

**Chunghwa Telecom Co., Ltd. and
Subsidiaries**

**Consolidated Financial Statements for the
Six Months Ended June 30, 2017 and 2016**

CHUNGHWA TELECOM CO., LTD. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(In Millions of New Taiwan Dollars)

ASSETS	June 30, 2017 (Unaudited)		December 31, 2016 (Audited)		June 30, 2016 (Unaudited)		LIABILITIES AND EQUITY	June 30, 2017 (Unaudited)		December 31, 2016 (Audited)		June 30, 2016 (Unaudited)	
	Amount	%	Amount	%	Amount	%		Amount	%	Amount	%	Amount	%
CURRENT ASSETS							CURRENT LIABILITIES						
Cash and cash equivalents	\$ 48,310	11	\$ 31,100	7	\$ 44,643	10	Short-term loans	\$ 125	-	\$ 138	-	\$ 60	-
Financial assets at fair value through profit or loss	7	-	-	-	-	-	Financial liabilities at fair value through profit or loss	-	-	1	-	15	-
Hedging derivative financial assets	1	-	-	-	-	-	Hedging derivative financial liabilities	-	-	1	-	3	-
Available-for-sale financial assets	-	-	-	-	30	-	Trade notes and accounts payable	14,902	3	18,810	5	15,261	3
Held-to-maturity financial assets	900	-	2,140	-	2,892	1	Payables to related parties	548	-	762	-	444	-
Trade notes and accounts receivable, net	29,643	6	31,022	7	29,838	6	Current tax liabilities	6,398	2	6,522	1	5,560	1
Receivables from related parties	24	-	14	-	30	-	Dividends payables	38,336	8	-	-	42,551	9
Inventories	9,329	2	7,423	2	6,913	1	Other payables	21,082	5	26,418	-	22,470	5
Prepayments	5,215	1	2,978	1	6,275	1	Provisions	125	-	119	6	118	-
Other current monetary assets	6,613	2	4,821	1	4,785	1	Advance receipts	8,825	2	10,059	3	9,029	2
Other current assets	2,113	-	2,122	-	3,101	1	Other current liabilities	1,224	-	1,330	-	1,364	-
Total current assets	102,155	22	81,620	18	98,507	21	Total current liabilities	91,565	20	64,160	15	96,875	20
NONCURRENT ASSETS							NONCURRENT LIABILITIES						
Available-for-sale financial assets	4,729	1	4,764	1	4,876	1	Long-term loans	1,600	-	1,600	-	1,600	-
Held-to-maturity financial assets	-	-	-	-	900	-	Deferred income tax liabilities	1,473	-	1,464	-	666	-
Investments accounted for using equity method	2,257	-	2,386	1	2,498	-	Provisions	68	-	66	-	59	-
Property, plant and equipment	283,306	62	291,170	65	287,805	62	Customers' deposits	4,524	1	4,610	1	4,561	1
Investment properties	8,100	2	8,115	2	7,893	2	Net defined benefit liabilities	1,544	-	1,537	-	1,373	-
Intangible assets	45,631	10	47,353	11	48,863	11	Deferred revenue	3,549	1	3,546	1	3,515	1
Deferred income tax assets	2,363	1	2,322	-	1,054	-	Other noncurrent liabilities	3,777	1	3,004	1	3,277	1
Net defined benefit assets	1,072	-	919	-	2,956	1	Total noncurrent liabilities	16,535	3	15,827	3	15,051	3
Prepayments	3,820	1	3,241	1	3,411	1	Total liabilities	108,100	23	79,987	18	111,926	23
Other noncurrent assets	4,858	1	5,025	1	5,148	1	EQUITY ATTRIBUTABLE TO STOCKHOLDERS OF THE PARENT						
Total noncurrent assets	356,136	78	365,295	82	365,404	79	Common stocks	77,574	17	77,574	17	77,574	17
							Additional paid-in capital	147,266	32	147,180	33	147,180	32
							Retained earnings						
							Legal reserve	77,574	17	77,574	17	77,574	17
							Special reserve	2,681	1	2,676	1	2,676	1
							Unappropriated earnings	39,248	9	55,657	13	41,682	9
							Total retained earnings	119,503	27	135,907	31	121,932	27
							Other adjustments	(197)	-	(5)	-	(409)	-
							Total equity attributable to stockholders of the parent	344,146	76	360,656	81	346,277	76
							NONCONTROLLING INTERESTS	6,045	1	6,272	1	5,708	1
							Total equity	350,191	77	366,928	82	351,985	77
TOTAL	\$ 458,291	100	\$ 446,915	100	\$ 463,911	100	TOTAL	\$ 458,291	100	\$ 446,915	100	\$ 463,911	100

CHUNGHWA TELECOM CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (In Millions of New Taiwan Dollars, Except Earnings Per Share) (Unaudited)

	Three Months Ended June 30				Six Months Ended June 30			
	2017		2016		2017		2016	
	Amount	%	Amount	%	Amount	%	Amount	%
REVENUES	\$ 55,672	100	\$ 56,196	100	\$ 110,205	100	\$ 113,140	100
OPERATING COSTS	<u>35,078</u>	<u>63</u>	<u>35,253</u>	<u>63</u>	<u>69,699</u>	<u>63</u>	<u>70,359</u>	<u>62</u>
GROSS PROFIT	<u>20,594</u>	<u>37</u>	<u>20,943</u>	<u>37</u>	<u>40,506</u>	<u>37</u>	<u>42,781</u>	<u>38</u>
OPERATING EXPENSES								
Marketing	6,153	11	6,009	11	12,435	11	12,005	11
General and administrative	1,158	2	1,103	2	2,322	2	2,254	2
Research and development	<u>958</u>	<u>2</u>	<u>944</u>	<u>1</u>	<u>1,879</u>	<u>2</u>	<u>1,846</u>	<u>1</u>
Total operating expenses	<u>8,269</u>	<u>15</u>	<u>8,056</u>	<u>14</u>	<u>16,636</u>	<u>15</u>	<u>16,105</u>	<u>14</u>
OTHER INCOME AND EXPENSES	<u>(5)</u>	<u>-</u>	<u>(11)</u>	<u>-</u>	<u>(17)</u>	<u>-</u>	<u>(17)</u>	<u>-</u>
INCOME FROM OPERATIONS	<u>12,320</u>	<u>22</u>	<u>12,876</u>	<u>23</u>	<u>23,853</u>	<u>22</u>	<u>26,659</u>	<u>24</u>
NON-OPERATING INCOME AND EXPENSES								
Interest income	63	-	55	-	107	-	104	-
Other income	444	1	406	1	504	-	771	1
Other gains and losses	(44)	-	3	-	-	-	7	-
Interest expenses	(5)	-	(5)	-	(11)	-	(10)	-
Share of profits of associates and joint ventures accounted for using equity method	<u>122</u>	<u>-</u>	<u>211</u>	<u>-</u>	<u>240</u>	<u>-</u>	<u>292</u>	<u>-</u>
Total non-operating income and expenses	<u>580</u>	<u>1</u>	<u>670</u>	<u>1</u>	<u>840</u>	<u>-</u>	<u>1,164</u>	<u>1</u>
INCOME BEFORE INCOME TAX	12,900	23	13,546	24	24,693	22	27,823	25
INCOME TAX EXPENSE (BENEFIT)	<u>(825)</u>	<u>(2)</u>	<u>(1,106)</u>	<u>(2)</u>	<u>2,114</u>	<u>2</u>	<u>2,465</u>	<u>2</u>
NET INCOME	<u>13,725</u>	<u>25</u>	<u>14,652</u>	<u>26</u>	<u>22,579</u>	<u>20</u>	<u>25,358</u>	<u>23</u>
TOTAL OTHER COMPREHENSIVE INCOME (LOSS)								
Items that may be reclassified subsequently to profit or loss:								
Exchange differences arising from the translation of the foreign operations	28	-	(6)	-	(186)	-	(89)	-
Unrealized loss on available-for-sale financial assets	(356)	(1)	(483)	(1)	(29)	-	(607)	(1)
Cash flow hedges	3	-	(5)	-	2	-	(4)	-
Share of exchange differences arising from the translation of the foreign operations of associates and joint ventures	-	-	-	-	(3)	-	(1)	-
Income tax benefit (expense) relating to items that may be reclassified subsequently	<u>1</u>	<u>-</u>	<u>1</u>	<u>-</u>	<u>2</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>(324)</u>	<u>(1)</u>	<u>(493)</u>	<u>(1)</u>	<u>(214)</u>	<u>-</u>	<u>(701)</u>	<u>(1)</u>
Total other comprehensive loss, net of income tax	<u>(324)</u>	<u>(1)</u>	<u>(493)</u>	<u>(1)</u>	<u>(214)</u>	<u>-</u>	<u>(701)</u>	<u>(1)</u>
TOTAL COMPREHENSIVE INCOME	<u>13,401</u>	<u>24</u>	<u>\$ 14,159</u>	<u>25</u>	<u>22,365</u>	<u>20</u>	<u>\$ 24,657</u>	<u>22</u>

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CHUNGHWA TELECOM CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (In Millions of New Taiwan Dollars, Except Earnings Per Share) (Unaudited)

	Three Months Ended June 30				Six Months Ended June 30			
	2017		2016		2017		2016	
	Amount	%	Amount	%	Amount	%	Amount	%
NET INCOME ATTRIBUTABLE TO								
Stockholders of the parent	\$ 13,305	24	\$ 14,310	25	\$ 21,932	20	\$ 24,785	22
Noncontrolling interests	<u>420</u>	<u>1</u>	<u>342</u>	<u>1</u>	<u>647</u>	<u>-</u>	<u>573</u>	<u>1</u>
	<u>\$ 13,725</u>	<u>25</u>	<u>\$ 14,652</u>	<u>26</u>	<u>\$ 22,579</u>	<u>20</u>	<u>\$ 25,358</u>	<u>23</u>
COMPREHENSIVE INCOME ATTRIBUTABLE TO								
Stockholders of the parent	\$ 12,975	23	\$ 13,831	24	\$ 21,740	20	\$ 24,107	21
Noncontrolling interests	<u>426</u>	<u>1</u>	<u>328</u>	<u>1</u>	<u>625</u>	<u>-</u>	<u>550</u>	<u>1</u>
	<u>\$ 13,401</u>	<u>24</u>	<u>\$ 14,159</u>	<u>25</u>	<u>\$ 22,365</u>	<u>20</u>	<u>\$ 24,657</u>	<u>22</u>
EARNINGS PER SHARE								
Basic	<u>\$ 1.72</u>		<u>\$ 1.84</u>		<u>\$ 2.83</u>		<u>\$ 3.19</u>	
Diluted	<u>\$ 1.71</u>		<u>\$ 1.84</u>		<u>\$ 2.82</u>		<u>\$ 3.19</u>	

(Concluded)

CHUNGHWA TELECOM CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(In Millions of New Taiwan Dollars)
(Unaudited)

	Equity Attributable to Stockholders of the Parent						Other Adjustments				Total Equity Attributable to Stockholders of the Parent	Noncontrolling Interests	Total Equity
	Common Stocks	Additional Paid-in Capital	Retained Earnings			Exchange Differences Arising from the Translation of the Foreign Operations	Unrealized Gain (Loss) on Available-for-sale Financial Assets	Cash Flow Hedges	Total Other Adjustments				
			Legal Reserve	Special Reserve	Unappropriated Earnings					Total Retained Earnings			
BALANCE, JANUARY 1, 2016	\$ 77,574	\$ 146,733	\$ 77,574	\$ 2,676	\$ 59,448	\$ 139,698	\$ 177	\$ 91	\$ 1	\$ 269	\$ 364,274	\$ 5,065	\$ 369,339
Appropriation of 2015 earnings													
Cash dividends distributed by Chunghwa	-	-	-	-	(42,551)	(42,551)	-	-	-	-	(42,551)	-	(42,551)
Cash dividends distributed by subsidiaries	-	-	-	-	-	-	-	-	-	-	-	(710)	(710)
Partial disposal of interests in subsidiaries	-	58	-	-	-	-	-	-	-	-	58	25	83
Change in additional paid-in capital for not participating in capital increase of a subsidiary	-	389	-	-	-	-	-	-	-	-	389	786	1,175
Net income for the six months ended June 30, 2016	-	-	-	-	24,785	24,785	-	-	-	-	24,785	573	25,358
Other comprehensive income (loss) for the six months ended June 30, 2016	-	-	-	-	-	-	(67)	(607)	(4)	(678)	(678)	(23)	(701)
Total comprehensive income for the six months ended June 30, 2016	-	-	-	-	24,785	24,785	(67)	(607)	(4)	(678)	24,107	550	24,657
Share-based payment transactions of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	11	11
Net decrease in noncontrolling interests	-	-	-	-	-	-	-	-	-	-	-	(19)	(19)
BALANCE, JUNE 30, 2016	\$ 77,574	\$ 147,180	\$ 77,574	\$ 2,676	\$ 41,682	\$ 121,932	\$ 110	\$ (516)	\$ (3)	\$ (409)	\$ 346,277	\$ 5,708	\$ 351,985
BALANCE, JANUARY 1, 2017	\$ 77,574	\$ 147,180	\$ 77,574	\$ 2,676	\$ 55,657	\$ 135,907	\$ 46	\$ (51)	\$ -	\$ (5)	\$ 360,656	\$ 6,272	\$ 366,928
Appropriation of 2016 earnings													
Special Reserve	-	-	-	5	(5)	-	-	-	-	-	-	-	-
Cash dividends distributed by Chunghwa	-	-	-	-	(38,336)	(38,336)	-	-	-	-	(38,336)	-	(38,336)
Cash dividends distributed by subsidiaries	-	-	-	-	-	-	-	-	-	-	-	(937)	(937)
Partial disposal of interests in subsidiaries	-	77	-	-	-	-	-	-	-	-	77	29	106
Net income for the six months ended June 30, 2017	-	-	-	-	21,932	21,932	-	-	-	-	21,932	647	22,579
Other comprehensive income (loss) for the six months ended June 30, 2017	-	-	-	-	-	-	(168)	(26)	2	(192)	(192)	(22)	(214)
Total comprehensive income for the six months ended June 30, 2017	-	-	-	-	21,932	21,932	(168)	(26)	2	(192)	21,740	625	22,365
Share-based payment transactions of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	11	11
Net increase in noncontrolling interests	-	9	-	-	-	-	-	-	-	-	9	45	54
BALANCE, JUNE 30, 2017	\$ 77,574	\$ 147,266	\$ 77,574	\$ 2,681	\$ 39,248	\$ 119,503	\$ (122)	\$ (77)	\$ 2	\$ (197)	\$ 344,146	\$ 6,045	\$ 350,191

CHUNGHWA TELECOM CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Millions of New Taiwan Dollars)

(Unaudited)

	Six Months Ended June 30	
	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	\$ 24,693	\$ 27,823
Adjustments to reconcile income before income tax to net cash provided by operating activities:		
Depreciation	14,304	14,600
Amortization	1,800	1,652
Provision for doubtful accounts	391	357
Interest expenses	11	10
Interest income	(107)	(104)
Dividend income	(312)	(341)
Compensation cost of share-based payment transactions	11	11
Share of profits of associates and joint ventures accounted for using equity method	(240)	(292)
Provision for inventory and obsolescence	18	157
Gain on disposal of financial instruments	(3)	-
Loss on disposal of property, plant and equipment	17	17
Valuation loss (gain) on financial assets and liabilities at fair value through profit or loss, net	(8)	15
Loss (gain) on foreign exchange, net	47	(23)
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Financial assets held for trading	-	-
Trade notes and accounts receivable	1,140	(3,273)
Receivables from related parties	(10)	12
Inventories	(1,924)	1,710
Prepayments	(2,816)	(3,405)
Other current monetary assets	(178)	(345)
Other current assets	9	(765)
Increase (decrease) in:		
Trade notes and accounts payable	(3,908)	(1,034)
Payables to related parties	(214)	(167)
Other payables	(3,194)	(2,905)
Provisions	8	(71)
Advance receipts	(465)	(406)
Other current liabilities	(82)	2
Deferred revenue	3	(101)
Net defined benefit plans	(145)	(8,671)
Cash generated from operations	<u>28,846</u>	<u>24,463</u>
Interest paid	(11)	(10)
Income tax paid	<u>(2,267)</u>	<u>(4,552)</u>
Net cash provided by operating activities	<u>26,568</u>	<u>19,901</u>

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CHUNGHWA TELECOM CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Millions of New Taiwan Dollars)

(Unaudited)

	<u>Six Months Ended June 30</u>	
	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of available-for-sale financial assets	\$ -	\$ (36)
Proceeds from disposal of available-for-sale financial assets	7	1
Proceeds from capital reduction of available-for-sale financial assets	1	33
Acquisition of time deposits and negotiable certificates of deposit with maturities of more than three months	(3,586)	(1,600)
Proceeds from disposal of time deposits and negotiable certificates of deposit with maturities of more than three months	2,463	1,489
Proceeds from disposal of held-to-maturity financial assets	1,240	225
Acquisition of property, plant and equipment	(9,690)	(6,821)
Proceeds from disposal of property, plant and equipment	1	6
Acquisition of intangible assets	(78)	(67)
Decrease in other noncurrent assets	50	422
Interest received	112	96
Cash dividends received	<u>80</u>	<u>-</u>
Net cash used in investing activities	<u>(9,400)</u>	<u>(6,252)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from short-term loans	3,269	10
Repayment of short-term loans	(3,282)	(60)
Repayment of long-term loans	-	(150)
Decrease in customers' deposits	(110)	(305)
Increase in other noncurrent liabilities	3	47
Partial disposal of interests in subsidiaries without losing control	106	84
Cash dividends distributed to noncontrolling interests	-	(11)
Change in other noncontrolling interests	<u>54</u>	<u>1,156</u>
Net cash provided by financing activities	<u>40</u>	<u>771</u>
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	<u>2</u>	<u>(48)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	17,210	14,372
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	<u>31,100</u>	<u>30,271</u>
CASH AND CASH EQUIVALENTS, END OF PERIOD	<u>\$ 48,310</u>	<u>\$ 44,643</u>

(Concluded)

CHUNGHWA TELECOM CO., LTD. AND SUBSIDIARIES

NOTE TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED JUNE 30, 2017 and 2016 (Unaudited)

STATEMENT OF COMPLIANCE

The Company has prepared its consolidated balance sheets as of June 30, 2017 and 2016, the related consolidated statements of comprehensive income for the three months and six months ended June 30, 2017 and 2016, as well as the consolidated statements of changes in equity and cash flows for the six months ended June 30, 2017 and 2016 in accordance with IAS 34 “Interim Financial Reporting” as issued by the International Accounting Standard Board (IASB). The consolidated financial statements are incomplete as they omit the related footnote disclosures as required under International Financial Reporting Standards as issued by IASB.