

- the deployment of an intelligent NGN network for fixed line and multimedia services;
- the development and deployment of Green IDC for meeting the new demands of cloud computing services;
- the deployment of a high-capacity long-haul reconfigurable optical add drop multiplexing system and a nationwide internet protocol backbone network with hundreds of Gbps gigabit switching routers for internet and managed IP services; and
- the expansion and upgrade of our mobile services network as well as WiFi/Femtocell to improve indoor 3G mobile network coverage and transmission speed for mobile internet.

As a result, we made aggregate capital expenditures of NT\$133.0 billion over the period from January 1, 2006 to December 31, 2010.

Our long-term goal is to optimize our capital expenditures by focusing on investing in innovative products and services with attractive return profiles. We evaluate our investment opportunities by benchmarking them against internal return requirements. We are currently finalizing plans for the gradual upgrade of our entire public switched telephone network to a next-generation network. Next-generation internet protocol switches will have substantially more capacity and greater upgrade flexibility and should result in increased operational efficiencies from reduced switching centers and related property, materials and personnel costs. We have also devoted resources toward the effective upgrade of our 3G mobile network to 3.5G and HSPA+ and the continuing build-out of our FTTx infrastructure. In addition, we are planning to deploy green Internet Data Centers and service delivery network for the innovative services, such as cloud computing, fixed mobile convergence services and four-screen digital convergence services.

#### *Provisions for pension payments to our employees*

Personnel expenses constitute a significant portion of our operating costs and expenses. In 2008, 2009 and 2010, personnel expenses represented 28.6%, 29.4% and 30.4% of our total operating costs and expenses, respectively, and pension costs represented 2.0%, 1.9% and 2.0% of our total operating costs and expenses, respectively. The table below sets forth information regarding our personnel expenses and as a percentage of our total operating costs and expenses for the periods indicated.

	For the year ended December 31,					
	2008		2009		2010	
	(in billions of NT\$, except percentages)					
Personnel expenses:						
Salaries	22.1	15.5%	22.4	15.8%	22.9	15.8%
Insurance	1.6	1.1	1.8	1.3	1.9	1.3
Pension	2.9	2.0	2.7	1.9	2.9	2.0
Other	14.3	10.0	14.8	10.4	16.4	11.3
Total personnel expenses	40.9	28.6%	41.7	29.4%	44.1	30.4%
Total operating costs and expenses	143.1	100.0%	142.0	100.0%	145.0	100.0%

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

#### *Taxation*

In May 2009, the Legislative Yuan passed an amendment to Article 5 of the Income Tax Law, which reduces the income tax rate of profit-seeking enterprises from 25% to 20% effective in 2010. Furthermore, in May 2010, the Legislative Yuan passed the amendment of Article 5 of the Income Tax Law, which reduced the income tax rate of profit-seeking enterprises from 20% to 17%, effective on January 1, 2010. We benefit from tax incentives generally available to technology companies in the Republic of China, including tax credits of up to 30% of the amount of some of our research and development, automation and employee training expenditures in accordance with the Statute for Upgrading Industries. We also qualify for tax benefits at a rate of 5% to 15% of