mobile subscribers, up 2.9% compared to 8.72 million as of the first quarter of 2008.

n Chunghwa remained the leading mobile operator in Taiwan. According to statistics published by the ROC National Communications Commission, the Company s total subscriber market share (including 2G, 3G and PHS) was 35.1%, while the Company s mobile revenue share was 34.0% as of the end of February 2009.

n As of March 31, 2009, Chunghwa had 3.85 million 3G subscribers, representing a 48.9% increase as compared to that of the end of March 2008.

n Mobile VAS revenue for the first quarter of 2009 was NT$2.05 billion, posting a 18.5% increase year-over-year. Of this increase, SMS revenue was up 12.9% and mobile Internet revenue increased by 49.6% year-over-year, respectively.

Fixed-line Services

- As of the end of the first quarter of 2009, the Company maintained its leading fixed-line market position, with fixed-line subscribers totaling 12.66 million. According to statistics published by the ROC National Communications Commission, the Company s fixed line subscriber market share was 97.3%.

Forecast for the Second Quarter 2009

Chunghwa will not provide full-year guidance for 2009 due to the current global economic environment, decreased visibility, and increased market volatility. Chunghwa will instead issue guidance on a quarterly basis for 2009. With this change, Chunghwa believes it will be able to provide the market with the most accurate and relevant information regarding future outlook.

Chunghwa Telecom 2Q 2009 Financial Forecast on a Non-Consolidated Basis

Item	2Q09E (NT$ billion)	1Q09A (NT$ billion)	2Q08A (NT$ billion)	% Changes QoQ	% Changes YoY
Revenue	45.60	45.21	46.64	0.86	(2.24)
Gross Profit	21.59	21.45	23.78	0.65	(9.22)
Operating Expenses	7.76	7.68	8.25	1.13	(5.95)
Operating Profit	13.82	13.77	15.53	0.38	(10.96)
Profit before Tax	14.03	14.02	15.93	0.05	(11.93)
EPS	$ 1.11	$ 1.11	$ 1.29	0.05	(13.94)
EBITDA	22.98	22.93	25.01	0.23	(8.09)
EBITDA Margin%	50.41	50.72	53.61	(0.63)	(5.99)
Acquisition of property, plant and equipment, long-term investments	7.27	4.47	5.91	62.69	22.96
Disposal of property, plant and equipment, long-term investments			1.82		(100.00)

Financial Statements

Financial statements and additional operational data can be found on the Company s website at www.cht.com.tw/ir/filedownload.

About Chunghwa Telecom

Chunghwa Telecom (TAIEX 2412, NYSE: CHT) is the leading telecom service provider in Taiwan. Chunghwa Telecom provides fixed-line, mobile and Internet and data services to residential and business customers in Taiwan.

4

n Note Concerning Forward-looking Statements

This press release contains forward-looking statements. These statements constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, and as defined in the U.S. Private Securities Litigation Reform Act of 1995. These forward-looking statements can be identified by terminology such as will, expects, anticipates, future, intends, plans, believes, estimates and similar statements. Chunghwa may also mak oral forward-looking statements in its periodic reports to the U.S. Securities and Exchange Commission on forms 20-F and 6-K., in its annual report to shareholders, in press releases and other written materials and in oral statements made by its officers, directors or employees to third parties. Statements that are not historical facts, including statements about Chunghwa s beliefs and expectations, are forward-looking statements. Forward-looking statements involve inherent risks and uncertainties that could cause actual results to differ materially from the forward-looking statements. A number of important factors could cause actual results to differ materially from those contained in any forward-looking statement. Investors are cautioned that actual events and results could differ materially from those statements as a result of a number of factors including, but not limited to: extensive regulation of telecom industry; the intensely competitive telecom industry; our relationship with our labor union; general economic and political conditions, including those related to the telecom industry; possible disruptions in commercial activities caused by natural and human induced events and disasters, including terrorist activity, armed conflict and highly contagious diseases, such as SARS; and those risks outlined in Chunghwa s filings with the U.S. Securities and Exchange Commission, including its registration statements on Form F-1, F-3, F-6 and 20-F, in each case as amended. Chunghwa does not undertake any obligation to update any forward-looking statement, except as required under applicable law.

This release is not an offer of securities for sale in the United States. Securities may not be offered or sold in the United States absent registration or an exemption from registration. Any public offering of securities to be made in the United States will be made by means of a prospectus that may be obtained from the issuer or selling security holder and that will contain detailed information about the company and management, as well as financial statements.

n Special Note Regarding Non-GAAP Financial Measures

A body of generally accepted accounting principles is commonly referred to as GAAP . A non-GAAP financial measure is generally defined by the SEC as one that purports to measure historical or future financial performance, financial position or cash flows but excludes or includes amounts that would not be so adjusted in the most comparable U.S. GAAP measure. We disclose in this report certain non-GAAP financial measures, including EBITDA. EBITDA for any period is defined as consolidated net income (loss) excluding (i) depreciation and amortization, (ii) total net comprehensive financing cost (which is comprised of net interest expense, exchange gain or loss, monetary position gain or loss and other financing costs and derivative transactions), (iii) other expenses, net, (iv) income tax, (v) cumulative effect of change in accounting principle, net of tax and (vi) (income) loss from discontinued operations.

In managing our business we rely on EBITDA as a means of assessing our operating performance. We believe that EBITDA can be useful to facilitate comparisons of operating performance between periods and with other companies because it excludes the effect of (i) depreciation and amortization, which represents a non-cash charge to earnings, (ii) certain financing costs, which are significantly affected by external factors, including interest rates, foreign currency exchange rates and inflation rates, which have little or no bearing on our operating performance, (iii) income tax and tax on assets and statutory employee profit sharing, which is similar to a tax on income and (iv) other expenses or income not related to the operation of the business.

EBITDA is not a measure of financial performance under ROC GAAP. EBITDA should not be considered as an alternate measure of net income or operating income, as determined on a consolidated basis using amounts derived from statements of operations prepared in accordance with ROC GAAP, as an indicator of operating performance or as cash flows from operating activity or as a measure of liquidity. EBITDA has material limitations that impair its value as a measure of a company s overall profitability since it does not address certain ongoing costs of our business that could significantly affect profitability such as financial expenses and income taxes, depreciation, pension plan reserves or capital expenditures and associated charges. These non-GAAP measures are not in accordance with or an alternative for GAAP financial data, the non-GAAP results should be reviewed together with the GAAP results and are not intended to serve as a substitute for results under GAAP, and may be different from non-GAAP measures used by other companies. For more information on these non-GAAP financial measures, please see the tables captioned set forth at the end of this release and which shall be read together with the accompanying financial statements prepared under ROC GAAP.

If you have any questions in connection with the change of accounting policy, please contact the following person:

Contact name:	**Ms. Fu-fu Shen**
Phone:	**+886 2 2344 5488**
Fax:	**+886 2 3393 8188**
Email:	**ffshen@cht.com.tw**
Address:	**CHUNGHWA TELECOM CO., LTD.**
	21-3 Hsinyi Road, Section 1,
	Taipei, Taiwan,
	Republic of China

Exhibit 2

Chunghwa Telecom Co., Ltd.

Financial Statements for the

Three Months Ended March 31, 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 March 31, 2009 and 2008, and the related statements of income and cash flows for the three months then ended, all expressed in New Taiwan dollars. 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 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 audit 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$7,439,250 thousand and NT$6,169,658 thousand as of March 31, 2009 and 2008 and the equity in their net losses were NT$2,877 thousand and NT$31,680 thousand for the three months ended March 31, 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 the investment information mentioned in the preceding paragraph and related information been based on the investees reviewed financial statements, 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.

We have also reviewed the consolidated financial statements of the Company and its subsidiaries as of and for the three months ended March 31, 2009 and 2008, and have issued a reserve review report.

April 21, 2009

<u>*Notice to Readers*</u>

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

MARCH 31, 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)	$ 64,381,376	15	$ 71,229,520	16
Financial assets at fair value through profit or loss (Notes 2 and 5)	8,865		417,396	
Available-for-sale financial assets (Notes 2 and 6)	17,939,244	4	19,728,932	4
Held-to-maturity financial assets (Notes 2 and 7)	515,487		653,460	
Trade notes and accounts receivable, net of allowance for doubtful accounts of $2,938,468 in 2009 and $3,218,245 in 2008 (Notes 2 and 8)	10,178,679	2	9,500,820	2
Receivables from related parties (Note 24)	305,236		236,656	
Other current monetary assets (Notes 2, 9 and 26)	2,102,708	1	5,956,766	1
Inventories, net (Notes 2, 3 and 10)	816,103		649,008	
Deferred income tax assets (Notes 2 and 21)	52,718		923,308	
Other current assets (Note 11)	5,852,575	1	6,455,921	2
Total current assets	102,152,991	23	115,751,787	25
LONG-TERM INVESTMENTS				
Investments accounted for using equity method (Notes 2 and 12)	8,769,953	2	7,529,636	2
Financial assets carried at cost (Notes 2 and 13)	2,521,907		2,261,048	
Held-to-maturity financial assets (Notes 2 and 7)	3,926,522	1	766,285	
Other monetary assets (Notes 14 and 25)	1,000,000		1,000,000	
Total long-term investments	16,218,382	3	11,556,969	2
PROPERTY, PLANT AND EQUIPMENT (Notes 2, 15 and 24)				
Cost				
Land	101,259,941	23	102,536,500	22
Land improvements	1,496,379		1,475,644	
Buildings	62,647,458	14	62,212,666	13
Computer equipment	15,750,110	4	15,255,556	3
Telecommunications equipment	650,599,936	146	639,985,191	138
Transportation equipment	2,292,026		2,773,701	1
Miscellaneous equipment	7,217,760	2	7,571,465	2
Total cost	841,263,610	189	831,810,723	179
Revaluation increment on land	5,810,650	1	5,822,981	2
	847,074,260	190	837,633,704	181
Less: Accumulated depreciation	546,625,885	123	528,325,861	114

	300,448,375	67	309,307,843	67
Construction in progress and advances related to acquisitions of equipment	15,642,868	4	15,430,445	3
Property, plant and equipment, net	316,091,243	71	324,738,288	70
INTANGIBLE ASSETS (Note 2)				
3G concession	7,298,936	2	8,047,545	2
Other	389,601		313,561	
Total intangible assets	7,688,537	2	8,361,106	2
OTHER ASSETS				
Idle assets (Note 2)	926,858		927,731	
Refundable deposits	1,179,096		1,273,418	
Deferred income tax assets (Notes 2 and 21)	1,490,762	1	1,335,679	1
Other (Note 24)	860,079		480,933	
Total other assets	4,456,795	1	4,017,761	1
TOTAL	$ 446,607,948	100	$ 464,425,911	100
LIABILITIES AND STOCKHOLDERS EQUITY				
CURRENT LIABILITIES				
Financial liabilities at fair value through profit or loss (Notes 2 and 5)	$ 104,743		$ 3,097,198	1
Trade notes and accounts payable	6,578,112	2	6,323,587	1
Payables to related parties (Note 24)	1,322,641		1,390,136	
Income tax payable (Notes 2 and 21)	8,622,121	2	11,096,011	2
Accrued expenses (Notes 3 and 16)	12,651,958	3	11,227,587	3
Other current liabilities (Notes 2, 17 and 26)	14,570,711	3	13,536,001	3
Total current liabilities	43,850,286	10	46,670,520	10
DEFERRED INCOME	2,103,085		1,608,903	
RESERVE FOR LAND VALUE INCREMENTAL TAX (Note 15)	94,986		94,986	
OTHER LIABILITIES				
Accrued pension liabilities (Notes 2 and 23)	5,173,685	1	4,508,849	1
Customers deposits	6,028,691	2	6,218,730	2
Deferred credit - profit on intercompany transactions (Note 24)	1,485,916			
Other	366,998		480,082	
Total other liabilities	13,055,290	3	11,207,661	3
Total liabilities	59,103,647	13	59,582,070	13
STOCKHOLDERS EQUITY (Notes 2, 6, 15, 18 and 19)				
Common stock - $10 par value;				
Authorized: 12,000,000 thousand shares				
Issued: 9,696,808 thousand shares in 2009 and 9,557,777 thousand shares in 2008	96,968,082	22	95,577,769	20
Preferred stock -$10 par value				
Additional paid-in capital				

Capital surplus	179,193,581	40	198,308,651	43
Donated capital	13,170		13,170	
Equity in additional paid-in capital reported by equity-method investees	3		3	
Total additional paid-in capital	179,206,754	40	198,321,824	43
Retained earnings:				
Legal reserve	52,859,566	12	48,036,210	10
Special reserve	2,675,894		2,678,723	1
Unappropriated earnings	52,061,466	12	55,291,784	12
Total retained earnings	107,596,926	24	106,006,717	23
Other adjustments				
Cumulative translation adjustments	22,571		(8,015)	
Unrecognized net loss of pension	(4)		(88)	
Unrealized loss on financial instruments	(2,103,215)		(877,566)	
Unrealized revaluation increment	5,813,187	1	5,823,200	1
Total other adjustments	3,732,539	1	4,937,531	1
Total stockholders equity	387,504,301	87	404,843,841	87
TOTAL	$ 446,607,948	100	$ 464,425,911	100

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

(With Deloitte & Touche review report dated April 21, 2009)

CHUNGHWA TELECOM CO., LTD.

STATEMENTS OF INCOME

FOR THE THREE MONTHS ENDED MARCH 31, 2009 AND 2008

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

(Reviewed, Not Audited)

	2009		2008	
	Amount	**%**	**Amount**	**%**
NET REVENUES (Note 24)	$ 45,208,245	100	$ 46,726,020	100
OPERATING COSTS (Note 24)	23,761,295	53	23,238,292	50
GROSS PROFIT	21,446,950	47	23,487,728	50
OPERATING EXPENSES (Note 24)				
Marketing	6,088,237	13	5,898,913	13
General and administrative	831,483	2	817,123	2
Research and development	755,363	2	729,245	1
Total operating expenses	7,675,083	17	7,445,281	16
INCOME FROM OPERATIONS	13,771,867	30	16,042,447	34
NON-OPERATING INCOME AND GAINS				
Foreign exchange gain, net	210,804	1		
Interest income	209,571	1	376,856	1
Equity in earnings of equity investees, net	75,456		60,641	
Valuation gain on financial instruments, net	24,321			
Gain on disposal of financial instruments, net			497,810	1
Other	186,740		48,531	
Total non-operating income and gains	706,892	2	983,838	2
NON-OPERATING EXPENSES AND LOSSES				
Loss on disposal of financial instruments, net	274,539	1		
Impairment loss on assets	85,349			
Loss on disposal of property, plant and equipment	2,856		19,469	
Interest expenses	2,770		45	
Valuation loss on financial instruments, net			2,180,749	5
Foreign exchange loss, net			713,755	1
Other	89,788		20,104	
Total non-operating expenses and losses	455,302	1	2,934,122	6
INCOME BEFORE INCOME TAX	14,023,457	31	14,092,163	30
INCOME TAX EXPENSES (Notes 2 and 21)	3,236,068	7	3,376,055	7

NET INCOME	$ 10,787,389	24	$ 10,716,108	23

(Continued)

CHUNGHWA TELECOM CO., LTD.

STATEMENTS OF INCOME

FOR THE THREE MONTHS ENDED MARCH 31, 2009 AND 2008

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

(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	$ 1.45	$ 1.11	$ 1.45	$ 1.11
Diluted earnings per share	$ 1.44	$ 1.11	$ 1.45	$ 1.10

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

(With Deloitte & Touche review report dated April 21, 2009) (Concluded)

CHUNGHWA TELECOM CO., LTD.

STATEMENTS OF CASH FLOWS

FOR THE THREE MONTHS ENDED MARCH 31, 2009 AND 2008

(Amounts in Thousands of New Taiwan Dollars)

(Reviewed, Not Audited)

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 10,787,389	$ 10,716,108
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for doubtful accounts	131,026	198,132
Depreciation and amortization	9,159,791	9,653,193
Amortization of premium (discount) of financial assets	4,142	(594)
Valuation loss (gain) on financial instruments, net	(24,321)	2,180,749
Loss (gain) on disposal of financial instruments, net	274,539	(497,810)
Impairment loss on assets	85,349	
Valuation loss on inventories	13,296	6,064
Loss on disposal of property, plant and equipment, net	2,856	19,469
Equity in losses of equity method investees, net	(75,456)	(60,641)
Deferred income taxes	8,416	(886,062)
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Financial assets held for trading	242,768	266,216
Trade notes and accounts receivable	(115,880)	773,232
Receivables from related parties	37,780	(25,030)
Other current monetary assets	53,805	1,225,284
Inventories	247,666	(100,614)
Other current assets	(1,669,918)	(3,208,014)
Increase (decrease) in:		
Trade notes and accounts payable	(2,855,833)	(3,348,765)
Payables to related parties	(869,469)	(180,727)
Income tax payable	3,188,491	4,135,507
Accrued expenses	(3,028,644)	(3,729,494)
Other current liabilities	(112,033)	255,520
Deferred income	30,790	103,753
Accrued pension liabilities	9,297	596,885
Net cash provided by operating activities	15,525,847	18,092,361
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of available-for-sale financial assets	(5,000,000)	(4,725,000)
Proceeds from disposal of available-for-sale financial assets	1,093,285	1,684,806
Acquisition of held-to-maturity financial assets	(883,860)	(300,000)
Proceeds from disposal of held-to maturity financial assets	251,246	30,298
Acquisition of investments accounted for using equity method	(11,151)	(3,111,570)
Acquisition of financial assets carried at cost		(200,000)
Proceeds from disposal of financial assets carried at cost		354,933
Acquisition of property, plant and equipment	(4,454,875)	(5,408,107)
Proceeds from disposal of property, plant and equipment		2,050

(Continued)

CHUNGHWA TELECOM CO., LTD.

STATEMENTS OF CASH FLOWS

FOR THE THREE MONTHS ENDED MARCH 31, 2009 AND 2008

(Amounts in Thousands of New Taiwan Dollars)

(Reviewed, Not Audited)

	2009	2008
Increase in intangible assets	$ (36,651)	$ (21,846)
Increase in other assets	(12,431)	(27,004)
Net cash used in investing activities	(9,054,437)	(11,721,440)
CASH FLOWS FROM FINANCING ACTIVITIES		
Decrease in customers deposits	(52,993)	(83,559)
Decrease in other liabilities	(59,390)	(252,629)
Capital reduction	(19,115,554)	(9,557,777)
Net cash used in financing activities	(19,227,937)	(9,893,965)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(12,756,527)	(3,523,044)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	77,137,903	74,752,564
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 64,381,376	$ 71,229,520
SUPPLEMENTAL INFORMATION		
Interest paid	$ 17	$ 45
Income tax paid	$ 39,161	$ 126,611
CASH AND NON-CASH INVESTING ACTIVITIES		
Increase in property, plant and equipment	$ 3,622,330	$ 4,670,114
Payables to suppliers	832,545	737,993
	$ 4,454,875	$ 5,408,107

(Continued)

CHUNGHWA TELECOM CO., LTD.

STATEMENTS OF CASH FLOWS

FOR THE THREE MONTHS ENDED MARCH 31, 2009 AND 2008

(Amounts in Thousands of New Taiwan Dollars)

(Reviewed, Not Audited)

The following table presents the allocation of acquisition costs of InfoExplorer Co., Ltd., made during the three months ended March 31, 2009 to assets acquired and liabilities assumed, based on their fair values:

Cash and cash equivalents	$ 457,990
Receivables	1,674
Inventories	16,337
Other current assets	13,681
Property, plant, and equipment	20,261
Identifiable intangible assets	54,616
Refundable deposits	2,468
Other assets	2,338
Payables	(59,992)
Income tax payable	(587)
Other current liabilities	(4,685)
Total	504,101
Percentage of ownership	49.07%
	247,362
Goodwill	36,138
Acquisition costs of acquired subsidiary (cash prepaid for long-term investments in December 2008)	$ 283,500

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

(With Deloitte & Touche review report dated April 21, 2009) (Concluded)

CHUNGHWA TELECOM CO., LTD.

NOTES TO FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED MARCH 31, 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 the dominate telecommunications service provider of fixed-line services in the ROC, Chunghwa is subject to additional regulations imposed by 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 12, 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 March 31, 2009 and 2008, the Company had 24,530 and 24,423 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 certain 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, remuneration to board of 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 purchased 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 are designated as 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 losses 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 purchases 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 acquisition 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.

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 method 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 the Company to equity method investees are eliminated if the Company has substantial control over these equity investees. 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 amortize 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.

The accounting treatment for cash dividends and stock dividends arising from financial assets carried at cost is the same as that for cash dividends and stock dividends arising from available-for-sale financial assets.

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 Concession is valid through December 31, 2018. The 3G Concession and any additional licensing fees are 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 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 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 employees under defined benefit pension plans, pension costs are recorded based on actuarial calculations. 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 stock and capital surplus are reversed on a pro rata basis. If capital surplus is not sufficient, 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 PRINCIPLES

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 in 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 three months ended March 31, 2009. The Company reclassified the non-operating expenses of $6,064 thousand to operating costs for the three months ended March 31, 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. Beginning from 2009, such bonuses are classified as an operating activity for purposes of the statement of cash flows when paid.

4. CASH AND CASH EQUIVALENTS

	March 31	
	2009	**2008**
Cash		
Cash on hand	$ 92,652	$ 84,432
Bank deposits	8,962,810	13,564,111
Negotiable certificate of deposit, annual yield rate - ranging from 0.185%-2.45% and 2.05%-4.544% for 2009 and 2008, respectively	41,650,000	37,146,452
	50,705,462	50,794,995
Cash equivalents		
Commercial paper, annual yield rate - ranging from 0.16%-0.27% and 1.98%-2.00% for 2009 and 2008, respectively	13,675,914	20,434,525
	$ 64,381,376	$ 71,229,520

As of March 31, 2009 and 2008, foreign deposits in bank were as following:

	March 31	
	2009	**2008**
United States of America - New York (US$712 thousand and US$327,024 thousand for 2009 and 2008, respectively)	$ 24,155	$ 9,943,154
Hong Kong (US$15,763 thousand, EUR 1 thousand, and GBP 2 thousand for 2009; US$36,885 thousand, EUR 519 thousand, JPY23,249 thousand and GBP 204 thousand for 2008)	534,751	1,165,853
	$ 558,906	$ 11,109,007

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

	March 31	
	2009	**2008**
Derivatives - financial assets		
Forward exchange contracts	$ 8,865	$ 330,922
Index future contracts		86,474
	$ 8,865	$ 417,396
Derivatives - financial liabilities		
Forward exchange contracts	$ 104,743	$ 12,602
Currency option contracts		3,075,125
Index future contracts		9,471
	$ 104,743	$ 3,097,198

Chunghwa entered into investment management agreements with a well-known financial institution (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 will terminate the investment management agreements on April 14, 2009, and the fund managers will dispose of the investment portfolios before the termination date.

Chunghwa entered into 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, derivatives that do not meet the criteria for hedge accounting is classified as financial assets or financial liabilities held for trading.

Outstanding forward exchange contracts on March 31, 2009 and 2008 were as follows:

	Currency	**Maturity Period**	**Contract Amount (in Thousands)**
March 31, 2009			
Sell	EUR/USD	2009.04	EUR 3,540
	GBP/USD	2009.04	GBP 3,680
	JPY/USD	2009.04	JPY 304,000
	USD/NTD	2009.04	USD 96,000
	USD/EUR	2009.04	USD 4,514
	USD/GBP	2009.04	USD 5,278

USD/JPY	2009.04	USD 3,137

(Continued)

	Currency	Maturity Period	Contract Amount (in Thousands)
March 31, 2008			
Sell	EUR/USD	2008.05	EUR 17,800
	GBP/USD	2008.05	GBP 2,070
	JPY/USD	2008.05	JPY 444,000
	USD/NTD	2008.04-2008.06	USD 320,000

(Concluded)

The Company did not have any outstanding index future contracts on March 31, 2009.

Outstanding index future contracts on March 31, 2008 were as follows:

	Maturity Period	Units	Contract Amount (in Thousands)
March 31, 2008			
AMSTERDAM IDX FUT	2008.04	13	EUR 1,088
CAC40 10 EURO FUT	2008.04	4	EUR 178
IBEX 35 INDX FUTR	2008.04	7	EUR 893
MINI S&P/MIB FUT	2008.06	34	EUR 1,037
FTSE 100 IDX FUT	2008.06	17	GBP 936
TOPIX INDEX FUTURE	2008.06	24	JPY 290,400
S&P 500 FUTURE	2008.06	16	USD 5,260
S&P 500 EMINI FUTURE	2008.06	47	USD 3,090

As of March 31, 2008, the amount paid for future deposit was $86,474 thousand, respectively.

In September 2007, Chunghwa entered into a 10-year, foreign currency derivative contract with Goldman Sachs Group Inc. (Goldman) and valuations were made biweekly starting from September 20, 2007 which were 260 valuation periods totally. Under the terms of the contract, if the NT dollar/US dollar exchange rate was less than NT$31.50 per US dollar at any two consecutive biweekly 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 was 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 was at or above NT$32.70 per US dollar starting from December 12, 2007 at any time, the contract would 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 losses arising from financial assets and liabilities at fair value through profit or loss for the three months ended March 31, 2009 and 2008 were $19,435 thousand (including realized settlement loss of $15,145 thousand and valuation loss of $4,290 thousand) and $1,879,511 thousand (including realized settlement gain of $271,175 thousand and valuation loss of $2,150,686 thousand), respectively.

6. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	March 31	
	2009	2008
Open-end mutual funds	$ 17,748,321	$ 18,692,548
Real estate investment trust fund	190,923	239,939
Foreign listed stocks		796,445
	$ 17,939,244	$ 19,728,932

For the three months ended March 31, 2009 and 2008, movements of unrealized gain or loss on financial instruments mentioned above were as follows:

	Three Months Ended March 31	
	2009	2008
Balance, beginning of period	$ (2,255,905)	$ 35,232
Recognized in stockholders equity	(60,078)	(1,038,914)
Transferred to profit or loss	227,894	136,967
Balance, end of period	$ (2,088,089)	$ (866,715)

Global economic and financial circumstances have significantly changed. As a result, the Company 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 three months ended March 31, 2009 and 2008, respectively. Chunghwa recorded impairment losses of $1,139,105 thousand in 2008.

7. HELD-TO-MATURITY FINANCIAL ASSETS

	March 31	
	2009	2008
Corporate bonds, nominal interest rate ranging from 0.889%-4.75% and 0%-4% for 2009 and 2008, respectively; effective interest rate ranging from 0.889%-2.95% and 0.994%-4% for 2009 and 2008, respectively	$ 4,411,896	$ 1,349,078
Collateralized loan obligation, nominal and effective interest rate were both 2.175% for 2009 and 2008	30,113	70,667
	4,442,009	1,419,745
Less: Current portion	515,487	653,460
	$ 3,926,522	$ 766,285

8. ALLOWANCE FOR DOUBTFUL ACCOUNTS

	Three Months Ended March 31	
	2009	2008
Balance, beginning of period	$ 2,992,143	$ 3,290,123
Charge to expense for doubtful accounts	127,351	196,750
Accounts receivable written off	(181,026)	(268,628)
Balance, end of period	$ 2,938,468	$ 3,218,245

9. OTHER CURRENT MONETARY ASSETS

	March 31	
	2009	2008
Accrued custodial receipts from other carriers	$ 449,917	$ 596,452
Tax refund receivable		3,221,136
Other	1,652,791	2,139,178
	$ 2,102,708	$ 5,956,766

10. INVENTORIES, NET

	March 31	
	2009	2008
Merchandise	$ 396,373	$ 429,503
Work in process	419,730	219,505
	$ 816,103	$ 649,008

The operating costs related to inventories for the three months ended March 31, 2009 was $1,500,349 thousand, including the valuation loss on inventories of $13,296 thousand. The operating costs related to inventories for the three months ended March 31, 2008 was $1,205,140 thousand, including the valuation loss on inventories of $6,064 thousand.

11. OTHER CURRENT ASSETS

	March 31	
	2009	2008
Prepaid expenses	$ 2,482,558	$ 3,563,039
Spare parts	2,301,188	2,107,183
Prepaid rents	875,458	650,342
Miscellaneous	193,371	135,357
	$ 5,852,575	$ 6,455,921

12. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

	March 31			
	2009		2008	
	Carrying Value	% of Owner-ship	Carrying Value	% of Owner-ship
Listed				
Senao International Co., Ltd. (SENAO)	$ 1,412,162	29	$ 1,359,978	31
Non-listed				
Light Era Development Co., Ltd. (LED)	2,966,151	100	2,995,448	100
Chunghwa Investment Co., Ltd. (CHI)	832,624	49	949,253	49
Chunghwa Telecom Singapore Pte., Ltd. (CHTS)	768,879	100		
Chunghwa System Integration Co., Ltd. (CHSI)	747,188	100	830,403	100
Taiwan International Standard Electronics Co., Ltd. (TISE)	574,203	40	594,782	40
CHIEF Telecom Inc. (CHIEF)	432,049	69	425,998	69
InfoExplorer Co., Ltd. (IFE)	280,152	49		
Donghwa Telecom Co., Ltd. (DHT)	230,393	100	15,538	100
Chunghwa International Yellow Pages Co., Ltd. (CIYP)	139,935	100	64,108	100
Viettel-CHT Co., Ltd. (Viettel-CHT)	96,647	33		
Skysoft Co., Ltd. (SKYSOFT)	86,594	30	71,223	30
KingWaytek Technology Co., Ltd. (KWT)	74,335	33	71,452	33
Chunghwa Telecom Global, Inc. (CHTG)	70,037	100	68,391	100
Spring House Entertainment Inc. (SHE)	46,702	56	40,262	56
Chunghwa Telecom Japan Co., Ltd. (CHTJ)	11,902	100		
ELTA Technology Co., Ltd. (ELTA)			42,800	32
New Prospect Investments Holdings Ltd. (B.V.I.) (New Prospect)		100		100
Prime Asia Investments Group Ltd. (B.V.I.) (Prime Asia)		100		100
	$ 8,769,953		$ 7,529,636	

Chunghwa invested in Senao International Co., Ltd. (SENAO) in January 2007, for a purchase price of $1,065,813 thousand. Furthermore, on March 27, 2009, the board of directors of Chunghwa resolved to purchase 48,000 thousand common shares of SENAO through SENAO s private placement. The purchase price of these common shares is not yet determined, and Chunghwa s ownership of SENAO is expected to increase to 41% after the purchase. SENAO engages mainly in telecommunication facilities sales.

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 established Chunghwa Telecom Singapore Pte., Ltd. (CHTS) in July 2008, for a purchase price of $200,000 thousand, and increase capital for $579,280 thousand in September 2008. CHTS engages mainly in data wholesale, IP Transit, IPLC, IP VPN, voice wholesale services, and reinvests in 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 of 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 invested in Donghwa Telecom Co., Ltd. (DHT) in December 2007 and September 2008 for a purchase price of $11,430 thousand and $189,833 thousand. DHT engages mainly in international telecommunications, IP fictitious internet and internet transfer services.

Chunghwa established Viettel-CHT Co., Ltd. (Viettel-CHT) with Viettel Co., Ltd. in Vietnam in April 2008, by investing $91,239 thousand cash at the end of 2008. Viettel-CHT engages mainly in IDC services.

Chunghwa invested in KingWaytek 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 content and broadband visual sound terrace development.

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, data processing and related services, development and sale of software and consulting services in telecommunication.

ELTA engages mainly in professional on-line and mobile value-added content aggregative services. Chunghwa sold all shares of ELTA with carrying value $51,152 thousand on July 23, 2008 for a selling price of $44,047 thousand and recognized a disposal loss of $7,105 thousand.

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. Both holding companies are operating as investment companies and Chunghwa has 100% ownership right in an amount of US$1 in each holding company.

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

The equity in earnings (losses) of equity investees for the three months ended March 31, 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 $7,439,250 thousand and $6,169,658 thousand as of March 31, 2009 and 2008, respectively. The equity in losses were $2,877 thousand and $31,680 thousand for the three months ended March 31, 2009 and 2008, respectively.

13. FINANCIAL ASSETS CARRIED AT COST

	March 31			
	2009		2008	
	Carrying Value	% of Owner-ship	Carrying Value	% of Owner-ship
Cost investees:				
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	12	49,500	12
Essence Technology Solution, Inc. (ETS)	10,000	9	20,000	9
	2,236,048		2,261,048	
Prepayments for long-term investments in stocks - Taipei Financial Center (TFC)	285,859			
	$ 2,521,907		$ 2,261,048	

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

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 investments in RPTI and ETS, Chunghwa determined the investment in RPTI and ETS were impaired and recognized impairment losses of $15,000 thousand and $10,000 thousand, respectively, for the year ended December 31, 2008.

Chunghwa however, participated in TFC s capital increase in October 2008 and prepaid $285,859 thousand. However, TFC is not expected to be able 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 (SFC). The prepayments will be returned to Chunghwa within ten days after TFC receives the approval notification from SFC.

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 MONETARY ASSETS- NONCURRENT

	March 31	
	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 Piping Fund administered by the Taipei City Government. This funds was used to finance various telecommunications infrastructure projects.

15. PROPERTY, PLANT AND EQUIPMENT

	March 31	
	2009	2008
Cost		
Land	$ 101,259,941	$ 102,536,500
Land improvements	1,496,379	1,475,644
Buildings	62,647,458	62,212,666
Computer equipment	15,750,110	15,255,556
Telecommunications equipment	650,599,936	639,985,191
Transportation equipment	2,292,026	2,773,701
Miscellaneous equipment	7,217,760	7,571,465
Total cost	841,263,610	831,810,723
Revaluation increment on land	5,810,650	5,822,981
	847,074,260	837,633,704
Accumulated depreciation		
Land improvements	912,283	857,843
Buildings	16,513,194	15,445,037
Computer equipment	11,886,242	11,537,907
Telecommunications equipment	509,079,240	491,378,309
Transportation equipment	2,094,789	2,610,545
Miscellaneous equipment	6,140,137	6,496,220
	546,625,885	528,325,861
Construction in progress and advances payments	15,642,868	15,430,445
Property, plant and equipment, net	$ 316,091,243	$ 324,738,288

Pursuant to the related regulation, Chunghwa revalued its land owned as of April 30, 2000 based on the publicly announced value on July 1, 1999. These revaluations which have been 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 stockholders 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 into effect on 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 stockholders equity - other adjustments. As of March 31, 2009, the unrealized revaluation increment was decreased to $5,813,187 thousand by disposal revaluation assets.

Depreciation expense on property, plant and equipment for the three months ended March 31, 2009 and 2008 amounted to $8,893,937 thousand and $9,404,591 thousand, respectively. No interest expense was capitalized for the three months ended March 31, 2009 and 2008.

16. ACCRUED EXPENSES

	March 31 2009	March 31 2008
Accrued salary and compensation	$ 7,294,292	$ 6,184,744
Accrued franchise fees	2,910,613	2,775,888
Other accrued expenses	2,447,053	2,266,955
	$ 12,651,958	$ 11,227,587

17. OTHER CURRENT LIABILITIES

	March 31 2009	March 31 2008
Advances from subscribers	$ 5,605,407	$ 5,268,143
Amounts collected in trust for others	2,201,597	2,376,548
Payables to equipment suppliers	1,925,844	1,489,220
Payables to contractors	1,114,070	781,358
Refundable customers deposits	997,543	937,671
Miscellaneous	2,726,250	2,683,061
	$ 14,570,711	$ 13,536,001

18. STOCKHOLDERS EQUITY

Under Chunghwa s Articles of Incorporation, Chunghwa s authorized capital is $120,000,000,020, which is divided into 12,000,000,000 common shares (at $10 par value per share), which are issued and outstanding 9,696,808,181 shares, Chunghwa s Articles of Incorporation and the Republic of China Telecommunications Act provide that the MOTC has the right to purchase two redeemable preferred shares at $10 (par value) in the event its ownership of Chunghwa falls below 50% of the outstanding common shares. 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.

The MOTC, as the holder of those preferred shares is entitled to the same rights as holders of common shares and certain additional rights as specified in Chunghwa s Articles of Incorporation as follows:

a. The holder of the preferred shares, or its nominated representative, will act as a director and/or supervisor during the entire period in which the preferred shares are outstanding.

b. The holder of preferred shares has the same pre-emptive rights as holders of common shares when Chunghwa raises capital by issuing new shares.

c. The holder of the preferred shares will have the right to veto on any change in the name of Chunghwa or the nature of its business and any transfer of a substantial portion of Chunghwa s business or property.

d.

The holder of the preferred shares may not transfer the ownership. Chunghwa must redeem all outstanding preferred shares with par value within three years from the date of their issuance.

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 March 31, 2009, the outstanding ADSs were 1,375,513 thousand common shares, which equaled approximately 137,551 thousand units and represented 14.19 % 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 $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 three months ended March 31, 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 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 amount and the amount resolute in the stockholders meeting is charged to the earnings of the following year as a result of change in 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.

The appropriations and distributions of the 2008 earnings of Chunghwa have been proposed by the board of directors on March 27, 2009 and the appropriations and distributions of the 2007 earnings of Chunghwa have been approved by the stockholders on June 19, 2008 as follows:

	Appropriation of Earnings		**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 proposed by the board of directors of Chunghwa on March 27, 2009, were $1,629,915 thousand and $38,807 thousand, respectively.

The appropriation of Chunghwa s 2008 earnings has not been resolved by the stockholders as of the review report date. Information on the appropriation of 2008 earnings, employee bonus and remuneration to directors and supervisors resolved by the stockholders is available at the Market Observation Post System website.

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 above mentioned 2008 capital increase proposal was effectively registered with SFC. 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 SFC. 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.

The above mentioned 2007 capital increase proposal was effectively registered with SFC. The board of directors resolved the ex-dividend date of aforementioned proposal as August 1, 2007.

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 SFC. Chunghwa decided October 19, 2007 and December 29, 2007 as the record date and 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 payments to stockholder s was made in January 2008.

19. TREASURY STOCK

	Three Months Ended March 31	
	2009	**2008**
Balance, beginning of the period		110,068
Decrease		110,068
Balance, end of the 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 shares bought back 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 dividends and to vote.

In order to maintain its credit and stockholders equity, Chunghwa repurchased 121,075 thousand shares of 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 110,068 thousand shares of treasury stock amounted to $7,107,494 thousand was cancelled on February 21, 2008.

20. COMPENSATION, DEPRECIATION AND AMORTIZATION EXPENSES

	Three Months Ended March 31, 2009		
	Cost of Services	**Operating Expenses**	**Total**
Compensation expense			
Salaries	$ 3,044,505	$ 2,078,882	$ 5,123,387
Insurance	185,741	124,797	310,538
Pension	401,097	282,481	683,578
Other compensation	2,109,622	1,434,400	3,544,022
	$ 5,740,965	$ 3,920,560	$ 9,661,525
Depreciation expense	$ 8,425,837	$ 468,100	$ 8,893,937
Amortization expense	$ 227,690	$ 37,944	$ 265,634

	Three Months Ended March 31, 2008		
	Cost of Services	Operating Expenses	Total
Compensation expense			
Salaries	$ 2,994,385	$ 2,046,055	$ 5,040,440
Insurance	166,352	118,570	284,922
Pension	400,701	283,401	684,102
Other compensation	1,868,699	1,277,889	3,146,588
	$ 5,430,137	$ 3,725,915	$ 9,156,052
Depreciation expense	$ 8,891,688	$ 512,903	$ 9,404,591
Amortization expense	$ 213,757	$ 34,629	$ 248,386

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 shown in the statements of income is as follows:

	Three Months Ended March 31	
	2009	2008
Income tax expense computed at statutory income tax rate of 25% to income before income tax	$ 3,505,854	$ 3,523,031
Add (deduct) tax effects of:		
Permanent differences	(43,998)	(135,079)
Temporary differences	9,485	1,099,566
Investment tax credits	(281,431)	(351,684)
Income tax payable	$ 3,189,910	$ 4,135,834

b. Income tax expense consisted of the following:

	Three Months Ended March 31	
	2009	2008
Income tax payable	$ 3,189,910	$ 4,135,834
Income tax - separated	37,331	126,283
Income tax - deferred	8,416	(886,062)
Adjustments of prior years income tax	411	
	$ 3,236,068	$ 3,376,055

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

	March 31 2009	March 31 2008
Current		
Provision for doubtful accounts	$ 494,770	$ 544,832
Abandonment of equipment not approved by National Tax Administration	40,239	
Unrealized accrued expense	34,623	
Valuation loss on financial instruments, net	7,616	696,545
Unrealized foreign exchange loss (gain)	(55,218)	199,401
Other	25,458	27,362
	547,488	1,468,140
Valuation allowance	(494,770)	(544,832)
Net deferred income tax assets - current	$ 52,718	$ 923,308
Noncurrent		
Accrued pension cost	$ 1,410,537	$ 1,242,199
Impairment loss	80,225	80,510
Losses on disposal of property, plant and equipment		12,970
Net deferred income tax assets - noncurrent	$ 1,490,762	$ 1,335,679

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

	March 31 2009	March 31 2008
Balance of Imputation Credit Account (ICA)	$ 7,343,493	$ 6,601,656

The estimated and the actual creditable ratios distribution of Chunghwa s of 2008 and 2007 for earnings were 30.96% and 28.81%, respectively. The imputation credit allocated to stockholders is based on its balance as of the date of dividend distribution. The estimated creditable ratio may change when the actual distribution of imputation credit is made.

e. Undistributed earnings information

As of March 31, 2009 and 2008, there is no earnings generated prior to June 30, 1998 in Chunghwa s undistributed earnings.

Income tax returns through the year ended December 31, 2005 have been examined by the ROC tax authorities.

22. EARNINGS PER SHARE

	Amount (Numerator)		Weighted-average Number of Common Shares Outstanding (Thousand) (Denominator)	Earning Per Share (Dollars)	
	Income Before Income Tax	Net Income		Income Before Income Tax	Net Income
Three months ended March 31, 2009					
EPS was calculated as follows:					
Basic EPS					
Income available to stockholders	$ 14,023,457	$ 10,787,389	9,696,808	$ 1.45	$ 1.11
SENAO s stock-based compensation	(1,550)	(1,550)			
Employee bonus			18,216		
Diluted EPS					
Income available to stockholders (including effect of dilutive potential common stock)	$ 14,021,907	$ 10,785,839	9,715,024	$ 1.44	$ 1.11
Three months ended March 31, 2008					
EPS was calculated as follows:					
Basic EPS					
Income available to stockholders	$ 14,092,163	$ 10,716,108	9,696,808	$ 1.45	$ 1.11
SENAO s stock-based compensation	(2,056)	(2,056)			
Employee bonus			2,489		
Diluted EPS					
Income available to stockholders (including effect of dilutive potential common stock)	$ 14,090,107	$ 10,714,052	9,699,297	$ 1.45	$ 1.10

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 share have a dilutive effect for the three months ended March 31, 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 three months ended March 31, 2009 and 2008 was due to the effect of potential common stock of stock options by SENAO.

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. 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 $4,945,033 thousand and $2,879,206 thousand as of March 31, 2009 and 2008, respectively.

Pension costs of Chunghwa were $702,024 thousand ($683,097 thousand subject to defined benefit plan and $18,927 thousand subject to defined contribution plan) and $700,303 thousand ($687,018 thousand subject to defined benefit plan and $13,285 thousand subject to defined contribution plan) for the three months ended March 31, 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
Chunghwa System Integration Co., Ltd. (CHSI)	Subsidiary
CHIEF Telecom, Inc. (CHIEF)	Subsidiary
InfoExplorer Co., Ltd. (IFE)	Subsidiary
Donghwa Telecom Co., Ltd. (DHT)	Subsidiary

(Continued)

Company	**Relationship**
Chunghwa International Yellow Pages Co., Ltd. (CIYP)	Subsidiary
Chunghwa Telecom Global, Inc. (CHTG)	Subsidiary
Spring House Entertainment Inc. (SHE)	Subsidiary
Chunghwa Telecom Japan Co., Ltd. (CHTJ)	Subsidiary
New Prospect Investments Holdings Ltd. (B.V.I.) (New Prospect)	Subsidiary
Prime Asia Investments Group Ltd. (B.V.I.) (Prime Asia)	Subsidiary
Uni-Gate Telecom Inc. (Uni-Gate)	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
Skysoft Co., Ltd. (SKYSOFT)	Equity-method investee
ELTA Technology Co., Ltd. (ELTA)	Equity-method investee before Chunghwa sold all shares in July, 2008.
Senao Networks, Inc. (SNI)	Equity-method investee of SENAO
Chunghwa Precision Test Technical Co., Ltd. (CHPT)	Subsidiary of CHI

(Concluded)

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

	March 31			
	2009		**2008**	
	Amount	**%**	**Amount**	**%**
1) Receivables				
Trade notes and accounts receivable				
SENAO	$ 166,222	55	$ 156,628	66
DHT	48,859	16		
CIYP	35,986	12	6,773	3
CHIEF	24,926	8	12,472	5
CHTG	14,857	5	56,807	24
SHE	13,409	4		
Others	977		3,976	2
	$ 305,236	100	$ 236,656	100

	March 31			
	2009		2008	
	Amount	%	Amount	%
2) Payables				
Trade notes payable, accounts payable and accrued expenses				
SENAO	$ 582,554	44	$ 662,131	48
TISE	221,061	17	79,194	6
CHSI	121,005	9	124,609	9
CHIEF	46,950	4	18,106	1
CIYP	42,586	3	3,812	
DHT	12,451	1		
CHTG	11,347	1	16,166	1
Others	6,228		9,526	1
	1,044,182	79	913,544	66
Payable to construction supplier				
TISE	22,712	2	37,996	3
CHSI			18,180	1
SENAO			13	
	22,712	2	56,189	4
Amounts collected in trust for others				
SENAO	234,659	18	411,631	29
CIYP	12,943	1		
Others	8,145		8,772	1
	255,747	19	420,403	30
	$ 1,322,641	100	$ 1,390,136	100

	Three Months Ended March 31			
	2009		2008	
	Amount	%	Amount	%
3) Revenues				
SENAO	$ 92,912		$ 609,801	1
CHIEF	65,499		43,468	
DHT	23,082			
CHTG	15,363		40,552	
CIYP	4,181		20,544	
Others	17,575		15,127	
	$ 218,612		$ 729,492	1

	Three Months Ended March 31			
	2009		2008	
	Amount	%	Amount	%
4) Operating costs and expenses				
SENAO	$ 1,394,146	5	$ 1,635,051	6
TISE	92,367		105,860	
CHSI	85,278		56,891	
CHIEF	77,954		42,886	
CIYP	65,011		11,698	
DHT	33,729		4,180	
SHE	16,876		7,001	
CHTG	12,113		11,532	
ELTA			37,028	
Others	397		2	
	$ 1,777,871	5	$ 1,912,129	6
5) Acquisitions of property, plant and equipment				
CHSI	$ 47,186	1	$ 120,164	2
TISE	9,779		47,647	1
Others	250			
	$ 57,215	1	$ 167,811	3

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 March 31, 2009, Chunghwa s remaining commitments under non-cancellable contracts with various parties were as follows:

a. Acquisitions of land and buildings of $262,916 thousand.

b. Acquisitions of telecommunications equipment of $17,748,339 thousand.

c. Contracts to print billing, envelopes and telephone directories of $88,995 thousand.

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

Year	Amount
2009 (from April 1, 2009 to December 31, 2009)	$ 1,240,516
2010	1,192,048
2011	902,447
2012	665,568
2013 and thereafter	477,046

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). If 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 t 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 of the court judgment compensation. Chunghwa will file an appeal at the Taiwan Taipei District Court within 20 days from the receipt of the copy of the court judgment.

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.

26. FAIR VALUE OF FINANCIAL INSTRUMENTS

a. Carrying amount and fair value of financial instruments were as follows:

	March 31			
	2009		2008	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets				
Cash and cash equivalents	$ 64,381,376	$ 64,381,376	$ 71,229,520	$ 71,229,520
Financial assets at fair value through profit or loss	8,865	8,865	417,396	417,396
Available-for-sale financial assets	17,939,244	17,939,244	19,728,932	19,728,932
Held-to-maturity financial assets - current	515,487	515,487	653,460	653,460
Trade notes and accounts receivable, net	10,178,679	10,178,679	9,500,820	9,500,820
Receivables from related parties	305,236	305,236	236,656	236,656
Other current monetary assets	2,102,708	2,102,708	5,956,766	5,956,766
Investments accounted for using equity method	8,769,953	10,106,426	7,529,636	9,922,307
Financial assets carried at cost	2,521,907	2,521,907	2,261,048	2,261,048

(Continued)

	March 31			
	2009		2008	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Held-to-maturity financial assets-noncurrent	$ 3,926,522	$ 3,926,522	$ 766,285	$ 766,285
Other noncurrent monetary assets	1,000,000	1,000,000	1,000,000	1,000,000
Refundable deposits	1,179,096	1,179,096	1,273,418	1,273,418
Liabilities				
Financial liabilities at fair value through profit or loss	104,743	104,743	3,097,198	3,097,198
Trade notes and accounts payable	6,578,112	6,578,112	6,323,587	6,323,587
Payables to related parties	1,322,641	1,322,641	1,390,136	1,390,136
Accrued expenses	12,651,958	12,651,958	11,227,587	11,227,587
Amounts collected in trust for others (included in other current liabilities)	2,201,597	2,201,597	2,376,548	2,376,548
Payables to equipment suppliers (included in other current liabilities)	1,925,844	1,925,844	1,489,220	1,489,220
Payables to contractors (included in other current liabilities)	1,114,070	1,114,070	781,358	781,358
Refundable customers deposits (included in other current liabilities)	997,543	997,543	937,671	937,671
Hedging derivative financial liabilities (included in other current liabilities)	30,716	30,716	13,000	13,000
Customers deposits	6,028,691	6,028,691	6,218,730	6,218,730

(Concluded)

b. Methods and assumptions used in the estimation 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 assets and liabilities using quoted market prices or valuation techniques were as follows:

	Amount Based on Quoted Market Price March 31		Amount Determined Using Valuation Techniques March 31	
	2009	2008	2009	2008
Assets				
Financial assets at fair value through profit or loss	$ 8,865	$ 417,396	$	$
Available-for-sale financial assets	17,939,244	19,728,932		
Hedging derivative financial assets (classified as other current monetary assets)		21,679		
Liabilities				
Financial liabilities at fair value through profit or loss	104,743	22,073		3,075,125
Hedging derivative financial liabilities (classified as other current liabilities)	30,716	13,000		

d. Information about financial risks

1) Market risk

The foreign exchange rate fluctuations would result in Chunghwa s foreign-currency-dominated assets and liabilities and outstanding forward exchange 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. 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 forward exchange contracts is mainly to hedge the fluctuation in exchange rates of beneficiary certificate denominated in foreign currency, which is fair value hedge. The transaction was assessed as highly effective for the three months ended March 31, 2009 and 2008.

Outstanding forward exchange contracts for hedge as of March 31, 2009 and 2008:

	Currency	Maturity Period	Contract Amount (in Thousands)
March 31, 2009			
Sell	USD/NTD	2009.04	USD 30,000
March 31, 2008			
Sell	USD/NTD	2008.06	USD 65,000
	EUR/NTD	2008.05	EUR 25,000

As of March 31, 2009 and 2008, the forward exchange contract measured at fair value resulting in hedging derivative financial liability of $30,716 thousand and $13,000 thousand (classified as other current liabilities), respectively. As of March 31, 2008, the forward exchange contract measured at fair value resulting in hedging derivative financial asset of $21,679 thousand (classified as other current monetary assets).

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

1) Holding period and contract amounts

SENAO entered into a forward exchange contract for the three months ended March 31, 2009 and 2008 to reduce the exposure to foreign currency risk.

Outstanding forward exchange contracts as of March 31, 2009 and 2008:

	Currency	Maturity Period	Contract Amount (in Thousands)
March 31, 2009			
Buy	NTD/USD	2009.04	NTD 137,091
March 31, 2008			
Buy	NTD/USD	2008.04	NTD 279,695

2) Market risk

The foreign exchange rate fluctuations would result in SENAO 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 and companies. 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 SFC for Chunghwa and its investees:

a. Financing provided: None.

b. Endorsement/guarantee provided: None.

c. Marketable securities held: Please see Table 1.

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 2.

e. Acquisition of individual real estate at costs of at least $100 million or 20% of the paid-in capital: None.

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 3.

h. Receivables from related parties amounting to $100 million or 20% of the paid-in capital: Please see Table 4.

i. Names, locations, and other information of investees on which Chunghwa exercises significant influence: Please see Table 5.

j. Financial transactions: Please see Notes 5 and 26.

k. Investment in Mainland China: Please see Table 6.

TABLE 1

CHUNGHWA TELECOM CO., LTD.

MARKETABLE SECURITIES HELD

MARCH 31, 2009

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

					March 31, 2009				
No.	Held Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	Shares (Thousands/ Thousand Units)	Carrying Value (Note 5)	Percentage of Ownership	Market Value or Net Asset Value	Note
0	Chunghwa Telecom Co., Ltd.	Stocks							
		Senao International Co., Ltd.	Subsidiary	Investments accounted for using equity method	71,773	$ 1,412,162	29	$ 2,806,330	Note 4
		Light Era Development Co., Ltd.	Subsidiary	Investments accounted for using equity method	300,000	2,966,151	100	2,966,582	Note 1
		Chunghwa Investment Co., Ltd.	Equity-method investee	Investments accounted for using equity method	98,000	832,624	49	908,816	Note 1
		Chunghwa Telecom Singapore Pte. Ltd.	Subsidiary	Investments accounted for using equity method	34,869	768,879	100	768,879	Note 1
		Chunghwa System Integration Co., Ltd.	Subsidiary	Investments accounted for using equity method	60,000	747,188	100	654,075	Note 1
		Taiwan International Standard Electronics Co., Ltd.	Equity-method investee	Investments accounted for using equity method	1,760	574,203	40	746,956	Note 1
		CHIEF Telecom Inc.	Subsidiary	Investments accounted for using equity method	37,942	432,049	69	383,059	Note 1
		InfoExplorer Co., Ltd.	Subsidiary	Investments accounted for using equity method	22,498	280,152	49	224,208	Note 1
		Donghwa Telecom Co., Ltd.	Subsidiary	Investments accounted for using equity method	51,590	230,393	100	230,393	Note 1
		Chunghwa International Yellow Pages Co., Ltd.	Subsidiary	Investments accounted for using equity method	15,000	139,935	100	140,662	Note 1
		Viettel-CHT Co., Ltd.	Equity-method investee	Investments accounted for using equity method	3,000	96,647	33	96,647	Note 1
		Skysoft Co., Ltd.	Equity-method investee	Investments accounted for using equity method	4,438	86,594	30	47,227	Note 1
		KingWaytek Technology Co., Ltd.	Equity-method investee	Investments accounted for using equity method	1,002	74,335	33	19,172	Note 1
		Chunghwa Telecom Global, Inc.	Subsidiary	Investments accounted for using equity method	6,000	70,037	100	69,665	Note 1

Spring House Entertainment Inc.	Subsidiary	Investments accounted for using equity method	5,996	46,702	56	31,854	Note 1
Chunghwa Telecom Japan Co., Ltd.	Subsidiary	Investments accounted for using equity method	1	11,902	100	11,901	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	1,408,325	Note 1
Industrial Bank of Taiwan II Venture Capital Co., Ltd. (IBT II)		Financial assets carried at cost	20,000	200,000	17	198,901	Note 1
Global Mobile Corp.		Financial assets carried at cost	12,696	127,018	11	119,777	Note 1
iD Branding Ventures		Financial assets carried at cost	7,500	75,000	8	77,298	Note 1
PRTI International		Financial assets carried at cost	9,234	34,500	12	34,960	Note 1
Essence Technology Solution, Inc.		Financial assets carried at cost	2,000	10,000	9	5,652	Note 1
Taipei Financial Center		Prepayments for long-term investments in stock	28,586	285,859		285,859	Note 7

(Continued)

No.	Held Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	March 31, 2009 Shares (Thousands/ Thousand Units)	Carrying Value (Note 5)	Percentage of Ownership	Market Value or Net Asset Value	Note
		REITS							
		Fubon No. 1 Fund		Available-for-sale financial assets	10,000	$ 100,000		$ 100,400	Note 4
		Cathay No. 2 REIT		Available-for-sale financial assets	2,288	22,880		20,523	Note 4
		Gallop No. 1 REIT		Available-for-sale financial assets	10,000	100,000		70,000	Note 4
		Beneficiary certificates (mutual fund)							
		Polaris /P-shares Taiwan Dividend + ETF		Available-for-sale financial assets	600	15,000		9,606	Note 3
		PCA Well Pool Fund		Available-for-sale financial assets	117,079	1,500,000		1,517,525	Note 3
		Yuan Ta Wan Tai Bond Fund		Available-for-sale financial assets	104,520	1,500,000		1,510,280	Note 3
		Mega Diamond Bond Fund		Available-for-sale financial assets	126,106	1,500,000		1,501,333	Note 3
		Polaris De-Li Fund		Available-for-sale financial assets	225,901	3,500,000		3,518,953	Note 3
		Fuh-Hwa Bond Fund		Available-for-sale financial assets	108,849	1,500,000		1,501,186	Note 3
		MFS Meridian Emerging Markets Debt Fund		Available-for-sale financial assets	336	208,578		219,138	Note 3
		Fidelity US High Yield Fund		Available-for-sale financial assets	535	206,588		148,180	Note 3
		MFS Meridian Funds-Strategic Income Fund		Available-for-sale financial assets	316	132,592		120,963	Note 3
		Fidelity Fds Intl Bond		Available-for-sale financial assets	14,644	565,387		510,581	Note 3
		Credit Suisse BF (Lux) Euro Bond Fund		Available-for-sale financial assets	4	55,632		65,018	Note 3
		Fidelity European High Yield Fund		Available-for-sale financial assets	324	126,425		86,192	Note 3
		Parvest Europe Convertible Bond Fond		Available-for-sale financial assets	78	443,097		328,964	Note 3
		JPMorgan Funds-Global Convertibles Fund (EUR)		Available-for-sale financial assets	868	491,450		368,274	Note 3
		Parvest Euro Bond		Available-for-sale financial assets	39	287,400		285,458	Note 3
		Fuh-Hwa Aegis Fund		Available-for-sale financial assets	17,813	234,684		189,357	Note 3
		AGI Global Quantitative Balanced Fund		Available-for-sale financial assets	22,968	267,269		234,504	Note 3
		Capital Asset Manager Income		Available-for-sale financial assets	11,285	200,000		151,875	Note 3
		Fuh Hwa Life Goal Fund		Available-for-sale financial assets	6,832	100,000		84,595	Note 3
		Fuh Hwa Asia Pacific Balanced		Available-for-sale financial assets	7,764	100,000		63,820	Note 3
		Asia-Pacific Mega - Trend Fund		Available-for-sale financial assets	13,059	175,000		113,091	Note 3
		AIG Flagship Global Balanced Fund of Funds		Available-for-sale financial assets	25,679	350,000		266,550	Note 3

Franklin Templeton Global Bond Fund of Funds	Available-for-sale financial assets	18,089	200,000	197,110	Note 3
Cathay Global Aggressive Fund of Funds	Available-for-sale financial assets	14,692	200,000	128,700	Note 3
Polaris Global Emerging Market Funds	Available-for-sale financial assets	9,791	150,000	80,875	Note 3
HSBC Global Fund of Bond Funds	Available-for-sale financial assets	22,838	250,000	239,612	Note 3
Fubon Taiwan Selected Fund	Available-for-sale financial assets	100,000	618,104	649,000	Note 3
HSBC Taiwan Balanced Strategy Fund	Available-for-sale financial assets	100,000	769,374	758,000	Note 3
Cathay Chung Hwa No. 1 Fund	Available-for-sale financial assets	100,000	710,886	652,000	Note 3
Fuh Hwa Power Fund III	Available-for-sale financial assets	100,000	677,182	697,000	Note 3
JPM (Taiwan) JF Balanced Fund	Available-for-sale financial assets	2,462	50,000	41,068	Note 3
MFS Meridian Funds-Global Equity Fund (A1 class)	Available-for-sale financial assets	253	262,293	159,184	Note 3
Fidelity Fds International	Available-for-sale financial assets	128	163,960	88,409	Note 3
Fidelity Fds America	Available-for-sale financial assets	937	163,960	96,801	Note 3
JPMorgan Funds-Global Dynamic Fund (B)	Available-for-sale financial assets	303	165,640	90,391	Note 3
MFS Meridian Funds-Research International Fund (A1 share)	Available-for-sale financial assets	173	131,920	70,676	Note 3
Fidelity Fds Emerging Markets	Available-for-sale financial assets	144	122,175	50,279	Note 3
Credit Suisse Equity Fund (Lux) Global Resources	Available-for-sale financial assets	13	162,990	74,105	Note 3

(Continued)

eld Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	March 31, 2009 Shares (Thousands/ Thousand Units)	Carrying Value (Note 5)	Percentage of Ownership	Market Value or Net Asset Value	Note
	Fidelity Euro Balanced Fund		Available-for-sale financial assets	879	$ 560,819		$ 365,255	Note 3
	Fidelity Fds World		Available-for-sale financial assets	295	171,568		85,272	Note 3
	Fidelity Fds Euro Blue Chip		Available-for-sale financial assets	259	233,543		114,061	Note 3
	MFS Meridian Funds - European Equity Fund (A1 share)		Available-for-sale financial assets	171	178,920		92,138	Note 3
	Henderson Horizon Fund - Pan European Equity Fund		Available-for-sale financial assets	230	180,886		110,493	Note 3
	JPM (Taiwan) Global Balanced Fund		Available-for-sale financial assets	9,071	125,000		112,449	Note 3
	<u>Bonds</u>							
	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
	Taiwan Power Co. 1st Unsecured Bond-B Issue in 2001		Held-to-maturity financial assets		272,170		272,170	Note 6
	Formosa Petrochemical Corp.		Held-to-maturity financial assets		99,852		99,852	Note 6
	Taiwan Power Company 3rd Boards in 2008		Held-to-maturity financial assets		149,922		149,922	Note 6
	GreTai Company 1st Unsecured Corporate Bonds-A issue in 2008		Held-to-maturity financial assets		100,000		100,000	Note 6
	China Development Industrial B		Held-to-maturity financial assets		197,199		197,199	Note 6
	Fubon Financial Holding Company 2005		Held-to-maturity financial assets		99,304		99,304	Note 6

1st Unsecured Debenture						
Formosa Petrochemical Corporation 3rd Unsecured Corporate Bonds Issue in 2008.	Held-to-maturity financial assets	49,920		49,920	Note 6	
Cathay United Bank 9St Financial Debentures-03 Issue in 2004	Held-to-maturity financial assets	199,877		199,877	Note 6	
Hua Nan Commercial Bank the Tenth Subordinate Financial Debentures Issue in 2003	Held-to-maturity financial assets	200,095		200,095	Note 6	
Hua Nan Commercial Bank 2nd of the two Subordinate Financial Debentures Issue in 2004	Held-to-maturity financial assets	99,925		99,925	Note 6	
China Development Industrial Bank 2nd Financial Debentures issue in 2006	Held-to-maturity financial assets	198,254		198,254	Note 6	
China Development Financial Holding Corporation 1st Unsecured Corporate Bonds Issue in 2006	Held-to-maturity financial assets	202,765		202,765	Note 6	
Taiwan Power Company 5th Boards in 2008	Held-to-maturity financial assets	273,354		273,354	Note 6	
Yuanta Unsecured Corporate Bond 2008 - A Issue	Held-to-maturity financial assets	100,054	$ 244,451	$ 342,121		$ 589

HEARTLAND, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2006

NOTE E - VARIABLE INTEREST ENTITIES

In January 2003, the FASB issued FIN 46 and in December 2003, it issued a revised interpretation of FIN 46 (FIN 46-R), which supersedes FIN 46 and clarifies and expands current accounting guidance for determining whether certain entities should be consolidated in the Company's consolidated financial statements. An entity is subject to FIN 46 and is called a Variable Interest Entity (VIE) if it has (1) equity that is insufficient to permit the entity to finance its activities without additional subordinated financial support from other parties, or (2) equity investors that cannot make significant decisions about the entity's operations, or that do not absorb the expected losses or receive the expected returns of the entity. A VIE is consolidated by its primary beneficiary, which is the party that has a majority of the expected losses or a majority of the expected residual returns of the VIE, or both.

The Company has concluded that three entities, Mundus Environmental Products, Inc. ("Mundus"), Wyncrest Group, Inc. ("Wyncrest") and PAR Investments, LLC are deemed to be VIEs under FIN 46 and that the Company is the primary beneficiary of each of these three entities. Accordingly, they have been consolidated in the financial statements for 2005. [See Note S].

Mundus, consolidated in 2005, had assets of $516,170, liabilities of $36,115 and an accumulated deficit of $4,186,891 at January 31, 2006 and a net loss of $2,107,872 for the year then ended. Wyncrest has assets of $44,840, liabilities of $708,043 and an accumulated deficit of $834,058 at December 31, 2005 and net loss of $325,751 for the year then ended. These companies, which are in the investment business, had no revenues during these years. Expenses consisted primarily of compensation and consulting expense paid to related parties and professional fees. Par Investments, LLC., a real estate holding company had assets of $2,003,385, liabilities of $1,711,750 and equity of $291,635 at December 31, 2005 and net income of $78,221 for the year then ended.

NOTE F - INVENTORY

Inventory consists of the following at December 31,

	2006	2005
Raw material	$ 824,824	$ 665,510
Work in process - manufacturing	30,421	21,001
Finished goods	2,946	--
	$ 858,191	$ 686,511

HEARTLAND, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2006

NOTE G – UNCOMPLETED CONTRACTS

Cost, estimated earnings, and billing on umcompleted contracts are summarized as follows:

	December 31, 2006	December 31, 2005
Cost incurred on uncompleted contracts	$ 8,022,887	$ 4,591,447
Estimated earnings	1,103,364	472,952
	9,126,251	5,064,399
Billing to date	8,867,936	5,253,955
	$ 258,315	$ (189,556)
Included in balance sheet as follows:		
Costs and estimated earnings in excess of billings on uncompleted contracts	$ 634,687	$ 332,396
Billings in excess of costs and estimated earnings on uncompleted contracts	$ (376,272)	$ (521,952)

NOTE H - PROPERTY, PLANT, AND EQUIPMENT

Property, plant, and equipment consists of the following at December 31,

	2006	2005	Years of Average Useful Life
Land	$ 73,400	$ 73,400	
Leasehold improvements	103,420	87,715	5
Buildings	762,600	762,600	30
Furniture and fixtures	188,022	172,149	10
Machinery and equipment	324,874	315,045	10-15
Automotive equipment	76,363	74,363	7
	1,528,,679	1,485,272	
Less: accumulated depreciation	584,309	521,735	
	$ 944,370	$ 963,537	

NOTE I – OTHER INTANGABLE ASSETS

Other intangible assets consist of the following at December 31,

	2006	2005

Customer list	$	22,500	$	22,500
Accumulated amortization and impairment loss		(5,624)		(2,812)
Other intangible assets	$	16,876	$	19,688

HEARTLAND, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2006

NOTE J - BANK LINES OF CREDIT (CONTINUED)

A Company subsidiary has a $300,000 line of credit with a bank through June 2007 of which $300,000 is available at December 31, 2006. The line bears interest at prime as published by the Wall Street Journal. The prime rate at December 31, 2006 was 8.25%. The line is limited to 75% of eligible accounts receivable less billings in excess of cost, has certain financial covenants and is guaranteed by a stockholder of the Company. No amounts were due on this line at December 31, 2006 and 2005.

NOTE K - CONVERTIBLE PROMISSORY NOTES PAYABLE

The Company issued $734,150 and $1,026,550 in convertible promissory notes payable to various individuals and organizations in 2005 and 2004, respectively. During 2006 and 2005, the Company converted $1,450,265 and $80,000 of convertible promissory notes into 2,900,530 and 100,000 shares of common stock, respectively. Also, during 2006 the Company paid off $166,985 of convertible promissory notes and issued 358,876 shares of common stock as payment for $179,438 of interest on the notes. The notes are unsecured, due within 1 year from date of issue, and bear interest at the rate of 10%. The notes can be converted into common stock of the Company, generally at $0.50 per share. The amounts due at December 31, 2006 and 2005 amount to $63,450 and $1,680,700, respectively. At December 31, 2006, the Company was in default on these convertible notes.

Wyncrest issued $284,300 and $295,500 in convertible promissory notes payable to various individuals and organizations in 2005 and 2004, respectively. The notes are unsecured, due within 1 year from date of issue, bear interest at the rate of 10% and can be converted into common stock of Wyncrest at $0.50 per share. The amount due at December 31, 2005 amounted to $579,800. Wyncrest is in default on these notes payable [See Note S].

Mundus issued $13,500 in convertible promissory notes payable to two individuals in 2005. The notes are unsecured, due within 1 year from date of issue, bear interest at the rate of 10% and can be converted into common stock of Mundus at $1.00 per share. The amount due at December 31, 2005 amounted to $13,500 [See Note S].

HEARTLAND, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2006

NOTE L - NOTES PAYABLE

Notes payable consist of the following:

	December 31			
	2006		2005	
Notes payable to banks due February 2010 and March 2010, payable in 72 monthly installments of $734 and $284 including interest at 6.17% and 6.27%, respectively. The notes are collateralized by transportation equipment.	$	35,937	$	45,555
Mortgage notes payable to a bank due March 2017 and May 2017, payable in 180 monthly installments of $2,260 and $2,739 including interest at 7.50% and 7.25%, respectively. The notes are collateralized by buildings		432,035		459,115
		467,972		504,670
Less: current portion		39,471		37,349
Long-term portion	$	428,501	$	467,321

At December 31, 2006, minimum future principal payments over the next five years and in the aggregate are as follows:

Year	Amount	
2007	$	39,471
2008		42,301
2009		46,837
2010		37,901
2011		39,086
Thereafter		262,376
Total	$	467,972

F 21

HEARTLAND, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2006

NOTE M - RELATED PARTY TRANSACTIONS

Obligations to Related Parties

In connection with the acquisition of Mound Technologies, Inc. in December 2003, the Company assumed a loan of $470,907 payable to the former stockholder who currently is a significant stockholder of the Company. The obligation was converted into a note payable during 2005.

In connection with the acquisition of Karkela Construction, Inc., the former principal stockholder of Karkela declared a $200,000 dividend prior to the effective date of the acquisition, which was paid in January 2005.

During, 2006, a stockholder of the company paid certain obligations on behalf of the company in the amount of $50,000.

Notes payable consist of the following:

	2006	2005
During 2005, obligations to a related party and accrued rent in the amounts of $45,907 and $205,907, respectively were converted to a note payable. The note is payable in 120 monthly installments in the amount of $2,796 and bears interest at the rate of 6.00%	$ 227,405	$ 246,549
During 2005, obligations to related party in the amount of $425,000 was converted to a note payable. The note is payable in 90 monthly installments in the amount of $4,152 and is non-interest bearing	335,503	365,396
Total	562,908	611,945
Less: current maturities	87,903	66,787
Long-term portion	$ 475,005	$ 545,158

At December 31, 2006, minimum future principal payments over the next five years and in the aggregate are as follows:

Year	Amount
2007	$ 87,903
2008	71,406
2009	72,737
2010	74,150
2011	75,650
Thereafter	181,062
Total	$ 562,908

HEARTLAND, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2006

NOTE M - RELATED PARTY TRANSACTIONS (CONTINUED)

Transactions With Related Parties

In 2005, Monarch Homes, Inc. sold a home to its President for $135,000.

Compensation and consulting fees totaling $1,573,998 during the year ended December 31, 2005 were paid to officers and major shareholders from Mundus, and Wyncrest (Consolidated VIEs, see Note E).

NOTE N - STOCKHOLDERS' EQUITY (DEFICIT)

2006

In June 2006, the Company agreed to accept the rescissions of the December 2004 acquisition agreements with Evans Columbus, LLC effective March 31, 2006 and with Monarch Homes, Inc. effective June 1, 2006. As a result, 1,600,000 shares of the Company's common stock issued for the acquisitions (600,000 – Evans and 1,000,000 – Monarch) were cancelled.

In November 2006, the Company, upon prior approval of the Board of Directors, issued 200,000 shares of its common stock to both its Chief Executive Officer and its Chief Financial Officer. The 400,000 shares were valued at $0.575 per share and an amount of $230,000 was charged as stock based compensation.

At various times during 2006, the Company issued a total of 2,900,530 shares of its common stock to holders of convertible promissory notes upon the conversion of $1,450,265 of notes at a price of $0.50 per share. Additionally, the Company issued 358,876 shares of its common stock at $0.50 per share for payment of interest accrued on the convertible promissory notes.

The Company sold a total of 1,666,940 shares of its common stock at prices ranging from $0.17 to $0.38 per share to various individuals during 2006 for total proceeds of $509,850.

At various times during 2006, the Company, upon prior approval of its Board of Directors, issued a total of 4,830,735 shares of its common stock to various individuals for services rendered to the Company. The shares were valued at prices ranging from $0.25 to $0.75 per share. Accordingly, stock based compensation expense of $2,752,278 was recorded.

HEARTLAND, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2006

NOTE N - STOCKHOLDERS' EQUITY (DEFICIT) (CONTINUED)

2005

In January 2005, the company approved the issuance of 1,500,000 shares of common stock to its President and Chief Executive Officer. The shares were valued at $0.46 per share. Accordingly, stock based compensation in the amount of $690,000 was recorded.

At various times during 2005, the Company sold 1,696,236 shares of its common stock under private placement arrangements at prices ranging from $0.50 to $1.00 per share, realizing $1,035,733.

During the year, convertible promissory note holders converted $80,000 of notes to common stock. The Company issued 100,000 shares of its common stock relating to the conversion at prices of $0.50 and $1.00.

In June 2005, the Company settled an old outstanding obligation in the amount of $77,190 for the issuance of 75,000 shares of its common stock.

In July 2005, the Company issued 100,000 shares of its common stock as a down payment on the potential acquisition of Persinger. The shares were valued at $0.50 per share. Accordingly, $50,000 was recorded as an acquisition deposit.

At various times during 2005, the Company issued 875,770 shares of its common stock to individuals for services rendered to the Company and approved by the Board of Directors. The shares were valued at prices ranging from $0.50 to $1.00 per share. Accordingly, stock based compensation in the amount of $651,328 was recorded.

In December 2005, the Company issued 683,000 shares of its common stock to settle the contingent stock issuances relating to the December 2004 acquisitions (See Note D). These shares were valued at par value with a corresponding decrease to additional paid-in capital.

At various times during 2005, the Company issued 467,064 shares of its common stock to settle legal disputes against the Company. The shares were valued at $0.50 per share. Accordingly, stock based compensation in the amount of $311,657 was recorded.

The Company issued 4,153 shares at $0.50 per share as payment of $2,076 for interest relating to the conversion of its convertible promissory notes.

HEARTLAND, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2006

NOTE O - INCOME TAXES

The Company has elected as at December 31, 2005, to file a consolidated Federal income tax return. Certain pre-acquisition net operating loss carryforwards are limited under Section 382 of the Internal Revenue Code due to the significant ownership changes resulting from the acquisitions. The carryforward losses available to the Company from losses incurred in the parent corporation, Heartland, Inc., and any losses from its wholly owned subsidiaries resulting subsequent to the respective acquisition dates as of December 31, 2006 aggregate approximately $4,460,000 to offset future taxable income of which $450,000 expires in 2024, $3,571,000 expires in 2025 and $439,000 expires in 2026.

The Federal and State income tax provision (benefit) is as follows:

	2006	2005
Current:		
Federal	$ --	$ 13,836
State	--	7,173
Total Current Expense	--	21,009
Deferred:		
Federal	--	(68,854)
State	--	(10,909)
Total Deferred Benefit:	--	(79,763)
Federal and State income tax benefit	$ --	$ (58,754)

Temporary differences which give rise to deferred taxes are summarized as follows for the years ended December 31, 2006 and 2005:

	2006	2005
Allowance for doubtful accounts	$ 78,550	$ 87,865
Deferred revenues	(441,346)	(189,181)
Vacation accrual	6,149	5,514
Net operating losses	1,785,000	1,608,400
Net deferred tax assets	1,428,353	1,512,598
Less: Valuation allowance	(1,428,353)	(1,512,598)
Net	$ --	$ --

The parent company has recorded a full valuation allowance to reflect the estimated amount of deferred tax assets that may not be realized since the generation of future taxable income is not assured beyond a reasonable doubt. The valuation allowance (decreased) increased in the amount of approximately $(84,000) and $1,378,000 for the years ended December 31, 2006 and 2005, respectively.

There is no significant difference between the effective income tax rates and the statutory Federal income tax rate.

HEARTLAND, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2006

NOTE P - OPERATING SEGMENTS

The Company presently organizes its business units into two reportable segments: steel fabrication and construction and property management. The steel fabrication segment focuses on the fabrication of metal products. The construction and property management segment functions as a general contractor in the greater St. Paul and Minneapolis, Minnesota area and also owns and manages industrial property in Ohio.

The Company's reportable business segments are strategic business units that offer different products and services. Each segment is managed separately because they require different technologies and market to different classes of customers.

Year ended December 31, 2006:	**Parent Company**	**Steel Fabrication**	**Construction**	**Total**
Revenues	$ --	$ 11,921,907	$ 8,302,360	$ 20,224,267
NET INCOME (LOSS)	(3,933,215)	1,069,278	80,173	(2,783,764)
Total Assets	10,081	4,730,507	3,328,559	8,069,147
OTHER SIGNIFICANT ITEMS				
Depreciation and amortization	--	39,528	26,257	65,785
Interest	300,253	86,698	32,898	419,849
Expenditures for assets	--	43,336	3,010	47,346

Year ended December 31, 2005:	**Parent Company**	**Steel Fabrication**	**Construction**	**Total**
Revenues	$ --	$ 7,764,997	$ 8,627,665	$ 16,392,662
NET INCOME (LOSS)	(3,828,741)	608,956	(2,084,022)	(5,303,807)
Total Assets	82,504	2,718,196	3,909,870	6,710,570
OTHER SIGNIFICANT ITEMS				
Depreciation and amortization	398	33,407	41,364	75,169
Interest	483,707	6,661	34,476	524,844
Expenditures for assets	--	---	49,614	49,614

HEARTLAND, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2006

NOTE Q - COMMITMENTS AND CONTINGENCIES

Leases

The Company leased its former corporate office space in Plymouth, Minnesota pursuant to a four year lease which expires on December 31, 2009. The lease calls for monthly payments of $2,304 in 2007, $2,347 in 2008 and $2,389 in 2009. In addition, the Company is responsible for its pro-rata share of real estate taxes and operating expenses. During 2006, the Company relocated its corporate office and the lease was assumed by an unrelated third party. The company remains contingently liable under the terms of the lease.

The Company leases the Mound Facilities from a stockholder of the Company. The lease calls for monthly payments of $16,250 and expires August 31, 2010 [See note T(3)]

The Company leases the Karkela Facilities from a stockholder of the Company. The lease calls for monthly payments of $3,573 in 2007 with annual increases of 5% in the monthly payments. The lease expires March 31, 2010. The company is also responsible for its pro-rate share of real estate taxes, and repairs and maintenance.

Minimum Future lease payments under the leases are as follows:

For the Years Ended December 31,	Unrelated	Related Party
2007	27,648	237,876
2008	28,160	240,024
2009	28,672	242,268
2010	142,408	142,408
Total	$ 84,480	$ 862,576

Rent expense amounted to $191,515 and $261,082 for the years ended December 31, 2006 and 2005, of which $161,856 and $196,082, respectively, were to related parties.

Issuance of Common Stock

As indicated in Note D - Acquisitions, the Company is liable for additional shares of the Company's common stock if the common stock is not trading at minimum share prices at specified dates in the future.

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HEARTLAND, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2006

NOTE R - CONCENTRATION OF CREDIT RISK

Cash accounts are generally held in FDIC insured banks. The Company's cash accounts in certain banks exceed the FDIC insured limit of $100,000. At December 31, 2006, the Company had approximately $568,000 in these accounts.

Revenues from Karkela are concentrated in the state of Minnesota.

NOTE S – DISCONTINUED OPERATIONS

On June 21, 2006, the Company agreed to accept rescissions of the December 2004 acquisition agreements from Evans Columbus, LLC effective March 31, 2006 and from Monarch Homes, Inc. effective June 1, 2006. Additionally, in the second quarter of 2006 the company concluded that it was no longer the primary beneficiary of the three entities previously reported as VIE's, Mundus, Wyncrest and PAR. Evans business was manufacturing and Monarch was included in the construction and property management segment. Revenues, pre tax profit (loss) and net assets (liabilities) on the discontinued entities are as follows:

2006	**Evans**	**Monarch**	**PAR**	**Wyncrest**	**Mondus**
Revenues	$ 2,416,738	$ 1,844,709	$ --	$ --	$ --
Pre tax profit (loss)	792	--	(12,692)	--	--
Net assets (liabilities)	--	--	--	--	--

2005	**Evans**	**Monarch**	**PAR**	**Wyncrest**	**Mondus**
Revenues	$ 9,384,126	$ 14,897,825	$ --	$ --	$ --
Pre tax profit (loss)	(2,359,569)	(3,440,629)	(161,779)	(325,758)	(2,107,872)
Net assets (liabilities)	(2,353,438)	1,703,055	291,635	(668,203)	480,055

HEARTLAND, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2006

NOTE T – SUBSEQUENT EVENTS

(1) On January 10, 2007, the Company abandoned its intent to Ney Oil Company and Schultz Oil Company. See Note D, 2005.

(2) On February 26, 2007, the Company notified NKR, Inc. that the Letter of Intent to acquire NKR, Inc. entered into on September 12, 2005, has been terminated. See Note D, 2005.

(3) In April 2007, the Company entered into an agreement to purchase the property where the Mound Facilities are located from the current owner who is a stockholder of the Company. In consideration of the purchase, the Company will assume all the outstanding debts secured by the property including any liens for real estate taxes and assessments.

In addition the owners have entered into a note payable to the Company in the amount of $68,588. The note is payable in quarterly installments of $3,978 with interest at the rate of 6% per year, commencing August 1, 2007 through May 1, 2012.

The Company has assigned all the rights, titles and interests under the purchase agreement and note to Mound.

(4) In February 2007, the company issued 1,965,000 shares of its common stock valued at approximately $666,000 to individuals for services, including 650,000 shares valued at approximately $211,000 issued to members of its Board of Directors.

ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

There have been no disagreements between the Company and Meyler & Company, LLC ("MC") in connection with any services provided to us by them for the periods of their engagement on any matter of accounting principles or practices, financial statement disclosure or auditing scope or procedure.

No accountant's report on the financial statements for the past two years contained an adverse opinion or a disclaimer of opinion or was qualified or modified as to uncertainty, audit scope or accounting principles, except such reports did contain a going concern qualification; such financial statements did not contain any adjustments for uncertainties stated therein. In addition, MC did not advise the Company with regard to any of the following:

1. That information has come to their attention, which made them unwilling to rely on management's representations, or unwilling to be associated with the financial statements prepared by management; or

2. That the scope of the audit should be expanded significantly, or information has come to the accountant's attention that the accountant has concluded will, or if further investigated might, materially impact the fairness or reliability of a previously issued audit report or the underlying financial statements, except as indicated in the accompanying restated statements or the financial statements issued or to be issued covering the fiscal periods subsequent to the date of the most recent audited financial statements, and the issue was not resolved to the accountant's satisfaction prior to its resignation or dismissal. During the most recent two fiscal years and during any subsequent interim periods preceding the date of each engagement, we have not consulted MC regarding any matter requiring disclosure under Regulation S-K, Item 304(a)(2).

Item 8A. CONTROL AND PROCEDURES

Management after reviewing comments raised by the Securities and Exchange Commission in March 2006 with respect to its financial reporting and the related adequacy of the Company's disclosure controls and procedures, has determined that its disclosure controls and procedures were not effective as of December 31, 2004 and 2005 and there were material deficiencies in its disclosure controls and procedures. A "material weakness" is a reportable condition in which the design or operation of one or more of the specific control components has a defect or defects that could have a material adverse effect on our ability to record, process, summarize and report financial data in the financial statements in a timely manner. These material weaknesses are: (1) limited resources and manpower in the preparation and review of the financial statements in a timely manner, and (2) inadequacy of the financial review process as it pertains to various account analyses. While we believe that we have adequate policies, we believe that our implementation of those policies should be improved. We are re-evaluating these various factors and are implementing additional procedures to alleviate these weaknesses. The impacts of the above conditions were relevant to the years ended December 31, 2005 and 2006.

In order to alleviate such weaknesses, management intends to:

* establish an audit committee and appoint additional directors with accounting expertise;
* subscribe to accounting journals and have the Company's accounting personnel attend accounting seminars; and engage additional accounting personnel to assist in the preparation of the Company's financial statements.

Item 8B. OTHER INFORMATION

None.

48

PART III

ITEM 9. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS: COMPLIANCE WITH SECTION 16(A) OF THE EXCHANGE ACT

The directors and officers of our Company and its subsidiaries, are set forth below. The directors held office for their respective term and until their successors were duly elected and qualified. Vacancies in the existing Board were filled by a majority vote of the remaining directors. The officers serve at the will of the Board of Directors.

Name	Age	With Company Since	Director/Position
Trent Sommerville	39	12/2003	Chief Executive Officer, Chairman of the Board, and Director
Thomas C. Miller	51	12/2003	Chief Operating Officer and Director
Jerry Gruenbaum	51	01/2001	Chief Financial Officer, Secretary, General Counsel and Director
Kenneth B. Farris	46	01/2004	Director

MR. TRENT SOMMERVILLE - CHIEF EXECUTIVE OFFICER AND CHAIRMAN OF THE BOARD

Mr. Sommerville was elected as Director, Chairman of the Board in December 1, 2003. Mr. Sommerville has been appointed as our Chief Executive Officer and served in that capacity from December 1, 2003 until November 28, 2006 when Robert L. Cox was appointed to serve in that capacity. Mr. Sommerville attended Perkingston College. Mr. Sommerville worked at Anjet where he obtained NASD Series 22 and Series 63 licenses. Following his experience there, Mr. Sommerville started IGE Capital where he has been actively involved in many venture capital opportunities including FYBX Corporation, Cyber Operations, Way Cool 3D, and PMI Wireless.

MR. THOMAS C. MILLER - CHIEF OPERATING OFFICER AND DIRECTOR

Mr. Miller has been with the Registrant since 2003 when it acquired Mound Technologies, Inc. Mr. Miller was elected to the Board of Directors on May 23, 2006, and as its Chief Operating Office on September 27, 2006. From May 23, 2006 to September 27, 2006, Mr. Miller acted as the Registrant's Chief Executive Officer. Mr. Miller graduated from Ohio State University with a Bachelor of Science degree in Civil Engineering in 1978 and continued his education at the University of Dayton where he received a Master of Business Administration degree in 1983. He is a registered engineer in the state of Ohio. Mr. Miller started on the shop floor at Mound Steel Corporation as a welder. He spent time working in the engineering and sales department before becoming Vice President of Sales and Quality in 1986. He became President of Mound Steel Corporation in 1990. The additional title of Chief Executive was added to his responsibilities in 2001. In November of 2002, Mr. Miller became Chief Executive officer of Mound Technologies, Inc. In 1988 he was elected to the Lebanon City Council. He was re-elected in 1992 and served as Vice Mayor during that time period. Mr. Miller has served on various local boards including the Middletown Regional Hospital Foundation, Dan Beard Council of Boy Scouts of America, and the Warren County Business Advisory Council. In addition to his new position as President and Chief Executive Officer of the Registrant, Mr. Miller will continue as President of the Registrant's subsidiary Mound Technologies, Inc.

JERRY GRUENBAUM –CHIEF FINANCIAL OFFICER, CORPRATE SECRETARY, GENERAL COUNSEL AND DIRECTOR

Mr. Gruenbaum is our Corporate Secretary, Chief Financial Officer, General Counsel, and member of our Board of Directors. He was appointed as our Corporate Secretary and General Counsel in December 2001 and was elected to our board on November 12, 2003. He has been admitted to practice law since 1979 and is a licensed attorney in various states including the State of Connecticut where he maintains his practice as a member of SEC Attorneys, LLC, specializing in Securities Law, Hedge Funds, Mergers and Acquisitions, Corporate Law, Tax Law, International Law and Franchise Law. He is the CEO of a licensed brokerage firm in Westport, Connecticut where he maintains a Series 4, 7, 24, 27, 53, 63 and 65 licenses. He is a former President and Chairman of the Board of Directors of a multinational publicly-traded company with operations in Hong Kong and the Netherlands. He previously worked for the tax departments for Peat Marwick Mitchell & Co. (now KPMG Peat Marwick LLP) and Arthur Anderson & Co. He has served as Compliance Director for CIGNA Securities, a division of CIGNA Insurance. He has lectured and taught at various Universities throughout the United States in the areas of Industrial and financial Accounting, taxation, business law, and investments. Attorney Gruenbaum graduated with a B.S. degree from Brooklyn College - C.U.N.Y. Brooklyn, New York; has a M.S. degree in Accounting from Northeastern University Graduate School of Professional Accounting, Boston, Massachusetts; has a J.D. degree from Western New England College School of Law, Springfield, Massachusetts; and an LL.M. in Tax Law from the University of Miami School of Law, Coral Gables, Florida.

DR. KENNETH B. FARRIS – DIRECTOR

Dr. Farris was appointed a director of our Company on January 8, 2004. Dr. Farris, a resident of New Orleans, Louisiana is a graduate of Tulane University’s School of Medicine where he received his MD and MPH degrees in1975. He is a graduate of Carnegie-Mellon University where he received his BS degree in 1971. Dr. Farris is board certified in Pathology. He has been teaching at Tulane University School of Medicine since 1975 where he has received numerous awards for outstanding teaching. Since 1991 he has held the position of Clinical Associate Professor, Department of Pathology and Clinical Associate Professor Department of Pediatrics. In addition, Dr Ferris holds the position of Director of Pathology at West Jefferson Medical Center in Marrero, Louisiana, and Medical Director, Laboratory at Pendleton Memorial Methodist Hospital. Dr. Farris is a member of various medical societies and has published extensively. Among his many accomplishments in his field, as of 1982 he holds the position of Laboratory Accreditation Program Inspector for the College of American Pathologists. He is a founding member and past President of the Greater New Orleans Pathology Society. He is currently a Delegate to the House of Delegates to the American Medical Association. He has held various positions including past President, Speaker to the House of Delegates, member of the Board of Governors and a current Delegate to the House of Delegates to the Louisiana State Medical Society. He has held the position of President, Vice President, Secretary and Treasurer for the Tulane Medical Alumni Association. He is a former Drug Control Crew Chief to the United States Olympic Committee.

Our bylaws currently provide for a board of directors comprised of such number as is determined by the Board.

FAMILY RELATIONSHIPS

None.

BOARD COMMITTEES

We currently have no compensation committee, audit committee or other board committee performing equivalent functions. Currently, all members of our board of directors participate in all discussions concerning the company.

LEGAL PROCEEDINGS

No officer, director, or persons nominated for such positions, promoter or significant employee has been involved in legal proceedings that would be material to an evaluation of our management.

Compliance with Section 16(a) of the Exchange Act

Section 16(a) of the Securities Exchange Act of 1934 requires our directors and executive officers, and persons who own more then 10 percent of our Common Stock, to file with the SEC the initial reports of ownership and reports of changes in ownership of common stock. Officers, directors and greater than 10 percent stockholders are required by SEC regulation to furnish us with copies of all Section 16(a) forms they file.

Specific due dates for such reports have been established by the Commission and we are required to disclose any failure to file reports. Except as otherwise set forth herein, based solely on review of the copies of such forms furnished to us, or written representations that no reports were required, we believe that to date all required forms have been filed, and that there was no failure to comply with Section 16(a) filing requirements applicable to our officers, directors and ten percent stockholders.

CODE OF ETHICS

Because we are an early stage company with limited resources, we have not yet adopted a "code of ethics", as defined by the SEC, that applies to the Company's Chief Executive Officer, Chief Financial Officer, principal accounting officer or controller and persons performing similar functions. We are in the process of drafting and adopting a Code of Ethics.

ITEM 10. EXECUTIVE COMPENSATION

The following table provides summary information for the years 2004, 2005 and 2006 concerning cash and non-cash compensation paid or accrued by us to or on behalf of the president and the only other employee(s) to receive compensation in excess of $100,000.

SUMMARY COMPENSATION TABLE

Name/ Position	Year	Salary	Bonus	Stock	Other	Total
Trent Sommerville - CEO and Chairman	2006	$ 155,500	$ 0	$ 50,000	$ 0	$ 205,500
	2005	$ 205,000	$ 0	$ 690,000	$ 0	$ 895,000
	2004	$ 164,976	$ 0	$ 0	$ 0	$ 164,976
Jerry Gruenbaum - CFO, Secretary and Director	2006	$ 88,000	$ 0	$ 50,000	$ 0	$ 132,000
	2005	$ 25,000	$ 0	$ 0	$ 0	$ 25,000
	2004	$ 109,500	$ 0	$ 25,000	$ 0	$ 134,500
Thomas C. Miller - COO and Director	2006	$ 71,220	$ 0	$ 0	$ 0	$ 71,220
	2005	$ 71,220	$ 0	$ 0	$ 0	$ 71,220
	2004	$ 71,220	$ 0	$ 0	$ 0	$ 71,220

COMPENSATION AGREEMENTS

The Company has no employment agreement with employees and officers of the company as of this date.

No other annual compensation, including a bonus or other form of compensation; and no long-term compensation, including restricted stock awards, securities underlying options, LTIP payouts, or other form of compensation, were paid to these individuals during this period.

BOARD COMPENSATION

Members of our Board of Directors do not receive cash compensation for their services as Directors, although some Directors are reimbursed for reasonable expenses incurred in attending Board or committee meetings. All corporate actions are conducted by unanimous written consent of the Board of Directors.

STOCK OPTION PLAN

The Company has no Stock Option Plan as of this date.

WARRANTS

The Company has no Warrants outstanding as of this date.

ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth as of April 17, 2007, information with respect to the beneficial ownership of the Company's Common Stock by (i) each person known by the Company to own beneficially 5% or more of such stock, (ii) each Director of the Company who owns any Common Stock, and (iii) all Directors and Officers as a group, together with their percentage of beneficial holdings of the outstanding shares.

The information presented below regarding beneficial ownership of our voting securities has been presented in accordance with the rules of the Securities and Exchange Commission and is not necessarily indicative of ownership for any other purpose. Under these rules, a person is deemed to be a "beneficial owner" of a security if that person has or shares the power to vote or direct the voting of the security or the power to dispose or direct the disposition of the security. A person is deemed to own beneficially any security as to which such person has the right to acquire sole or shared voting or investment power within 60 days through the conversion or exercise of any convertible security, warrant, option or other right. More than one person may be deemed to be a beneficial owner of the same securities. The percentage of beneficial ownership by any person as of a particular date is calculated by dividing the number of shares beneficially owned by such person, which includes the number of shares as to which such person has the right to acquire voting or investment power within 60 days, by the sum of the number of shares outstanding as of such date plus the number of shares as to which such person has the right to acquire voting or investment power within 60 days. Consequently, the denominator used for calculating such percentage may be different for each beneficial owner. Except as otherwise indicated below and under applicable community property laws, we believe that the beneficial owners of our common stock listed below have sole voting and investment power with respect to the shares shown.

SECURITY OWNERSHIP OF BENEFICIAL OWNERS (1):

Title of Class	Name	Shares	Percent
Common Stock	John E. Gracik	1,763,696	4.86%
	John Zavoral	1,125,000	3.10%
	First Union Venture Group, LLC	1,750,000(2)	5.23%

SECURITY OWNERSHIP OF MANAGEMENT:

Title of Class	Name	Shares	Percent
Common Stock	Trent Sommerville	3,300,000	9.08%
	Jerry Gruenbaum	1,250,000(3)	3.44%
	Kenneth B. Farris	563,636	1.55%
	Thomas Miller	1,200,000	3.30%
All Directors and Executive Officers as a group (5 persons)		6,313,636	17.38%

52

(1) These tables are based upon 36,326,040 shares outstanding as of April 17, 2007 and information derived from our stock records. Unless otherwise indicated in the footnotes to these tables and subject to community property laws where applicable, we believe unless otherwise noted that each of the shareholders named in this table has sole or shared voting and investment power with respect to the shares indicated as beneficially owned. For purposes of this table, a person or group of persons is deemed to have "beneficial ownership" of any shares which such person has the right to acquire within 60 days as of April 17, 2007. For purposes of computing the percentage of outstanding shares held by each person or group of persons named above on March 20, 2007 any security which such person or group of persons has the right to acquire within 60 days after such date is deemed to be outstanding for the purpose of computing the percentage ownership for such person or persons, but is not deemed to be outstanding for the purpose of computing the percentage ownership of any other person.

(2) First Union Venture Group, LLC which owns 1,000,000 shares is owned one half by Atty. Jerry Gruenbaum, Secretary, General Counsel and Director of the Company and one half by another individual who is not related to Atty. Gruenbaum or under his control. In addition Jerry Gruenbaum owns 750,000 shares in his own name.

(3) Jerry Gruenbaum holds 500,000 shares as a result of a 50% interest in First Union Venture Group, LLC. and 750,000 directly in his own name.

ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

No director, executive officer or nominee for election as a director of our company, and no owner of five percent or more of our outstanding shares or any member of their immediate family has entered into or proposed any transaction in which the amount involved exceeds $60,000 except as set forth below.

Our management is involved in other business activities and may, in the future become involved in other business opportunities. If a specific business opportunity becomes available, such persons may face a conflict in selecting between our business and their other business interests. We have not and do not intend in the future to formulate a policy for the resolution of such conflicts.

In Springboro, Ohio we lease approximately 39,000 square feet on a month to month lease for $8,500 per month from a major shareholder of our company. The facilities include 34,000 square feet which is used for manufacturing and 5,000 square feet for office space. The space is used by Mound.

In St. Louis Park, Minnesota we lease approximately 6,975 square feet on a 63 month lease beginning January 1, 2005. The facilities are used as offices for our Karkela employees. The lessor is Larry Karkela, the President of the Karkela subsidiary. The lease required an initial security deposit of $5,356. We pay our proportionate share of utilities and real estate tax based upon our percentage of occupancy which is 60.1%.

ITEM 13. EXHIBITS AND REPORTS ON FORM 8-K

Exhibit Number	Document Description
3.1	Certificate of Incorporation of Origin Investment Group, Inc. as filed with the Maryland Secretary of State on April 6, 1999, incorporated by reference to the Company's Registration Statement on Form 10-KSB filed with the Securities and Exchange Commission on August 16, 1999.
3.2	Amended Certificate of Incorporation of International Wireless, Inc. as filed with the Maryland Secretary of State on June 12, 2003, incorporated by reference to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on June 12, 2003.
3.3	Amended Certificate of Incorporation of International Wireless, Inc. to change name to Heartland, Inc. as filed with the Maryland Secretary of State on June 12, 2003, incorporated by reference to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on June 15, 2004.
3.4	Bylaws of Origin Investment Group, Inc., incorporated by reference to the Company's Registration Statement on Form 10-SB filed with the Securities and Exchange Commission on August 16, 1999.
31	Certification of Chief Executive Officer and the Principal Financial Officer pursuant to Section 302 of the Sarbanes Oxley Act.
32	Certification of Chief Executive Officer and the Principal Financial Officer Pursuant to 18 U.S.C. Section 1350 as adopted Pursuant to Section 906 of the Sarbanes Oxley Act of 2002.

(b) Reports on Form 8-K:

The Company filed a Form 8-K/A on November 16, 2006 relating to the June 29, 2005 Form 8-K relating to financial statements for the acquisition of Monarch Homes, Inc.

The Company filed a Form 8-K/A on November 20, 2006 relating to the June 29, 2005 Form 8-K relating to financial statements for the acquisition of Evans Columbus, LLC.

The Company filed a Form 8-K/A on November 16, 2006 relating to the June 30, 2005 Form 8-K relating to financial statements for the acquisition of Karkela Construction, Inc.

The Company filed a Form 8-K on November 28, 2006 relating to the appointment of Robert Cox as CEO.

The Company filed a Form 8-K/A on December 4, 2006 relating to amendment to the letter of intent to acquire NKR, Inc. d.b.a. Ohio Valley Lumber.

54

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The following table sets forth fees billed to us by our auditors during the fiscal years ended December 31, 2006 and December 31, 2005 for: (i) services rendered for the audit of our annual financial statements and the review of our quarterly financial statements, (ii) services by our auditor that are reasonably related to the performance of the audit or review of our financial statements and that are not reported as Audit Fees, (iii) services rendered in connection with tax compliance, tax advice and tax planning, and (iv) all other fees for services rendered.

(i) Audit Fees

FIRM	FISCAL YEAR 2006	FISCAL YEAR 2005
Meyler & Company, LLC	$165,000	$ 190,000

(ii) Audit Related Fees

None

(iii) Tax Fees

None

(iv) All Other Fees

None

TOTAL FEES

FIRM	**FISCAL YEAR 2006**	**FISCAL YEAR 2005**
Meyler & Company, LLC	$165,000.00	$ 190,000.00

AUDITFEES.	Consists of fees billed for professional services rendered for the audit of our consolidated financial statements and review of the interim consolidated financial statements included in quarterly reports and services that are normally provided in connection with statutory and regulatory filings or engagements.
AUDIT-RELATED FEES.	Consists of fees billed for assurance and related services that are reasonably related to the performance of the audit or review of our consolidated financial statements and are not reported under “Audit Fees.” There were no Audit-Related services provided in fiscal 2006 or 2005.

55

TAX FEES.	Consists of fees billed for professional services for tax compliance, tax advice and tax planning.
ALL OTHER FEES.	Consists of fees for products and services other than the services reported above.

POLICY ON AUDIT COMMITTEE PRE-APPROVAL OF AUDIT AND PERMISSIBLE NON-AUDIT SERVICES OF INDEPENDENT AUDITORS

The Company currently does not have a designated Audit Committee, and accordingly, the Company's Board of Directors' policy is to pre-approve all audit and permissible non-audit services provided by the independent auditors. These services may include audit services, audit-related services, and tax services and other services. Pre-approval is generally provided for up to one year and any pre-approval is detailed as to the particular service or category of services and is generally subject to a specific budget. The independent auditors and management are required to periodically report to the Company's Board of Directors regarding the extent of services provided by the independent auditors in accordance with this pre-approval, and the fees for the services performed to date. The Board of Directors may also pre-approve particular services on a case-by-case basis.

SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, there unto duly authorized.

HEARTLAND INC.
(Registrant)

Date: April 19, 2007 By: /s/ Trent Sommerville
Trent Sommerville
Chief Executive Officer
And Chairman of the Board of Directors

Date: April 19, 2007 By: /s/ Jerry Gruenbaum
Jerry Gruenbaum
Chief Financial Officer
And Member of the Board of Directors

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

SIGNATURE	NAME	TITLE	DATE
/s/ Trent Sommerville	Trent Sommerville	Chief Executive Officer, Chairman & Director	April 19, 2007
/s/ Jerry Gruenbaum	Jerry Gruenbaum		April 19, 2007

		Chief Financial Officer, Secretary & Director	
/s/ Thomas C. Miller	Thomas C. Miller	Chief Operating Officer & Director	April 19, 2007
/s/ Kenneth B. Farris	Kenneth B. Farris	Director	April 19, 2007