Chunghwa Telecom Co., Ltd.

Financial Statements for the Years Ended December 31, 2016 and 2015 and Independent Auditors' Report

Deloitte.

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INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders
Chunghwa Telecom Co., Ltd.

Opinion

We have audited the accompanying financial statements of Chunghwa Telecom Co., Ltd. (the Company), which comprise the balance sheets as of December 31, 2016 and 2015, and the statements of comprehensive income, changes in equity and cash flows for the years then ended, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2016 and 2015, and its financial performance and its cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

Basis for Opinion

We conducted our audits in accordance with the Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants and auditing standards generally accepted in the Republic of China. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with The Norm of Professional Ethics for Certified Public Accountant of the Republic of China, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended December 31, 2016. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

The descriptions of the key audit matters of the financial statements for the year ended December 31, 2016 are as follows:

Revenue Recognition on Mobile Service

Key audit matter:

As disclosed in Note 39 to the financial statements, mobile service revenue is the Company's one source of main revenues and is also an important indicator for the public to evaluate competitiveness and growth potential of telecommunications companies. The calculation of the Company's mobile services revenue highly relies on an automated computer environment in which the systems are complex due to combinations of the various mobile service price plans and process large volumes of data. Consequently, whether mobile services revenue is appropriately recognized is considered as one of the key audit matters.

Corresponding audit procedures:

We tested the information systems relevant to the mobile services revenue and the mobile services revenue process from call records, rate calculations, and billing procedures to accounting information system so as to understand the Company's revenue recognition process and perform procedures to test the design and operating effectiveness of the related internal controls.

Moreover, we performed the following audit procedures on a sample basis: (1) inspected mobile service customers' contracts; (2) performed live call testing and re-calculated the call records on the basis of corresponding price plans; (3) checked that the calculations of call records agreed with customers' bills; and (4) checked that the amounts transferred from the mobile service system agreed with the accounting information system.

Revenue Recognition on Project Business

Key audit matter:

The project business mainly provides customers with combinations of one or more equipment and/or services. When the Company provides a project business, part of the obligations or service may likely be outsourced to third parties. Hence, the judgment on whether the Company is acting as a principal or an agent is required in order to determine if revenue should be reported gross as principal versus net as agent. Please refer to Notes 3 and 4 to the financial statements for the details. Due to highly customized nature of the project business, whether project revenue is recognized appropriately is considered as one of the key audit matters.

Corresponding audit procedures:

We understood and tested the Company's design and operating effectiveness of the project revenue's internal controls, including, but not limited to, the authorized personnel's exercise of judgment on whether the Company is acting as a principal or an agent, and then recognize revenue gross or net accordingly. Moreover, we performed the following audit procedures on a sample basis: (1) inspected project contracts; (2) reviewed evaluation forms prepared by authorized personnel on whether the Company is acting as a principal or an agent; (3) re-calculated the project revenue and checked that they agreed with the accounting records; (4) obtained confirmations; and (5) checked the source documents and tested the amounts received.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance, including the audit committee, are responsible for overseeing the Company's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the auditing standards generally accepted in the Republic of China will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with the auditing standards generally accepted in the Republic of China, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

1. Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.

5. Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

6. Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the financial statements. We are responsible for the direction, supervision, and performance of the audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements for the year ended December 31, 2016 and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partners on the audit resulting in this independent auditors' report are Hung Peng Lin and Ching Pin Shih.

Hung Peng Lin　　Ching Pin Shih

Deloitte & Touche
Taipei, Taiwan
Republic of China

March 7, 2017

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

The accompanying financial statements are intended only to present the financial position, financial performance 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 audit such financial statements are those generally applied in the Republic of China.

For the convenience of readers, the independent auditors' 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 independent auditors' report and financial statements shall prevail.

CHUNGHWA TELECOM CO., LTD.

BALANCE SHEETS
DECEMBER 31, 2016 AND 2015
(In Thousands of New Taiwan Dollars)

ASSETS	2016 Amount	%	2015 Amount	%
CURRENT ASSETS				
Cash and cash equivalents (Notes 3 and 6)	$ 24,871,430	6	$ 24,183,536	6
Financial assets at fair value through profit or loss (Notes 3 and 7)	-	-	14	-
Held-to-maturity financial assets (Notes 3 and 8)	2,139,892	-	1,880,739	-
Hedging derivative financial assets (Notes 3 and 20)	-	-	498	-
Trade notes and accounts receivable, net (Notes 3, 4 and 9)	29,029,997	7	24,733,620	6
Receivables from related parties (Note 35)	756,113	-	850,925	-
Inventories (Notes 3, 4 and 10)	2,387,212	1	3,715,936	1
Prepayments (Notes 11 and 35)	1,881,449	-	1,804,103	-
Other current monetary assets (Notes 12 and 25)	2,688,909	1	2,546,371	1
Other current assets (Note 19)	2,018,394	-	2,121,398	-
Total current assets	65,773,396	15	61,837,140	14
NONCURRENT ASSETS				
Available-for-sale financial assets (Notes 3 and 13)	2,451,686	1	3,163,466	1
Held-to-maturity financial assets (Notes 3 and 8)	-	-	2,139,801	-
Financial assets carried at cost (Notes 3 and 14)	2,123,780	-	2,135,647	-
Investments accounted for using equity method (Notes 3 and 15)	13,404,532	3	13,072,205	3
Property, plant and equipment (Notes 3, 4, 16 and 35)	283,912,327	67	290,072,562	67
Investment properties (Notes 3, 4 and 17)	8,039,758	2	7,827,630	2
Intangible assets (Notes 3, 4 and 18)	46,726,067	11	49,798,429	11
Deferred income tax assets (Notes 3 and 29)	1,862,862	-	1,608,111	-
Net defined benefit assets (Notes 3, 4 and 25)	907,073	-	-	-
Prepayments (Notes 11 and 35)	2,038,724	-	2,259,583	1
Other noncurrent assets (Note 19)	4,704,975	1	5,273,925	1
Total noncurrent assets	366,171,784	85	377,351,359	86
TOTAL	$ 431,945,180	100	$ 439,188,499	100
LIABILITIES AND EQUITY				
CURRENT LIABILITIES				
Financial liabilities at fair value through profit or loss (Notes 3 and 7)	$ 1,356	-	$ -	-
Hedging derivative financial liabilities (Notes 3 and 20)	586	-	-	-
Trade notes and accounts payable (Note 21)	14,721,192	3	12,414,507	4
Payables to related parties (Note 35)	4,730,395	1	4,085,634	1
Current tax liabilities (Notes 3 and 29)	2,180,615	1	4,531,290	1
Other payables (Note 22)	23,426,341	6	22,932,024	5
Provisions (Notes 3 and 23)	55,390	-	20,572	-
Advance receipts (Note 24)	8,889,760	2	8,497,065	2
Other current liabilities	1,342,358	-	1,512,012	-
Total current liabilities	55,347,993	13	53,993,104	13
NONCURRENT LIABILITIES				
Deferred income tax liabilities (Notes 3 and 29)	1,417,653	-	96,931	-
Provisions (Notes 3 and 23)	65,942	-	58,158	-
Customers' deposits (Note 35)	4,521,074	1	4,642,735	1
Net defined benefit liabilities (Notes 3, 4 and 25)	1,441,732	-	7,026,445	1
Deferred revenue (Note 3)	3,545,281	1	3,590,685	1
Other noncurrent liabilities (Note 35)	901,757	-	1,040,513	-
Total noncurrent liabilities	11,893,439	2	16,455,467	3
Total liabilities	67,241,432	15	70,448,571	16
EQUITY (Note 26)				
Common stocks	77,574,465	18	77,574,465	18
Additional paid-in capital	168,542,486	39	168,095,615	38
Retained earnings				
Legal reserve	77,574,465	18	77,574,465	18
Special reserve	2,675,419	-	2,675,419	-
Unappropriated earnings	38,342,317	10	42,551,245	10
Total retained earnings	118,592,201	28	122,801,129	28
Other adjustments	(5,404)	-	268,719	-
Total equity	364,703,748	85	368,739,928	84
TOTAL	$ 431,945,180	100	$ 439,188,499	100

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

CHUNGHWA TELECOM CO., LTD.

STATEMENTS OF COMPREHENSIVE INCOME
YEARS ENDED DECEMBER 31, 2016 AND 2015
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2016		2015	
	Amount	**%**	**Amount**	**%**
REVENUES (Notes 27, 35 and 39)	$ 201,636,805	100	$ 201,993,986	100
OPERATING COSTS (Notes 10, 25, 28 and 35)	123,975,098	61	123,128,370	61
GROSS PROFIT	77,661,707	39	78,865,616	39
OPERATING EXPENSES (Notes 25, 28 and 35)				
Marketing	24,489,697	12	23,142,382	11
General and administrative	3,477,387	2	3,495,107	2
Research and development	3,441,181	2	3,455,604	2
Total operating expenses	31,408,265	16	30,093,093	15
OTHER INCOME AND EXPENSES (Notes 16, 17 and 28)	(470,896)	-	(28,898)	-
INCOME FROM OPERATIONS	45,782,546	23	48,743,625	24
NON-OPERATING INCOME AND EXPENSES				
Interest income	155,213	-	260,885	-
Other income (Notes 28 and 35)	888,754	-	532,527	-
Other gains and losses (Notes 28 and 35)	(437,508)	-	(128,279)	-
Share of profits of subsidiaries, associates and joint ventures accounted for using equity method (Note 15)	1,381,354	1	1,385,675	1
Total non-operating income and expenses	1,987,813	1	2,050,808	1
INCOME BEFORE INCOME TAX	47,770,359	24	50,794,433	25
INCOME TAX EXPENSE (Notes 3 and 29)	7,703,349	4	7,988,705	4
NET INCOME	40,067,010	20	42,805,728	21
TOTAL OTHER COMPREHENSIVE INCOME (LOSS)				
Items that will not be reclassified to profit or loss:				
Remeasurements of defined benefit pension plans (Note 25)	(2,016,383)	(1)	(226,028)	-
Share of remeasurements of defined benefit pension plans of subsidiaries, associates and joint ventures (Note 15)	(51,194)	-	(27,038)	-
Income tax benefit relating to items that will not be reclassified to profit or loss (Note 29)	342,785	-	38,425	-
	(1,724,792)	(1)	(214,641)	-

(Continued)

CHUNGHWA TELECOM CO., LTD.

STATEMENTS OF COMPREHENSIVE INCOME
YEARS ENDED DECEMBER 31, 2016 AND 2015
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2016		2015	
	Amount	**%**	**Amount**	**%**
Items that may be reclassified subsequently to profit or loss:				
Exchange differences arising from the translation of the foreign operations	$ (112,470)	-	$ 26,254	-
Unrealized loss on available-for-sale financial assets (Note 26)	(134,447)	-	(659,055)	-
Cash flow hedges (Notes 20 and 28)	(1,085)	-	781	-
Share of exchange differences arising from the translation of the foreign operations of subsidiaries, associates and joint ventures (Note 15)	(18,719)	-	4,561	-
Share of unrealized gain (loss) on available-for-sale financial assets of subsidiaries, associates and joint ventures (Notes 15 and 26)	(7,402)	-	10,031	-
	(274,123)	-	(617,428)	-
Total other comprehensive loss, net of income tax	(1,998,915)	(1)	(832,069)	-
TOTAL COMPREHENSIVE INCOME	$ 38,068,095	19	$ 41,973,659	21
EARNINGS PER SHARE (Note 30)				
Basic	$ 5.16		$ 5.52	
Diluted	$ 5.16		$ 5.50	

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

CHUNGHWA TELECOM CO., LTD.

STATEMENTS OF CHANGES IN EQUITY
YEARS ENDED DECEMBER 31, 2016 AND 2015
(In Thousands of New Taiwan Dollars)

			Retained Earnings (Note 26)			Other Adjustments (Notes 20 and 26)			
	Common Stocks (Note 26)	Additional Paid-in Capital (Note 26)	Legal Reserve	Special Reserve	Unappropriated Earnings	Exchange Differences Arising from the Translation of the Foreign Operations	Unrealized Gain (Loss) on Available-for-sale Financial Assets	Cash Flow Hedges	Total Equity
BALANCE, JANUARY 1, 2015	$ 77,574,465	$ 168,047,935	$ 76,893,722	$ 2,819,899	$ 38,231,982	$ 146,442	$ 739,988	$ (283)	$ 364,454,150
Appropriation of 2014 earnings									
Legal reserve	-	-	680,743	-	(680,743)	-	-	-	-
Special reserve	-	-	-	(144,005)	144,005	-	-	-	-
Cash dividends	-	-	-	-	(37,673,263)	-	-	-	(37,673,263)
Reversal of special reserve recognized from land disposal	-	-	-	(475)	475	-	-	-	-
Change in additional paid-in capital from investments in subsidiaries, associates and joint ventures accounted for using equity method	-	47,680	-	-	(62,298)	-	-	-	(14,618)
Net income for the year ended December 31, 2015	-	-	-	-	42,805,728	-	-	-	42,805,728
Other comprehensive income (loss) for the year ended December 31, 2015	-	-	-	-	(214,641)	30,815	(649,024)	781	(832,069)
Total comprehensive income for the year ended December 31, 2015	-	-	-	-	42,591,087	30,815	(649,024)	781	41,973,659
BALANCE, DECEMBER 31, 2015	77,574,465	168,095,615	77,574,465	2,675,419	42,551,245	177,257	90,964	498	368,739,928
Appropriation of 2015 earnings									
Cash dividends	-	-	-	-	(42,551,146)	-	-	-	(42,551,146)
Change in additional paid-in capital from investments in subsidiaries, associates and joint ventures accounted for using equity method	-	446,871	-	-	-	-	-	-	446,871
Net income for the year ended December 31, 2016	-	-	-	-	40,067,010	-	-	-	40,067,010
Other comprehensive loss for the year ended December 31, 2016	-	-	-	-	(1,724,792)	(131,189)	(141,849)	(1,085)	(1,998,915)
Total comprehensive income for the year ended December 31, 2016	-	-	-	-	38,342,218	(131,189)	(141,849)	(1,085)	38,068,095
BALANCE, DECEMBER 31, 2016	$ 77,574,465	$ 168,542,486	$ 77,574,465	$ 2,675,419	$ 38,342,317	$ 46,068	$ (50,885)	$ (587)	$ 364,703,748

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

CHUNGHWA TELECOM CO., LTD.

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2016 AND 2015
(In Thousands of New Taiwan Dollars)

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	$ 47,770,359	$ 50,794,433
Adjustments to reconcile income before income tax to net cash provided by operating activities:		
Depreciation	28,572,318	29,800,486
Amortization	3,299,380	3,029,335
Provision for doubtful accounts	940,341	498,610
Interest income	(155,213)	(260,885)
Dividend income	(378,818)	(207,419)
Share of profits of subsidiaries, associates and joint ventures accounted for using equity method	(1,381,354)	(1,385,675)
Loss (gain) on disposal of investments accounted for using equity method	409	(7,409)
Provision for inventory and obsolescence	172,328	163,221
Impairment loss on property, plant and equipment	595,408	138,093
Reversal of impairment loss on investment properties	(147,527)	(142,047)
Impairment loss on available-for-sale financial assets	577,333	-
Impairment loss on financial assets carried at cost	-	77,018
Loss on disposal of financial instruments	136	-
Loss on disposal of property, plant and equipment	23,015	32,852
Valuation loss (gain) on financial assets and liabilities at fair value through profit or loss, net	1,370	(14)
Loss (gain) on foreign exchange, net	(55,560)	67,702
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Trade notes and accounts receivable	(4,812,266)	(732,636)
Receivables from related parties	94,812	(156,755)
Inventories	1,156,396	(2,457,915)
Other current monetary assets	(204,429)	(282,052)
Prepayments	143,513	32,406
Other current assets	148,945	953,678
Increase (decrease) in:		
Trade notes and accounts payable	2,295,451	(2,336,022)
Payables to related parties	644,761	69,231
Other payables	(172,122)	1,196,476
Provisions	42,602	(20,967)
Advance receipts	405,147	210,089
Other current liabilities	8,563	(101,748)
Deferred revenue	(45,404)	148,934
Net defined benefit liabilities	(8,508,169)	399,725
Cash generated from operations	71,031,725	79,520,745
Income tax paid	(8,645,268)	(6,892,786)
Net cash provided by operating activities	62,386,457	72,627,959

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CHUNGHWA TELECOM CO., LTD.

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2016 AND 2015
(In Thousands of New Taiwan Dollars)

	2016	2015
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of available-for-sale financial assets	$ (30,000)	$ -
Proceeds from disposal of available-for-sale financial assets	29,784	-
Acquisition of negotiable certificate of deposits with maturities of more than three months	(1,603,297)	(11,200,000)
Proceeds from disposal of negotiable certificate of deposits with maturities of more than three months	1,650,000	11,200,000
Acquisition of held-to-maturity financial assets	-	(1,002,167)
Proceeds from disposal of held-to-maturity financial assets	1,875,000	4,450,000
Acquisition of financial assets carried at cost	(22,980)	(29,077)
Proceeds from disposal of financial assets carried at cost	80	-
Capital reduction of financial assets carried at cost	34,847	37,672
Acquisition of investments accounted for using equity method	(89,641)	-
Proceeds from disposal of investments accounted for using equity method	182,108	10,848
Acquisition of property, plant and equipment	(22,546,940)	(24,626,617)
Acquisition of investment properties	(52)	-
Proceeds from disposal of property, plant and equipment	39,386	-
Acquisition of intangible assets	(227,018)	(10,310,517)
Decrease in other noncurrent assets	107,246	118,315
Interest received	167,750	302,462
Cash dividends received from others	378,818	207,419
Cash dividends received from subsidiaries and associates accounted for using equity method	1,213,236	1,317,493
Net cash used in investing activities	(18,841,673)	(29,524,169)
CASH FLOWS FROM FINANCING ACTIVITIES		
Decrease in customers' deposits	(299,878)	(90,137)
Decrease in other noncurrent liabilities	(5,866)	(162,770)
Cash dividends	(42,551,146)	(37,673,263)
Net cash used in financing activities	(42,856,890)	(37,926,170)
NET INCREASE IN CASH AND CASH EQUIVALENTS	687,894	5,177,620
CASH AND CASH EQUIVALENTS, BEGINNING OF THE YEAR	24,183,536	19,005,916
CASH AND CASH EQUIVALENTS, END OF THE YEAR	$ 24,871,430	$ 24,183,536

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

1. GENERAL

Chunghwa Telecom Co., Ltd. ("the Company") was incorporated on July 1, 1996 in the Republic of China ("ROC") pursuant to the Article 30 of the Telecommunications Act. The Company 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 the Company 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 as the Company which continues to carry out the business and the DGT continues to be the industry regulator.

As the dominant telecommunications service provider of domestic and international fixed-line, Global System for Mobile Communications ("GSM"), and Third Generation ("3G") in the ROC, the Company is subject to additional regulations imposed by the ROC.

Effective August 12, 2005, the MOTC completed the process of privatizing the Company by reducing the government ownership to below 50% in various stages. In July 2000, the Company received approval from the Securities and Futures Commission (the "SFC") for a domestic initial public offering and its common stocks were listed and traded on the Taiwan Stock Exchange (the "TWSE") on October 27, 2000. Certain of the Company's common stocks were sold, in connection with the foregoing privatization plan, in domestic public offerings at various dates from August 2000 to July 2003. Certain of the Company's common stocks were also 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 stocks of the Company by auction in the ROC on August 9, 2005 and completed the second international offering on August 10, 2005. Upon completion of the share transfers associated with these offerings on August 12, 2005, the MOTC owned less than 50% of the outstanding shares of the Company and completed the privatization plan.

The financial statements are presented in the Company's functional currency, New Taiwan dollars.

2. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorized for issue by the Board of Directors on March 7, 2017.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance

The accompanying financial statements have been prepared in conformity with the Regulations Governing the Preparation of Financial Reports by Securities Issuers (the "Regulations").

Basis of Preparation

The financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at revalued amounts or fair values.

When preparing the accompanying financial statements, the Company used equity method to account for its investment in subsidiaries, associates and joint ventures. In order for the amounts of the net profit, other comprehensive income and total equity in the parent company only financial statements to be the same with those amounts attributable to the owner of the Company in its consolidated financial statements, adjustments arising from the differences in accounting treatment between parent company only basis and consolidated basis were made to the captions of "investments accounted for using equity method", "share of profit (loss) of subsidiaries, associates and joint ventures accounted for using equity method", "share of other comprehensive income of subsidiaries, associates and joint ventures accounted for using equity method" and related equity items, as appropriate, in the parent company only financial statements.

Current and Noncurrent Assets and Liabilities

Current assets include:

a. Assets held primarily for the purpose of trading;

b. Assets expected to be realized within twelve months after the reporting period; and

c. Cash and cash equivalents unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

Current liabilities include:

a. Liabilities held primarily for the purpose of trading;

b. Liabilities due to be settled within twelve months after the reporting period; and

c. Liabilities for which the Company does not have an unconditional right to defer settlement for at least twelve months after the reporting period.

Assets and liabilities that are not classified as current are classified as noncurrent.

Foreign Currencies

In preparing the Company's financial statements, transactions in currencies other than the Company's functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions.

At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Exchange differences on monetary items arising from settlement or translation are recognized in profit or loss in the period in which they arise.

Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined and related exchange differences are recognized in profit or loss. Conversely, when the fair value changes were recognized in other comprehensive income, related exchange difference shall be recognized in other comprehensive income.

Non-monetary items that are measured at historical cost in a foreign currency are not retranslated.

For the purposes of presenting financial statements, the assets and liabilities of the Company's foreign operations (including of the subsidiaries, associates and joint ventures in other countries or currencies used different with the Company) are translated into New Taiwan dollars using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are recognized in other comprehensive income.

Cash Equivalents

Cash equivalents include commercial paper, time deposits and negotiable certificate of deposit with original maturities within three months from the date of acquisition, highly liquid, readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These cash equivalents are held for the purpose of meeting short-term cash commitments.

Inventories

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

Investments Accounted for Using Equity Method

Investments in subsidiaries, associates and joint ventures are accounted for using equity method.

a. Investment in subsidiaries

   Subsidiaries are the entities controlled by the Company.

   Under the equity method, the investment in subsidiaries is initially recognized at cost and the increase or decrease of carrying amount reflects the recognition of the Company's share of profit or loss and other comprehensive income of the subsidiaries after the date of acquisition. Besides, the Company also recognizes the Company's share of the change in other equity of the subsidiaries.

   Changes in the Company's ownership interests in subsidiaries that do not result in the Company's loss of control over the subsidiaries are accounted for as equity transactions. Any difference between the carrying amounts of the investment of the subsidiaries and the fair value of the consideration paid or received is recognized directly in equity.

   The acquisition cost in excess of the acquisition-date fair value of the identifiable net assets acquired is recognized as goodwill, which is included within the carrying amount of the investment and shall not be amortized. The acquisition-date fair value of the net identifiable assets acquired in excess of the acquisition cost is recognized immediately in profit or loss.

   Unrealized profits and losses from downstream transactions with a subsidiary are eliminated in full. Profits and losses from upstream transactions with a subsidiary and sidestream transactions between subsidiaries are recognized in the Company's financial statements only to the extent of interests in the subsidiary that are not related to the Company.

b. Investments in associates and joint ventures

   An associate is an entity over which the Company has significant influence and that is neither a subsidiary nor an interest in a joint venture. A joint venture is a joint arrangement whereby the Company and other parties that have joint control of the arrangement have rights to the net assets of the arrangement.

Investments accounted for using the equity method include investments in associates and interests in joint ventures. Under the equity method, an investment in an associate or a joint venture is initially recognized at cost and adjusted thereafter to recognize the Company's share of profit or loss and other comprehensive income of the associate and joint venture as well as the distribution received. The Company also recognizes its share in changes in the associates and joint ventures.

When the Company subscribes for new shares of the associate and joint venture at a percentage different from its existing ownership percentage, the resulting carrying amount of the investment differs from the amount of the Company's proportionate interest in the associate and joint venture. The Company records such a difference as an adjustment to investments with the corresponding amount charged or credited to additional paid-in capital. When the adjustment should be debited to additional paid-in capital but the additional paid-in capital recognized from investments accounted for using equity method is insufficient, the shortage is debited to retained earnings.

Any excess of the cost of acquisition over the Company's share of the fair value of the identifiable net assets and liabilities of an associate or a joint venture at the date of acquisition is recognized as goodwill, which is included within the carrying amount of the investment and shall not be amortized. Any excess of the Company's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition is recognized immediately in profit or loss.

When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment as a single asset by comparing its recoverable amount with its carrying amount. Any impairment loss recognized forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized to the extent that the recoverable amount of the investment subsequently increases.

When the Company transacts with its associate and joint venture, profits and losses resulting from the transactions with the associate and joint venture are recognized in the Company's financial statements only to the extent of interests in the associate and joint venture that are not related to the Company.

Property, Plant and Equipment

Property, plant and equipment are initially measured at cost and subsequently measured at cost less accumulated depreciation and accumulated impairment loss.

Depreciation on property, plant and equipment is recognized using the straight-line method. Each significant part is depreciated separately. The estimated useful lives, residual values and depreciation method are reviewed at the end of each year, with the effect of any changes in estimate accounted for on a prospective basis.

On derecognition of an item of property, plant and equipment, the difference between the net disposal proceeds and the carrying amount of the asset is recognized in profit or loss in the period in which the property is derecognized.

Investment Properties

Investment properties are properties held to earn rentals and/or for capital appreciation. Investment properties also include land held for a currently undetermined future use.

Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at cost less accumulated depreciation and accumulated impairment loss. Depreciation is recognized using the straight-line method.

On derecognition of the investment properties, the difference between the net disposal proceeds and the carrying amount of the asset is recognized in profit or loss in the period in which the property is derecognized.

Intangible Assets

Intangible assets with finite useful lives that are acquired separately are initially measured at cost and subsequently measured at cost less accumulated amortization and accumulated impairment loss. Amortization is recognized on a straight-line basis. The estimated useful life, residual value, and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. The residual value of an intangible asset with a finite useful life shall be assumed to be zero unless the Company expects to dispose of the intangible asset before the end of its economic life.

Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognized in profit or loss in the period in which is derecognized.

Impairment of Tangible and Intangible Assets

At the end of each reporting period, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. When it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount, with the resulting impairment loss recognized in profit or loss.

When an impairment loss is subsequently reversed, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but only to the extent of the carrying amount that would have been determined had no impairment loss been recognized for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognized in profit or loss.

Financial Instruments

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

a. Financial assets

All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis.

1) Measurement category

a) Financial assets at fair value through profit and loss (FVTPL)

Financial assets are classified as at FVTPL when the financial asset is either held for trading or it is designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss does not incorporate any dividend or interest earned on the financial asset.

b) Held-to-maturity financial assets

The Company invests in bank debentures and corporate bonds with specific credit ratings and the Company has positive intent and ability to hold to maturity, are classified as held-to-maturity investments.

Subsequent to initial recognition, held-to-maturity financial assets are measured at amortized cost using the effective interest method less any impairment loss.

c) Available-for-sale financial assets (AFS financial assets)

AFS financial assets are non-derivatives that are either designated as AFS or are not classified as loans and receivables, held-to-maturity financial assets or financial assets at fair value through profit or loss.

The Company invests in listed stocks and unlisted stocks. Among these investments, those that have a quoted market price in an active market are classified as AFS and measured at fair value at the end of each reporting period; the others that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less any identified impairment losses at the end of each reporting period by presenting in a separate line item as financial assets carried at cost. If, in a subsequent period, the fair value of the financial assets can be reliably measured, the financial assets are remeasured at fair value. The difference between the carrying amount and the fair value is recognized in other comprehensive income. Any impairment losses are recognized in profit or loss.

Changes in the carrying amount of AFS monetary financial assets relating to changes in foreign currency exchange rates, interest income calculated using the effective interest method and dividends on AFS equity investments are recognized in profit or loss. Other changes in the carrying amount of AFS financial assets are recognized in other comprehensive income and will be reclassified to profit or loss when the investment is disposed of or is determined to be impaired.

Dividends on AFS equity instruments are recognized in profit or loss when the Company's right to receive the dividends is established.

d) Loans and receivables

Loans and receivables (including cash and cash equivalents, trade notes and accounts receivable, receivables from related parties, other financial assets and refundable deposits) are measured at amortized cost using the effective interest method, less any impairment loss, except for short-term receivables as the effect of discounting is immaterial.

2) Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed to determine whether there is objective evidence that an impairment loss has occurred at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For financial assets carried at amortized cost, such as held-to-maturity financial assets, assets that are individually assessed and not impaired are, in addition, assessed for impairment on a collective basis.

For financial assets carried at amortized cost, the amount of the impairment loss recognized is mainly based on the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate. However, since the discounted effect of short-term receivables is immaterial, the impairment loss is recognized on the difference between carrying amount and estimated future cash flow.

For financial assets measured at amortized cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

For AFS equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss in the period.

In respect of AFS equity securities, impairment losses previously recognized in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognized in other comprehensive income.

For financial assets that are carried at cost, the amount of the impairment loss is mainly measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss is not reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade notes and accounts receivable and other receivables, where the carrying amount is reduced through the use of an allowance account. When a trade note and accounts receivable and other receivables are considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss except for uncollectible trade notes and accounts receivable and other receivables that are written off against the allowance account.

3) Derecognition of financial assets

The Company derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income is recognized in profit or loss.

b. Financial liabilities

1) Subsequent measurement

Except for financial liabilities at FVTPL, all the financial liabilities are subsequently measured at amortized cost using the effective interest method.

2) Derecognition of financial liabilities

The difference between the carrying amount of the financial liability derecognized and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss.

c. Derivative financial instruments

The Company enters into a variety of derivative financial instruments to manage its exposure to foreign exchange rate risks, including forward exchange contracts.

Derivatives are initially measured at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognized in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship. When the fair value of derivative financial instruments is positive, the derivative is recognized as a financial asset; when the fair value of derivative financial instruments is negative, the derivative is recognized as a financial liability.

Hedge Accounting

The Company designates some derivatives instruments as cash flow hedges.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in other comprehensive income. The gain or loss relating to the ineffective portion is recognized immediately in profit or loss.

The associated gains or losses that were recognized in other comprehensive income are reclassified from equity to profit or loss as a reclassification adjustment in the line item relating to the hedged item in the same period when the hedged item affects profit or loss. If a hedge of a forecast transaction subsequently results in the recognition of a non-financial asset or a non-financial liability, the associated gains and losses that were recognized in other comprehensive income are removed from equity and are included in the initial cost of the non-financial asset or non-financial liability.

Hedge accounting is discontinued prospectively when the Company revokes the designated hedging relationship, or when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer meets the criteria for hedge accounting. The cumulative gain or loss on the hedging instrument that has been previously recognized in other comprehensive income from the period when the hedge was effective remains separately in equity until the forecast transaction occurs. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognized immediately in profit or loss.

Provisions

Provisions are measured at the best estimate of the expenditure required to settle the Company's obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. The provisions for warranties claims and trade-in right are made by management according to the sales agreements which represent the management's best estimate of the future outflow of economic benefits. The provisions of warranties claims and trade-in right are recognized as operating cost and the reduction of revenue, respectively, in the period in which the goods are sold.

Revenue Recognition

Revenue from the sale of goods is recognized when all the following conditions are satisfied:

a. The Company has transferred to the buyer the significant risks and rewards of ownership of the goods;

b. The Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;

c. The amount of revenue can be measured reliably;

d. It is probable that the economic benefits associated with the transaction will flow to the Company; and

e. The costs incurred or to be incurred in respect of the transaction can be measured reliably.

Revenue is measured at the fair value of the consideration received or receivable and represents amounts for goods sold in the normal course of business, net of sales discounts and volume rebates. For trade notes and accounts receivable 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 telephone services), 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 seconds or minutes of traffic processed when the services are provided in accordance with contract terms.

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, mobile, Internet and data services) are accrued every month, and (c) prepaid services (fixed-line, mobile, Internet and data services) are recognized as income based upon actual usage by customers.

Where the Company enters into transactions which involve both the provision of telecommunications service bundled with products such as handsets, total consideration received from products and telecommunications service in these arrangements are allocated and measured using units of accounting within the arrangement based on their relative fair values limited to the amount that is not contingent upon the delivery of products.

Services revenue is recognized when service provided. Revenue from a contract to provide services is recognized by reference to the stage of completion of the contract.

Dividend income from investments is recognized when the stockholder's right to receive payment has been established under the premises when it is probable that the economic benefit related to the transactions will flow to the Company and that the revenue can be reasonably measured.

Interest income from a financial asset is recognized when it is probable that the economic benefits related to the transactions will flow to the Company and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

When another party is involved in providing goods or services to a customer, the Company is acting as a principal when it has exposure to the significant risks and rewards associated with the sale of goods or the rendering of services; otherwise, the Company is acting as an agent. When the Company is acting as a principal, gross inflows of economic benefits arising from transactions is recognized as revenue. When the Company is acting as an agent, revenue is recognized in the amount of commission.

Leasing

a. The Company as lessor

   Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease.

b. The Company as lessee

   Operating lease payments are recognized as an expense on a straight-line basis over the lease term.

Employee Benefits

a. Short-term employee benefits

   Liabilities recognized in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related service.

b. Retirement benefits

   Payments to defined contribution retirement benefit plans are recognized as an expense when employees have rendered service entitling them to the contributions.

   Defined benefit costs (including service cost, net interest and remeasurement) under the defined benefit retirement benefit plans are determined using the projected unit credit method. Service cost (including current service cost and gains or losses on settlements) and net interest on the net defined benefit liability (asset) are recognized as employee benefits expense in the period they occur. Remeasurement, comprising (a) actuarial gains and losses; and (b) the return on plan assets, excluding amounts included in net interest on the net defined benefit liability (asset), is recognized in other comprehensive income in the period in which they occur. Remeasurement recognized in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss.

Net defined benefit liability (asset) represents the actual deficit (surplus) in the Company's defined benefit plan. Any surplus resulting from this calculation is limited to the present value of any refunds from the plans or reductions in future contributions to the plans.

c. Other long-term employee benefits

Other long-term employee benefits are accounted for in the same way as the accounting required for defined benefit plan except that remeasurement is recognized in profit or loss.

Income Tax

Income tax expense represents the sum of the tax currently payable and deferred tax.

a. Current tax

According to the Income Tax Law, an additional tax at 10% of unappropriated earnings is provided for as income tax in the year the stockholders approve to retain the earnings.

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

b. Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the Company's financial statements and the corresponding tax bases used in the computation of taxable profit.

Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences and unused tax credits from purchases of machinery, equipment and technology and research and development expenditures to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. A previously unrecognized deferred tax asset is also reviewed at the end of each reporting period and recognized to the to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

c. Current and deferred tax for the year

Current and deferred tax are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income, in which case, the current and deferred tax are also recognized in other comprehensive income.

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY AND ASSUMPTION

In the application of the Company's accounting policies, the management is required to make judgments, estimates and assumptions which are based on historical experience and other factors that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed by the management on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period. Actual results may differ from these estimates.

a. Revenue recognition

The Company's project agreements are mainly to provide one or more equipment or services to customers. In order to fulfill the agreements, another party may be involved in some agreements. The Company considers the following factors to determine whether the Company is a principal of the transaction: whether the Company is the primary obligation provider of the agreements, its exposures to inventory risks and the discretion in establishing prices, etc. The determination of whether the Company is a principal or an agent will affect the amount of revenue recognized by the Company. Only when the Company is acting as a principal, gross inflows of economic benefits arising from transactions is recognized as revenue.

b. Impairment of trade notes and accounts receivable

When there is objective evidence showed indications of impairment, the Company considers the estimation of future cash flows. The amount of impairment will be measured at the difference between the carrying amount and the present value of estimated future cash flows discounted by the original effective interest rates of the financial assets. However, as the impact from the discount of short-term receivables is not material, the impairment of short-term receivables is measured at the difference between the carrying amount and the estimated undiscounted future cash flows. Where the actual future cash flows are lower than expected, a material impairment loss may arise.

c. Provision for inventory valuation and obsolescence

Inventories are stated at the lower of cost or net realizable value. Net realizable value is calculated as the estimated selling price less the estimated selling costs. Comparison of net realizable value and cost is determined on an item by item basis, except those similar items which could be categorized into the same groups. The Company uses the inventory holding period and turnover as the evaluation basis for inventory obsolescence losses.

d. Impairment of tangible and intangible assets

When an indication of impairment is assessed with objective evidence, the Company considers whether the recoverable amount of an asset is less than its carrying amount and recognizes the impairment loss based on difference between the recoverable amount and its carrying amount. The estimate of recoverable amount would impact on the timing and the amount of impairment loss recognition.

e. Useful lives of property, plant and equipment

As discussed in Note 3, "Summary of Significant Accounting Policies - Property, Plant and Equipment", the Company reviews estimated useful lives of property, plant and equipment at the end of each year.

f. Recognition and measurement of defined benefit plans

Net defined benefit liabilities and the resulting pension expense under defined benefit pension plans are calculated using the Projected Unit Credit Method. Actuarial assumptions comprise the discount rate, rate of employee turnover, and long-term average future salary increase. Changes in economic circumstances and market conditions will affect these assumptions and may have a material impact on the amount of the expense and the liability.

5. APPLICATION OF NEW AND REVISED STANDARDS AND INTERPRETATIONS

a. Amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), International Financial Reporting Interpretations Committee Interpretations (IFRIC), and SIC Interpretations (SIC) endorsed and issued into effect by the FSC for application starting from January 1, 2017.

Rule No. 1050050021 and Rule No. 1050026834 issued by the FSC stipulated that starting January 1, 2017, the Company should apply the IFRS, IAS, IFRIC and SIC issued by the IASB and endorsed by the FSC for application starting from January 1, 2017 (collectively, "2017 Taiwan-IFRSs version) and the amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

New, Revised or Amended Standards and Interpretations		Effective Date Issued by IASB (Note 1)
Amendments to IFRSs	Annual Improvements to IFRSs 2010-2012 Cycle	July 1, 2014 (Note 2)
Amendments to IFRSs	Annual Improvements to IFRSs 2011-2013 Cycle	July 1, 2014
Amendments to IFRSs	Annual Improvements to IFRSs 2012-2014 Cycle	January 1, 2016 (Note 3)
Amendments to IFRS 10, IFRS 12 and IAS 28	Investment Entities: Applying the Consolidation Exception	January 1, 2016
Amendments to IFRS 11	Acquisitions of Interests in Joint Operations	January 1, 2016
IFRS 14	Regulatory Deferral Accounts	January 1, 2016
Amendments to IAS 1	Disclosure Initiative	January 1, 2016
Amendments to IAS 16 and IAS 38	Clarification of Acceptable Methods of Depreciation and Amortization	January 1, 2016

(Continued)

New, Revised or Amended Standards and Interpretations		Effective Date Issued by IASB (Note 1)
Amendments to IAS 16 and IAS 41	Agriculture: Bearer Plants	January 1, 2016
Amendments to IAS 19	Defined Benefit Plans: Employee Contributions	July 1, 2014
Amendments to IAS 27	Equity Method in Separate Financial Statements	January 1, 2016
Amendments to IAS 36	Impairment of Assets: Recoverable Amount Disclosures for Non-financial Assets	January 1, 2014
Amendments to IAS 39	Novation of Derivatives and Continuation of Hedge Accounting	January 1, 2014
IFRIC 21	Levies	January 1, 2014

(Concluded)

Note 1: Unless stated otherwise, the above amendments and interpretations are effective for annual periods beginning on or after their respective effective dates.

Note 2: The amendment to IFRS 2 applies to share-based payment transactions with grant date on or after July 1, 2014; the amendment to IFRS 3 applies to business combinations with acquisition date on or after July 1, 2014; the amendment to IFRS 13 is effective immediately; the remaining amendments are effective for annual periods beginning on or after July 1, 2014.

Note 3: The amendment to IFRS 5 is applied prospectively to changes in a method of disposal that occur in annual periods beginning on or after January 1, 2016; the remaining amendments are effective for annual periods beginning on or after January 1, 2016.

The Company does not anticipate the application of 2017 Taiwan-IFRSs version and related amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers would have material impact on the Company's financial statements.

b. The IFRSs issued by the International Accounting Standards Board (IASB) but not yet endorsed by the FSC.

The Company has not applied the following IFRSs issued by the IASB but not yet endorsed by the FSC. In addition, the FSC announced that the public companies in Taiwan should apply IFRS 9 and IFRS 15 starting January 1, 2018. As of the date the financial statements were authorized for issue, the FSC has not announced the effective dates of other new, amended and revised standards and interpretations.

New, Revised or Amended Standards and Interpretations		Effective Date Issued by IASB (Note 1)
Amendments to IFRSs	Annual Improvements to IFRSs 2014-2016 Cycle	Note 2
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions	January 1, 2018
IFRS 9	Financial Instruments	January 1, 2018

(Continued)

New, Revised or Amended Standards and Interpretations		Effective Date Issued by IASB (Note 1)
Amendments to IFRS 9 and IFRS 7	Mandatory Effective Date of IFRS 9 and Transition Disclosures	January 1, 2018
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined by IASB
IFRS 15	Revenue from Contracts with Customers	January 1, 2018
Amendments to IFRS 15	Clarifications to IFRS 15	January 1, 2018
IFRS 16	Leases	January 1, 2019
Amendments to IAS 7	Disclosure Initiative	January 1, 2017
Amendments to IAS 12	Deferred Tax: Recovery of Underlying Assets	January 1, 2017
Amendments to IAS 40	Transfers of Investment Property	January 1, 2018
IFRIC Interpretation 22	Foreign Currency Transactions and Advance Consideration	January 1, 2018

(Concluded)

Note 1: Unless stated otherwise, the above amendments and interpretations are effective for annual periods beginning on or after their respective effective dates.

Note 2: The amendment to IFRS 12 is retrospectively applied for annual periods beginning on or after January 1, 2017; the amendment to IAS 28 is retrospectively applied for annual periods beginning on or after January 1, 2018.

Except for the following items, the application of the above new, revised or amended standards and interpretations will not have material impact on the Company's financial statements:

1) IFRS 15 "Revenue from Contracts with Customers" and related amendments

   IFRS 15 establishes principles for recognizing revenue that apply to all contracts with customers, and will supersede IAS 18 "Revenue", IAS 11 "Construction Contracts" and a number of revenue-related interpretations.

   When applying IFRS 15, the Company shall recognize revenue by applying the following steps:

   a) Identify the contract with the customer;

   b) Identify the performance obligations in the contract;

   c) Determine the transaction price;

   d) Allocate the transaction price to the performance obligations in the contracts; and

   e) Recognize revenue when the entity satisfies a performance obligation.

   Upon the application of IFRS 15 and its related amendments the Company will allocate the transaction price to each performance obligation identified in the contract on a relative stand-alone selling price basis.

Where the Company enters into transactions which involve both the provision of telecommunications service bundled with products such as handsets, total consideration received from products and telecommunications service in these arrangements are allocated based on each performance obligation's relative selling price. The amount of sales revenue recognized for products is no longer limited to the amount paid by the customer for the products. This will not change the total revenue recognized, but will change the timing of revenue recognition. The Company may recognize more revenue at the beginning of the contract period (i.e., at the time of sale of products), and revenue recognized for telecommunications service in the subsequent contract periods will decrease.

Incremental costs of obtaining a contract will be recognized as an asset to the extent the Company expects to recover those costs. Such asset will be amortized on a basis that is consistent with the transfer to the customer of the goods or services to which the asset relates. This will lead to the later recognition of charges for certain customer-obtaining costs.

IFRS 15 and its related amendments require that when another party is involved in providing goods or services to a customer, the Company is a principal if it controls the specified good or service before that good or service is transferred to a customer. Before the application of IFRS 15, the Company determines whether it is a principal or an agent based on its exposure to the significant risks and rewards associated with the sale of goods or the rendering of services.

When IFRS 15 and its amendments become effective, entities may elect to apply this Standard and the related amendments either retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initially applying this Standard recognized at the date of initial application. The Company is currently evaluating these transition methods and the related impacts on the Company's financial statements.

2) IFRS 16 "Leases"

IFRS 16 sets out the accounting standards for leases that will supersede IAS 17 and a number of related interpretations.

Under IFRS 16, if the Company is a lessee, it shall recognize right-of-use assets and lease liabilities for all leases on the balance sheets except for low-value and short-term leases. The Company may elect to apply the accounting method similar to the accounting for operating lease under IAS 17 to the low-value and short-term leases. On the statements of comprehensive income, the Company should present the depreciation expense charged on the right-of-use asset separately from interest expense accrued on the lease liability and discloses such amounts in the footnotes; interest is computed by using effective interest method. On the statements of cash flows, cash payments for the principal portion of the lease liability are classified within financing activities; cash payments for interest portion are classified within operating activities.

The application of IFRS 16 is not expected to have a material impact on the accounting of the Company as lessor.

When IFRS 16 becomes effective, the Company may elect to apply this Standard either retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of the initial application of this Standard recognized at the date of initial application.

Except for the abovementioned impact, as of the date the financial statements were authorized for issue, the Company is continuously assessing the possible impact that the application of other standards and interpretations will have on the Company's financial position and operating result, and will disclose the relevant impact when the assessment is completed.

6. CASH AND CASH EQUIVALENTS

	December 31 2016	December 31 2015
Cash		
Cash on hand	$ 192,590	$ 209,612
Bank deposits	3,485,707	3,349,514
	3,678,297	3,559,126
Cash equivalents (investments with maturities of less than three months)		
Commercial paper	10,390,843	10,955,160
Time deposits	2,290	2,069,250
Negotiable certificate of deposit	10,800,000	7,600,000
	21,193,133	20,624,410
	$ 24,871,430	$ 24,183,536

The annual yield rates of bank deposits, commercial paper, time deposits and negotiable certificate of deposit were as follows:

	December 31 2016	December 31 2015
Bank deposits	0.00%-0.42%	0.00%-0.32%
Commercial paper	0.33%-0.38%	0.37%-0.41%
Time deposits	0.62%	0.60%-0.79%
Negotiable certificate of deposit	0.35%-0.50%	0.36%-0.45%

7. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	December 31 2016	December 31 2015
Financial assets held for trading		
Derivatives (not designated for hedge)		
Forward exchange contracts	$ -	$ 14
Financial liabilities held for trading		
Derivatives (not designated for hedge)		
Forward exchange contracts	$ 1,356	$ -

Outstanding forward exchange contracts not designated for hedge as of balance sheet dates were as follows:

	Currency	Maturity Period	Contract Amount (In Thousands)
December 31, 2016			
Forward exchange contracts - buy	EUR/NT$	2017.03	EUR4,857/NT$166,940
December 31, 2015			
Forward exchange contracts - buy	EUR/NT$	2016.03-06	EUR18,301/NT$658,545

The Company entered into the above forward exchange contracts to manage its exposure to foreign currency risk due to fluctuations in exchange rates. However, the aforementioned derivatives did not meet the criteria for hedge accounting..

8. HELD-TO-MATURITY FINANCIAL ASSETS

	December 31 2016	December 31 2015
Corporate bonds	$ 1,989,892	$ 3,870,540
Bank debentures	150,000	150,000
	$ 2,139,892	$ 4,020,540
Current	$ 2,139,892	$ 1,880,739
Noncurrent	-	2,139,801
	$ 2,139,892	$ 4,020,540

The related information of corporate bonds and bank debentures as of balance sheet dates was as follows:

	December 31 2016	December 31 2015
Corporate bonds		
Par value	$ 1,990,000	$ 3,865,000
Nominal interest rate	1.18%-1.35%	1.18%-2.49%
Effective interest rate	1.20%-1.35%	1.15%-1.54%
Average remaining maturity life	0.34 year	1.04 years
Bank debentures		
Par value	$ 150,000	$ 150,000
Nominal interest rate	1.25%	1.25%
Effective interest rate	1.25%	1.25%
Average remaining maturity life	0.41 year	1.41 years

9. TRADE NOTES AND ACCOUNTS RECEIVABLE, NET

	December 31 2016	December 31 2015
Trade notes and accounts receivable	$ 30,752,328	$ 26,015,189
Less: Allowance for doubtful accounts	(1,722,331)	(1,281,569)
	$ 29,029,997	$ 24,733,620

The average credit terms range from 30 to 90 days. In determining the recoverability of trade notes and accounts receivable, the Company considers significant change in the credit quality of the trade notes and accounts receivable from the date credit was initially granted up to the end of the reporting period. In general, with few exceptional cases, it is unlikely for the notes and accounts receivable due longer than 180 days to be collected, therefore the Company recognized 100% allowance of notes and accounts receivable overdue longer than 180 days. For the notes and accounts receivable less than 180 days, the allowance for doubtful accounts was estimated based on the Company's historical recovery experience.

The Company serves a large consumer base; therefore, the concentration of credit risk is limited.

The aging analysis for trade notes and accounts receivable as of balance sheet dates was as follows:

	December 31	
	2016	2015
Non-overdue	$ 28,036,385	$ 23,857,773
Less than 30 days	790,388	595,876
31-60 days	290,103	329,734
61-90 days	273,504	142,252
91-120 days	123,119	132,684
121-180 days	99,645	116,772
More than 181 days	1,139,184	840,098
	$ 30,752,328	$ 26,015,189

The above aging analysis was based on days overdue.

The Company did not have the receivables that were past due but not impaired as of December 31, 2016 and 2015.

Movements of the allowance for doubtful accounts were as follows:

	Individually Assessed for Impairment	Collectively Assessed for Impairment	Total
Balance on January 1, 2015	$ 264,188	$ 752,004	$ 1,016,192
Add: Provision for doubtful accounts	60,330	399,950	460,280
Deduct: Amounts written off	-	(194,903)	(194,903)
Balance on December 31, 2015	324,518	957,051	1,281,569
Add: Provision for doubtful accounts	715,255	226,815	942,070
Deduct: Amounts written off	(273,595)	(227,713)	(501,308)
Balance on December 31, 2016	$ 766,178	$ 956,153	$ 1,722,331

10. INVENTORIES

	December 31	
	2016	2015
Merchandise	$ 1,405,959	$ 2,995,984
Project in process	981,253	719,952
	$ 2,387,212	$ 3,715,936

The operating costs related to inventories were $24,578,032 thousand (including the valuation loss on inventories of $172,328 thousand) and $21,767,819 thousand (including the valuation loss on inventories of $163,221 thousand) for the years ended December 31, 2016 and 2015, respectively.

11. PREPAYMENTS

	December 31	
	2016	2015
Prepaid rents	$ 2,874,408	$ 3,218,442
Others	1,045,765	845,244
	$ 3,920,173	$ 4,063,686
Current		
Prepaid rents	$ 835,684	$ 958,859
Others	1,045,765	845,244
	$ 1,881,449	$ 1,804,103
Noncurrent		
Prepaid rents	$ 2,038,724	$ 2,259,583

12. OTHER CURRENT MONETARY ASSETS

	December 31	
	2016	2015
Negotiable certificates of deposit with maturities of more than three months	$ 1,603,297	$ 1,650,000
Others	1,085,612	896,371
	$ 2,688,909	$ 2,546,371

The annual yield rates of negotiable certificates of deposit with maturities of more than three months at the balance sheet dates were as follows:

	December 31	
	2016	2015
Negotiable certificates of deposit with maturities of more than three months	0.62%-1.07%	0.81%

13. AVAILABLE-FOR-SALE FINANCIAL ASSETS - NONCURRENT

	December 31	
	2016	2015
Equity securities		
Domestic listed stocks	$ 2,451,686	$ 3,163,466

The Company evaluated and concluded its available-for-sale financial assets were impaired and recorded an impairment loss of $577,333 thousand for the year ended December 31, 2016. There was no indication of impairment for the year ended December 31, 2015, therefore, no impairment loss was recognized.

14. FINANCIAL ASSETS CARRIED AT COST

	December 31	
	2016	2015
Non-listed stocks		
Domestic	$ 1,854,425	$ 1,884,716
Foreign	269,355	250,931
	$ 2,123,780	$ 2,135,647

The above non-listed stocks are classified as available-for-sale financial assets based on financial assets categories (see Note 34). Since the fair values of such non-listed stocks investments cannot be reliably measured due to the range of reasonable fair value estimates was so significant, the above non-listed stocks investments owned by the Company were measured at costs less any impairment losses at the balance sheet dates.

The Company disposed partial financial assets carried at cost which was fully impaired and recognized a disposal gain of 80 thousand for the year ended December 31, 2016. There was no disposal of financial assets carried at cost in 2015.

The Company evaluated and concluded that there was no indication that financial assets carried at cost were impaired; therefore, no impairment loss was recognized for the year ended December 31, 2016.

After the Company evaluated the financial positions and future operating results of aforementioned investments, the Company concluded some of its investments that ceased operations were fully impaired, and recognized an impairment loss of $77,018 thousand for the year ended December 31, 2015.

15. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

	December 31	
	2016	2015
Investments in subsidiaries	$ 12,177,040	$ 11,378,071
Investments in associates	1,224,816	1,466,755
Investments in joint ventures	2,676	227,379
	$ 13,404,532	$ 13,072,205

a. Investments in subsidiaries

Investments in subsidiaries were as follows:

	Carrying Amount	
	December 31	
	2016	2015
Listed		
Senao International Co., Ltd. ("SENAO")	$ 1,712,144	$ 1,667,980

(Continued)

	Carrying Amount	
	December 31	
	2016	2015
Non-listed		
Light Era Development Co., Ltd. (“LED”)	$ 3,850,574	$ 3,849,489
Donghwa Telecom Co., Ltd. (“DHT”)	1,622,895	1,608,311
Chunghwa Investment Co., Ltd. (“CHI”)	1,356,270	764,488
CHIEF Telecom Inc. (“CHIEF”)	803,698	742,049
Chunghwa Telecom Singapore Pte., Ltd. (“CHTS”)	730,890	745,854
Chunghwa System Integration Co., Ltd. (“CHSI”)	699,899	677,017
Honghwa International Co., Ltd. (“HHI”)	409,716	389,321
Prime Asia Investments Group Ltd. (B.V.I.) (“Prime Asia”)	223,301	250,952
Chunghwa International Yellow Pages Co., Ltd. (“CHYP”)	188,358	187,239
Chunghwa Telecom Global, Inc. (“CHTG”)	182,324	155,145
Chunghwa Telecom Vietnam Co., Ltd. (“CHTV”)	133,735	140,627
Spring House Entertainment Tech. Inc. (“SHE”)	92,038	95,007
Smartfun Digital Co., Ltd. (“SFD”)	70,307	64,255
Chunghwa Leading Photonics Tech. Co., Ltd. (“CLPT”)	65,036	-
Chunghwa Telecom Japan Co., Ltd. (“CHTJ”)	42,638	38,648
Chunghwa Sochamp Technology Inc. (“CHST”)	(6,783)	1,689
New Prospect Investments Holdings Ltd. (B.V.I.) (“New Prospect”)	-	-
	$ 12,177,040	$ 11,378,071

(Concluded)

The percentages of ownership and voting rights in subsidiaries held by the Company as of balance sheet dates were as follows:

	% of Ownership and Voting Right	
	December 31	
	2016	2015
Senao International Co., Ltd. (“SENAO”)	29	29
Light Era Development Co., Ltd. (“LED”)	100	100
Donghwa Telecom Co., Ltd. (“DHT”)	100	100
Chunghwa Investment Co., Ltd. (“CHI”)	89	89
CHIEF Telecom Inc. (“CHIEF”)	69	69
Chunghwa Telecom Singapore Pte., Ltd. (“CHTS”)	100	100
Chunghwa System Integration Co., Ltd. (“CHSI”)	100	100
Honghwa International Co., Ltd. (“HHI”)	100	100
Prime Asia Investments Group Ltd. (B.V.I.) (“Prime Asia”)	100	100
Chunghwa International Yellow Pages Co., Ltd. (“CHYP”)	100	100
Chunghwa Telecom Global, Inc. (“CHTG”)	100	100
Chunghwa Telecom Vietnam Co., Ltd. (“CHTV”)	100	100
Spring House Entertainment Tech. Inc. (“SHE”)	56	56
Smartfun Digital Co., Ltd. (“SFD”)	65	65
Chunghwa Leading Photonics Tech. Co., Ltd. (“CLPT”)	75	-
Chunghwa Telecom Japan Co., Ltd. (“CHTJ”)	100	100
Chunghwa Sochamp Technology Inc. (“CHST”)	51	51
New Prospect Investments Holdings Ltd. (B.V.I.) (“New Prospect”)	100	100

The Company owns approximately 29% equity shares of SENAO and had originally four out of seven seats of the Board of Directors of SENAO through the support of large beneficial stockholders. In order to comply with the local regulations, SENAO increased two seats of independent directors in June 2016; therefore, total seats of its Board of Directors increased to nine and the Company continues to hold four out of nine seats of the Board of Directors. As the Company remains the control over SENAO's relevant activities, the accounts of SENAO are included in the consolidated financial statements. The Company's equity ownership of SENAO increased to 29.31% due to SENAO's purchase of its treasury stock in June and July 2015.

The Company invested 75% equity shares of Chunghwa Leading Photonics Tech Co., Ltd. ("CLPT") in July 2016. CLPT mainly engages in production and sale of electronic components and finished products.

The Company established New Prospect in March 2006. The holding company plans to operate as an investment company and the Company has invested US$1 in the holding company as of December 31, 2016.

For the details of the subsidiaries indirectly held by the Company, please refer to Note 38.

The Company's share of profit (loss) and other comprehensive income (loss) of the subsidiaries was recognized based on the audited financial statements.

b. Investments in associates

Investments in associates were as follows:

	Carrying Amount	
	December 31	
	2016	2015
Non-listed		
International Integrated System, Inc. ("IISI")	$ 312,528	$ 301,861
Viettel-CHT Co., Ltd. ("Viettel-CHT")	274,814	315,762
Taiwan International Standard Electronics Co., Ltd. ("TISE")	153,104	374,487
Skysoft Co., Ltd. ("SKYSOFT")	145,727	137,792
KingwayTek Technology Co., Ltd. ("KWT")	122,221	119,419
So-net Entertainment Taiwan Limited ("So-net")	111,390	105,844
Taiwan International Ports Logistics Corporation ("TIPL")	56,450	68,927
Alliance Digital Tech Co., Ltd. ("ADT")	33,868	15,336
Dian Zuan Integrating Marketing Co., Ltd. ("DZIM")	14,714	27,327
	$ 1,224,816	$ 1,466,755

The percentages of ownership and voting rights in associates held by the Company as of balance sheet dates were as follows:

	% of Ownership and Voting Right	
	December 31	
	2016	2015
International Integrated System, Inc. ("IISI")	32	33
Viettel-CHT Co., Ltd. ("Viettel-CHT")	30	30
Taiwan International Standard Electronics Co., Ltd. ("TISE")	40	40

(Continued)

	% of Ownership and Voting Right	
	December 31	
	2016	2015
Skysoft Co., Ltd. ("SKYSOFT")	30	30
KingwayTek Technology Co., Ltd. ("KWT")	26	26
So-net Entertainment Taiwan Limited ("So-net")	30	30
Taiwan International Ports Logistics Corporation ("TIPL")	27	27
Alliance Digital Tech Co., Ltd. ("ADT")	14	13
Dian Zuan Integrating Marketing Co., Ltd. ("DZIM")	18	18
		(Concluded)

None of the above associates is considered individually material to the Company. Aggregate information of associates that are not individually material was as follows:

	Year Ended December 31	
	2016	2015
The Company's share of profits	$ 241,908	$ 586,769
The Company's share of other comprehensive loss	(44,679)	(21,317)
The Company's share of total comprehensive income	$ 197,229	$ 565,452

The Company participated in the capital increase of ADT by investing $30,000 thousand in December 2016 at a percentage different from its original ownership interest and the ownership interest of ADT increased to 14%. The Company still has one out of five seats in the Board of Directors of ADT after the capital increase. Therefore, the Company remains significant influence over ADT. ADT engages mainly in the development of mobile payments and information processing service.

The Company sold its partial ownership interest in KWT in January 2015. The gain on disposal of KWT was $7,409 thousand.

The Company's share of profit (loss) and other comprehensive income (loss) of the associates was recognized based on the audited financial statements.

c. Investments in joint ventures

Investments in joint ventures were as follows:

	Carrying Amount		% of Ownership and Voting Rights	
	December 31		December 31	
	2016	2015	2016	2015
Non-listed				
Huada Digital Corporation ("HDD")	$ -	$ 206,737	50	50
Chunghwa Benefit One Co., Ltd ("CBO")	2,676	20,642	50	50
	$ 2,676	$ 227,379		

In March 2016, the stockholders of HDD approved that HDD should start its dissolution from March 31, 2016. The liquidation of HDD is still in process. The Company received the proceeds from the liquidation in September 2016 and recognized the disposal loss of $409 thousand.

In December 2016, the stockholders of CBO approved that CBO should start its dissolution from December 31, 2016. The liquidation of CBO is still in process.

None of the above joint ventures is considered individually material to the Company. Summarized financial information of joint ventures that was not material to the Company was as follows:

	Year Ended December 31	
	2016	2015
The Company's share of loss	$ (41,973)	$ (29,499)
The Company's share of other comprehensive income	-	-
The Company's share of total comprehensive loss	$ (41,973)	$ (29,499)

The Company's share of losses of the joint ventures was recognized based on the audited financial statements.

16. PROPERTY, PLANT AND EQUIPMENT

	Land	Land Improvements	Buildings	Computer Equipment	Telecommuni-cations Equipment	Transportation Equipment	Miscellaneous Equipment	Construction in Progress and Advances Related to Acquisition of Equipment	Total
Cost									
Balance on January 1, 2015	$ 100,589,129	$ 1,557,544	$ 65,360,197	$ 14,907,170	$ 691,878,308	$ 3,819,832	$ 7,429,543	$ 20,895,081	$ 906,436,804
Additions	-	-	-	12,819	777	-	11,334	23,952,164	23,977,094
Disposal	-	(94)	(10,607)	(1,044,796)	(12,990,341)	(69,237)	(312,156)	-	(14,427,231)
Other	(45,688)	17,820	124,607	679,945	23,132,082	59,878	348,360	(24,472,929)	(155,925)
Balance on December 31, 2015	$ 100,543,441	$ 1,575,270	$ 65,474,197	$ 14,555,138	$ 702,020,826	$ 3,810,473	$ 7,477,081	$ 20,374,316	$ 915,830,742
Accumulated depreciation and impairment									
Balance on January 1, 2015	$ -	$ (1,145,434)	$ (22,719,478)	$ (10,944,132)	$ (567,495,239)	$ (2,203,805)	$ (5,722,313)	$ -	$ (610,230,401)
Depreciation expenses	-	(53,432)	(1,199,629)	(1,424,239)	(26,023,104)	(598,083)	(483,636)	-	(29,782,123)
Disposal	-	94	10,171	1,039,586	12,977,588	69,237	297,703	-	14,394,379
Impairment loss	-	-	-	-	(138,093)	-	-	-	(138,093)
Other	-	(4,637)	40,955	(471)	(1,174)	(13,353)	(23,262)	-	(1,942)
Balance on December 31, 2015	$ -	$ (1,203,409)	$ (23,867,981)	$ (11,329,256)	$ (580,680,022)	$ (2,746,004)	$ (5,931,508)	$ -	$ (625,758,180)
Balance on January 1, 2015, net	$ 100,589,129	$ 412,110	$ 42,640,719	$ 3,963,038	$ 124,383,069	$ 1,616,027	$ 1,707,230	$ 20,895,081	$ 296,206,403
Balance on December 31, 2015, net	$ 100,543,441	$ 371,861	$ 41,606,216	$ 3,225,882	$ 121,340,804	$ 1,064,469	$ 1,545,573	$ 20,374,316	$ 290,072,562
Cost									
Balance on January 1, 2016	$ 100,543,441	$ 1,575,270	$ 65,474,197	$ 14,555,138	$ 702,020,826	$ 3,810,473	$ 7,477,081	$ 20,374,316	$ 915,830,742
Additions	-	-	1	722	3,747	-	-	23,129,970	23,134,440
Disposal	(1,645)	(6,290)	(2,440)	(1,495,554)	(11,513,397)	(52,229)	(544,273)	-	(13,615,828)
Other	335,426	11,913	(56,286)	792,061	21,649,618	103,697	563,086	(23,517,669)	(118,154)
Balance on December 31, 2016	$ 100,877,222	$ 1,580,893	$ 65,415,472	$ 13,852,367	$ 712,160,794	$ 3,861,941	$ 7,495,894	$ 19,986,617	$ 925,231,200
Accumulated depreciation and impairment									
Balance on January 1, 2016	$ -	$ (1,203,409)	$ (23,867,981)	$ (11,329,256)	$ (580,680,022)	$ (2,746,004)	$ (5,931,508)	$ -	$ (625,758,180)
Depreciation expenses	-	(51,280)	(1,199,400)	(1,313,439)	(24,999,527)	(528,482)	(461,071)	-	(28,553,199)
Disposal	-	6,246	1,823	1,482,722	11,499,306	52,168	511,162	-	13,553,427
Impairment loss	-	-	-	-	(595,408)	-	-	-	(595,408)
Other	-	(171)	63,886	(50,215)	56,240	(11,409)	(23,844)	-	34,487
Balance on December 31, 2016	$ -	$ (1,248,614)	$ (25,001,672)	$ (11,210,188)	$ (594,719,411)	$ (3,233,727)	$ (5,905,261)	$ -	$ (641,318,873)
Balance on January 1, 2016, net	$ 100,543,441	$ 371,861	$ 41,606,216	$ 3,225,882	$ 121,340,804	$ 1,064,469	$ 1,545,573	$ 20,374,316	$ 290,072,562
Balance on December 31, 2016, net	$ 100,877,222	$ 332,279	$ 40,413,800	$ 2,642,179	$ 117,441,383	$ 628,214	$ 1,590,633	$ 19,986,617	$ 283,912,327

The Company determined that some telecommunications equipment was impaired in 2016 due to the expiration of 2G license in June 2017 which will lead to the termination of the related service. Due to technology upgrade, some telecommunications equipment became obsolete in 2015. The Company evaluated and concluded the recoverable amount determined on the basis of value in use of aforementioned telecommunications equipment was lower than the carrying value, and recognized impairment losses of $595,408 thousand and $138,093 thousand for the years ended December 31, 2016 and 2015, respectively. The impairment loss was included in other income and expenses in the statements of comprehensive income.

Depreciation expense is computed using the straight-line method over the following estimated service lives:

Land improvements	8-30 years
Buildings	
Main buildings	35-60 years
Other building facilities	4-10 years
Computer equipment	5-6 years
Telecommunications equipment	
Telecommunication circuits	9-15 years
Telecommunication machinery and antennas equipment	5-10 years
Transportation equipment	3-10 years
Miscellaneous equipment	
Leasehold improvements	2-6 years
Mechanical and air conditioner equipment	8-16 years
Others	3-10 years

17. INVESTMENT PROPERTIES

	Investment Properties
Cost	
Balance on January 1, 2015	$ 8,808,276
Disposal	(126)
Reclassification	175,066
Balance on December 31, 2015	$ 8,983,216
Accumulated depreciation and impairment	
Balance on January 1, 2015	$ (1,262,197)
Depreciation expense	(18,363)
Disposal	126
Reclassification	(17,199)
Reversal of impairment loss	142,047
Balance on December 31, 2015	$ (1,155,586)
Balance on January 1, 2015, net	$ 7,546,079
Balance on December 31, 2015, net	$ 7,827,630

(Continued)

	Investment Properties
Cost	
Balance on January 1, 2016	$ 8,983,216
Additions	52
Reclassification	136,608
Balance on December 31, 2016	$ 9,119,876
Accumulated depreciation and impairment	
Balance on January 1, 2016	$ (1,155,586)
Depreciation expense	(19,119)
Reclassification	(52,940)
Reversal of impairment loss	147,527
Balance on December 31, 2016	$ (1,080,118)
Balance on January 1, 2016, net	$ 7,827,630
Balance on December 31, 2016, net	$ 8,039,758

(Concluded)

After the evaluation of land and buildings, the Company concluded the recoverable amount which represented the fair value less costs to sell of some land and buildings was higher than the carrying amount. Therefore, the Company recognized a reversal of impairment loss of $147,527 thousand and $142,047 thousand for the years ended December 31, 2016 and 2015, respectively, and the amounts were recognized only to the extent of the impairment losses that had been recognized in prior years. The reversal of impairment loss was included in other income and expenses in the statements of comprehensive income.

Depreciation expense is computed using the straight-line method over the following estimated service lives:

Land improvements	8-30 years
Buildings	
Main buildings	35-60 years
Other building facilities	4-10 years

The fair values of the Company's investment properties as of December 31, 2016 and 2015 were determined by Level 3 fair value measurements inputs based on the appraisal reports conducted by independent appraisers. Those appraisal reports are based on the comparison approach, income approach or cost approach. Key assumptions and the fair values were as follows:

	December 31	
	2016	2015
Fair value	$ 17,543,310	$ 17,456,849
Overall capital interest rate	1.46%-2.20%	1.49%-2.28%
Profit margin ratio	10%-20%	10%-20%
Discount rate	1.04%	1.21%
Capitalization rate	0.43%-1.70%	0.44%-1.69%

All of the Company's investment properties are held under freehold interest.

18. INTANGIBLE ASSETS

	3G and 4G Concession	Computer Software	Others	Total
Cost				
Balance on January 1, 2015	$ 49,254,000	$ 3,002,458	$ 6,721	$ 52,263,179
Additions - acquired separately	9,955,000	354,285	1,232	10,310,517
Disposal	-	(371,700)	(1,983)	(373,683)
Balance on December 31, 2015	$ 59,209,000	$ 2,985,043	$ 5,970	$ 62,200,013
Accumulated amortization and impairment				
Balance on January 1, 2015	$ (8,103,833)	$ (1,638,243)	$ (3,856)	$ (9,745,932)
Amortization expenses	(2,503,967)	(524,599)	(769)	(3,029,335)
Disposal	-	371,700	1,983	373,683
Balance on December 31, 2015	$ (10,607,800)	$ (1,791,142)	$ (2,642)	$ (12,401,584)
Balance on January 1, 2015, net	$ 41,150,167	$ 1,364,215	$ 2,865	$ 42,517,247
Balance on December 31, 2015, net	$ 48,601,200	$ 1,193,901	$ 3,328	$ 49,798,429
Cost				
Balance on January 1, 2016	$ 59,209,000	$ 2,985,043	$ 5,970	$ 62,200,013
Additions - acquired separately	-	225,442	1,576	227,018
Disposal	-	(114,869)	(79)	(114,948)
Balance on December 31, 2016	$ 59,209,000	$ 3,095,616	$ 7,467	$ 62,312,083
Accumulated amortization and impairment				
Balance on January 1, 2016	$ (10,607,800)	$ (1,791,142)	$ (2,642)	$ (12,401,584)
Amortization expenses	(2,804,912)	(493,629)	(839)	(3,299,380)
Disposal	-	114,869	79	114,948
Balance on December 31, 2016	$ (13,412,712)	$ (2,169,902)	$ (3,402)	$ (15,586,016)
Balance on January 1, 2016, net	$ 48,601,200	$ 1,193,901	$ 3,328	$ 49,798,429
Balance on December 31, 2016, net	$ 45,796,288	$ 925,714	$ 4,065	$ 46,726,067

For long-term business development, the Company participated in mobile broadband license (4G license) in 2.5 and 2.6 GHz bands bidding process announced by NCC and obtained certain spectrums. The Company paid the 4G concession fees amounting to $9,955,000 thousand in December 2015.

The concessions are granted and issued by the NCC. The concession fees are amortized using the straight-line method from the date operations commence through the date the license expires. The carrying amount of 3G concession fee will be fully amortized by December 2018, and 4G concession fees will be fully amortized by December 2030 and December 2033.

The computer software is amortized using the straight-line method over the estimated useful lives of 1 to 10 years. Other intangible assets are amortized using the straight-line method over the estimated useful lives of 3 to 10 years.

19. OTHER ASSETS

	December 31	
	2016	2015
Refundable deposits	$ 1,915,068	$ 2,042,200
Spare parts	1,775,739	1,875,285
Other financial assets	1,000,000	1,000,000
Others	2,032,562	2,477,838
	$ 6,723,369	$ 7,395,323
Current		
Spare parts	$ 1,775,739	$ 1,875,285
Others	242,655	246,113
	$ 2,018,394	$ 2,121,398
Noncurrent		
Refundable deposits	$ 1,915,068	$ 2,042,200
Other financial assets	1,000,000	1,000,000
Others	1,789,907	2,231,725
	$ 4,704,975	$ 5,273,925

Other financial assets - noncurrent was Piping Fund. As part of the government's effort to upgrade the existing telecommunications infrastructure, the Company and other public utility companies were required by the ROC government to contribute to a Piping Fund administered by the Taipei City Government. This fund was used to finance various telecommunications infrastructure projects. Net assets of this fund will be returned proportionately after the project is completed.

20. HEDGING DERIVATIVE FINANCIAL INSTRUMENTS

	December 31	
	2016	2015
Hedging derivative financial assets		
Cash flow hedge - forward exchange contracts	$ -	$ 498
Hedging derivative financial liabilities		
Cash flow hedge - forward exchange contracts	$ 586	$ -

The Company's hedge strategy is to enter forward exchange contracts - buy to avoid its foreign currency exposure to certain foreign currency denominated payments in the following six months. In addition, the Company's management considers the market condition to determine the hedge ratio, and enters into forward exchange contracts with the banks to avoid the foreign currency risk.

The Company signed equipment purchase contracts with suppliers, and entered into forward exchange contracts to avoid foreign currency risk exposure to Euro-denominated purchase commitments. Those forward exchange contracts were designated as cash flow hedges. For the years ended December 31, 2016 and 2015, gain (loss) arising from changes in fair value of the hedged items recognized in other comprehensive income was loss of $1,085 thousand and gain of $781 thousand, respectively. Upon the completion of the purchase transaction, the amount deferred and recognized in equity initially will be reclassified into equipment as its carrying value.

As of December 31, 2016 and 2015, the Company expected part of the equipment purchase transactions will not occur and reclassified the related gain of $696 thousand and the loss of $741 thousand from equity to profit or loss which arising from the forward exchange contracts of the aforementioned transactions for the years ended December 31, 2016 and 2015, respectively.

The outstanding forward exchange contracts at the balance sheet dates were as follows:

	Currency	Maturity Period	Contract Amount (Thousands)
December 31, 2016			
Forward exchange contracts - buy	EUR/NT$	2017.03	EUR2,967/NT$101,743
December 31, 2015			
Forward exchange contracts - buy	EUR/NT$	2016.03-06	EUR8,532/NT$306,435

Loss (gain) arising from the hedging derivative financial instruments that have been reclassified from equity to initial cost of the property, plant and equipment were as follows:

	December 31	
	2016	2015
Construction in progress and advances related to acquisition of equipment	$ (15,139)	$ (18,805)

21. TRADE NOTES AND ACCOUNTS PAYABLE

	December 31	
	2016	2015
Trade notes and accounts payable	$ 14,721,192	$ 12,414,507

Trade notes and accounts payable were attributable to operating activities and the trading conditions were agreed separately.

22. OTHER PAYABLES

	December 31	
	2016	2015
Accrued salary and compensation	$ 8,539,036	$ 9,113,313
Payables to contractors	2,395,881	1,451,584
Accrued compensation to employees and remuneration to directors	1,744,251	1,972,370
Accrued franchise fees	1,325,535	1,401,490
Amounts collected for others	1,316,337	1,329,646
Payables to equipment suppliers	1,098,280	1,502,816
Accrued maintenance costs	1,061,875	996,187
Others	5,945,146	5,164,618
	$ 23,426,341	$ 22,932,024

23. PROVISIONS

	December 31	
	2016	2015
Warranties	$ 47,493	$ 43,940
Employee benefits	38,014	30,108
Trade-in right	31,378	-
Others	4,447	4,682
	$ 121,332	$ 78,730
Current	$ 55,390	$ 20,572
Noncurrent	65,942	58,158
	$ 121,332	$ 78,730

	Warranties	Employee Benefits	Trade-in right	Others	Total
Balance on January 1, 2015	$ 39,296	$ 55,569	$ -	$ 4,832	$ 99,697
Additional provisions recognized	17,752	11,423	-	150	29,325
Used during the year	(13,108)	(36,884)	-	(300)	(50,292)
Balance on December 31, 2015	$ 43,940	$ 30,108	$ -	$ 4,682	$ 78,730
Balance on January 1, 2016	$ 43,940	$ 30,108	$ -	$ 4,682	$ 78,730
Additional provisions recognized	27,898	9,344	31,378	75	68,695
Used during the year	(24,345)	(1,438)	-	(310)	(26,093)
Balance on December 31, 2016	$ 47,493	$ 38,014	$ 31,378	$ 4,447	$ 121,332

a. The provision for warranties claims represents the present value of the management's best estimate of the future outflow of economic benefits that will be required under the Company's obligation for warranties in sales agreements. The estimate has been made based on the historical warranty experience.

b. The provision for employee benefits represents vested long-term service compensation accrued.

c. The provision for trade-in right is based on the management's judgments to estimate the trade-in right of products exercised by customers in the future. The provision is recognized as a reduction of revenue in the period in which the goods are sold.

24. ADVANCE RECEIPTS

Advance receipts are mainly from advance telecommunication charges. In accordance with NCC's regulation named "Mandatory and Prohibitory Provisions To Be Included In Standard Contracts for Telecommunication Goods (Services) Coupons", the Company entered into a contract with Bank of Taiwan to provide a performance guarantee for advance receipts from selling prepaid cards amounting to $778,345 thousand as of December 31, 2016.

25. RETIREMENT BENEFIT PLANS

a. Defined contribution plans

The pension plan under the Labor Pension Act of ROC (the "LPA") is considered as a defined contribution plan. Based on the LPA, the Company makes monthly contributions to employees' individual pension accounts at 6% of monthly salaries and wages.

b. Defined benefit plans

The Company completed its privatization plans on August 12, 2005. The Company 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 the Company should be transferred to the Fund for Privatization of Government-owned Enterprises (the "Privatization Fund") under the Executive Yuan. On August 7, 2006, the Company transferred the remaining balance of fund to the Privatization Fund. However, according to the instructions of MOTC, the Company was requested to administer the distributions to employees for pension obligations including service clearance payment, lump sum payment under civil service plan, additional separation payments, etc. upon the completion of the privatization and recognized in other current monetary assets.

The Company with the pension mechanism under the Labor Standards Law is considered as defined benefit plans. These pension plans provide benefits based on an employee's length of service and average six-month salary prior to retirement. The Company contributes an amount no more than 15% 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 plan assets are held in a commingled fund which is operated and managed by the government's designated authorities; as such, the Company does not have any right to intervene in the investments of the funds. According to the Article 56 of the Labor Standards Law revised in February 2015, entities are required to contribute the difference in one appropriation to the Funds before the end of next March when the balance of the Funds is insufficient to pay employees who will meet the retirement eligibility criteria within next year.

The amounts included in the balance sheets arising from the Company's obligation in respect of its defined benefit plans were as follows:

	December 31 2016	December 31 2015
Present value of funded defined benefit obligation	$ 34,283,765	$ 30,618,983
Fair value of plan assets	(33,749,106)	(23,592,538)
Funded status - deficit	$ 534,659	$ 7,026,445
Net defined benefit liabilities	$ 1,441,732	$ 7,026,445
Net defined benefit assets	(907,073)	-
	$ 534,659	$ 7,026,445

Movements in the defined benefit obligation and the fair value of plan assets were as follows:

	Present Value of Funded Defined Benefit Obligation	Fair Value of Plan Assets	Net Defined Benefit Liabilities (Assets)
Balance on January 1, 2015	$ 27,704,891	$ 21,304,199	$ 6,400,692
Current service cost	2,882,171	-	2,882,171
Interest expense/interest income	540,878	439,713	101,165
Amounts recognized in profit or loss	3,423,049	439,713	2,983,336
Remeasurement on the net defined benefit liability			
Return on plan assets (excluding amounts included in net interest)	-	134,527	(134,527)
Actuarial losses recognized from experience adjustments	360,555	-	360,555
Amounts recognized in other comprehensive income	360,555	134,527	226,028
Contributions from employer	-	2,427,349	(2,427,349)
Benefits paid	(713,250)	(713,250)	-
Benefits paid directly by the Company	(156,262)	-	(156,262)
Balance on December 31, 2015	30,618,983	23,592,538	7,026,445
Current service cost	2,864,963	-	2,864,963
Interest expense/interest income	594,458	569,069	25,389
Amounts recognized in profit or loss	3,459,421	569,069	2,890,352
Remeasurement on the net defined benefit liability			
Return on plan assets (excluding amounts included in net interest)	-	(350,258)	350,258
Actuarial gains recognized from changes in demographic assumptions	(129,398)	-	(129,398)
Actuarial losses recognized from experience adjustments	98,184	-	98,184
Actuarial losses recognized from changes in financial assumptions	1,697,339	-	1,697,339
Amounts recognized in other comprehensive income	1,666,125	(350,258)	2,016,383

(Continued)

	Present Value of Funded Defined Benefit Obligation	Fair Value of Plan Assets	Net Defined Benefit Liabilities (Assets)
Contributions from employer	$ -	$ 11,228,035	$ (11,228,035)
Benefits paid	(1,290,278)	(1,290,278)	-
Benefits paid directly by the Company	(170,486)	-	(170,486)
Balance on December 31, 2016	$ 34,283,765	$ 33,749,106	$ 534,659

(Concluded)

Relevant pension costs recognized in profit and loss for defined benefit plans were as follows:

	Year Ended December 31	
	2016	2015
Operating costs	$ 1,732,347	$ 1,793,388
Marketing expenses	835,840	854,035
General and administrative expenses	154,369	162,004
Research and development expenses	97,336	101,729
	$ 2,819,892	$ 2,911,156

The Company is exposed to following risks for the defined benefits plans under the Labor Standards Law:

a. Investment risk

Under the Labor Standards Law, the rate of return on assets shall not be less than the average interest rate on a two-year time deposit published by the local banks and the government is responsible for any shortfall in the event that the rate of return is less than the required rate of return. The plan assets are held in a commingled fund mainly invested in foreign and domestic equity and debt securities and bank deposits which is operated and managed by the government's designated authorities; as such, the Company does not have any right to intervene in the investments of the funds.

b. Interest rate risk

The decline in government bond interest rate will increase the present value of the obligation on the defined benefit plan, while the return on plan assets will increase. The net effect on the present value of the obligation on defined benefit plan is partially offset by the return on plan assets.

c. Salary risk

The calculation of the present value of defined benefit obligation is referred to the plan participants' future salary. Hence, the increase in plan participants' salary will increase the present value of the defined benefit obligation.

The most recent actuarial valuation of plan assets and the present value of the defined benefit obligation were carried out by the independent actuary. The principal assumptions used for the purpose of the actuarial valuations were as follows:

	Measurement Date	
	December 31	
	2016	2015
Discount rates	1.50%	2.00%
Expected rates of salary increase	1.20%	1.00%

If reasonably possible changes of the respective significant actuarial assumptions occur at the end of reporting periods, while holding all other assumptions constant, the present value of the defined benefit obligation would increase (decrease) as follows:

	December 31	
	2016	2015
Discount rates		
0.5% increase	$ (1,201,977)	$ (960,697)
0.5% decrease	$ 1,279,458	$ 1,243,506
Expected rates of salary increase		
0.5% increase	$ 1,360,870	$ 1,314,659
0.5% decrease	$ (1,288,898)	$ (1,036,472)

The sensitivity analysis presented above may not be representative of the actual change in the present value of the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated. There is no change in the methods and assumptions used in preparing the sensitivity analysis from the previous period.

	December 31	
	2016	2015
The expected contributions to the plan for the next year	$ 2,716,198	$ 11,294,547
The average duration of the defined benefit obligation	7 years	7 years

The Company's maturity analysis of the undiscounted benefit payments was as follows:

Year	Amount
2017	$ 1,642,827
2018	3,612,133
2019	6,218,290
2020	8,598,175
2021 and thereafter	46,914,239
	$ 66,985,664

26. EQUITY

a. Share capital

1) Common stocks

	December 31	
	2016	2015
Number of authorized shares (thousand)	12,000,000	12,000,000
Authorized shares	$ 120,000,000	$ 120,000,000
Number of issued and paid shares (thousand)	7,757,447	7,757,447
Issued shares	$ 77,574,465	$ 77,574,465

The issued common stocks of a par value at $10 per share entitled the right to vote and receive dividends.

2) Global depositary receipts

The MOTC and some stockholders sold some common stocks of the Company in an international offering of securities in the form of American Depositary Shares ("ADS") (one ADS represents 10 common stocks) in July 2003, August 2005, and September 2006. The ADSs were traded on the New York Stock Exchange since July 17, 2003. As of December 31, 2016, the outstanding ADSs were 350,881 thousand common stocks, which equaled 35,088 thousand units and represented 4.52% of the Company's total outstanding common stocks.

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.

b. Additional paid-in capital

The adjustments of additional paid-in capital for the years ended December 31, 2016 and 2015 were as follows:

	Share Premium	Movements of Additional Paid-in Capital for Associates and Joint Ventures Accounted for Using Equity Method	Movements of Additional Paid-in Capital Arising from Changes in Equities of Subsidiaries	Difference between Consideration Received and Carrying Amount of the Subsidiaries' Net Assets upon Disposal	Donated Capital	Stockholders' Contribution Due to Privatization	Total
Balance on January 1, 2015	$ 147,329,386	$ 43,648	$ 13,653	$ -	$ 13,170	$ 20,648,078	$ 168,047,935
Change in additional paid-in capital from investments in associates and joint ventures accounted for using equity method	-	34,405	-	-	-	-	34,405
Partial disposal of interests in subsidiaries	-	-	-	26,644	-	-	26,644
Change in additional paid-in capital from share subscription not based on original ownership of a subsidiary	-	-	(412)	-	-	-	(412)

(Continued)

	Share Premium	Movements of Additional Paid-in Capital for Associates and Joint Ventures Accounted for Using Equity Method	Movements of Additional Paid-in Capital Arising from Changes in Equities of Subsidiaries	Difference between Consideration Received and Carrying Amount of the Subsidiaries' Net Assets upon Disposal	Donated Capital	Stockholders' Contribution Due to Privatization	Total
Other changes in additional paid-in capital in subsidiaries	$ -	$ -	$ 1,064	$ -	$ -	$ -	$ 1,064
Subsidiary purchased its treasury stock	-	-	(14,021)	-	-	-	(14,021)
Balance on December 31, 2015	147,329,386	78,053	284	26,644	13,170	20,648,078	168,095,615
Change in additional paid-in capital from investments in associates and joint ventures accounted for using equity method	-	(1,081)	-	-	-	-	(1,081)
Partial disposal of interests in subsidiaries	-	-	-	58,206	-	-	58,206
Change in additional paid-in capital for not participating in the capital increase of a subsidiary	-	-	389,740	-	-	-	389,740
Share-based payment transactions of subsidiaries	-	-	6	-	-	-	6
Balance on December 31, 2016	$ 147,329,386	$ 76,972	$ 390,030	$ 84,850	$ 13,170	$ 20,648,078	$ 168,542,486

(Concluded)

Additional paid-in capital from share premium, donated capital and the difference between consideration received and the carrying amount of the subsidiaries' net assets upon disposal may be utilized to offset deficits; furthermore, when the Company has no deficit, it may be distributed in cash or capitalized, which however is limited to a certain percentage of the Company's paid-in capital.

The additional paid-in capital from movements of paid-in capital arising from changes in equities of subsidiaries may only be utilized to offset deficits. Additional paid-in capital from movements of investments in associates and joint ventures accounted for using equity method may not be used for any purpose.

c. Retained earnings and dividends policy

In accordance with the amendments to the Company Act of the ROC in May 2015, the recipients of dividends and bonuses are limited to stockholders and do not include employees. To comply with the above amendments to the Company Act of the ROC, amendments to the policy on dividend distribution and the addition of the policy on distribution of employees' and directors' compensation in the Company's Articles of Incorporation were approved by the stockholders in their meeting on June 24, 2016.

In accordance with the the Company's amended Articles of Incorporation, the Company's must pay all outstanding taxes, offset deficits in prior years and set aside a legal reserve equal to 10% of its net income before distributing a dividend or making any other distribution to stockholders, except when the accumulated amount of such legal reserve equals to the Company's total issued capital, and depending on its business needs or requirements, may also set aside or reverse special reserves. No less than 50% of the remaining earnings comprising remaining balance of net income, if any, plus cumulative undistributed earnings shall be distributed as stockholders' dividends, of which cash dividends to be distributed shall not be less than 50% of the total amount of dividends to be distributed. If cash dividend to be distributed is less than $0.10 per share, such cash dividend shall be distributed in the form of common stocks.

For the information on remuneration for the employees and directors accured based on the the Company's pre-amended and amended Articles of Incorporation, please refer to Note 28.a.7) - Employee benefit expenses.

The Company should appropriate or reverse a special reserve in accordance with Rule No. 1010012865 and Rule No. 1010047490 issued by the FSC and the directive entitled "Questions and Answers on Special Reserves Appropriated Following the Adoption of Taiwan-IFRSs". Distributions can be made out of any subsequent reversal of the debit to other equity items.

The appropriation for legal reserve shall be made until the accumulated reserve equals the aggregate par value of the outstanding capital stock of the Company. This reserve can only be used to offset a deficit, or, when the legal reserve has exceeded 25% of the Company's paid-in capital, the excess may be transferred to capital or distributed in cash.

Except for non-ROC resident stockholders, all stockholders receiving the dividends are entitled to a tax credit equal to their proportionate share of the income tax paid by the Company.

The appropriations of the 2015 earnings of the Company approved by the stockholders' meeting on June 24, 2016 and the appropriations of the 2014 earnings of the Company approved by the stockholders' meeting on June 26, 2015 were as follows:

	Appropriation of Earnings		**Dividends Per Share (NT$)**	
	For Fiscal Year 2015	**For Fiscal Year 2014**	**For Fiscal Year 2015**	**For Fiscal Year 2014**
Legal reserve	$ -	$ 680,743		
Special reserve	-	(144,005)		
Cash dividends	42,551,146	37,673,263	$ 5.49	$ 4.86

The appropriations of earnings for 2016 had been proposed by the Company's Board of Directors on March 7, 2017. The appropriations and dividends per share were as follows:

	Appropriation of Earnings	**Dividends Per Share (NT$)**
Special reserve	$ 5,404	
Cash dividends	38,336,525	$ 4.94

The appropriations of earnings for 2016 are subject to the resolution of the stockholders' meeting planned to be held on June 23, 2017. Information of the appropriation of the Company's earnings proposed by the Board of Directors and approved by the stockholders is available on the Market Observation Post System website.

d. Other equity items

1) Exchange differences arising from the translation of the foreign operations

The exchange differences arising from the translation of the foreign operations from their functional currency to New Taiwan dollars were recognized as exchange differences arising from the translation of the foreign operations in other comprehensive income.

2) Unrealized gain (loss) on available-for-sale financial assets

	Year Ended December 31	
	2016	2015
Beginning balance	$ 90,964	$ 739,988
Unrealized gain (loss) on available-for-sale financial assets	(711,996)	(659,055)
Amount reclassified from equity to profit or loss on impairment loss of available-for-sale financial assets	577,333	-
Amount reclassified from equity to profit or loss on disposal of available-for-sale financial assets	216	-
Share of unrealized gain (loss) on available-for-sale financial assets of subsidiaries, associates and joint ventures accounted for using equity method	(7,402)	10,031
Ending balance	$ (50,885)	$ 90,964

27. REVENUES

The main source of revenue of the Company includes various telecommunications services in many different streams, and the related information was as discussed in Note 39.

28. NET INCOME AND OTHER COMPREHENSIVE INCOME (LOSS)

a. Net income

1) Other income and expenses

	Year Ended December 31	
	2016	2015
Loss on disposal of property, plant and equipment	$ (23,015)	$ (32,852)
Impairment loss on property, plant and equipment	(595,408)	(138,093)
Reversal of impairment loss on investment properties	147,527	142,047
	$ (470,896)	$ (28,898)

2) Other income

	Year Ended December 31	
	2016	2015
Dividend income	$ 378,818	$ 207,419
Income from Piping Fund	201,648	202,492
Others	308,288	122,616
	$ 888,754	$ 532,527

3) Other gains and losses

	Year Ended December 31	
	2016	2015
Net foreign currency exchange gains	$ 173,575	$ 45,699
Loss on disposal of financial instruments	(136)	-
Gain (loss) on disposal of investments accounted for using equity method	(409)	7,409
Valuation gain (loss) on financial assets and liabilities at fair value through profit or loss, net	(1,370)	14
Impairment loss on financial assets carried at cost	-	(77,018)
Impairment loss on available-for-sale financial assets	(577,333)	-
Others	(31,835)	(104,383)
	$ (437,508)	$ (128,279)

4) Impairment loss (reversal of impairment loss) on financial instruments

	Year Ended December 31	
	2016	2015
Notes and accounts receivable	$ 942,070	$ 460,280
Other receivables	$ (1,729)	$ 38,330
Available-for-sale financial assets	$ 577,333	$ -
Financial assets carried at cost	$ -	$ 77,018

5) Impairment loss (reversal of impairment loss) on non-finacial assets

	Year Ended December 31	
	2016	2015
Inventories	$ 172,328	$ 163,221
Property, plant and equipment	$ 595,408	$ 138,093
Investment properties	$ (147,527)	$ (142,047)

6) Depreciation and amortization expenses

	Year Ended December 31	
	2016	2015
Property, plant and equipment	$ 28,553,199	$ 29,782,123
Investment properties	19,119	18,363
Intangible assets	3,299,380	3,029,335
Total depreciation and amortization expenses	$ 31,871,698	$ 32,829,821
Depreciation expenses summarized by functions		
Operating costs	$ 26,853,606	$ 27,938,184
Operating expenses	1,718,712	1,862,302
	$ 28,572,318	$ 29,800,486

(Continued)

	Year Ended December 31	
	2016	2015
Amortization expenses summarized by functions		
Operating costs	$ 3,027,338	$ 2,733,234
Marketing expenses	154,315	171,572
General and administrative expenses	87,718	84,586
Research and development expenses	30,009	39,943
	$ 3,299,380	$ 3,029,335

(Concluded)

7) Employee benefit expenses

	Year Ended December 31	
	2016	2015
Post-employment benefit		
Defined contribution plans	$ 227,505	$ 214,517
Defined benefit plans	2,819,892	2,911,156
	3,047,397	3,125,673
Other employee benefit		
Salaries	20,631,523	20,672,267
Insurance	2,046,687	2,114,742
Others	14,216,308	14,582,874
	36,894,518	37,369,883
Total employee benefit expenses	$ 39,941,915	$ 40,495,556
Summary by functions		
Operating costs	$ 23,456,247	$ 23,858,896
Operating expenses	16,485,668	16,636,660
	$ 39,941,915	$ 40,495,556

As of December 31, 2016 and 2015, the Company had 22,663 and 23,141 employees, respectively.

According to the Company Act as amended in May 2015 and the amendments to the Company’s Articles of Incorporation approved by the Company’s stockholders in their meeting on June 24, 2016, the Company distributes employees’ compensation at the rates from 1.7% to 4.3% and remuneration to directors not higher than 0.17%, respectively, of pre-tax income. The Company accrued employees’ compensation and remuneration to directors according to the aforementioned policy for the years ended December 31, 2016 and 2015. As of December 31, 2016, the payables of the employees’ compensation and of the remuneration to directors were $1,702,164 thousand and $42,087 thousand, respectively. Such amounts have been approved by the Company’s Board of Directors on March 7, 2017 and will be reported to the stockholders in their meeting planned to be held on June 23, 2017.

If there is a change in the proposed amounts after the annual financial statements are authorized for issue, the differences are recorded as a change in accounting estimate.

The appropriations of the 2015 employees' compensation and remuneration to directors were approved by the Board of Directors on March 11, 2016 and reported to the stockholders in their meeting after the amendments to the Company's Articles of Incorporation was approved by the Company's stockholders in their meeting on June 24, 2016. The appropriations of the 2014 bonuses to employees and remuneration to directors of the Company were approved by the stockholders in their meeting on June 26, 2015. The related information was as follows:

	2015 Cash Bonus	2014 Cash Bonus
Bonus or compensation distributed to the employees	$ 1,927,518	$ 1,510,068
Remuneration paid to the directors	44,852	39,223

There was no difference between the initial accrual amounts and the amounts paid of the aforementioned bonus or compensation to employees and the remuneration to directors.

Information of the appropriation of the Company's employees bonuses and remuneration to directors and approved by the Board of Directors and stockholders is available on the Market Observation Post System website.

b. Reclassification adjustments of other comprehensive income (loss)

	Year Ended December 31	
	2016	2015
Cash flow hedges		
Gain (loss) arising during the year	$ 14,750	$ 18,845
Reclassification adjustments included in profit or loss	(696)	741
Adjusted against the carrying amount of hedged items	(15,139)	(18,805)
	$ (1,085)	$ 781

29. INCOME TAX

a. Income tax recognized in profit or loss

The major components of income tax expense were as follows:

	Year Ended December 31	
	2016	2015
Current tax		
Current tax expenses recognized for the year	$ 6,307,642	$ 8,236,116
Income tax adjustments on prior years	(27,514)	(88,767)
Others	14,465	11,427
	6,294,593	8,158,776
Deferred tax		
Deferred tax expenses recognized for the year	1,408,756	(170,071)
Income tax recognized in profit or loss	$ 7,703,349	$ 7,988,705

Reconciliation of accounting profit and income tax expense was as follows:

	Year Ended December 31	
	2016	**2015**
Income before income tax	$ 47,770,359	$ 50,794,433
Income tax expense calculated at the statutory rate (17%)	$ 8,120,961	$ 8,635,054
Nondeductible revenues and expenses in determining taxable income	(12,281)	17,801
Tax-exempt income	(167,891)	(261,400)
Investment credits	(224,391)	(325,410)
Adjustments of tax expense on prior years	(27,514)	(88,767)
Others	14,465	11,427
Income tax expense recognized in profit or loss	$ 7,703,349	$ 7,988,705

The applicable tax rate used above is the corporate tax rate of 17% payable by the Company subject to the Income Tax Law of the Republic of China.

b. Income tax benefit recognized in other comprehensive income

	Year Ended December 31	
	2016	**2015**
Deferred tax		
Remeasurement on defined benefit plan	$ (342,785)	$ (38,425)

c. Current tax liabilities

	December 31	
	2016	**2015**
Current tax liabilities		
Income tax payable	$ 2,180,615	$ 4,531,290

d. Deferred income tax assets and liabilities

The movements of deferred income tax assets and liabilities were as follows:

For the year ended December 31, 2016

	January 1, 2016	**Recognized in Profit or Loss**	**Recognized in Other Comprehensive Income**	**December 31, 2016**
Deferred income tax assets				
Temporary differences				
Defined benefit obligation	$ 1,194,496	$ (178,652)	$ 342,785	$ 1,358,629
Allowance for doubtful receivables over quota	166,280	61,858	-	228,138
Deferred revenue	136,403	(19,210)	-	117,193

(Continued)

	January 1, 2016	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	December 31, 2016
Impairment loss on property, plant and equipment	$ 44,164	$ 78,468	$ -	$ 122,632
Accrued award credits liabilities	21,970	(2,044)	-	19,926
Valuation loss on inventory	20,662	(12,509)	-	8,153
Estimated warranty liabilities	7,470	604	-	8,074
Unrealized foreign exchange loss, net	16,666	(16,666)	-	-
Others	-	117	-	117
	$ 1,608,111	$ (88,034)	$ 342,785	$ 1,862,862
Deferred income tax liabilities				
Temporary differences				
Land value incremental tax	$ 94,986	$ -	$ -	$ 94,986
Unrealized foreign exchange gain, net	-	9,239	-	9,239
Defined benefit obligation	-	1,267,738	-	1,267,738
Deferred revenue for award credits	1,942	43,748	-	45,690
Others	3	(3)	-	-
	$ 96,931	$ 1,320,722	$ -	$ 1,417,653

(Concluded)

For the year ended December 31, 2015

	January 1, 2015	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	December 31, 2015
Deferred income tax assets				
Temporary differences				
Defined benefit obligation	$ 1,088,118	$ 67,953	$ 38,425	$ 1,194,496
Allowance for doubtful receivables over quota	113,439	52,841	-	166,280
Deferred revenue	155,614	(19,211)	-	136,403
Impairment loss on property, plant and equipment	31,209	12,955	-	44,164
Accrued award credits liabilities	28,431	(6,461)	-	21,970

(Continued)

	January 1, 2015	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	December 31, 2015
Valuation loss on inventory	$ 8,410	$ 12,252	$ -	$ 20,662
Estimated warranty liabilities	6,680	790	-	7,470
Unrealized foreign exchange loss, net	-	16,666	-	16,666
	$ 1,431,901	$ 137,785	$ 38,425	$ 1,608,111
Deferred income tax liabilities				
Temporary differences				
Land value incremental tax	$ 94,986	$ -	$ -	$ 94,986
Unrealized foreign exchange gain, net	29,215	(29,215)	-	-
Deferred revenue for award credits	5,016	(3,074)	-	1,942
Others	-	3	-	3
	$ 129,217	$ (32,286)	$ -	$ 96,931

(Concluded)

e. All deductible temporary differences were recognized as deferred tax assets in the balance sheets.

f. The related information under the Integrated Income Tax System was as follows:

Unappropriated earnings information

As of December 31, 2016 and 2015, all the Company's unappropriated earnings are generated after the adoption of Integrated Income Tax System.

Imputation credit account

	December 31	
	2016	2015
Balance of Imputation Credit Account ("ICA")	$ 7,691,405	$ 7,516,432

The creditable ratios for distribution of earnings of 2016 and 2015 were 20.48% (estimated ratio) and 20.48%, respectively. Effective from January 1, 2015, the creditable ratio for individual stockholders residing in the Republic of China is half of the original creditable ratio according to the revised Article 66-6 of the Income Tax Law of the ROC.

g. Income tax examinations

Income tax returns of Company have been examined by the tax authorities through 2014 (except 2013).

30. EARNINGS PER SHARE

Net income and weighted average number of common stocks used in the calculation of earnings per share were as follows:

Net Income

	Year Ended December 31	
	2016	**2015**
Net income used to compute the basic earnings per share	$ 40,067,010	$ 42,805,728
Assumed conversion of all dilutive potential common stocks		
Employee stock options and employee compensation of subsidiaries	(524)	(921)
Net income used to compute the diluted earnings per share	$ 40,066,486	$ 42,804,807

Weighted Average Number of Common Stocks

(Thousand Shares)

	Year Ended December 31	
	2016	**2015**
Weighted average number of common stocks used to compute the basic earnings per share	7,757,447	7,757,447
Assumed conversion of all dilutive potential common stocks		
Employee compensation	11,922	18,231
Weighted average number of common stocks used to compute the diluted earnings per share	7,769,369	7,775,678

Because the Company may settle the employee compensation in shares or cash, the Company shall presume that it will be settled in shares and takes those shares into consideration when calculating the weighted average number of outstanding shares used in the calculation of diluted EPS if the shares have a dilutive effect. The dilutive effect of the shares needs to be considered until the approval of the number of shares to be distributed to employees as compensation in their meeting in the following year.

31. NON-CASH TRANSACTIONS

For the years ended December 31, 2016 and 2015, the Company entered into the following non-cash investing activities:

	Year Ended December 31	
	2016	**2015**
Increase in property, plant and equipment	$ 23,134,440	$ 23,977,094
Changes in other payables	(587,500)	649,523
	$ 22,546,940	$ 24,626,617

32. OPERATING LEASE ARRANGEMENTS

a. The Company as lessee

Except for the ST-2 satellite referred in Note 35 to the financial statements, the Company entered into several lease agreements for base stations located all over in Taiwan. The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	December 31	
	2016	**2015**
Within one year	$ 2,560,241	$ 3,185,743
Longer than one year but within five years	4,665,468	5,143,295
Longer than five years	970,325	1,242,844
	$ 8,196,034	$ 9,571,882

b. The Company as lessor

The Company leases out some land and buildings. The future aggregate minimum lease collection under non-cancellable operating leases are as follows:

	December 31	
	2016	**2015**
Within one year	$ 416,507	$ 432,071
Longer than one year but within five years	622,156	549,676
Longer than five years	320,982	374,400
	$ 1,359,645	$ 1,356,147

33. CAPITAL MANAGEMENT

The Company manages its capital to ensure that the Company will be able to continue as going concerns while maximizing the return to stakeholders through the optimization of the debt and equity balance.

The capital structure of the Company consists of debt and the equity of the Company.

The Company is required to maintain minimum paid-in capital amount as prescribed by the applicable laws.

The management reviews the capital structure of the Company as needed. As part of this review, the management considers the cost of capital and the risks associated with each class of capital.

According to the management's suggestion, the Company maintains a balanced capital structure through paying cash dividends, increasing its share capital, purchasing treasury stock, and proceeds from new debt or repayment of debt.

34. FINANCIAL INSTRUMENTS

Fair Value Information

The fair value measurement guidance establishes a framework for measuring fair value and expands disclosure about fair value measurements. The standard describes a fair value hierarchy based on three levels of inputs that may be used to measure fair value. These levels are:

Level 1 fair value measurements: These measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 fair value measurements: These measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3 fair value measurements: These measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

a. Financial instruments that are not measured at fair value but for which fair value is disclosed

   Except for what disclosed in the following table, the Company considers that the carrying amounts of finanal assets and liablities not measured at fair value approximate their fair values or the fair values cannot be reliable estimated:

   December 31, 2016

	Carrying Amount	Fair Value Level 1	Fair Value Level 2	Fair Value Level 3
Held-to-maturity financial assets				
Corporate bonds	$ 1,989,892	$ -	$ 1,995,869	$ -
Bank debentures	150,000	-	150,488	-
	$ 2,139,892	$ -	$ 2,146,357	$ -

   December 31, 2015

	Carrying Amount	Fair Value Level 1	Fair Value Level 2	Fair Value Level 3
Held-to-maturity financial assets				
Corporate bonds	$ 3,870,540	$ -	$ 3,890,730	$ -
Bank debentures	150,000	-	149,997	-
	$ 4,020,540	$ -	$ 4,040,727	$ -

   The Level 2 fair values are estimated using discounted cash flow models. The models use market-based observable inputs including duration, yield rate and credit rating.

b. Financial instruments measured at fair value on a recurring basis

December 31, 2016

	Level 1	Level 2	Level 3	Total
Financial liabilities at FVTPL				
Derivatives	$ -	$ 1,356	$ -	$ 1,356
Hedging derivative financial liabilities	$ -	$ 586	$ -	$ 586
Available-for-sale financial assets				
Listed securities				
Equity investments	$ 2,451,686	$ -	$ -	$ 2,451,686

December 31, 2015

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Derivatives	$ -	$ 14	$ -	$ 14
Hedging derivative financial assets	$ -	$ 498	$ -	$ 498
Available-for-sale financial assets				
Listed securities				
Equity investments	$ 3,163,466	$ -	$ -	$ 3,163,466

There were no transfers between Levels 1 and 2 for the years ended December 31, 2016 and 2015.

The fair values of financial assets and financial liabilities are determined as follows:

1) The fair values of financial assets and financial liabilities with standard terms and conditions and traded in active markets are determined with reference to quoted market prices.

2) For derivatives, fair values are estimated using discounted cash flow model. Future cash flows are estimated based on observable inputs including forward exchange rates at the end of the reporting periods and the forward and spot exchange rates stated in the contracts, discounted at a rate that reflects the credit risk of various counterparties.

Categories of Financial Instruments

	December 31	
	2016	**2015**
Financial assets		
Measured at FVTPL		
Held for trading	$ -	$ 14
Hedging derivative financial assets	-	498
Held-to-maturity financial assets	2,139,892	4,020,540
Loans and receivables (Note a)	60,261,517	55,356,652
Available-for-sale financial assets (Note b)	4,575,466	5,299,113
Financial liabilities		
Measured at FVTPL		
Held for trading	1,356	-
Hedging derivative financial liabilities	586	-
Measured at amortized cost (Note c)	37,115,715	32,989,217

Note a: The balances included cash and cash equivalents, trade notes and accounts receivable, receivables from related parties, other current monetary assets, other financial assets and refundable deposits (classified as other noncurrent assets) which were loans and receivables.

Note b: The balances included financial assets carried at cost which were classified as available-for-sale financial assets.

Note c: The balances included trade notes and accounts payable, payables to related parties, partial other payables and customers' deposits which were financial liabilities carried at amortized cost.

Financial Risk Management Objectives

The main financial instruments of the Company include equity and debt investments, accounts receivable and accounts payables. The Company's Finance Department provides services to its business units, co-ordinates access to domestic and international capital markets, monitors and manages the financial risks relating to the operations of the Company through internal risk reports which analyze exposures by degree and magnitude of risks. These risks include market risk (including foreign currency risk, interest rate risk and other price risk), credit risk, and liquidity risk.

The Company seeks to minimize the effects of these risks by using derivative financial instruments to hedge risk exposures. The use of financial derivatives is governed by the Company's policies approved by the Board of Directors. Those derivatives are used to hedge the risks of exchange rate fluctuation arising from operating or investment activities. Compliance with policies and risk exposure limits is reviewed by the Company's Finance Department on a continuous basis. The Company does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

The Company reports the significant risk exposures and related action plans timely and actively to the audit committee and if needed to the Board of Directors.

a. Market risk

The Company is exposed to market risks of changes in foreign currency exchange rates and interest rates. The Company uses forward exchange contracts to hedge the exchange rate risk arising from assets and liabilities denominated in foreign currencies.

There were no changes to the Company's exposure to market risks or the manner in which these risks are managed and measured.

1) Foreign currency risk

The carrying amounts of the Company's foreign currency denominated monetary assets and monetary liabilities at the balance sheet dates were as follows:

	December 31	
	2016	**2015**
Assets		
USD	$ 4,728,949	$ 4,296,283
EUR	10,973	45,756
SGD	101,992	106,383
JPY	18	242,336
Liabilities		
USD	4,111,714	4,125,794
EUR	965,012	1,291,884
SGD	1,114	2,657
JPY	5,873	3,704

The carrying amounts of the Company's derivatives with exchange rate risk exposures at the balance sheet dates were as follows:

	December 31	
	2016	**2015**
Assets		
EUR	$ -	$ 512
Liabilities		
EUR	1,942	-

Foreign currency sensitivity analysis

The Company is mainly exposed to the fluctuations of the currencies listed above.

The following table details the Company's sensitivity to a 5% increase and decrease in the functional currency against the relevant foreign currencies. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible changes in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and forward exchange contracts. A positive number below indicates an increase in pre-tax profit or equity where the functional currency weakens 5% against the relevant currency.

	Year Ended December 31	
	2016	2015
Profit or loss		
Monetary assets and liabilities (a)		
USD	$ 30,862	$ 8,524
EUR	(47,702)	(62,306)
SGD	5,044	5,186
JPY	(293)	11,932
Derivatives (b)		
EUR	8,233	32,832
Equity		
Derivatives (c)		
EUR	5,030	15,306

a) This is mainly attributable to the exposure to foreign currency denominated receivables and payables of the Company outstanding at the balance sheet dates.

b) This is mainly attributable to the forward exchange contracts.

c) This is mainly attributable to the changes in the fair value of derivatives that are designated as cash flow hedges.

For a 5% strengthening of the functional currency against the relevant currencies, it would have equal but opposite effect on the pre-tax profit or equity for the amounts shown above.

2) Interest rate risk

The carrying amounts of the Company's exposures to interest rates on financial assets at the balance sheet dates were as follows:

	December 31	
	2016	2015
Fair value interest rate risk		
Financial assets	$ 23,923,996	$ 23,763,200
Cash flow interest rate risk		
Financial assets	2,873,245	2,254,920

Interest rate sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for non-derivative instruments at the end of the reporting period. A 25 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 25 basis points higher/lower and all other variables were held constant, the Company's pre-tax income would increase/decrease by $7,183 thousand and $5,637 thousand for the years ended December 31, 2016 and 2015, respectively. This is mainly attributable to the Company's exposure to floating interest rates on its financial assets.

3) Other price risk

The Company is exposed to equity price risks arising from listed equity investments. Equity investments are held for strategic rather than trading purposes. The management managed the risk through holding various risk portfolios. Further, the Company assigned finance and investment departments to monitor the price risk.

Equity price sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to equity price risks at the end of the reporting period.

If equity prices of listed equity securities had been 5% higher/lower, other comprehensive income would have increased/decreased by $122,584 thousand and $158,173 thousand as a result of the changes in fair value of available-for-sale financial assets for the years ended December 31, 2016 and 2015, respectively.

b. Credit risk

Credit risk refers to the risk that a counterparty would default on its contractual obligations resulting in financial loss to the Company. The maximum credit exposure of the aforementioned financial instruments is equal to their carrying amounts recognized in balance sheet as of the balance sheet date.

The Company has large trade receivables outstanding with its customers. A substantial majority of the Company's outstanding trade receivables are not covered by collateral or credit insurance. The Company has implemented ongoing measures including enhancing credit assessments and strengthening overall risk management to reduce its credit risk. While the Company has procedures to monitor and limit exposure to credit risk on trade receivables, there can be no assurance such procedures will effectively limit its credit risk and avoid losses. This risk is heightened during periods when economic conditions worsen.

As the Company serves a large number of unrelated consumers, the concentration of credit risk was limited.

c. Liquidity risk

The Company manages and contains sufficient cash and cash equivalent position to support the operations and reduce the impact on fluctuation of cash flow.

1) Liquidity and interest risk tables

The following tables detailed the Company's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods. The tables had been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Company is required to pay.

	Weighted Average Effective Interest Rate (%)	Less Than 1 Month	1-3 Months	3 Months to 1 Year	1-5 Years	More Than 5 Years	Total
December 31, 2016							
Non-derivative financial liabilities							
Non-interest bearing	-	$ 41,133,677	$ -	$ 1,744,251	$ 4,521,074	$ -	$ 47,399,002
December 31, 2015							
Non-derivative financial liabilities							
Non-interest bearing	-	$ 37,459,795	$ -	$ 1,972,370	$ 4,642,735	$ -	$ 44,074,900

The following table detailed the Company's liquidity analysis for its derivative financial instruments. The table had been drawn up based on the undiscounted gross inflows and outflows on those derivatives that require gross settlement.

	Less Than 1 Month	1-3 Months	3 Months to 1 Year	1-5 Years	Total
December 31, 2016					
Gross settled					
Forward exchange contracts					
Inflow	$ -	$266,741	$ -	$ -	$266,741
Outflow	-	268,683	-	-	268,683
	$ -	$ (1,942)	$ -	$ -	$ (1,942)
December 31, 2015					
Gross settled					
Forward exchange contracts					
Inflow	$ -	$473,437	$492,056	$ -	$965,493
Outflow	-	476,337	488,644	-	964,981
	$ -	$ (2,900)	$ 3,412	$ -	$ 512

2) Financing facilities

	December 31	
	2016	2015
Unsecured bank loan facility		
Amount used	$ -	$ -
Amount unused	40,322,500	39,328,250
	$ 40,322,500	$ 39,328,250

35. RELATED PARTIES TRANSACTIONS

The ROC Government, one of the Company's customers, has significant equity interest in the Company. The Company provides fixed-line services, wireless services, internet and data and other services to the various departments and institutions of the ROC Government in the normal course of business and at arm's-length prices. The transactions with the ROC government bodies have not been disclosed because the transactions are not individually or collectively significant. However, the related revenues and operating costs have been appropriately recorded.

a. The Company engages in business transactions with the following related parties:

Company	Relationship
Senao International Co., Ltd. ("SENAO")	Subsidiary
Light Era Development Co., Ltd.	Subsidiary
Donghwa Telecom Co., Ltd.	Subsidiary
Chunghwa Telecom Singapore Pte., Ltd. ("CHTS")	Subsidiary
Chunghwa System Integration Co., Ltd. ("CHSI")	Subsidiary
Chunghwa Investment Co., Ltd. ("CHI")	Subsidiary
CHIEF Telecom, Inc. ("CHIEF")	Subsidiary

(Continued)

Company	Relationship
Chunghwa International Yellow Pages Co., Ltd. (“CHYP”)	Subsidiary
Prime Asia Investments Group Ltd. (B.V.I.) (“Prime Asia”)	Subsidiary
Spring House Entertainment Tech. Inc. (“SHE”)	Subsidiary
Chunghwa Telecom Global, Inc.	Subsidiary
Chunghwa Telecom Vietnam Co., Ltd.	Subsidiary
Smartfun Digital Co., Ltd.	Subsidiary
Chunghwa Telecom Japan Co., Ltd.	Subsidiary
Chunghwa Sochamp Technology Inc.	Subsidiary
Honghwa International Co., Ltd.	Subsidiary
Chunghwa Leading Photonics Tech. Co., Ltd. (“CLPT”)	Subsidiary
New Prospect Investments Holdings Ltd. (B.V.I.)	Subsidiary
Senao International (Samoa) Holding Ltd. (“SIS”)	Subsidiary of SENAO
Youth Co., Ltd.	Subsidiary of SENAO
Aval Technologies Co., Ltd.	Subsidiary of SENAO
ISPOT Co., Ltd.	Subsidiary of SENAO
Youyi Co., Ltd.	Subsidiary of SENAO
Unigate Telecom Inc.	Subsidiary of CHIEF
Chief International Corp.	Subsidiary of CHIEF
Shanghai Chief Telecom Co., Ltd.	Subsidiary of CHIEF
Concord Technology Co., Ltd. (“Concord”)	Subsidiary of CHSI
Ceylon Innovation Co., Ltd.	Subsidiary of SHE
Chunghwa Precision Test Tech. Co., Ltd. (“CHPT”)	Subsidiary of CHI
Chunghwa Investment Holding Co., Ltd. (“CIHC”)	Subsidiary of CHI
Glory Network System Service (Shanghai) Co., Ltd.	Subsidiary of Concord
Chunghwa Precision Test Tech. USA Corporation	Subsidiary of CHPT
CHPT Japan Co., Ltd.	Subsidiary of CHPT
Chunghwa Precision Test Tech. International, Ltd. (“CHPT (International)”)	Subsidiary of CHPT
Senao International HK Limited (“SIHK”)	Subsidiary of SIS
CHI One Investment Co., Limited. (“COI”)	Subsidiary of CIHC
Senao Trading (Fujian) Co., Ltd.	Subsidiary of SIHK
Senao International Trading (Shanghai) Co., Ltd.	Subsidiary of SIHK
Senao International Trading (Jiangsu) Co., Ltd.	Subsidiary of SIHK
Senao International Trading (Shanghai) Co., Ltd.	Subsidiary of SIHK
Chunghwa Hsingta Co., Ltd. (“CHC”)	Subsidiary of Prime Asia
Chunghwa Telecom (China) Co., Ltd.	Subsidiary of CHC
Jiangsu Zhenhua Information Technology Company, LLC.	Subsidiary of CHC
Hua-Xiong Information Technology Co., Ltd.	Subsidiary of CHC
Shanghai Taihua Electronic Technology Limited	Subsidiary of CHPT (International)
Taiwan International Standard Electronics Co., Ltd.	Associate
So-net Entertainment Taiwan Limited	Associate
Skysoft Co., Ltd.	Associate
KingwayTek Technology Co., Ltd.	Associate
Dian Zuan Integrating Marketing Co., Ltd.	Associate
Viettel-CHT Co., Ltd.	Associate
International Integrated System, Inc.	Associate
Taiwan International Ports Logistics Corporation	Associate
Click Force Co., Ltd.	Associate of CHYP

(Continued)

Company	Relationship
Xiamen Sertec Business Technology Co., Ltd.	Associate of COI
ST-2 Satellite Ventures Pte., Ltd.	Associate of CHTS
Huada Digital Corporation	Joint venture
Chunghwa Benefit One Co., Ltd.	Joint venture
Other related parties	
Chunghwa Telecom Foundation	A nonprofit organization of which the funds donated by the Company exceeds one third of its total funds

(Concluded)

b. Terms of the foregoing transactions with related parties were not significantly different from transactions with non-related parties. When no similar transactions with non-related parties can be referenced, terms were determined in accordance with mutual agreements. Details of transactions between the Company and other related parties are disclosed below:

1) Operating transactions

	Revenues	
	Year Ended December 31	
	2016	2015
Subsidiaries	$ 1,738,017	$ 1,660,277
Associates	283,523	326,008
Joint ventures	6,643	8,707
Others	3,556	3,997
	$ 2,031,739	$ 1,998,989

	Operating Costs and Expenses	
	Year Ended December 31	
	2016	2015
Subsidiaries	$ 18,098,585	$ 15,607,502
Associates	1,143,233	1,192,948
Joint ventures	17,242	16,919
Others	48,000	45,001
	$ 19,307,060	$ 16,862,370

2) Non-operating transactions

	Non-operating Income and Expenses	
	Year Ended December 31	
	2016	2015
Subsidiaries	$ 38,460	$ 3,265
Associates	2,580	2
Others	3	-
	$ 41,043	$ 3,267

3) Receivables

	December 31	
	2016	2015
Subsidiaries	$ 749,387	$ 822,720
Associates	6,676	27,663
Joint ventures	50	542
	$ 756,113	$ 850,925

4) Payables

	December 31	
	2016	2015
Subsidiaries	$ 3,990,630	$ 3,512,159
Associates	738,811	568,626
Joint ventures	954	4,849
	$ 4,730,395	$ 4,085,634

5) Customers' deposits

	December 31	
	2016	2015
Subsidiaries	$ 9,149	$ 9,434
Associates	10,355	10,965
Joint ventures	640	-
	$ 20,144	$ 20,399

6) Acquisition of property, plant and equipment

	Year Ended December 31	
	2016	2015
Subsidiaries	$ 509,343	$ 566,387
Associates	313,002	313,346
Joint ventures	6,869	11,345
	$ 829,214	$ 891,078

7) Prepayments

The Company entered into a contract with ST-2 Satellite Ventures Pte., Ltd. on March 12, 2010 to lease capacity on the ST-2 satellite. This lease term is for 15 years which should start from the official operation of ST-2 satellite and the total contract value is approximately $6,000,000 thousand (SG$260,723 thousand), including a prepayment of $3,067,711 thousand, and the rest of amount should be paid annually when ST-2 satellite starts its official operation. ST-2 satellite was launched in May 2011, and began its official operation in August 2011. The total rental expense for the year ended December 31, 2016 was $393,701 thousand, which consisted of an offsetting credit of the prepayment of $204,398 thousand and an additional accrual of $189,303 thousand. The total rental expense for the year ended December 31, 2015 was $404,120 thousand, which consisted of an offsetting credit of the prepayment of $204,398 thousand and an additional accrual of $199,722 thousand. The prepaid rents (classified as prepayments) as of December 31, 2016 and 2015 were as follows:

	December 31	
	2016	2015
Prepaid rents - current	$ 204,398	$ 204,398
Prepaid rents - noncurrent	1,754,419	1,958,817
	$ 1,958,817	$ 2,163,215

The Company sold the land with a carrying value of $936,016 thousand to LED at the consideration of $2,421,932 thousand in 2008. However, since the gain on disposal of land amounting to $1,485,916 thousand is unrealized, the gain was recognized as deferred credit - profit on intercompany transactions. There is no gain arising from disposal of land recognized in 2016 and 2015. The unrealized gain on disposal of land amounted to $83,859 thousand (classified as other noncurrent liabilities) as of December 31, 2016.

c. Compensation of key management personnel

	Year Ended December 31	
	2016	2015
Short-term benefits	$ 68,492	$ 67,301
Post-employment benefits	5,162	5,499
	$ 73,654	$ 72,800

The remuneration of directors and key executives is mainly determined by the compensation committee having regard to the performance of individual and market trends.

36. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED COMMITMENTS

As of December 31, 2016, the Company's remaining commitments under non-cancelable contracts with various parties, excluding those disclosed in other notes, were as follows:

a. Acquisitions of land and buildings of $398,156 thousand.

b. Acquisitions of telecommunications equipment of $12,084,485 thousand.

c. 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 the Company on August 15, 1996 (classified as other monetary assets - noncurrent). If the fund is not sufficient, the Company will contribute the remaining $1,000,000 thousand upon notification from the Taipei City Government.

37. SIGNIFICANT ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

The information of significant assets and liabilities denominated in foreign currencies is as follows:

	December 31, 2016		
	Foreign Currencies (Thousands)	Exchange Rate	New Taiwan Dollars (Thousands)
Assets denominated in foreign currencies			
Monetary items			
Cash			
USD	$ 5,221	32.25	$ 168,368
EUR	323	33.90	10,973
SGD	4,576	22.29	101,992
JPY	63	0.276	18
Accounts receivable			
USD	141,413	32.25	4,560,581
Non-monetary items			
Investments accounted for using equity method			
USD	28,317	32.25	913,214
HKD	390,307	4.158	1,622,895
JPY	154,486	0.276	42,638
VND	316,704,651	0.00129	408,549
RMB	48,365	4.617	223,301
Liabilities denominated in foreign currencies			
Monetary items			
Accounts payable			
USD	127,495	32.25	4,111,714
EUR	28,466	33.90	965,012
SGD	50	22.29	1,114
JPY	21,278	0.276	5,873

	December 31, 2015		
	Foreign Currencies (Thousands)	Exchange Rate	New Taiwan Dollars (Thousands)
Assets denominated in foreign currencies			
Monetary items			
Cash			
USD	$ 6,974	32.825	$ 228,936
EUR	1,268	35.88	45,484
SGD	4,576	23.25	106,383
JPY	887,679	0.273	242,336
Accounts receivable			
USD	123,910	32.825	4,067,347
EUR	8	35.88	272

(Continued)

	December 31, 2015		
	Foreign Currencies (Thousands)	**Exchange Rate**	**New Taiwan Dollars (Thousands)**
Non-monetary items			
Investments accounted for using equity method			
USD	$ 27,449	32.825	$ 900,999
HKD	379,766	4.235	1,608,311
JPY	141,568	0.273	38,648
VND	323,680,142	0.00141	456,389
RMB	50,412	4.978	250,952
Liabilities denominated in foreign currencies			
Monetary items			
Accounts payable			
USD	125,691	32.825	4,125,794
EUR	36,006	35.88	1,291,884
SGD	114	23.25	2,657
JPY	13,569	0.273	3,704

(Concluded)

The unrealized foreign exchange gains and losses were gain of $54,653 thousand and loss of $72,188 thousand for the years ended December 31, 2016 and 2015, respectively. Due to the various foreign currency transactions of the Company, foreign exchange gains and losses cannot be disclosed on the respective significant foreign currency.

38. ADDITIONAL DISCLOSURES

Following are the additional disclosures required by the FSC for the Company:

a. Financing provided: None.

b. Endorsement/guarantee provided: Please see Table 1.

c. Marketable securities held (excluding investments in subsidiaries, associates and joint ventures): Please see Table 2.

d. Marketable securities acquired and disposed of at costs or prices at least $300 million or 20% of the paid-in capital: Please see Table 3.

e. Acquisition of individual real estate at costs of at least $300 million or 20% of the paid-in capital: Please see Table 4.

f. Disposal of individual real estate at prices of at least $300 million or 20% of the paid-in capital: None.

g. Total purchases from or sales to related parties amounting to at least $100 million or 20% of the paid-in capital: Please see Table 5.

h. Receivables from related parties amounting to $100 million or 20% of the paid-in capital: Please see Table 6.

i. Names, locations, and other information of investees on which the Company exercises significant influence (excluding investment in Mainland China): Please see Table 7.

j. Derivative instruments transactions: Please see Notes 7, 20 and 34.

k. Investment in Mainland China: Please see Table 8.

39. SEGMENT INFORMATION

The Company has the following reportable segments that provide different products or services. The reportable segments are managed separately because each segment represents a strategic business unit that serves different markets. Segment information is provided to CEO who allocates resources and assesses segment performance. The Company's measure of segment performance is mainly based on revenues and income before tax. The Company's reportable segments are as follows:

a. Domestic fixed communications business - the provision of local telephone services, domestic long distance telephone services, broadband access, and related services;

b. Mobile communications business - the provision of mobile services, sales of mobile handsets and data cards, and related services;

c. Internet business - the provision of HiNet services and related services;

d. International fixed communications business - the provision of international long distance telephone services and related services;

e. Others - the provision of non-telecom services and the corporate related items not allocated to reportable segments.

There was no material difference between the accounting policies of the operating segments and the accounting policies described in Note 3.

Segment Revenues and Operating Results

Analysis by reportable segment of revenues and operating results of continuing operations was as follows:

	Domestic Fixed Communications Business	Mobile Communications Business	Internet Business	International Fixed Communications Business	Others	Total
Year ended December 31, 2016						
Revenues						
From external customers	$ 73,202,723	$ 88,347,691	$ 26,626,052	$ 13,152,718	$ 307,621	$ 201,636,805
Intersegment revenues	22,248,791	2,287,399	4,593,069	2,034,970	9,446	31,173,675
Segment revenues	$ 95,451,514	$ 90,635,090	$ 31,219,121	$ 15,187,688	$ 317,067	232,810,480
Intersegment elimination						(31,173,675)
Revenues						$ 201,636,805
Segment income (loss) before income tax	$ 25,657,655	$ 12,951,596	$ 10,344,226	$ 982,943	$ (2,166,061)	$ 47,770,359
Year ended December 31, 2015						
Revenues						
From external customers	$ 72,937,270	$ 90,022,635	$ 24,494,544	$ 14,210,412	$ 329,125	$ 201,993,986
Intersegment revenues	20,995,967	3,284,685	4,523,457	1,672,343	9,129	30,485,581
Segment revenues	$ 93,933,237	$ 93,307,320	$ 29,018,001	$ 15,882,755	$ 338,254	232,479,567
Intersegment elimination						(30,485,581)
Revenues						$ 201,993,986
Segment income (loss) before income tax	$ 23,230,601	$ 18,721,024	$ 9,607,825	$ 1,092,457	$ (1,857,474)	$ 50,794,433

Other Segment Information

Other information reviewed by the chief operating decision maker or regularly provided to the chief operating decision maker was as follows:

	Domestic Fixed Communications Business	Mobile Communications Business	Internet Business	International Fixed Communications Business	Others	Total
Year ended December 31, 2016						
Share of profits of subsidiaries, associates and joint ventures accounted for using equity method	$ -	$ -	$ -	$ -	$ 1,381,354	$ 1,381,354
Interest revenue	$ 15,196	$ 465	$ 1,982	$ 1,310	$ 136,260	$ 155,213
Interest expenses	$ -	$ -	$ -	$ -	$ -	$ -
Operating costs and expenses	$ 68,020,311	$ 58,192,019	$ 13,011,294	$ 12,621,936	$ 3,537,803	$ 155,383,363
Depreciation and amortization	$ 16,413,696	$ 10,458,720	$ 3,473,282	$ 1,313,145	$ 212,855	$ 31,871,698
Capital expenditure	$ 9,846,100	$ 8,891,929	$ 2,667,397	$ 947,405	$ 194,109	$ 22,546,940
Impairment loss on property, plant and equipment	$ -	$ 595,408	$ -	$ -	$ -	$ 595,408
Reversal of impairment loss on investment properties	$ 147,527	$ -	$ -	$ -	$ -	$ 147,527
Year ended December 31, 2015						
Share of profits of subsidiaries, associates and joint ventures accounted for using equity method	$ -	$ -	$ -	$ -	$ 1,385,675	$ 1,385,675
Interest revenue	$ 18,881	$ 173	$ 2,642	$ 1,524	$ 237,665	$ 260,885
Interest expenses	$ -	$ -	$ -	$ -	$ -	$ -
Operating costs and expenses	$ 67,957,428	$ 57,305,218	$ 11,653,368	$ 12,880,300	$ 3,425,149	$ 153,221,463
Depreciation and amortization	$ 17,486,804	$ 10,238,384	$ 3,462,309	$ 1,410,497	$ 231,827	$ 32,829,821
Capital expenditure	$ 10,196,172	$ 8,565,151	$ 4,739,234	$ 842,367	$ 283,693	$ 24,626,617
Impairment loss on property, plant and equipment	$ 22,193	$ 115,900	$ -	$ -	$ -	$ 138,093
Reversal of impairment loss on investment properties	$ 142,047	$ -	$ -	$ -	$ -	$ 142,047

Main Products and Service Revenues

	Year Ended December 31	
	2016	2015
Mobile services revenue	$ 78,762,345	$ 80,802,200
Local telephone and domestic long distance telephone services revenue	34,561,901	36,722,500
Broadband access and domestic leased line services revenue	23,385,530	23,759,760
Internet services revenue	19,732,892	17,543,162
International network and leased telephone services revenue	10,314,023	11,067,518
Sale of products	10,500,252	9,746,727
Others	24,379,862	22,352,119
	$ 201,636,805	$ 201,993,986

Geographic Information

The users of the Company's services are mainly from Taiwan, ROC. The revenues it derived outside Taiwan are mainly revenues from international long distance telephone and leased line services. The geographic information for revenues was as follows:

	Year Ended December 31	
	2016	2015
Taiwan, ROC	$ 193,665,957	$ 194,059,618
Overseas	7,970,848	7,934,368
	$ 201,636,805	$ 201,993,986

The Company does not have material noncurrent assets in foreign operations.

Major Customers

The Company did not have any single customer whose revenue exceeded 10% of the total revenue.

CHUNGHWA TELECOM CO., LTD.

ENDORSEMENTS/GUARANTEES PROVIDED
YEAR ENDED DECEMBER 31, 2016
(Amounts in Thousands of New Taiwan Dollars)

No. (Note 1)	Endorsement/ Guarantee Provider	Guaranteed Party		Limits on Endorsement/ Guarantee Amount Provided to Each Guaranteed Party	Maximum Balance for the Period	Ending Balance	Actual Borrowing Amount	Amount of Endorsement/ Guarantee Collateralized by Properties	Ratio of Accumulated Endorsement/ Guarantee to Net Equity Per Latest Financial Statements	Maximum Endorsement/ Guarantee Amount Allowable	Endorsement/ Guarantee Given by Parent on Behalf of Subsidiaries	Endorsement/ Guarantee Given by Subsidiaries on Behalf of Parent	Endorsement/ Guarantee Given on Behalf of Companies in Mainland China	Note
		Name	Nature of Relationship (Note 2)											
1	Senao International Co., Ltd.	Youth Co., Ltd.	b	$ 591,394	$ 200,000	$ 200,000	$ -	$ -	3.38	$ 2,956,970	Yes	No	No	Notes 3 and 4
		ISPOT Co., Ltd.	c	591,394	150,000	150,000	150,000	-	2.54	2,956,970	Yes	No	No	Notes 3 and 4
		Aval Technologies Co., Ltd.	b	591,394	300,000	300,000	300,000	-	5.07	2,956,970	Yes	No	No	Notes 3 and 4

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

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

Note 2: Relationships between the endorsement/guarantee provider and the guaranteed party:

a. Trading partner.
b. Majority owned subsidiary.
c. The Company and subsidiary owns over 50% ownership of the investee company.
d. A subsidiary jointly owned by the Company and the Company's directly-owned subsidiary.
e. Guaranteed by the Company according to the construction contract.
f. An investee company. The guarantees were provided based on the Company's proportionate share in the investee company.

Note 3: The limits on endorsement or guarantee amount provided to each guaranteed party is up to 10% of the net assets value of the latest financial statements of Senao International Co., Ltd.

Note 4: The total amount of endorsement or guarantee that the Company is allowed to provide is up to 50% of the net assets value of the latest financial statements of Senao International Co., Ltd.

CHUNGHWA TELECOM CO., LTD.

MARKETABLE SECURITIES HELD
DECEMBER 31, 2016
(Amounts in Thousands of New Taiwan Dollars)

Held Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	December 31, 2016				Note
				Shares (Thousands/ Thousand Units)	Carrying Value (Note 1)	Percentage of Ownership	Fair Value	
Chunghwa Telecom Co., Ltd.	Stocks							
	Taipei Financial Center Corp.	-	Financial assets carried at cost	172,927	$ 1,789,530	12	$ -	-
	Innovation Works Development Fund, L.P.	-	Financial assets carried at cost	-	242,521	4	-	-
	Industrial Bank of Taiwan II Venture Capital Co., Ltd. (IBT II)	-	Financial assets carried at cost	5,252	52,520	17	-	-
	Global Mobile Corp.	-	Financial assets carried at cost	7,617	-	3	-	-
	iD Branding Ventures	-	Financial assets carried at cost	38	375	8	-	-
	Innovation Works Limited	-	Financial assets carried at cost	1,000	26,834	2	-	-
	RPTI Intergroup International Ltd.	-	Financial assets carried at cost	4,765	-	10	-	-
	Taiwan mobile payment Co., Ltd.	-	Financial assets carried at cost	1,200	12,000	2	-	-
	China Airlines Ltd.	-	Available-for-sale financial assets-Noncurrent	263,622	2,451,686	5	2,451,686	Note 2
	Bonds							
	Chinese Petroleum Corporation 2nd unsecured Corporate Bonds-A Issue in 2012	-	Held-to-maturity financial assets	-	199,969	-	200,787	Note 3
	Taiwan Power Co. 1st Unsecured Corporate Bond-A Issue in 2012	-	Held-to-maturity financial assets	-	99,992	-	100,249	Note 3
	Taiwan Power Co. 1st Unsecured Corporate Bond-A Issue in 2012	-	Held-to-maturity financial assets	-	39,997	-	40,099	Note 3
	Taiwan Power Co. 2nd Unsecured Corporate Bond-A Issue in 2012	-	Held-to-maturity financial assets	-	99,989	-	100,368	Note 3
	TSMC 1st Unsecured Corporate Bond-A Issue in 2012	-	Held-to-maturity financial assets	-	199,998	-	200,055	Note 3
	TSMC 1st Unsecured Corporate Bond-A Issue in 2012	-	Held-to-maturity financial assets	-	99,999	-	100,028	Note 3
	TSMC 1st Unsecured Corporate Bond-A Issue in 2012	-	Held-to-maturity financial assets	-	200,002	-	200,055	Note 3
	TSMC 2nd Unsecured Corporate Bond-A Issue in 2012	-	Held-to-maturity financial assets	-	199,973	-	200,974	Note 3
	TSMC 3rd Unsecured Corporate Bond-A Issue in 2012	-	Held-to-maturity financial assets	-	199,968	-	201,155	Note 3
	Fubon Financial Holding Co., Ltd. 1st Unsecured Corporate Bond-A Issue in 2012	-	Held-to-maturity financial assets	-	300,000	-	301,575	Note 3
	China Development Holding Corporation 1st Unsecured Corporate Bond-A Issue in 2012	-	Held-to-maturity financial assets	-	150,001	-	150,224	Note 3
	China Development Holding Corporation 1st Unsecured Corporate Bond-A Issue in 2012	-	Held-to-maturity financial assets	-	100,002	-	100,150	Note 3

(Continued)

Held Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	December 31, 2016				Note
				Shares (Thousands/ Thousand Units)	Carrying Value (Note 1)	Percentage of Ownership	Fair Value	
	China Development Holding Corporation 1st Unsecured Corporate Bond-A Issue in 2012	-	Held-to-maturity financial assets	-	$ 100,002	-	$ 100,150	Note 3
	Eximbank 19-2nd unsecured Financial Debenture	-	Held-to-maturity financial assets	-	150,000	-	150,488	Note 3
Senao International Co., Ltd.	Stocks							
	N.T.U. Innovation Incubation Corporation	-	Financial assets carried at cost	1,200	12,000	9	-	-
CHIEF Telecom Inc.	Stocks							
	3 Link Information Service Co., Ltd.	-	Financial assets carried at cost	374	3,450	10	-	-
Chunghwa Investment Co., Ltd.	Stocks							
	Tatung Technology Inc.	-	Financial assets carried at cost	4,571	73,964	11	-	-
	iD Branding Ventures	-	Financial assets carried at cost	13	125	3	-	-
	VisEra Technologies Company Ltd.	-	Financial assets carried at cost	214	4,593	-	-	-
	PChome Store Inc.	-	Available-for-sale financial assets-Noncurrent	280	22,965	1	22,965	Note 2
	Tons Lightology Inc.	-	Available-for-sale financial assets-Noncurrent	1,344	46,376	3	46,376	Note 2
Chunghwa Hsingta Co., Ltd.	Stocks							
	Cotech Engineering Fuzhou Corp.	-	Financial assets carried at cost	-	24,913	5	-	-

Note 1: Showing at carrying amounts with adjustments for fair value and deducted accumulated impairment loss; otherwise, showing at their original carrying amounts on amortized cost deducted the accumulated impairment loss.

Note 2: Fair value was based on the closing price on December 31, 2016.

Note 3: Fair value was based on the average trading price on December 31, 2016.

(Concluded)

CHUNGHWA TELECOM CO., LTD.

MARKETABLE SECURITIES ACQUIRED AND DISPOSED OF AT COSTS OR PRICES OF AT LEAST NT$300 MILLION OR 20% OF THE PAID-IN CAPITAL
YEAR ENDED DECEMBER 31, 2016
(Amounts in Thousands of New Taiwan Dollars)

Company Name	Marketable Securities Type and Name	Financial Statement Account	Counter-party	Nature of Relationship	Beginning Balance		Acquisition		Disposal				Ending Balance	
					Shares (Thousands/ Thousand Units)	Amount (Note 1)	Shares (Thousands/ Thousand Units)	Amount	Shares (Thousands/ Thousand Units)	Amount	Carrying Value (Note 1)	Gain (Loss) on Disposal	Shares (Thousands/ Thousand Units)	Amount (Note 1)
Chunghwa Telecom Co., Ltd.	Bonds													
	TSMC 1st Unsecured Corporate Bond-A Issue in 2011	Held-to-maturity financial assets	-	-	-	$ 400,000 (Note 2)	-	$ -	-	$ -	$ 400,000 (Note 2)	$ -	-	$ -
	Fubon 1st Unsecured Corporate Bond-A Issue in 2011	Held-to-maturity financial assets	-	-	-	400,000 (Note 2)	-	-	-	-	400,000 (Note 2)	-	-	-

Note 1: Showing at their original investing amounts without adjustments for fair values.

Note 2: Showing at their nominal amounts.

TABLE 4

CHUNGHWA TELECOM CO., LTD.

ACQUISITION OF INDIVIDUAL REAL ESTATE PROPERTIES AT COSTS OF AT LEAST NT$300 MILLION OR 20% OF THE PAID-IN CAPITAL
YEAR ENDED DECEMBER 31, 2016
(Amounts in Thousands of New Taiwan Dollars)

Company Name	Types of Property	Transaction Date	Transaction Amount	Payment Term	Counter-party	Nature of Relationships	Prior Transaction of Related Counter-party				Price Reference	Purpose of Acquisition	Other Terms
							Owner	Relationships	Transfer Date	Amount			
Chunghwa Precision Test Tech Co., Ltd.	Land	September 8, 2016	$ 790,758	The third-installment payment was paid ; the accumulative amount of payment is $316,290	Individual	-	-	-	-	$ -	In accordance with land appraisal report	Manufacturing purpose	None

CHUNGHWA TELECOM CO., LTD.

TOTAL PURCHASES FROM OR SALES TO RELATED PARTIES AMOUNTING TO AT LEAST NT$100 MILLION OR 20% OF THE PAID-IN CAPITAL
YEAR ENDED DECEMBER 31, 2016
(Amounts in Thousands of New Taiwan Dollars)

Company Name	Related Party	Nature of Relationship	Transaction Details				Abnormal Transaction		Notes/Accounts Payable or Receivable	
			Purchase/Sales (Note 1)	Amount (Note 2)	% to Total	Payment Terms	Units Price	Payment Terms	Ending Balance (Note 3)	% to Total
Chunghwa Telecom Co., Ltd.	Senao International Co., Ltd.	Subsidiary	Sales	$ 845,359	1	30 days	$ -	-	$ 107,311	-
			Purchase	10,993,253	12	30-90 days	-	-	(1,678,674)	(9)
	CHIEF Telecom Inc.	Subsidiary	Sales	384,830	-	30 days	-	-	40,656	-
			Purchase	312,258	-	60 days	-	-	(41,377)	-
	Chunghwa System Integration Co., Ltd.	Subsidiary	Purchase	916,245	1	30 days	-	-	(633,287)	(3)
	Chunghwa International Yellow Pages Co., Ltd.	Subsidiary	Purchase	110,714	-	30 days	-	-	(19,705)	-
	Honghwa International Co., Ltd.	Subsidiary	Purchase	4,520,266	4	30-60 days	-	-	(679,795)	(3)
	Donghwa Telecom Co., Ltd.	Subsidiary	Sales	136,434	-	30 days	-	-	43,961	-
			Purchase	449,059	-	90 days	-	-	(69,654)	-
	Chunghwa Telecom Global, Inc.	Subsidiary	Purchase	360,089	-	90 days	-	-	(111,165)	(1)
	Chunghwa Telecom Singapore Pte., Ltd.	Subsidiary	Sales	167,039	-	30 days	-	-	83,206	-
			Purchase	226,263	-	90 days	-	-	(115,374)	(1)
	ST-2 Satellite Ventures Pte. Ltd.	Associate	Purchase	393,701	-	30 days	-	-	(47,326)	-
	Taiwan International Standard Electronics Co., Ltd.	Associate	Purchase	517,677	-	30-90 days	-	-	(445,295)	(2)
	So-net Entertainment Taiwan Limited	Associate	Sales	206,839	-	60 days	-	-	80	-
	International Integrated System, Inc.	Associate	Purchase	188,024	-	30 days	-	-	(90,462)	-
Senao International Co., Ltd.	Chunghwa Telecom Co., Ltd.	Parent company	Sales	11,121,253	33	30-90 days	-	-	1,695,405	67
			Purchase	541,530	2	30 days	-	-	(87,456)	(3)
	HopeTech Technologies Limited	Associate	Purchase	248,254	1	30 days	-	-	(13,903)	(1)
	Aval Technologies Co., Ltd.	Subsidiary	Purchase	174,265	1	30 days	-	-	(42,053)	(2)
CHIEF Telecom Inc.	Chunghwa Telecom Co., Ltd.	Parent company	Sales	312,258	16	60 days	-	-	41,377	21
			Purchase	384,204	29	30 days	-	-	(39,929)	(39)
Chunghwa System Integration Co., Ltd.	Chunghwa Telecom Co., Ltd.	Parent company	Sales	1,671,365	81	30 days	-	-	633,287	75
Chunghwa International Yellow Pages Co., Ltd.	Chunghwa Telecom Co., Ltd.	Parent company	Sales	110,714	31	30 days	-	-	19,705	27
Honghwa International Co., Ltd.	Chunghwa Telecom Co., Ltd.	Parent company	Sales	4,520,266	100	30-60 days	-	-	679,795	100
Donghwa Telecom Co., Ltd.	Chunghwa Telecom Co., Ltd.	Parent company	Sales	449,059	42	90 days	-	-	69,654	64
			Purchase	136,434	14	30 days	-	-	(43,961)	(54)
Chunghwa Telecom Global, Inc.	Chunghwa Telecom Co., Ltd.	Parent company	Sales	360,089	61	90 days	-	-	111,165	90
Chunghwa Telecom Singapore Pte., Ltd.	Chunghwa Telecom Co., Ltd.	Parent company	Sales	226,263	22	90 days	-	-	115,374	45
			Purchase	167,039	17	30 days	-	-	(83,206)	(34)

Note 1: Purchase included acquisition of services costs.

Note 2: The differences were because Chunghwa Telecom Co., Ltd. and subsidiaries classified the amount as inventories, property, plant and equipment, intangible assets, and operating expenses.

Note 3: Notes and accounts receivable did not include the amounts collected for others and other receivables.

Note 4: Transaction terms with the related parties were determined in accordance with mutual agreements when there were no similar transactions with third parties. Other transactions with related parties were not significantly different from those with third parties.

CHUNGHWA TELECOM CO., LTD.

RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST NT$100 MILLION OR 20% OF THE PAID-IN CAPITAL
DECEMBER 31, 2016
(Amounts in Thousands of New Taiwan Dollars)

Company Name	Related Party	Nature of Relationship	Ending Balance	Turnover Rate (Note)	Overdue		Amounts Received in Subsequent Period	Allowance for Bad Debts
					Amounts	Action Taken		
Chunghwa Telecom Co., Ltd.	Senao International Co., Ltd.	Subsidiary	$ 508,121	13.19	$ -	-	$ 508,121	$ -
Senao International Co., Ltd.	Chunghwa Telecom Co., Ltd.	Parent company	2,169,769	7.88	-	-	1,391,550	-
Chunghwa System Integration Co., Ltd.	Chunghwa Telecom Co., Ltd.	Parent company	633,287	2.79	-	-	474,297	-
Honghwa International Co., Ltd.	Chunghwa Telecom Co., Ltd.	Parent company	680,550	6.34	-	-	421,232	-
Chunghwa Telecom Global, Inc.	Chunghwa Telecom Co., Ltd.	Parent company	111,165	3.16	-	-	103,711	-
Chunghwa Telecom Singapore Pte., Ltd.	Chunghwa Telecom Co., Ltd.	Parent company	115,374	1.40	-	-	115,374	-

Note: Payments and receipts collected in trust for others are excluded from the accounts receivable for calculating the turnover rate.

CHUNGHWA TELECOM CO., LTD.

NAMES, LOCATIONS, AND OTHER INFORMATION OF INVESTEES IN WHICH THE COMPANY EXERCISES SIGNIFICANT INFLUENCE (EXCLUDING INVESTMENT IN MAINLAND CHINA)
YEAR ENDED DECEMBER 31, 2016
(Amounts in Thousands of New Taiwan Dollars)

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount		Balance as of December 31, 2016			Net Income (Loss) of the Investee	Recognized Gain (Loss) (Notes 1 and 2)	Note
				December 31, 2016	December 31, 2015	Shares (Thousands)	Percentage of Ownership (%)	Carrying Value			
Chunghwa Telecom Co., Ltd.	Senao International Co., Ltd.	Taiwan	Handset and peripherals retailer; sales of CHT mobile phone plans as an agent	$ 1,065,813	$ 1,065,813	71,773	29	$ 1,712,144	$ 991,758	$ 280,866	Subsidiary
	Light Era Development Co., Ltd.	Taiwan	Planning and development of real estate and intelligent buildings, and property management	3,000,000	3,000,000	300,000	100	3,850,574	6,544	6,605	Subsidiary
	Donghwa Telecom Co., Ltd.	Hong Kong	International private leased circuit, IP VPN service, and IP transit services	1,567,453	1,567,453	402,590	100	1,622,895	43,805	43,805	Subsidiary
	Chunghwa Telecom Singapore Pte., Ltd.	Singapore	International private leased circuit, IP VPN service, and IP transit services	574,112	574,112	26,383	100	730,890	115,229	115,229	Subsidiary
	Chunghwa System Integration Co., Ltd.	Taiwan	Providing system integration services and telecommunication equipment	838,506	838,506	60,000	100	699,899	10,487	24,660	Subsidiary
	CHIEF Telecom Inc.	Taiwan	Network integration, internet data center (“IDC”), communications integration and cloud application services	482,165	482,165	41,357	69	803,698	317,439	221,154	Subsidiary
	Chunghwa Investment Co., Ltd.	Taiwan	Investment	639,559	639,559	68,085	89	1,356,270	273,634	243,157	Subsidiary
	Prime Asia Investments Group Ltd. (B.V.I.)	British Virgin Islands	Investment	385,274	385,274	1	100	223,301	(9,927)	(9,927)	Subsidiary
	Honghwa International Co., Ltd.	Taiwan	Telecommunication engineering, sales agent of mobile phone plan application and other business services	180,000	180,000	18,000	100	409,716	196,352	196,352	Subsidiary
	Chunghwa International Yellow Pages Co., Ltd.	Taiwan	Digital information supply services and advertisement services	150,000	150,000	15,000	100	188,358	20,154	20,156	Subsidiary
	Chunghwa Telecom Vietnam Co., Ltd.	Vietnam	Intelligent energy saving solutions, international circuit, and information and communication technology (“ICT”) services.	148,275	148,275	-	100	133,735	5,254	5,254	Subsidiary
	Chunghwa Telecom Global, Inc.	United States	International private leased circuit, internet services, and transit services	70,429	70,429	6,000	100	182,324	27,854	30,110	Subsidiary
	Spring House Entertainment Tech. Inc.	Taiwan	Digital entertainment contents production, animated character licensing and endorsement, and mobile digital platform construction	62,209	62,209	10,277	56	92,038	(5,205)	(2,837)	Subsidiary
	Chunghwa leading Photonics Tech Co., Ltd.	Taiwan	Production and sale of electronic components and finished products	70,500	-	7,050	75	65,036	25,970	5,395	Subsidiary
	Smartfun Digital Co., Ltd.	Taiwan	Providing diversified family education digital services	65,000	65,000	6,500	65	70,307	9,310	6,052	Subsidiary
	Chunghwa Telecom Japan Co., Ltd.	Japan	International private leased circuit, IP VPN service, and IP transit services	17,291	17,291	1	100	42,638	3,860	3,860	Subsidiary
	Chunghwa Sochamp Technology Inc.	Taiwan	Design, development and production of Automatic License Plate Recognition software and hardware	20,400	20,400	2,040	51	(6,783)	(9,496)	(8,472)	Subsidiary
	New Prospect Investments Holdings Ltd. (B.V.I.)	British Virgin Islands	Investment	-	-	-	100	-	-	-	Subsidiary (Note 3)
	International Integrated System, Inc.	Taiwan	IT solution provider, IT application consultation, system integration and package solution	283,500	283,500	22,498	32	312,528	81,111	27,379	Associate
	Viettel-CHT Co., Ltd.	Vietnam	IDC services	288,327	288,327	-	30	274,814	176,333	52,925	Associate
	Taiwan International Standard Electronics Co., Ltd.	Taiwan	Manufacturing, selling, designing, and maintaining of telecommunications systems and equipment	164,000	164,000	1,760	40	153,104	299,663	179,374	Associate

(Continued)

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount		Balance as of December 31, 2016			Net Income (Loss) of the Investee	Recognized Gain (Loss) (Notes 1 and 2)	Note
				December 31, 2016	December 31, 2015	Shares (Thousands)	Percentage of Ownership (%)	Carrying Value			
	Skysoft Co., Ltd.	Taiwan	Providing of music on-line, software, electronic information, and advertisement services	$ 67,025	$ 67,025	4,438	30	$ 145,727	$ 25,705	$ 8,588	Associate
	So-net Entertainment Taiwan Limited	Taiwan	Online service and sale of computer hardware	120,008	120,008	9,429	30	111,390	19,073	5,722	Associate
	KingwayTek Technology Co., Ltd.	Taiwan	Publishing books, data processing and software services	69,013	69,013	5,022	26	122,221	19,199	2,597	Associate
	Taiwan International Ports Logistics Corporation	Taiwan	Import and export storage, logistic warehouse, and ocean shipping service	80,000	80,000	8,000	27	56,450	(46,874)	(12,478)	Associate
	Dian Zuan Integrating Marketing Co., Ltd.	Taiwan	Information technology service and general advertisement service	97,598	97,598	5,400	18	14,714	(70,070)	(12,613)	Associate
	Alliance Digital Tech Co., Ltd.	Taiwan	Development of mobile payments and information processing service	60,000	30,000	6,000	14	33,868	(71,536)	(9,586)	Associate
	Huada Digital Corporation	Taiwan	Providing software service	-	250,000	-	50	-	(51,590)	(24,220)	Joint venture (Note 5)
	Chunghwa Benefit One Co., Ltd.	Taiwan	E-commerce of employee benefits	50,000	50,000	5,000	50	2,676	(35,506)	(17,753)	Joint venture (Note 9)
Senao International Co., Ltd.	Senao Networks, Inc.	Taiwan	Telecommunication facilities manufactures and sales	202,758	202,758	16,579	34	838,830	560,416	189,319	Associate
	Senao International (Samoa) Holding Ltd.	Samoa Islands	International investment	2,416,645	2,416,645	81,175	100	556,891	(44,118)	(44,653)	Subsidiary
	Dian Zuan Integrating Marketing Co., Ltd.	Taiwan	Information technology service and general advertisement service	24,000	24,000	2,400	8	9,044	(70,070)	(5,551)	Associate
	Youth Co., Ltd.	Taiwan	Sale of information and communication technologies products	335,450	335,450	13,780	89	273,752	(37,549)	(44,318)	Subsidiary
	Aval Technologies Co., Ltd.	Taiwan	Sale of information and communication technologies products	60,000	60,000	6,000	100	60,520	1,316	1,316	Subsidiary
CHIEF Telecom Inc.	Unigate Telecom Inc.	Taiwan	Telecommunication and internet service	2,000	2,000	200	100	1,152	(149)	(149)	Subsidiary
	Chief International Corp.	Samoa Islands	Telecommunication and internet service	6,068	6,068	200	100	41,799	8,606	8,606	Subsidiary
Chunghwa System Integrated Co., Ltd.	Concord Technology Co., Ltd.	Brunei	Investment	47,321	47,321	1,500	100	17,723	(311)	(311)	Subsidiary
Spring House Entertainment Tech. Inc.	Ceylon Innovation Co., Ltd.	Taiwan	E-book publishing and copyright negotiation of digital music	-	10,000	-	-	-	118	118	Subsidiary (Note 6)
Chunghwa Telecom Singapore Pte., Ltd.	ST-2 Satellite Ventures Pte., Ltd.	Singapore	Operation of ST-2 telecommunication satellite	409,061	409,061	18,102	38	466,847	257,655	97,909	Associate
Chunghwa Investment Co., Ltd.	Chunghwa Precision Test Tech. Co., Ltd.	Taiwan	Production and sale of semiconductor testing components and printed circuit board	199,736	203,443	12,558	41	1,108,597	604,779	252,506	Subsidiary
	Chunghwa Investment Holding Co., Ltd.	Brunei	Investment	-	46,035	-	-	-	(27)	(27)	Subsidiary (Note 8)
	CHIEF Telecom Inc.	Taiwan	Network integration, internet data center (“IDC”), communications integration and cloud application services	20,000	20,000	2,180	4	38,953	317,439	11,523	Associate
	Senao International Co., Ltd.	Taiwan	Selling and maintaining mobile phones and its peripheral products	49,731	49,731	1,001	-	44,589	991,758	3,657	Associate
Chunghwa Precision Test Tech. Co., Ltd.	Chunghwa Precision Test Tech. USA Corporation	United States	Design and after-sale services of semiconductor testing components and printed circuit board	12,636	12,636	400	100	19,725	4,334	4,334	Subsidiary
	CHPT Japan Co., Ltd.	Japan	Related services of electronic parts, machinery processed products and printed circuit board	2,008	2,008	1	100	1,930	86	86	Subsidiary
	Chunghwa Precision Test Tech. International, Ltd.	Samoa Islands	Wholesale and retail of electronic materials, and investment	54,450	2,970	1,700	100	55,033	1,303	1,303	Subsidiary
Prime Asia Investments Group, Ltd. (B.V.I.)	Chunghwa Hsingta Co., Ltd.	Hong Kong	Investment	375,274	375,274	1	100	223,301	(9,927)	(9,927)	Subsidiary
	MeWorks Limited (HK)	Hong Kong	Investment	10,000	10,000	-	20	-	-	-	Associate

(Continued)

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount December 31, 2016	Original Investment Amount December 31, 2015	Balance as of December 31, 2016 Shares (Thousands)	Balance as of December 31, 2016 Percentage of Ownership (%)	Balance as of December 31, 2016 Carrying Value	Net Income (Loss) of the Investee	Recognized Gain (Loss) (Notes 1 and 2)	Note
Senao International (Samoa) Holding Ltd.	Senao International HK Limited	Hong Kong	International investment	$ 2,393,646	$ 2,393,646	80,440	100	$ 517,607	$ (47,383)	$ (47,383)	Subsidiary
	HopeTech Technologies Limited	Hong Kong	Information technology and telecommunication products sales	21,177	21,177	5,240	45	25,243	7,255	3,265	Associate
Chunghwa Investment Holding Co., Ltd.	CHI One Investment Co., Limited	Hong Kong	Investment	-	-	-	-	-	-	-	Subsidiary (Note 7)
Youth Co., Ltd.	ISPOT Co., Ltd.	Taiwan	Sale of information and communication technologies products	53,021	23,021	-	100	24,585	(9,337)	(9,806)	Subsidiary
	Youyi Co., Ltd.	Taiwan	Maintenance of information and communication technologies products	6,920	6,920	-	100	2,785	788	584	Subsidiary
Chunghwa International Yellow Pages Co., Ltd.	Click Force Marketing Company	Taiwan	Advertising services	44,607	44,607	1,078	49	37,188	1,105	(1,726)	Associate

Note 1: The amounts were based on audited financial statements.

Note 2: Recognized gain (loss) of investees includes amortization of differences between the investment cost and net value and elimination of unrealized transactions.

Note 3: New Prospect Investments Holdings Ltd. (B.V.I.) was incorporated in March 2006, but have not yet begun operation as of December 31, 2016.

Note 4: Investment in mainland China is included in Table 8.

Note 5: In March 2016, the stockholders of Huada Digital Corporation approved that Huada Digital Corporation would start its dissolution from March 31, 2016. Chunghwa Telecom Co., Ltd. received the proceeds from the liquidation in September 2016. Liquidation of Huada Digital Corporation is still in process.

Note 6: Ceylon Innovation Co., Ltd.'s liquidation was completed in August 2016 and Spring House Entertainment Tech Inc. received the proceeds from the liquidation.

Note 7: CHI One Investment Co., Limited completed its liquidation in July 2016 and Chunghwa Investment Holding Co., Ltd. received the proceeds from the liquidation.

Note 8: Chunghwa Investment Holding Co., Ltd.'s dissolution was approved in August 2016 and the liquidation was completed in September 2016. Chunghwa Investment Co., Ltd. received the proceeds from the liquidation.

Note 9: In December 2016, the stockholders of Chunghwa Benefit One Co., Ltd. approved that Chunghwa Benefit One Co., Ltd. would start its dissolution from December 31, 2016. The liquidation of Chunghwa Benefit One Co., Ltd. is still in process.

(Concluded)

CHUNGHWA TELECOM CO., LTD.

INVESTMENT IN MAINLAND CHINA
YEAR ENDED DECEMBER 31, 2016
(Amounts in Thousands of New Taiwan Dollars)

Investee	Main Businesses and Products	Total Amount of Paid-in Capital	Investment Type (Note 1)	Accumulated Outflow of Investment from Taiwan as of January 1, 2016	Investment Flows		Accumulated Outflow of Investment from Taiwan as of December 31, 2016	Net Income (Loss) of the Investee	% Ownership of Direct or Indirect Investment	Investment Gain (Loss) (Note 2)	Carrying Value as of December 31, 2016	Accumulated Inward Remittance of Earnings as of December 31, 2016	Note
					Outflow	Inflow							
Glory Network System Service (Shanghai) Co., Ltd.	Design, development and production of computer and internet software, installment, maintenance and consulting services of information system integration, and sales of self-production products	$ 47,321	2	$ 47,321	$ -	$ -	$ 47,321	$ (311)	100	$ (311)	$ 17,723	$ -	Note 8
Senao Trading (Fujian) Co., Ltd.	Sale of information and communication technologies products	1,073,170	2	1,073,170	-	-	1,073,170	(1,593)	100	(1,593)	193,254	-	-
Senao International Trading (Shanghai) Co., Ltd.	Sale of information and communication technologies products	955,838	2	955,838	-	-	955,838	(50,021)	100	(50,021)	160,075	-	-
Senao International Trading (Shanghai) Co., Ltd. (Note 12)	Maintenance of information and communication technologies products	87,540	2	87,540	-	-	87,540	2,462	100	2,462	73,367	-	-
Senao International Trading (Jiangsu) Co., Ltd.	Sale of information and communication technologies products	263,736	2	263,736	-	-	263,736	1,823	100	1,823	87,645	-	-
Chunghwa Telecom (China) Co., Ltd.	Integrated information and communication solution services for enterprise clients, and intelligent energy network service	177,176	2	177,176	-	-	177,176	(410)	100	(410)	62,510	-	-
Jiangsu Zhenghua Information Technology Company, LLC	Providing intelligent energy saving solution and intelligent buildings services	189,410	2	142,057	-	-	142,057	(13,947)	75	(10,461)	115,184	-	Note 9
Hua-Xiong Information Technology Co., Ltd.	Providing intelligent buildings and smart home services	-	2	28,855	-	20,779	-	(801)	51	(409)	-	-	Note 10
Shanghai Taihua Electronic Technology Limited	Design of printed circuit board and related consultation service	51,233	2	2,970	48,263	-	51,233	1,276	100	1,276	51,783	-	-

(Continued)

Investee	Main Businesses and Products	Total Amount of Paid-in Capital	Investment Type (Note 1)	Accumulated Outflow of Investment from Taiwan as of January 1, 2016	Investment Flows		Accumulated Outflow of Investment from Taiwan as of December 31, 2016	Net Income (Loss) of the Investee	% Ownership of Direct or Indirect Investment	Investment Gain (Loss) (Note 2)	Carrying Value as of December 31, 2016	Accumulated Inward Remittance of Earnings as of December 31, 2016	Note
					Outflow	Inflow							
Shanghai Chief Telecom Co., Ltd.	Telecommunication and internet service	$ 10,150	1	$ 4,973	$ -	$ -	$ 4,973	$ 1,829	49	$ 896	$ 4,449	$ -	-

Investee	Accumulated Investment in Mainland China as of December 31, 2016	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on Investment Stipulated by Investment Commission, MOEA
Glory Network System Service (Shanghai) Co., Ltd. (Note 3)	$ 47,321	$ 47,321	$ 366,394
SENAO and its subsidiaries (Note 6)	2,380,284	2,380,284	3,563,755
Chunghwa Telecom (China) Co., Ltd. (Note 7)	177,176	177,176	-
Jiangsu Zhenghua Information Technology Company, LLC (Note 7)	142,057	142,057	-
Shanghai Taihua Electronic Technology Limited (Note 4)	51,233	97,965	1,931,523
Shanghai Chief Telecom Co., Ltd. (Note 5)	4,973	4,973	646,642

Note 1: Investments are divided into three categories as follows:

a. Direct investment.
b. Investments through a holding company registered in a third region.
c. Others.

Note 2: The amounts were calculated based on the investee's audited financial statements.

Note 3: The amount was calculated based on the net assets value of Chunghwa System Integration Co., Ltd.

Note 4: Shanghai Taihua Electronic Technology Limited was calculated based on the consolidated net assets value of Chunghwa Investment Co., Ltd.

Note 5: Shanghai Chief Telecom Co., Ltd. was calculated based on the consolidated net assets value of CHIEF Telecom Inc.

Note 6: Senao International Co., Ltd. and its subsidiaries were calculated based on the consolidated net assets value of Senao International Co., Ltd.

Note 7: Based on "Principle of investment or Technical Cooperation in Mainland China", Chunghwa is not subjective to the limited amount due to the operating headquarters documents issued by Industrial Development Bureau.

Note 8: Glory Network System Service (Shanghai) Co., Ltd. was approved to end its business and dissolve. The liquidation of Glory Network System Service (Shanghai) Co., Ltd. is still in progress.

Note 9: Jiangsu Zhenhua Information Technology Company, LLC. was approved to end its business and dissolve in May 2016. The liquidation of Jiangsu Zhenhua Information Technology Company, LLC. is still in process.

Note 10: Hua-Xiong Information Technology Co., Ltd.'s dissolution was approved by local regulator in March 2016. Hua-Xiong Information Technology Co., Ltd. completed its liquidation and annulled its company registration in May 2016. Chunghwa Hsingta Co., Ltd. received the proceeds from the liquidation.

Note 11: The English name is the same as the above entity; however the Chinese name included in the respective Articles of Incorporations is different from the above entity.

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