

Chunghwa Telecom Co., Ltd.

**Financial Statements for the
Years Ended December 31, 2020 and 2019 and
Independent Auditors' Report**

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, 2020 and 2019, and the statements of comprehensive income, changes in equity and cash flows for the years then ended, and the related 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, 2020 and 2019, 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, 2020. 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 key audit matter of the financial statements for the year ended December 31, 2020 is as follows:

Revenue Recognition on Mobile Service

Refer to Notes 3 and 27 to the financial statements.

The Company's mobile service revenue consists of subscriber-based charges made up of a significant volume of low-dollar transactions. Because of the complexity and a variety of subscriber-based charges as well as a large number of transactions, the Company uses highly automated systems to process and record its revenue transactions.

Given the Company's systems to process and record revenue are highly automated, auditing revenue was complex and challenging due to the extent of audit effort required and involvement of professionals with expertise in information technology (IT) necessary for us to identify, test, and evaluate the Company's IT systems.

Our audit procedures related to the Company's systems to process revenue transactions included the following, among others:

- With the assistance of our IT specialists, we:
 - Identified the significant systems used to process revenue transactions and tested the general IT controls over each of these systems, including testing of user access controls and change management controls.
 - Performed testing of system interface controls and automated controls within the relevant revenue streams, as well as the controls designed to ensure the accuracy and completeness of revenue.
- We tested internal controls within the relevant revenue business processes, including those in place to reconcile the various systems to the Company's accounting system.
- We selected samples from mobile service revenue and agreed to customer contracts and records of cash receipts.

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 the 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, 2020, 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 Dien Sheng Chang and Cheng Hung Kuo.

Dien-Sheng Chang Cheng-Hung Kuo

Deloitte & Touche
Taipei, Taiwan
Republic of China

February 23, 2021

Notice to Readers

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, 2020 AND 2019

(In Thousands of New Taiwan Dollars)

| ASSETS | 2020 | | 2019 | |
|--|-----------------------|------------|-----------------------|------------|
| | Amount | % | Amount | % |
| CURRENT ASSETS | | | | |
| Cash and cash equivalents (Notes 3 and 6) | \$ 20,090,053 | 4 | \$ 25,081,712 | 5 |
| Financial assets at fair value through profit or loss (Notes 3, 4 and 7) | 2,271 | - | - | - |
| Hedging financial assets (Notes 3 and 19) | 1,752 | - | 327 | - |
| Contract assets (Notes 3 and 27) | 1,734,081 | 1 | 1,470,985 | - |
| Trade notes and accounts receivable, net (Notes 3, 4, 9 and 27) | 19,554,643 | 4 | 23,478,061 | 5 |
| Receivables from related parties (Note 34) | 1,340,550 | - | 785,570 | - |
| Inventories (Notes 3, 4 and 10) | 7,046,686 | 1 | 12,491,728 | 3 |
| Prepayments (Note 11) | 1,691,978 | - | 1,436,346 | - |
| Other current monetary assets (Notes 12, 25 and 31) | 1,281,393 | - | 2,866,059 | 1 |
| Other current assets (Note 18) | 2,183,471 | 1 | 2,354,215 | 1 |
| Total current assets | 54,926,878 | 11 | 69,965,003 | 15 |
| NONCURRENT ASSETS | | | | |
| Financial assets at fair value through profit or loss (Notes 3, 4 and 7) | 677,202 | - | 778,105 | - |
| Financial assets at fair value through other comprehensive income (Notes 3, 4 and 8) | 6,903,679 | 1 | 6,923,315 | 2 |
| Investments accounted for using equity method (Notes 3 and 13) | 20,338,212 | 4 | 20,320,122 | 4 |
| Contract assets (Notes 3 and 27) | 1,007,608 | - | 804,698 | - |
| Property, plant and equipment (Notes 3, 4, 14, 31 and 34) | 272,623,164 | 56 | 274,744,872 | 60 |
| Right-of-use assets (Notes 3, 4, and 15) | 10,028,227 | 2 | 10,292,025 | 2 |
| Investment properties (Notes 3, 4, 16, 31 and 34) | 9,546,547 | 2 | 8,094,618 | 2 |
| Intangible assets (Notes 3, 4, 17 and 31) | 89,723,406 | 19 | 46,519,457 | 10 |
| Deferred income tax assets (Notes 3 and 29) | 2,623,633 | 1 | 2,719,035 | 1 |
| Incremental costs of obtaining contracts (Notes 3 and 27) | 7,015,079 | 1 | 6,976,421 | 2 |
| Net defined benefit assets (Notes 3, 4 and 25) | 3,351,546 | 1 | 2,108,176 | 1 |
| Prepayments (Note 11) | 1,152,722 | 1 | 1,381,618 | - |
| Other noncurrent assets (Notes 18 and 35) | 4,421,119 | 1 | 5,687,816 | 1 |
| Total noncurrent assets | 429,412,144 | 89 | 387,350,278 | 85 |
| TOTAL | \$ 484,339,022 | 100 | \$ 457,315,281 | 100 |
| LIABILITIES AND EQUITY | | | | |
| CURRENT LIABILITIES | | | | |
| Short-term bills payable (Note 20) | \$ 6,999,198 | 1 | \$ - | - |
| Financial liabilities at fair value through profit or loss (Notes 3, 4 and 7) | - | - | 228 | - |
| Contract liabilities (Notes 3, 27 and 34) | 12,661,964 | 3 | 16,684,939 | 3 |
| Trade notes and accounts payable (Note 22) | 12,226,935 | 3 | 12,052,523 | 3 |
| Payables to related parties (Note 34) | 3,380,488 | 1 | 3,663,713 | 1 |
| Current tax liabilities (Notes 3 and 29) | 3,914,134 | 1 | 3,739,435 | 1 |
| Lease liabilities (Notes 3, 4, 15, 31 and 34) | 2,938,305 | 1 | 2,939,410 | 1 |
| Other payables (Notes 23 and 31) | 20,046,085 | 4 | 19,270,583 | 4 |
| Provisions (Notes 3 and 24) | 214,266 | - | 107,902 | - |
| Other current liabilities | 976,630 | - | 923,457 | - |
| Total current liabilities | 63,358,005 | 14 | 59,382,190 | 13 |
| NONCURRENT LIABILITIES | | | | |
| Bonds payable (Notes 21) | 19,980,272 | 4 | - | - |
| Contract liabilities (Notes 3 and 27) | 5,341,114 | 1 | 4,414,979 | 1 |
| Deferred income tax liabilities (Notes 3 and 29) | 1,935,233 | - | 1,880,925 | - |
| Provisions (Notes 3 and 24) | 100,616 | - | 97,382 | - |
| Lease liabilities (Notes 3, 4, 15, 31 and 34) | 5,682,342 | 1 | 5,755,804 | 2 |
| Customers' deposits (Note 34) | 4,722,280 | 1 | 4,653,517 | 1 |
| Net defined benefit liabilities (Notes 3, 4 and 25) | 3,316,932 | 1 | 3,412,740 | 1 |
| Other noncurrent liabilities | 1,971,212 | - | 1,607,501 | - |
| Total noncurrent liabilities | 43,050,001 | 8 | 21,822,848 | 5 |
| Total liabilities | 106,408,006 | 22 | 81,205,038 | 18 |
| EQUITY (Note 26) | | | | |
| Common stocks | 77,574,465 | 16 | 77,574,465 | 17 |
| Additional paid-in capital | 171,261,379 | 35 | 171,255,985 | 37 |
| Retained earnings | | | | |
| Legal reserve | 77,574,465 | 16 | 77,574,465 | 17 |
| Special reserve | 2,675,419 | 1 | 2,675,419 | 1 |
| Unappropriated earnings | 47,918,166 | 10 | 46,341,361 | 10 |
| Total retained earnings | 128,168,050 | 27 | 126,591,245 | 28 |
| Others | 927,122 | - | 688,548 | - |
| Total equity | 377,931,016 | 78 | 376,110,243 | 82 |
| TOTAL | \$ 484,339,022 | 100 | \$ 457,315,281 | 100 |

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

CHUNGHWA TELECOM CO., LTD.

STATEMENTS OF COMPREHENSIVE INCOME

YEARS ENDED DECEMBER 31, 2020 AND 2019

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

| | 2020 | | 2019 | |
|---|--------------------|-----------|--------------------|-----------|
| | Amount | % | Amount | % |
| REVENUES (Notes 3, 27, 34 and 39) | \$ 178,622,827 | 100 | \$ 179,321,838 | 100 |
| OPERATING COSTS (Notes 3, 10, 25, 27, 28, 34 and 39) | <u>117,206,244</u> | <u>66</u> | <u>116,056,276</u> | <u>65</u> |
| GROSS PROFIT | <u>61,416,583</u> | <u>34</u> | <u>63,265,562</u> | <u>35</u> |
| OPERATING EXPENSES (Notes 3, 9, 25, 28, 34 and 39) | | | | |
| Marketing | 16,596,096 | 9 | 18,130,247 | 10 |
| General and administrative | 3,720,192 | 2 | 3,558,580 | 2 |
| Research and development | 3,129,236 | 2 | 3,341,306 | 2 |
| Expected credit loss (reversal of credit loss) | <u>45,689</u> | <u>-</u> | <u>(127,019)</u> | <u>-</u> |
| Total operating expenses | <u>23,491,213</u> | <u>13</u> | <u>24,903,114</u> | <u>14</u> |
| OTHER INCOME AND EXPENSES (Notes 14, 16, 18, 28 and 39) | <u>1,614,287</u> | <u>1</u> | <u>(16,583)</u> | <u>-</u> |
| INCOME FROM OPERATIONS | <u>39,539,657</u> | <u>22</u> | <u>38,345,865</u> | <u>21</u> |
| NON-OPERATING INCOME AND EXPENSES | | | | |
| Interest income (Note 39) | 52,889 | - | 157,099 | - |
| Other income (Notes 8, 28 and 34) | 346,745 | - | 386,747 | - |
| Other gains and losses (Notes 13, 28, 33 and 34) | (100,341) | - | (5,572) | - |
| Interest expenses (Notes 15, 28, 34 and 39) | (171,658) | - | (61,873) | - |
| Share of profits of subsidiaries, associates and joint ventures accounted for using equity method (Notes 13 and 39) | <u>1,216,137</u> | <u>1</u> | <u>1,440,326</u> | <u>1</u> |
| Total non-operating income and expenses | <u>1,343,772</u> | <u>1</u> | <u>1,916,727</u> | <u>1</u> |
| INCOME BEFORE INCOME TAX | 40,883,429 | 23 | 40,262,592 | 22 |
| INCOME TAX EXPENSE (Notes 3 and 29) | <u>7,477,299</u> | <u>4</u> | <u>7,474,046</u> | <u>4</u> |
| NET INCOME | <u>33,406,130</u> | <u>19</u> | <u>32,788,546</u> | <u>18</u> |

(Continued)

CHUNGHWA TELECOM CO., LTD.

STATEMENTS OF COMPREHENSIVE INCOME

YEARS ENDED DECEMBER 31, 2020 AND 2019

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

| | 2020 | | 2019 | |
|--|----------------------|-----------|----------------------|-----------|
| | Amount | % | Amount | % |
| TOTAL OTHER COMPREHENSIVE INCOME (LOSS) | | | | |
| Items that will not be reclassified to profit or loss: | | | | |
| Remeasurements of defined benefit pension plans (Note 25) | \$ 1,170,312 | 1 | \$ 1,506,290 | 1 |
| Unrealized gain or loss on investments in equity instruments at fair value through other comprehensive income (Notes 3, 26 and 33) | 546,879 | - | 399,429 | - |
| Gain or loss on hedging instruments subject to basis adjustment (Notes 3 and 19) | 1,425 | - | (742) | - |
| Share of unrealized gain or loss on investments in equity instruments at fair value through other comprehensive income of subsidiaries, associates and joint ventures (Notes 3, 13 and 26) | (126,890) | - | (101,103) | - |
| Share of remeasurements of defined benefit pension plans of subsidiaries, associates and joint ventures (Note 13) | 708 | - | 2,864 | - |
| Income tax relating to items that will not be reclassified to profit or loss (Note 29) | <u>(234,062)</u> | <u>-</u> | <u>(301,258)</u> | <u>-</u> |
| | <u>1,358,372</u> | <u>1</u> | <u>1,505,480</u> | <u>1</u> |
| Items that may be reclassified subsequently to profit or loss: | | | | |
| Exchange differences arising from the translation of the foreign operations | (156,990) | - | (71,056) | - |
| Share of exchange differences arising from the translation of the foreign operations of subsidiaries, associates and joint ventures (Note 13) | <u>(9,164)</u> | <u>-</u> | <u>2,106</u> | <u>-</u> |
| | <u>(166,154)</u> | <u>-</u> | <u>(68,950)</u> | <u>-</u> |
| Total other comprehensive income, net of income tax | <u>1,192,218</u> | <u>1</u> | <u>1,436,530</u> | <u>1</u> |
| TOTAL COMPREHENSIVE INCOME | <u>\$ 34,598,348</u> | <u>20</u> | <u>\$ 34,225,076</u> | <u>19</u> |
| EARNINGS PER SHARE (Note 30) | | | | |
| Basic | <u>\$ 4.31</u> | | <u>\$ 4.23</u> | |
| Diluted | <u>\$ 4.30</u> | | <u>\$ 4.22</u> | |

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, 2020 AND 2019 (In Thousands of New Taiwan Dollars)

| | Common Stocks (Note 26) | Additional Paid-in Capital (Note 26) | Retained Earnings (Note 26) | | | Others (Notes 19 and 26) | | | |
|---|----------------------------|--|-----------------------------|---------------------|----------------------------|--|--|---|-----------------------|
| | | | Legal Reserve | Special Reserve | Unappropriated Earnings | Exchange Differences Arising from the Translation of the Foreign Operations | Unrealized Gain or Loss on Financial Assets at Fair Value through Other Comprehensive Income | Gain or Loss on Hedging Instruments | Total Equity |
| | | | | | | | | | |
| BALANCE, JANUARY 1, 2019 | \$ 77,574,465 | \$ 171,136,764 | \$ 77,574,465 | \$ 2,675,419 | \$ 47,090,522 | \$ (79,427) | \$ 538,272 | \$ 1,069 | \$ 376,511,549 |
| Appropriation of 2018 earnings | | | | | | | | | |
| Cash dividends | - | - | - | - | (34,745,603) | - | - | - | (34,745,603) |
| Unclaimed dividend | - | 1,266 | - | - | - | - | - | - | 1,266 |
| Change in additional paid-in capital from investments in subsidiaries, associates and joint ventures accounted for using equity method | - | 117,955 | - | - | - | - | - | - | 117,955 |
| Net income for the year ended December 31, 2019 | - | - | - | - | 32,788,546 | - | - | - | 32,788,546 |
| Other comprehensive income (loss) for the year ended December 31, 2019 | - | - | - | - | 1,207,896 | (68,950) | 298,326 | (742) | 1,436,530 |
| Total comprehensive income (loss) for the year ended December 31, 2019 | - | - | - | - | 33,996,442 | (68,950) | 298,326 | (742) | 34,225,076 |
| BALANCE, DECEMBER 31, 2019 | 77,574,465 | 171,255,985 | 77,574,465 | 2,675,419 | 46,341,361 | (148,377) | 836,598 | 327 | 376,110,243 |
| Appropriation of 2019 earnings | | | | | | | | | |
| Cash dividends | - | - | - | - | (32,782,969) | - | - | - | (32,782,969) |
| Unclaimed dividend | - | 1,605 | - | - | - | - | - | - | 1,605 |
| Change in additional paid-in capital from investments in subsidiaries, associates and joint ventures accounted for using equity method | - | 3,789 | - | - | - | - | - | - | 3,789 |
| Net income for the year ended December 31, 2020 | - | - | - | - | 33,406,130 | - | - | - | 33,406,130 |
| Other comprehensive income (loss) for the year ended December 31, 2020 | - | - | - | - | 936,958 | (166,154) | 419,989 | 1,425 | 1,192,218 |
| Total comprehensive income (loss) for the year ended December 31, 2020 | - | - | - | - | 34,343,088 | (166,154) | 419,989 | 1,425 | 34,598,348 |
| Disposal of investments in equity instruments at fair value through other comprehensive income | - | - | - | - | 16,686 | - | (16,686) | - | - |
| BALANCE, DECEMBER 31, 2020 | <u>\$ 77,574,465</u> | <u>\$ 171,261,379</u> | <u>\$ 77,574,465</u> | <u>\$ 2,675,419</u> | <u>\$ 47,918,166</u> | <u>\$ (314,531)</u> | <u>\$ 1,239,901</u> | <u>\$ 1,752</u> | <u>\$ 377,931,016</u> |

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

CHUNGHWA TELECOM CO., LTD.

STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2020 AND 2019 (In Thousands of New Taiwan Dollars)

| | 2020 | 2019 |
|---|---------------|---------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Income before income tax | \$ 40,883,429 | \$ 40,262,592 |
| Adjustments for: | | |
| Depreciation | 29,852,639 | 29,852,819 |
| Amortization | 5,335,650 | 4,168,630 |
| Amortization of incremental costs of obtaining contracts | 5,395,125 | 6,269,916 |
| Expected credit loss (reversal of credit loss) | 45,689 | (127,019) |
| Interest expenses | 171,658 | 61,873 |
| Interest income | (52,889) | (157,099) |
| Dividend income | (240,821) | (292,450) |
| Share of profits of subsidiaries, associates and joint ventures accounted for using equity method | (1,216,137) | (1,440,326) |
| Loss (gain) on disposal of property, plant and equipment | (1,435,864) | 29,229 |
| Gain on disposal of investment properties | (151,357) | - |
| Gain on disposal of investments accounted for using equity method | (13,398) | (30,152) |
| Provision for impairment loss and obsolescence of inventory | 1,124,350 | 475,024 |
| Reversal of impairment loss on investment properties | (27,066) | (56,617) |
| Impairment loss on other assets | - | 43,971 |
| Valuation loss on financial assets and liabilities at fair value through profit or loss, net | 98,404 | 38,588 |
| Others | 8,473 | (23,322) |
| Changes in operating assets and liabilities: | | |
| Decrease (increase) in: | | |
| Contract assets | (467,335) | 46,157 |
| Trade notes and accounts receivable | 4,042,945 | 4,747,965 |
| Receivables from related parties | (554,980) | 32,304 |
| Inventories | 4,320,692 | (2,494,993) |
| Prepayments | (10,178) | (60,009) |
| Other current monetary assets | 145,786 | 26,462 |
| Other current assets | 170,744 | 155,357 |
| Incremental cost of obtaining contracts | (5,433,783) | (5,625,633) |
| Increase (decrease) in: | | |
| Contract liabilities | (3,096,840) | 6,785,691 |
| Trade notes and accounts payable | 173,789 | (4,720,176) |
| Payables to related parties | (283,225) | (779,499) |
| Other payables | (1,118,468) | 297,078 |
| Provisions | 109,598 | 75,813 |
| Other current liabilities | 69,232 | (49,362) |
| Net defined benefit plans | (168,867) | 540,389 |
| Cash generated from operations | 77,676,995 | 78,053,201 |
| Interest paid | (126,846) | (61,873) |
| Income tax paid | (7,386,952) | (7,846,879) |
| Net cash provided by operating activities | 70,163,197 | 70,144,449 |

(Continued)

CHUNGHWA TELECOM CO., LTD.

STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2020 AND 2019 (In Thousands of New Taiwan Dollars)

| | 2020 | 2019 |
|---|---------------------|---------------------|
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Proceeds from disposal of financial assets at fair value through other comprehensive income | \$ 297,476 | \$ - |
| Proceeds from return of financial assets at fair value through other comprehensive income | - | 9,167 |
| Acquisition of financial assets at fair value through profit or loss | - | (300,000) |
| Acquisition of time deposits and negotiable certificates of deposit with maturities of more than three months | (11,803) | (9,700,000) |
| Proceeds from disposal of negotiable certificates of deposit with maturities of more than three months | 1,600,000 | 12,500,000 |
| Acquisition of investments accounted for using equity method | (244,123) | (4,221,032) |
| Proceeds from disposal of investments accounted for using equity method | - | 32,470 |
| Proceeds from capital reduction of investments accounted for using equity method | - | 12,932 |
| Acquisition of property, plant and equipment | (22,740,612) | (22,427,073) |
| Proceeds from disposal of property, plant and equipment | 316,940 | 50,991 |
| Acquisition of intangible assets | (47,539,599) | (283,792) |
| Acquisition of investment properties | (54,435) | (523) |
| Proceeds from disposal of investment properties | 188,300 | - |
| Decrease (increase) in other noncurrent assets | 96,334 | (1,240,253) |
| Interest received | 59,538 | 162,411 |
| Cash dividends received from others | 240,821 | 292,450 |
| Cash dividends received from subsidiaries, associates and joint ventures accounted for using equity method | <u>1,309,769</u> | <u>939,221</u> |
| Net cash used in investing activities | <u>(66,481,394)</u> | <u>(24,173,031)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Proceeds from short-term bills payable | 41,000,000 | - |
| Repayment of short-term bills payable | (34,000,000) | - |
| Proceeds from issuance of bonds | 20,000,000 | - |
| Payments for transaction costs attributable to the issuance of bonds | (21,038) | - |
| Increase (decrease) in customers' deposits | 52,704 | (8,028) |
| Payments for the principal of lease liabilities | (3,287,475) | (3,306,322) |
| Increase in other noncurrent liabilities | 363,711 | 246,130 |
| Cash dividends paid | (32,782,969) | (34,745,603) |
| Unclaimed dividend | <u>1,605</u> | <u>1,266</u> |
| Net cash used in financing activities | <u>(8,673,462)</u> | <u>(37,812,557)</u> |
| | | (Continued) |

CHUNGHWA TELECOM CO., LTD.

STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2020 AND 2019 (In Thousands of New Taiwan Dollars)

| | 2020 | 2019 |
|---|----------------------|----------------------|
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | \$ (4,991,659) | \$ 8,158,861 |
| CASH AND CASH EQUIVALENTS, BEGINNING OF THE YEAR | <u>25,081,712</u> | <u>16,922,851</u> |
| CASH AND CASH EQUIVALENTS, END OF THE YEAR | <u>\$ 20,090,053</u> | <u>\$ 25,081,712</u> |

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

(Concluded)

CHUNGHWA TELECOM CO., LTD.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2020 AND 2019

(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

1. GENERAL

Chunghwa Telecom Co., Ltd. (“the Company”) was incorporated on July 1, 1996 in the Republic of China (“ROC”). 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.

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 Depositary 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 February 23, 2021.

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.

Basis of Preparation

The financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values and net defined benefit liabilities (assets) which are measured at the present value of the defined benefit obligation less the fair value of plan assets.

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, negotiable certificates of deposit and triple stimulus vouchers 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 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.

Under the equity method, an investment in an associate and 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 an associate and a 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 and 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.

The entire carrying amount of an investment (including goodwill) is tested for impairment as a single asset by comparing its recoverable amount with its carrying amount. Any impairment loss recognized is not allocated to any asset, including goodwill, that 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.

The Company discontinues the use of the equity method from the date on which its investment ceases to be an associate and a joint venture. Any retained investment is measured at fair value at that date, and the fair value is regarded as the investment's fair value on initial recognition as a financial asset. The difference between the previous carrying amount of the associate and joint venture attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the associate and joint venture. The Company accounts for all amounts previously recognized in other comprehensive income in relation to that associate and joint venture on the same basis as would be required had that associate and joint venture directly disposed of the related assets or liabilities.

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.

Property, plant and equipment in the course of construction are depreciated and classified to the appropriate categories of property, plant and equipment when completed and ready for their intended use.

Depreciation on property, plant and equipment is recognized using the straight-line method. Each significant part is depreciated separately. Freehold land is not depreciated. 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.

For a transfer from the investment properties to property, plant and equipment, the deemed cost of the property, plant and equipment for subsequent accounting is its carrying amount at the commencement of owner-occupation.

For a transfer from the property, plant and equipment to investment properties, the deemed cost of the investment properties for subsequent accounting is its carrying amount at the end of owner-occupation.

For a contract where a land owner provides land for the construction of buildings by a property developer in exchange for a certain percentage of the buildings, any exchange gain or loss is recognized when the exchange transaction occurs if the exchange transaction has commercial substance.

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 the asset is derecognized.

Impairment of Property, Plant and Equipment, Right-of-use Assets, Intangible Assets and Incremental Costs of Obtaining Contracts

At the end of each reporting period, the Company reviews the carrying amounts of its property, plant and equipment, right-of-use assets 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.

Intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

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.

Impairment loss from the assets related to incremental cost of obtaining contracts is recognized to the extent that the carrying amount of the assets exceeds the remaining amount of consideration that the Company expects to receive in exchange for related goods or services less the costs which relate directly to providing those goods or services.

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 of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to 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 or loss (FVTPL)

Financial asset is classified as at FVTPL when the financial asset is mandatorily classified as at FVTPL. Financial assets mandatorily classified as at FVTPL include investments in equity instruments which are not designated as at fair value through other comprehensive income (FVOCI).

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 earned on the financial asset. Fair value is determined in the manner described in Note 33.

b) Financial assets at amortized cost

Financial assets that meet the following conditions are subsequently measured at amortized cost:

- i. The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- ii. The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Subsequent to initial recognition, financial assets at amortized cost are measured at amortized cost, which equals to gross carrying amount determined by the effective interest method less any impairment loss, except for short-term receivables as the effect of discounting is immaterial. Exchange differences are recognized in profit or loss.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of such financial assets.

c) Investments in equity instruments at FVOCI

On initial recognition, the Company may make an irrevocable election to designate investments in equity instruments as at FVOCI. Designation at FVOCI is not permitted if the equity investment is held for trading or if it is contingent consideration recognized by an acquirer in a business combination.

Investments in equity instruments at FVOCI are subsequently measured at fair value with gains and losses arising from changes in fair value recognized in other comprehensive income and accumulated in other equity. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments. Instead, it will be transferred to retained earnings.

Dividends on these investments in equity instruments are recognized in profit or loss when the Company's right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investment.

2) Impairment of financial assets and contract assets

The Company recognizes a loss allowance for expected credit losses on financial assets at amortized cost (including accounts receivable) and contract assets.

The Company recognizes lifetime Expected Credit Loss (ECL) for accounts receivable and contract assets. For all other financial instruments, the Company recognizes lifetime ECL when there has been a significant increase in credit risk since initial recognition. If, on the other hand, the credit risk on the financial instrument has not increased significantly since initial recognition, the Company measures the loss allowance for that financial instrument at an amount equal to 12-month ECL.

Expected credit losses reflect the weighted average of credit losses with the respective risks of a default occurring as the weights. Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

The Company recognizes an impairment loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss 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 measured at amortized cost in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss.

On derecognition of investments in equity instruments at FVOCI in its entirety, the cumulative gain or loss is directly transferred to retained earnings, and it is not reclassified to 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 and payable, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss.

c. Derivative financial instruments

The Company enters into 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. Hedges of foreign exchange risk on firm commitments are accounted for 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.

The Company discontinues hedge accounting only when the hedging relationship ceases to meet the qualifying criteria; for instance, when the hedging instrument expires or is sold, terminated or exercised. 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 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 are recognized as operating cost in the period in which the goods

are sold. The provision for onerous contracts represents the present obligation resulting from the measurement for the unavoidable costs of meeting the Company's contractual obligations exceed the economic benefits expected to be received from the contracts.

Revenue Recognition

The Company identifies the performance obligations in the contract with the customers, allocates transaction price to each performance obligation and recognizes revenue when performance obligations are satisfied.

Sales of products are recognized as revenue when the Company delivers products and the customer accepts and controls the product. Except for the consumer electronic products such as mobile devices sold in channel stores which are usually in cash sale, the Company recognizes revenues for sale of other electronic devices and corresponding trade notes and accounts receivable.

Usage revenues from fixed-line services (including local, domestic long distance and international long distance telephone services), mobile 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. The usage revenues and corresponding trade notes and accounts receivable are recognized monthly.

Other revenues are recognized as follows: (a) one-time subscriber connection fees (on fixed-line services) are first recognized as contract liabilities and revenues are recognized subsequently over the average expected customer service periods, (b) monthly fees (on fixed-line services, mobile, internet and data services) and related receivables are accrued monthly, and (c) prepaid services (fixed-line, mobile, internet and data services) are recognized as contract liabilities upon collection considerations from customers and are recognized as revenues subsequently 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 based on their relative stand-alone selling price. The amount of sales revenue recognized for products is not limited to the amount paid by the customer for the products. When the amount of sales revenue recognized for products exceeded the amount paid by the customer for the products, the difference is recognized as contract assets. Contract assets are reclassified to accounts receivable when the amounts become collectible from customers subsequently. When the amount of sales revenue recognized for products was less than the amount paid by the customer for the products, the difference is recognized as contract liabilities and revenues are recognized subsequently when the telecommunications service are provided.

For project business contracts, if a substantial part of the Company's promise to customers is to manage and coordinate the various tasks and assume the risks of those tasks to ensure the individual goods or services are incorporated into the combined output, they are treated as a single performance obligation since the Company provides a significant integration service. The Company recognizes revenues and corresponding accounts receivable when the project business contract is completed and accepted by customers.

For service contracts such as maintenance and warranties, customers simultaneously receive and consume the benefits provided by the Company; thus revenues and corresponding accounts receivable of service contracts are recognized over the related service period.

When another party is involved in providing goods or services to a customer, the Company is acting as a principal if it controls the specified good or service before that good or service is transferred to a customer; otherwise, the Company is acting as an agent. When the Company is acting as a principal, gross inflow of economic benefits arising from transactions is recognized as revenue. When the Company is acting as an agent, revenue is recognized as its share of transaction.

Incremental Costs of Obtaining Contracts

Commissions and equipment subsidy related to telecommunications service as a result of obtaining contracts are recognized as an asset under the incremental costs of obtaining contracts to the extent the costs are expected to be recovered, and are amortized over the contract period. However, the Company elects not to capitalize the incremental costs of obtaining contracts if the amortization period of the assets that the Company otherwise would have recognized is expected to be one year or less.

Leasing

At inception of a contract, the Company assesses whether the contract is, or contains, a lease.

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

The Company recognizes right-of-use assets and lease liabilities for all leases at the commencement date of a lease, except for lease payments for low-value assets are recognized as expenses on a straight-line basis over the lease terms accounted for applying recognition exemption.

Right-of-use assets are initially measured at cost, which comprises the initial measurement of lease liabilities and for lease payments made at or before the commencement date. Right-of-use assets are subsequently measured at cost less accumulated depreciation and accumulated impairment losses and adjusted for any remeasurement of the lease liabilities. Right-of-use assets are presented separately on the balance sheets.

Right-of-use assets are depreciated using the straight-line basis from the commencement dates to the earlier of the end of the useful lives of the right-of-use assets or the end of the lease terms.

Lease liabilities were initially measured at the present value of the lease payments, which comprise fixed payments, in-substance fixed payments, variable lease payments which depend on an index or a rate. The lease payments are discounted using the interest rate implicit in a lease, if that rate can be readily determined. If such rate cannot be readily determined, the lessee's incremental borrowing rate is used.

Lease liabilities are subsequently measured at amortized cost using the effective interest method, with interest expense recognized over the lease terms. When there is a change in a lease term, a change in future lease payments resulting from a change in an index or a rate used to determine those payments, the Company remeasures the lease liabilities with a corresponding adjustment to the right-of-use-assets. However, if the carrying amount of the right-of-use assets is reduced to zero, any remaining amount of the remeasurement is recognized in profit or loss. The Company accounts for the remeasurement of the lease liability as a result of the decrease of lease scope by decreasing the carrying amount of the right-of-use assets and recognizes in profit or loss any gain or loss on the partial or full termination of the lease. Lease liabilities are presented separately on the balance sheets.

Variable lease payments not depending on an index or a rate are recognized as expenses in the periods in which they are incurred.

Borrowing Costs

All borrowing costs are recognized in profit or loss in the period in which they are incurred.

Government Grants

Government grants are not recognized until there is reasonable assurance that the Company will comply with the conditions attached to government grants and that the grants will be received.

Government grants related to income are recognized in profit or loss on a systematic basis over the periods in which the Company recognizes expenses of the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Company should construct noncurrent assets are recognized as deferred revenue and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

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 Act in the ROC, an additional tax of unappropriated earnings is provided for 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, development expenditures, etc. 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, associates and 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 such temporary differences 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 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

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.

Where current tax or deferred tax arises from the initial accounting for the acquisition of a subsidiary, the tax effect is included in the accounting for the investments in a subsidiary.

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.

a. Critical accounting judgments

Revenue recognition

The Company's project agreements are mainly to provide one or more customized 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.

Control over subsidiaries

As discussed in Note 13, some entities are subsidiaries of the Company although the Company only owns less than 50% ownership interests in these entities. After considering the Company's absolute size of holding in the entity and the relative size of and the dispersion of shares owned by the other stockholders, and the contractual arrangements between the Company and other investors, potential voting interests and the written agreement between stockholders, the management concluded that the Company has a sufficiently dominant voting interest to direct the relevant activities of the entity and therefore the Company has control over these entities.

b. Key sources of estimation uncertainty and assumption

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.

1) Impairment of trade notes and accounts receivable

The provision for impairment of trade notes and accounts receivable is based on assumptions about risk of default and expected loss rates. The Company uses judgment in making these assumptions and in selecting the inputs to the impairment calculation, based on the Company's past experience, current market conditions as well as forward looking information at the end of each reporting period. For details of the key assumptions and inputs used, see Note 9. Where the actual future cash flows are less than expected, a material impairment loss may arise.

2) Fair value measurements and valuation processes

For the assets and liabilities measured at fair value without quoted prices in active markets, the Company's management determines the appropriate valuation techniques for the fair value measurements and whether to engage third party qualified appraisers based on the related regulations and professional judgments.

Information about the valuation techniques and inputs used in determining the fair value of various assets and liabilities was disclosed in Note 33. If the actual changes of inputs in the future differ from expectation, the fair value may vary accordingly. The Company updates inputs periodically to monitor the appropriateness of the fair value measurement.

3) 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 for 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.

4) Impairment of property, plant and equipment, right-of-use assets 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.

5) 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.

6) Recognition and measurement of defined benefit plans

Net defined benefit liabilities (assets) and the resulting pension expense under defined benefit pension plans are calculated using the Projected Unit Credit Method. Actuarial assumptions comprise the discount rate, employee turnover rate, average future salary increase and etc. 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.

7) Lessees’ incremental borrowing rates

In determining a lessee’s incremental borrowing rate used in discounting lease payments, a risk-free rate for relevant duration and the same currency is selected as a reference rate. The lessee’s credit spread adjustments and lease specific adjustments are also taken into account.

5. APPLICATION OF NEW AND REVISED STANDARDS AND INTERPRETATIONS

- a. Initial application of the amendments to 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 Financial Supervisory Commission (FSC).

The initial application of the amendments to the IFRS, IAS, IFRIC and SIC issued by the International Accounting Standards Board and endorsed and issued into effect by the FSC (collectively, the “Taiwan-IFRSs”) does not have material impacts on the Company’s financial statements.

- b. Amendments to IFRSs endorsed by the FSC for application starting from January 1, 2021

| New, Revised or Amended Standards and Interpretations | | Effective Date Issued by IASB |
|--|---|--|
| Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 | Interest Rate Benchmark Reform - phase 2 | January 1, 2021 |

The application of the above new, revised or amended standards and interpretations will not have material impact on the Company’s financial statements.

- c. IFRSs issued by the IASB but not yet endorsed and issued into effect by the FSC

| New, Revised or Amended Standards and Interpretations | | Effective Date Announced by IASB (Note 1) |
|---|---|---|
| Amendments to IFRSs | Annual Improvements to IFRS Standards 2018-2020 | January 1, 2022 (Note 2) |
| Amendments to IFRS 3 | Reference to the Conceptual Framework | January 1, 2022 (Note 3) |
| 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 |
| Amendments to IAS 1 | Classification of liabilities as current or noncurrent | January 1, 2023 |
| Amendments to IAS 16 | Property, Plant and Equipment - Proceeds before Intended Use | January 1, 2022 (Note 4) |
| Amendments to IAS 37 | Onerous Contracts - Cost of Fulfilling a Contract | January 1, 2022 (Note 5) |

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

Note 2 : The amendments to IFRS 9 are applied prospectively to financial liabilities that are exchanged or modified on or after the annual reporting periods beginning on or after January 1, 2022.

Note 3 : The amendments are applicable to business combinations for which the acquisition date is on or after the annual reporting period beginning on or after January 1, 2022.

Note 4 : The amendments are applicable to property, plant and equipment that are brought to the location and condition necessary for them to be capable of operating in the manner intended by management on or after January 1, 2021.

Note 5 : The amendments are applicable to contracts for which the entity has not yet fulfilled all its obligations on January 1, 2022.

As of the date the financial statements were authorized for issue, the Company is continuously assessing the possible impact that the application of above 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 | |
|---------------|------------------|------------------|
| | 2020 | 2019 |
| Cash | | |
| Cash on hand | \$ 125,611 | \$ 137,811 |
| Bank deposits | 4,463,396 | 4,114,398 |
| | <u>4,589,007</u> | <u>4,252,209</u> |

(Continued)

| | December 31 | |
|--|----------------------|----------------------|
| | 2020 | 2019 |
| Cash equivalents (investments with maturities of less than three months) | | |
| Commercial paper | \$ 12,899,702 | \$ 19,129,503 |
| Negotiable certificates of deposit | 2,600,000 | 1,700,000 |
| Triple stimulus vouchers | <u>1,344</u> | <u>-</u> |
| | <u>15,501,046</u> | <u>20,829,503</u> |
| | <u>\$ 20,090,053</u> | <u>\$ 25,081,712</u> |
| | | (Concluded) |

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

| | December 31 | |
|------------------------------------|--------------------|-------------|
| | 2020 | 2019 |
| Bank deposits | 0.00%-0.05% | 0.00%-0.33% |
| Commercial paper | 0.14%-0.26% | 0.48%-0.54% |
| Negotiable certificates of deposit | 0.24%-0.30% | 0.58%-0.60% |

7. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

| | December 31 | |
|--|--------------------|------------------|
| | 2020 | 2019 |
| <u>Financial assets - current</u> | | |
| Mandatorily measured at FVTPL | | |
| Derivatives (not designated for hedge) | | |
| Forward exchange contracts | <u>\$ 2,271</u> | <u>\$ -</u> |
| <u>Financial assets - noncurrent</u> | | |
| Mandatorily measured at FVTPL | | |
| Non-derivatives | | |
| Non-listed stocks - domestic | \$441,095 | \$510,801 |
| Non-listed stocks - foreign | <u>236,107</u> | <u>267,304</u> |
| | <u>\$677,202</u> | <u>\$778,105</u> |
| <u>Financial liabilities - current</u> | | |
| Held for trading | | |
| Derivatives (not designated for hedge) | | |
| Forward exchange contracts | <u>\$ -</u> | <u>\$ 228</u> |

The Company increased its investment in Taiwan Capital Buffalo Fund Co., Ltd. proportionally for 300,000 thousand in October 2019 and the Company's ownership interest in Taiwan Capital Buffalo Fund Co., Ltd. remained at 12.90%.

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

| | Currency | Maturity Period | Contract Amount (In Thousands) |
|-----------------------------------|-----------|-----------------|-----------------------------------|
| <u>December 31, 2020</u> | | | |
| Forward exchange contracts - buy | NT\$/EUR | 2021.03 | NT\$50,435 / EUR1,500 |
| Forward exchange contracts - sell | US\$/NT\$ | 2021.02 | US\$13,000 / NT\$365,375 |

December 31, 2019

| | | | |
|----------------------------------|----------|---------|-----------------------|
| Forward exchange contracts - buy | NT\$/EUR | 2020.03 | NT\$50,910 / EUR1,500 |
|----------------------------------|----------|---------|-----------------------|

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. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME - NONCURRENT

| | <u>December 31</u> | |
|----------------------|---------------------|---------------------|
| | 2020 | 2019 |
| Domestic investments | | |
| Listed stocks | \$ 2,610,501 | \$ 2,388,416 |
| Non-listed stocks | 4,185,924 | 4,410,578 |
| Foreign investments | | |
| Non-listed stocks | <u>107,254</u> | <u>124,321</u> |
| | <u>\$ 6,903,679</u> | <u>\$ 6,923,315</u> |

The Company holds the above foreign and domestic stocks for medium to long-term strategic purposes and expects to profit from long-term investment. Accordingly, the management elected to designate these investments in equity instruments at FVOCI as they believe that recognizing short-term fair value fluctuations of these investments in profit or loss is not consistent with the Company's strategy of holding these investments for long-term purposes.

The Company disposed a portion of its investment in China Airlines, Ltd. at fair value of \$567,797 thousand in December 2020. As of December 31, 2020, the settlement of funds/securities amounting to \$270,321 thousand had not been completed. The related unrealized gain on investments in equity instruments at fair value through other comprehensive income of \$16,686 thousand was transferred from other equity to retained earnings upon the aforementioned disposal.

The Company recognized dividend income of \$240,821 thousand and \$292,450 thousand for the years ended December 31, 2020 and 2019, respectively, from the investments still held on December 31, 2020 and 2019.

9. TRADE NOTES AND ACCOUNTS RECEIVABLE, NET

| | December 31 | |
|-------------------------------------|----------------------|----------------------|
| | 2020 | 2019 |
| Trade notes and accounts receivable | \$ 21,671,359 | \$ 25,778,712 |
| Less: Loss allowance | <u>(2,116,716)</u> | <u>(2,300,651)</u> |
| | <u>\$ 19,554,643</u> | <u>\$ 23,478,061</u> |

The main credit terms range from 30 to 90 days.

The Company serves a large consumer base for telecommunications business; therefore, the concentration of credit risk is limited. When having transactions with customers, the Company considers the record of arrears in the past. In addition, the Company may also collect some telecommunication charges in advance to reduce the payment arrears in subsequent periods.

The Company adopted a policy of dealing with counterparties with certain credit ratings for project business and to obtain collateral where necessary to mitigate the risk of loss arising from defaults. Credit rating information is provided by independent rating agencies where available and, if such credit rating information is not available, the Company uses other publicly available financial information and its own historical transaction experience to rate its major customers. The Company continues to monitor the credit exposure and credit ratings of its counterparties and spread the credit risk amongst qualified counterparties.

In order to mitigate credit risk, the management of the Company has delegated a team responsible for determining credit limits, credit approvals and other monitoring procedures to ensure the recoverability of receivables. In addition, the Company reviews the recoverable amount of receivables at balance sheet dates to ensure that adequate allowance is provided for possible irrecoverable amounts. In this regard, the management believes the Company's credit risk could be reasonably reduced.

The Company applies the simplified approach to providing for expected credit losses prescribed by IFRS 9, which permits the use of lifetime expected loss provision for receivables. The expected credit losses on receivables are estimated using a provision matrix by reference to past default experience of the customers and an analysis of the customers' current financial positions, as well as the forward-looking indicators such as macroeconomic business indicator.

When there is evidence indicating that the counterparty is in evasion, bankruptcy, deregistration of its company or the accounts receivable are over two years past due and the recoverable amount cannot be reasonable estimated, the Company writes off the trade notes and accounts receivable. For accounts receivable that have been written off, the Company continues to engage in enforcement activity to attempt to recover the receivables due. Where recoveries are made, these are recognized in profit or loss.

The Company's provision matrix arising from telecommunications business and project business is disclosed below.

December 31, 2020

| | Not Past Due | Past Due Less than 30 Days | Pass Due 31 to 60 Days | Pass Due 61 to 90 Days | Pass Due 91 to 120 Days | Pass Due 121 to 180 Days | Pass Due over 180 Days | Total |
|------------------------------------|----------------------|----------------------------|------------------------|------------------------|-------------------------|--------------------------|------------------------|----------------------|
| <u>Telecommunications business</u> | | | | | | | | |
| Expected credit loss rate (Note a) | 0%-2% | 2%-24% | 3%-68% | 11%-83% | 28%-90% | 52%-96% | 100% | |
| Gross carrying amount | \$ 15,839,132 | \$ 203,949 | \$ 50,897 | \$ 31,263 | \$ 29,872 | \$ 25,351 | \$ 625,591 | \$ 16,806,055 |
| Loss allowance (lifetime ECL) | <u>(56,249)</u> | <u>(20,880)</u> | <u>(23,483)</u> | <u>(24,859)</u> | <u>(24,319)</u> | <u>(21,665)</u> | <u>(625,591)</u> | <u>(797,046)</u> |
| Amortized cost | <u>\$ 15,782,883</u> | <u>\$ 183,069</u> | <u>\$ 27,414</u> | <u>\$ 6,404</u> | <u>\$ 5,553</u> | <u>\$ 3,686</u> | <u>\$ -</u> | <u>\$ 16,009,009</u> |
| <u>Project business</u> | | | | | | | | |
| Expected credit loss rate (Note b) | 0%-5% | 5% | 10% | 30% | 50% | 80% | 100% | |
| Gross carrying amount | \$ 3,472,738 | \$ 64,372 | \$ 26,810 | \$ 8,963 | \$ 2,163 | \$ 2,691 | \$ 1,287,567 | \$ 4,865,304 |
| Loss allowance (lifetime ECL) | <u>(20,060)</u> | <u>(3,219)</u> | <u>(2,772)</u> | <u>(2,760)</u> | <u>(1,132)</u> | <u>(2,160)</u> | <u>(1,287,567)</u> | <u>(1,319,670)</u> |
| Amortized cost | <u>\$ 3,452,678</u> | <u>\$ 61,153</u> | <u>\$ 24,038</u> | <u>\$ 6,203</u> | <u>\$ 1,031</u> | <u>\$ 531</u> | <u>\$ -</u> | <u>\$ 3,545,634</u> |

December 31, 2019

| | Not Past Due | Past Due Less than 30 Days | Pass Due 31 to 60 Days | Pass Due 61 to 90 Days | Pass Due 91 to 120 Days | Pass Due 121 to 180 Days | Pass Due over 180 Days | Total |
|------------------------------------|----------------------|----------------------------|------------------------|------------------------|-------------------------|--------------------------|------------------------|----------------------|
| <u>Telecommunications business</u> | | | | | | | | |
| Expected credit loss rate (Note a) | 0% - 2% | 0%-25% | 0%-68% | 0%-83% | 11%-90% | 17%-96% | 100% | |
| Gross carrying amount | \$ 19,020,326 | \$ 267,902 | \$ 74,775 | \$ 46,782 | \$ 40,771 | \$ 28,021 | \$ 600,985 | \$ 20,079,562 |
| Loss allowance (lifetime ECL) | <u>(55,903)</u> | <u>(25,517)</u> | <u>(27,630)</u> | <u>(34,624)</u> | <u>(26,281)</u> | <u>(27,366)</u> | <u>(600,985)</u> | <u>(798,306)</u> |
| Amortized cost | <u>\$ 18,964,423</u> | <u>\$ 242,385</u> | <u>\$ 47,145</u> | <u>\$ 12,158</u> | <u>\$ 14,490</u> | <u>\$ 655</u> | <u>\$ -</u> | <u>\$ 19,281,256</u> |
| <u>Project business</u> | | | | | | | | |
| Expected credit loss rate (Note b) | 0%-5% | 5% | 10% | 30% | 50% | 80% | 100% | |
| Gross carrying amount | \$ 4,053,681 | \$ 78,147 | \$ 52,227 | \$ 29,527 | \$ 12,688 | \$ 1,040 | \$ 1,471,840 | \$ 5,699,150 |
| Loss allowance (lifetime ECL) | <u>(2,637)</u> | <u>(4,892)</u> | <u>(5,223)</u> | <u>(10,577)</u> | <u>(6,344)</u> | <u>(832)</u> | <u>(1,471,840)</u> | <u>(1,502,345)</u> |
| Amortized cost | <u>\$ 4,051,044</u> | <u>\$ 73,255</u> | <u>\$ 47,004</u> | <u>\$ 18,950</u> | <u>\$ 6,344</u> | <u>\$ 208</u> | <u>\$ -</u> | <u>\$ 4,196,805</u> |

Note a: Please refer to Notes 27 and 39 for the information of disaggregation of telecommunications service revenue. The expected credit loss rate applicable to different business revenue varies so as to reflect the risk level indicating by factors like historical experience.

Note b: The project business has different loss types according to the customer types. The expected credit loss rate listed above is for general customers. When the customer is a government-affiliated entity, it is anticipated that there will not be an instance of credit loss. Customers with past history of bounced checks or accounts receivable exceeding six months overdue are classified as high-risk customers, with an expected credit loss rate of 50%, increasing by period as the days overdue increase.

Movements of loss allowance for trade notes and accounts receivable were as follows:

| | Year Ended December 31 | |
|--|-------------------------------|---------------------|
| | 2020 | 2019 |
| Beginning balance | \$ 2,300,651 | \$ 2,544,687 |
| Add: Provision for (reversal of) credit loss | 49,108 | (57,088) |
| Less: Amounts written off | <u>(233,043)</u> | <u>(186,948)</u> |
| Ending balance | <u>\$ 2,116,716</u> | <u>\$ 2,300,651</u> |

10. INVENTORIES

| | December 31 | |
|--------------------|---------------------|----------------------|
| | 2020 | 2019 |
| Merchandise | \$ 1,696,390 | \$ 1,722,201 |
| Project in process | <u>5,350,296</u> | <u>10,769,527</u> |
| | <u>\$ 7,046,686</u> | <u>\$ 12,491,728</u> |

The operating costs related to inventories were \$31,946,042 thousand (including the valuation loss on inventories of \$1,124,350 thousand) and \$25,510,905 thousand (including the valuation loss on inventories of \$475,024 thousand) for the years ended December 31, 2020 and 2019, respectively.

11. PREPAYMENTS

| | December 31 | |
|---------------|---------------------|---------------------|
| | 2020 | 2019 |
| Prepaid rents | \$ 1,655,679 | \$ 1,934,752 |
| Others | <u>1,189,021</u> | <u>883,212</u> |
| | <u>\$ 2,844,700</u> | <u>\$ 2,817,964</u> |
| Current | | |
| Prepaid rents | \$ 502,957 | \$ 553,134 |
| Others | <u>1,189,021</u> | <u>883,212</u> |
| | <u>\$ 1,691,978</u> | <u>\$ 1,436,346</u> |
| Noncurrent | | |
| Prepaid rents | <u>\$ 1,152,722</u> | <u>\$ 1,381,618</u> |

Prepaid rents comprised the prepayments from the lease agreements applying the recognition exemption and the prepayments for leases that do not meet the definition of leases under IFRS 16.

12. OTHER CURRENT MONETARY ASSETS

| | December 31 | |
|--|---------------------|---------------------|
| | 2020 | 2019 |
| Receivable of receipts under custody | \$ 684,841 | \$ 558,657 |
| Time deposits and negotiable certificates of deposit with maturities of more than three months | 11,803 | 1,600,000 |
| Others | <u>584,749</u> | <u>707,402</u> |
| | <u>\$ 1,281,393</u> | <u>\$ 2,866,059</u> |

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

| | December 31 | |
|--|-------------|-------|
| | 2020 | 2019 |
| Time deposits and negotiable certificates of deposit with maturities of more than three months | 0.37%-1.07% | 0.63% |

13. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

| | December 31 | |
|------------------------------|----------------------|----------------------|
| | 2020 | 2019 |
| Investments in subsidiaries | \$ 14,958,164 | \$ 14,460,961 |
| Investments in associates | 5,369,848 | 5,859,161 |
| Investments in joint venture | <u>10,200</u> | <u>-</u> |
| | <u>\$ 20,338,212</u> | <u>\$ 20,320,122</u> |

a. Investments in subsidiaries

Investments in subsidiaries were as follows:

| | Carrying Amount December 31 | |
|---|--------------------------------|------------|
| | 2020 | 2019 |
| <u>Listed</u> | | |
| Senao International Co., Ltd. ("SENAO") | \$ 294,281 | \$ 456,545 |
| CHIEF Telecom Inc. ("CHIEF") | 1,785,968 | 1,729,189 |
| <u>Non-listed</u> | | |
| Light Era Development Co., Ltd. ("LED") | 3,853,234 | 3,850,095 |
| Chunghwa Investment Co., Ltd. ("CHI") | 3,017,569 | 3,130,389 |
| Donghwa Telecom Co., Ltd. ("DHT") | 1,486,252 | 1,627,491 |
| Chunghwa Telecom Singapore Pte., Ltd. ("CHTS") | 1,013,529 | 935,228 |
| Chunghwa System Integration Co., Ltd. ("CHSI") | 725,213 | 717,883 |
| International Integrated Systems, Inc. ("IISI") | 593,049 | - |
| Honghwa International Co., Ltd. ("HHI") | 487,904 | 411,291 |

(Continued)

| | Carrying Amount | |
|---|------------------------|----------------------|
| | December 31 | |
| | 2020 | 2019 |
| Chunghwa Telecom Global, Inc. (“CHTG”) | \$ 402,623 | \$ 347,380 |
| CHT Security Co., Ltd. (“CHTSC”) | 329,943 | 306,851 |
| CHYP Multimedia Marketing & Communications Co., Ltd. (“CHYP”) | 194,399 | 190,972 |
| Prime Asia Investments Group Ltd. (B.V.I.) (“Prime Asia”) | 163,121 | 182,989 |
| Spring House Entertainment Tech. Inc. (“SHE”) | 126,947 | 110,357 |
| Chunghwa Leading Photonics Tech. Co., Ltd. (“CLPT”) | 123,967 | 111,680 |
| Chunghwa Telecom (Thailand) Co., Ltd. (“CHTT”) | 110,163 | 114,231 |
| Chunghwa Telecom Vietnam Co., Ltd. (“CHTV”) | 90,887 | 98,221 |
| Chunghwa Telecom Japan Co., Ltd. (“CHTJ”) | 90,099 | 76,567 |
| Smartfun Digital Co., Ltd. (“SFD”) | 74,055 | 73,688 |
| Chunghwa Sochamp Technology Inc. (“CHST”) | (5,039) | (10,086) |
| | <u>\$ 14,958,164</u> | <u>\$ 14,460,961</u> |
| | | (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 | |
| | 2020 | 2019 |
| Senao International Co., Ltd. (“SENAO”) | 28 | 28 |
| CHIEF Telecom Inc. (“CHIEF”) | 56 | 57 |
| Light Era Development Co., Ltd. (“LED”) | 100 | 100 |
| Chunghwa Investment Co., Ltd. (“CHI”) | 89 | 89 |
| Donghwa Telecom Co., Ltd. (“DHT”) | 100 | 100 |
| Chunghwa Telecom Singapore Pte., Ltd. (“CHTS”) | 100 | 100 |
| Chunghwa System Integration Co., Ltd. (“CHSI”) | 100 | 100 |
| International Integrated Systems, Inc. (“IISI”) | 51 | - |
| Honghwa International Co., Ltd. (“HHI”) | 100 | 100 |
| Chunghwa Telecom Global, Inc. (“CHTG”) | 100 | 100 |
| CHT Security Co., Ltd. (“CHTSC”) | 80 | 80 |
| CHYP Multimedia Marketing & Communications Co., Ltd. (“CHYP”) | 100 | 100 |
| Prime Asia Investments Group Ltd. (B.V.I.) (“Prime Asia”) | 100 | 100 |
| Spring House Entertainment Tech. Inc. (“SHE”) | 56 | 56 |
| Chunghwa Leading Photonics Tech. Co., Ltd. (“CLPT”) | 75 | 75 |
| Chunghwa Telecom (Thailand) Co., Ltd. (“CHTT”) | 100 | 100 |
| Chunghwa Telecom Vietnam Co., Ltd. (“CHTV”) | 100 | 100 |
| Chunghwa Telecom Japan Co., Ltd. (“CHTJ”) | 100 | 100 |
| Smartfun Digital Co., Ltd. (“SFD”) | 65 | 65 |
| Chunghwa Sochamp Technology Inc. (“CHST”) | 51 | 51 |

The Company continues to control six out of eleven seats of the Board of Directors of SENAO through the support of large beneficial stockholders. As a result, the Company treated SENAO as a subsidiary.

CHIEF issued new shares in March 2019, November 2019, March 2020 and December 2020 as its employees exercised options. Therefore, the Company's ownership interest in CHIEF decreased to 56.76% and 56.13% as of December 31, 2019 and 2020, respectively.

SHE reduced 19.72% of its capital to offset accumulated deficits in December 2019 and the Company's ownership interest in SHE remained the same.

The Company increased its investment in CHTT proportionally in October 2019 and the Company's ownership interest in CHTT remained the same.

In order to develop and cultivate the enterprise customer market, the Company obtained 20.38% ownership interest in IISI in July 2020. The Company's ownership interest in IISI increased to 51.54% by considering the previously held ownership interest in IISI. The Company obtained over half of the seats of the Board of Directors of IISI; therefore, the Company gained control over IISI and treated it as a subsidiary. IISI issued new shares in September 2020 as its employees exercised options; therefore, the Company's ownership interest in IISI decreased to 51.20% as of December 31, 2020.

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 | |
| | 2020 | 2019 |
| <u>Material associate</u> | | |
| Next Commercial Bank Co., Ltd. ("NCB") (Note) | \$ 3,776,876 | \$ 4,074,168 |
| <u>Associates that are not individually material</u> | | |
| <u>Listed</u> | | |
| KingwayTek Technology Co., Ltd. ("KWT") | 249,044 | 253,021 |
| <u>Non-listed</u> | | |
| Viettel-CHT Co., Ltd. ("Viettel-CHT") | 363,522 | 316,535 |
| Taiwan International Standard Electronics Co., Ltd. ("TISE") | 330,031 | 272,166 |
| So-net Entertainment Taiwan Limited ("So-net") | 226,647 | 189,396 |
| Chunghwa PChome Fund I Co., Ltd. ("CPFI") | 192,856 | 194,081 |
| KKBOX Taiwan Co., Ltd. ("KKBOXTW") | 163,809 | 150,789 |
| Taiwan International Ports Logistics Corporation ("TIPL") | 55,925 | 50,979 |
| Cornerstone Ventures Co., Ltd. ("CVC") | 6,058 | 5,507 |
| Alliance Digital Tech Co., Ltd. ("ADT") | 5,080 | 5,080 |
| International Integrated System, Inc. ("IISI") | - | 340,240 |
| UUPON Inc. ("UUPON") | - | 7,199 |
| | <u>1,592,972</u> | <u>1,784,993</u> |
| | <u>\$ 5,369,848</u> | <u>\$ 5,859,161</u> |

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

| | % of Ownership Interests and Voting Rights | |
|--|---|-------------|
| | December 31 | |
| | 2020 | 2019 |
| <u>Material associate</u> | | |
| Next Commercial Bank Co., Ltd. (“NCB”) (Note) | 42 | 42 |
| <u>Associates that are not individually material</u> | | |
| <u>Listed</u> | | |
| KingwayTek Technology Co., Ltd. (“KWT”) | 23 | 23 |
| <u>Non-listed</u> | | |
| Viettel-CHT Co., Ltd. (“Viettel-CHT”) | 30 | 30 |
| Taiwan International Standard Electronics Co., Ltd. (“TISE”) | 40 | 40 |
| So-net Entertainment Taiwan Limited (“So-net”) | 30 | 30 |
| Chunghwa PChome Fund I Co., Ltd. (“CPFI”) | 50 | 50 |
| KKBOX Taiwan Co., Ltd. (“KKBOXTW”) | 30 | 30 |
| Taiwan International Ports Logistics Corporation (“TIPL”) | 27 | 27 |
| Cornerstone Ventures Co., Ltd. (“CVC”) | 49 | 49 |
| Alliance Digital Tech Co., Ltd. (“ADT”) | 14 | 14 |
| International Integrated System, Inc. (“IISI”) | - | 31 |
| UUPON Inc. (“UUPON”) | - | 15 |

Note: NCB was a preparatory office on December 31, 2019.

Summarized financial information of NCB was set out below:

| | December 31 | |
|--|---------------------|---------------------|
| | 2020 | 2019 |
| Assets | \$ 9,906,945 | \$ 10,451,925 |
| Liabilities | <u>(788,813)</u> | <u>(728,374)</u> |
| Equity | <u>\$ 9,118,132</u> | <u>\$ 9,723,551</u> |
| The percentage of ownership interest held by the Company | 41.90% | 41.90% |
| Equity attributable to the Company | \$ 3,820,497 | \$ 4,074,168 |
| Unrealized gain or loss from downstream transactions | <u>(43,621)</u> | <u>-</u> |
| The carrying amount of investment | <u>\$ 3,776,876</u> | <u>\$ 4,074,168</u> |

| | Year Ended December 31, 2020 | Period from the Beginning of Preparation to December 31, 2019 |
|---|---|--|
| Revenues | \$ <u>-</u> | \$ <u>-</u> |
| Net loss for the period | \$ (605,419) | \$ (276,449) |
| Other comprehensive income | <u>-</u> | <u>-</u> |
| Total comprehensive loss for the period | \$ <u>(605,419)</u> | \$ <u>(276,449)</u> |

Except for NCB, no associate is considered individually material to the Company. Summarized financial information of associates that are not individually material to the Company was as follows:

| | Year Ended December 31 | |
|---|-------------------------------|-------------------|
| | 2020 | 2019 |
| The Company's share of profits | \$ 309,305 | \$ 320,726 |
| The Company's share of other comprehensive loss | <u>(5,524)</u> | <u>(1,201)</u> |
| The Company's share of total comprehensive income | \$ <u>303,781</u> | \$ <u>319,525</u> |

The Level 1 fair values of associate based on the closing market prices as of the balance sheet date was as follows:

| | December 31 | |
|-----|--------------------|-------------------|
| | 2020 | 2019 |
| KWT | \$ <u>675,911</u> | \$ <u>872,729</u> |

The participation of establishing NCB was approved by the Company's Board of Directors in January 2019. The establishment of NCB was approved by the FSC in July 2019 and the incorporation of NCB was approved by the Ministry of Economic Affairs Department of Commerce in January 2020. The Company prepaid investment funds to NCB in February and November 2019 amounting to \$4,190,000 thousand, for ownership interest of 41.90%. Although the Company is the single largest stockholder of NCB, it only obtained six out of fifteen seats of the Board of Directors of NCB. In addition, the management considered the size of ownership interest and the dispersion of shares owned by the other stockholders, other holdings are not extremely dispersed. The Company is not able to direct its relevant activities. Therefore, the Company does not have control over NCB and merely has significant influence over NCB and treats it as an associate. NCB mainly engages in online banking business in Taiwan.

The Company disposed some shares of KWT in April 2019 before KWT traded its shares on the General Stock Market of the Taipei Exchange according to the local requirements and recognized gain on disposal of \$30,152 thousand. In addition, the Company did not participate in the capital increase of KWT in May 2019 and KWT repurchased its stock from December 2019 to February 2020. Therefore, the Company's ownership interest in KWT changed to 22.52% and 22.72% as of December 31, 2019 and 2020, respectively.

IISI issued new shares in March, September 2019 and April 2020, as its employees exercised options; therefore, the Company's ownership interest in IISI decreased to 31.47% and 31.16% as of December 31, 2019 and June 30, 2020, respectively. The additional investment of 20.58% ownership interest in IISI was approved by Chunghwa's Board of Directors in January 2020 and the equity transaction was completed in July 2020. As the business combination was achieved in stages, the Company remeasured the previously held equity interest of IISI and recognized gain on disposal of \$1,412 thousand on July 1, 2020 ("acquisition date"). The Company treated IISI as a subsidiary rather than an associate starting from the acquisition date. For the related disclosures for the acquisition transaction, please refer to Note 13(c) of the Company's consolidated financial statements for the year ended December 31, 2020.

UUPON reduced 95.44% of its capital to offset accumulated deficits in September 2020 and the Company did not participate in the capital increase of UUPON in October 2020. Therefore, the Company's ownership interest in UUPON decreased to 3.71% and lost its significant influence over UUPON. Hence, the Company discontinued to treat UUPON as an associate. Instead, the Company treated it as a financial asset at fair value through other comprehensive income and recognized gain on disposal of \$11,986 thousand.

The aforementioned gains on disposal were included under "other gains and losses" in the statements of comprehensive income.

The Company invested and obtained 50% equity shares of CPFI. However, as the Company has only two out of five seats of the Board of Directors of CPFI and has no control but significant influence over CPFI, the Company recognized CPFI as an investment in associate.

The Company invested and obtained 49% equity shares of CVC. However, as the Company has only two out of five seats of the Board of Directors of CVC and has no control but significant influence over CVC. Therefore, the Company recognized CVC as an investment in associate.

The Company owns 14% equity shares of ADT. As the Company remains its seat in the Board of Directors of ADT and considers the relative size of ownership interest and the dispersion of shares owned by the other stockholders, the Company has significant influence over ADT. In June 2018, the stockholders of ADT approved to dissolve. The liquidation of ADT is still in process.

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

c. Investment in joint venture

Investment in joint venture was as follows:

| Name of Joint Venture | Carrying Amount | | % of Ownership Interests and Voting Rights | |
|----------------------------------|-----------------|------|--|------|
| | December 31 | | December 31 | |
| | 2020 | 2019 | 2020 | 2019 |
| <u>Non-listed</u> | | | | |
| Chunghwa SEA Holdings("CHT SEA") | \$ 10,200 | \$ - | 51 | - |

The Company invested \$10,200 thousand to establish a joint venture, CHT SEA, with Delta Electronics, Inc. and Kwang Hsing Industrial Co., Ltd. in December 2020 and obtained 51% equity shares of CHT SEA. However, according to the mutual agreements among stockholders, the Company does not individually direct CHT SEA's relevant activities and has joint control with the other party; therefore, the Company treated CHT SEA as a joint venture.

14. PROPERTY, PLANT AND EQUIPMENT

| | December 31 | |
|------------------------------------|-----------------------|-----------------------|
| | 2020 | 2019 |
| Assets used by the Company | \$ 265,270,760 | \$ 267,191,318 |
| Assets subject to operating leases | <u>7,352,404</u> | <u>7,553,554</u> |
| | <u>\$ 272,623,164</u> | <u>\$ 274,744,872</u> |

a. Assets used by the Company

| | Land | Land Improvements | Buildings | Computer Equipment | Telecommunications Equipment | Transportation Equipment | Miscellaneous Equipment | Construction in Progress and Equipment to be Accepted | Total |
|--|----------------------|-----------------------|------------------------|------------------------|------------------------------|--------------------------|-------------------------|---|-------------------------|
| Cost | | | | | | | | | |
| Balance on January 1, 2019 | \$ 97,480,516 | \$ 1,599,634 | \$ 67,334,983 | \$ 13,775,663 | \$ 708,097,585 | \$ 3,877,366 | \$ 7,824,354 | \$ 17,945,874 | \$ 917,935,975 |
| Additions | - | - | - | - | 18,306 | - | - | 21,291,955 | 21,310,261 |
| Disposal | (37,951) | (6,630) | (3,101) | (1,793,567) | (30,402,877) | (50,467) | (341,906) | - | (32,636,499) |
| Others | (1,163,117) | 25,477 | (1,013,649) | 615,900 | 24,505,869 | 79,313 | 411,603 | (25,782,590) | (2,321,194) |
| Balance on December 31, 2019 | <u>\$ 96,279,448</u> | <u>\$ 1,618,481</u> | <u>\$ 66,318,233</u> | <u>\$ 12,597,996</u> | <u>\$ 702,218,883</u> | <u>\$ 3,906,212</u> | <u>\$ 7,894,051</u> | <u>\$ 13,455,239</u> | <u>\$ 904,288,543</u> |
| Accumulated depreciation and impairment | | | | | | | | | |
| Balance on January 1, 2019 | \$ - | \$ (1,337,192) | \$ (26,291,676) | \$ (11,783,362) | \$ (594,695,565) | \$ (3,647,334) | \$ (6,116,322) | \$ - | \$ (643,871,451) |
| Depreciation expenses | - | (43,481) | (1,209,310) | (779,719) | (23,654,699) | (90,496) | (428,874) | - | (26,206,579) |
| Disposal | - | 6,630 | 3,101 | 1,788,404 | 30,367,337 | 50,441 | 340,366 | - | 32,556,279 |
| Others | - | (559) | 440,300 | (6,214) | 16,527 | (2,902) | (22,626) | - | 424,526 |
| Balance on December 31, 2019 | <u>\$ -</u> | <u>\$ (1,374,602)</u> | <u>\$ (27,057,585)</u> | <u>\$ (10,780,891)</u> | <u>\$ (587,966,400)</u> | <u>\$ (3,690,291)</u> | <u>\$ (6,227,456)</u> | <u>\$ -</u> | <u>\$ (637,097,225)</u> |
| Balance on January 1, 2019, net | \$ 97,480,516 | \$ 262,442 | \$ 41,043,307 | \$ 1,992,301 | \$ 113,402,020 | \$ 230,032 | \$ 1,708,032 | \$ 17,945,874 | \$ 274,064,524 |
| Balance on December 31, 2019, net | <u>\$ 96,279,448</u> | <u>\$ 243,879</u> | <u>\$ 39,260,648</u> | <u>\$ 1,817,105</u> | <u>\$ 114,252,483</u> | <u>\$ 215,921</u> | <u>\$ 1,666,595</u> | <u>\$ 13,455,239</u> | <u>\$ 267,191,318</u> |
| Cost | | | | | | | | | |
| Balance on January 1, 2020 | \$ 96,279,448 | \$ 1,618,481 | \$ 66,318,233 | \$ 12,597,996 | \$ 702,218,883 | \$ 3,906,212 | \$ 7,894,051 | \$ 13,455,239 | \$ 904,288,543 |
| Additions | 66,712 | - | - | - | 25,301 | - | - | 24,532,717 | 24,624,730 |
| Disposal | (270,268) | (19,306) | (48,748) | (1,234,262) | (20,590,420) | (45,084) | (350,182) | - | (22,558,270) |
| Others | 3,091,950 | 31,187 | 537,345 | 526,383 | 25,359,976 | 26,011 | 342,263 | (29,816,584) | 98,531 |
| Balance on December 31, 2020 | <u>\$ 99,167,842</u> | <u>\$ 1,630,362</u> | <u>\$ 66,806,830</u> | <u>\$ 11,890,117</u> | <u>\$ 707,013,740</u> | <u>\$ 3,887,139</u> | <u>\$ 7,886,132</u> | <u>\$ 8,171,372</u> | <u>\$ 906,453,534</u> |
| Accumulated depreciation and impairment | | | | | | | | | |
| Balance on January 1, 2020 | \$ - | \$ (1,374,602) | \$ (27,057,585) | \$ (10,780,891) | \$ (587,966,400) | \$ (3,690,291) | \$ (6,227,456) | \$ - | \$ (637,097,225) |
| Depreciation expenses | - | (43,828) | (1,188,974) | (710,903) | (23,792,693) | (67,502) | (406,376) | - | (26,210,276) |
| Disposal | - | 19,213 | 48,748 | 1,233,241 | 20,571,501 | 44,769 | 343,637 | - | 22,261,109 |
| Others | - | 13 | (140,791) | (242) | 23,588 | (938) | (18,012) | - | (136,382) |
| Balance on December 31, 2020 | <u>\$ -</u> | <u>\$ (1,399,204)</u> | <u>\$ (28,338,602)</u> | <u>\$ (10,258,795)</u> | <u>\$ (591,164,004)</u> | <u>\$ (3,713,962)</u> | <u>\$ (6,308,207)</u> | <u>\$ -</u> | <u>\$ (641,182,774)</u> |
| Balance on January 1, 2020, net | \$ 96,279,448 | \$ 243,879 | \$ 39,260,648 | \$ 1,817,105 | \$ 114,252,483 | \$ 215,921 | \$ 1,666,595 | \$ 13,455,239 | \$ 267,191,318 |
| Balance on December 31, 2020, net | <u>\$ 99,167,842</u> | <u>\$ 231,158</u> | <u>\$ 38,468,228</u> | <u>\$ 1,631,322</u> | <u>\$ 115,849,736</u> | <u>\$ 173,177</u> | <u>\$ 1,577,925</u> | <u>\$ 8,171,372</u> | <u>\$ 265,270,760</u> |

There was no indication that property, plant and equipment was impaired; therefore, the Company did not recognize any impairment loss for the years ended December 31, 2020 and 2019.

The Company signed a joint development agreement with the MOTC previously which stated that the MOTC would provide the national land and the Company would be in charge of the planning and construction for the MOTC's office building, the Company's Renai office building, etc. According to the agreement, the MOTC and the Company would each own a certain percentage of the buildings, and the Company is to pay or get the reimbursement for the difference between the assessed value of the land and the construction cost paid by the Company on behalf of the MOTC. The difference amounting to \$1,056,680 thousand due to the MOTC was reported to the Company's Board of Directors in May 2020 and the Company will complete the property registration of the respective asset once the payment is made. Please refer to Table 4 for the details.

The Company participated in the government-led urban renewal project in Xingzheng Section, Xindian District, New Taipei City. The Company provided land as a building lot while Kindom Development Corp., chosen through public selection by the New Taipei City Government, acted as the urban renewal developer. The property registration was completed in 2020. With respect to the Company's trade-in share of land and buildings, only the trade-in buildings had commercial substance. Therefore, the gain on the asset exchange transaction of \$1,267,980 thousand (included in "gains and losses on disposal of property, plant and equipment") was recognized at the difference

between the carrying amount of the trade-out land of \$37,087 thousand and the fair value of trade-in buildings of \$1,305,067 thousand (included in “investment properties”). The aforementioned gain on disposal was included under “other income and expenses” in the statement of comprehensive income.

Depreciation expense for assets used by the Company is computed using the straight-line method over the following estimated service lives:

| | |
|--|-------------|
| Land improvements | 10-30 years |
| Buildings | |
| Main buildings | 35-60 years |
| Other building facilities | 4-10 years |
| Computer equipment | 4-6 years |
| Telecommunications equipment | |
| Telecommunication circuits | 10-15 years |
| Telecommunication machinery and antennas equipment | 3-10 years |
| Transportation equipment | 3-7 years |
| Miscellaneous equipment | |
| Leasehold improvements | 2-6 years |
| Mechanical and air conditioner equipment | 5-16 years |
| Others | 3-15 years |

b. Assets subject to operating leases

| | Land | Land Improvements | Buildings | Total |
|--|---------------------|--------------------------|-----------------------|-----------------------|
| <u>Cost</u> | | | | |
| Balance on January 1, 2019 | \$ 3,496,689 | \$ 689 | \$ 3,190,018 | \$ 6,687,396 |
| Others | <u>1,310,917</u> | <u>(689)</u> | <u>1,141,811</u> | <u>2,452,039</u> |
| Balance on December 31, 2019 | <u>\$ 4,807,606</u> | <u>\$ -</u> | <u>\$ 4,331,829</u> | <u>\$ 9,139,435</u> |
| <u>Accumulated depreciation and impairment</u> | | | | |
| Balance on January 1, 2019 | \$ - | \$ (512) | \$ (1,096,932) | \$ (1,097,444) |
| Depreciation expenses | - | (47) | (73,882) | (73,929) |
| Others | <u>-</u> | <u>559</u> | <u>(415,067)</u> | <u>(414,508)</u> |
| Balance on December 31, 2019 | <u>\$ -</u> | <u>\$ -</u> | <u>\$ (1,585,881)</u> | <u>\$ (1,585,881)</u> |
| Balance on January 1, 2019, net | <u>\$ 3,496,689</u> | <u>\$ 177</u> | <u>\$ 2,093,086</u> | <u>\$ 5,589,952</u> |
| Balance on December 31, 2019, net | <u>\$ 4,807,606</u> | <u>\$ -</u> | <u>\$ 2,745,948</u> | <u>\$ 7,553,554</u> |

(Continued)

| | Land | Land Improvements | Buildings | Total |
|--|---------------------|------------------------------|-----------------------|------------------------------------|
| <u>Cost</u> | | | | |
| Balance on January 1, 2020 | \$ 4,807,606 | \$ - | \$ 4,331,829 | \$ 9,139,435 |
| Others | <u>(6,730)</u> | <u>-</u> | <u>(248,203)</u> | <u>(254,933)</u> |
| Balance on December 31, 2020 | <u>\$ 4,800,876</u> | <u>\$ -</u> | <u>\$ 4,083,626</u> | <u>\$ 8,884,502</u> |
| <u>Accumulated depreciation and impairment</u> | | | | |
| Balance on January 1, 2020 | \$ - | \$ - | \$ (1,585,881) | \$ (1,585,881) |
| Depreciation expenses | - | - | (97,786) | (97,786) |
| Others | <u>-</u> | <u>-</u> | <u>151,569</u> | <u>151,569</u> |
| Balance on December 31, 2020 | <u>\$ -</u> | <u>\$ -</u> | <u>\$ (1,532,098)</u> | <u>\$ (1,532,098)</u> |
| Balance on January 1, 2020, net | <u>\$ 4,807,606</u> | <u>\$ -</u> | <u>\$ 2,745,948</u> | <u>\$ 7,553,554</u> |
| Balance on December 31, 2020, net | <u>\$ 4,800,876</u> | <u>\$ -</u> | <u>\$ 2,551,528</u> | <u>\$ 7,352,404</u> (Concluded) |

The Company leases out land and buildings with lease terms between 1 to 20 years. The lessees do not have bargain purchase options to acquire the assets at the expiry of the lease periods.

The future aggregate lease collection under operating lease for the freehold plant, property and equipment was as follows:

| | December 31 | |
|---------|---------------------|---------------------|
| | 2020 | 2019 |
| Year 1 | \$ 371,331 | \$ 346,425 |
| Year 2 | 254,953 | 257,181 |
| Year 3 | 192,741 | 194,524 |
| Year 4 | 152,532 | 147,722 |
| Year 5 | 125,366 | 116,375 |
| Onwards | <u>1,179,493</u> | <u>1,224,416</u> |
| | <u>\$ 2,276,416</u> | <u>\$ 2,286,643</u> |

The above items of property, plant and equipment subject to operating leases are depreciated on a straight-line basis over their estimated useful lives as follows:

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

15. LEASE ARRANGEMENTS

a. Right-of-use assets

| | December 31 | |
|---|-------------------------------|----------------------|
| | 2020 | 2019 |
| Land and buildings | | |
| Handsets base stations | \$ 7,098,815 | \$ 6,848,041 |
| Others | 738,850 | 857,552 |
| Equipment | <u>2,190,562</u> | <u>2,586,432</u> |
| | <u>\$ 10,028,227</u> | <u>\$ 10,292,025</u> |
| | Year Ended December 31 | |
| | 2020 | 2019 |
| Additions to right-of-use assets | <u>\$ 3,468,664</u> | <u>\$ 3,324,178</u> |
| Depreciation charge for right-of-use assets | | |
| Land and buildings | | |
| Handsets base stations | \$ 2,730,579 | \$ 2,728,814 |
| Others | 388,528 | 414,295 |
| Equipment | <u>403,138</u> | <u>404,045</u> |
| | <u>\$ 3,522,245</u> | <u>\$ 3,547,154</u> |

The Company did not have significant sublease or impairment of right-of-use assets for the years ended December 31, 2020 and 2019.

b. Lease liabilities

| | December 31 | |
|-------------------|---------------------|---------------------|
| | 2020 | 2019 |
| Lease liabilities | | |
| Current | \$ 2,938,305 | \$ 2,939,410 |
| Noncurrent | <u>5,682,342</u> | <u>5,755,804</u> |
| | <u>\$ 8,620,647</u> | <u>\$ 8,695,214</u> |

Ranges of discount rates for lease liabilities were as follows:

| | December 31 | |
|------------------------|--------------------|-------------|
| | 2020 | 2019 |
| Land and buildings | | |
| Handsets base stations | 0.46%-1.18% | 0.58%-1.18% |
| Others | 0.46%-1.12% | 0.58%-1.12% |
| Equipment | 0.46%-0.82% | 0.58%-0.82% |

c. Important lease-in activities and terms

The Company mainly enters into lease-in agreements of land and buildings for handsets base stations located throughout Taiwan with lease terms ranging from 1 to 20 years. The lease agreements do not contain bargain purchase options to acquire the assets at the expiration of the respective leases. For majority of the lease-in agreements on handsets base station, the Company has the right to terminate the agreement prior to the expiration date if the Company is unable to build the required telecommunication equipment, either due to legal restrictions, controversial events, or other events.

The Company also leases land and buildings for the use of offices, server rooms, and stores with lease terms from 1 to 30 years. Most of the lease agreements for national land adjust the lease payment according to the changes of the announced land values by the authority. At the expiry of the lease term, the Company does not have bargain purchase options to acquire the assets.

The lease agreements for equipment include a contract between the Company and ST-2 Satellite Ventures Pte., Ltd. on March 12, 2010 to lease capacity on the ST-2 satellite. For the information of lease agreements with related parties, please refer to Note 34 to the financial statements for details.

d. Other lease information

| | Year Ended December 31 | |
|---|-------------------------------|--------------|
| | 2020 | 2019 |
| Expenses relating to low-value asset leases | \$ 1,130 | \$ 908 |
| Expenses relating to variable lease payments not included in the measurement of lease liabilities | \$ 18,508 | \$ 15,348 |
| Total cash outflow for leases | \$ 3,366,977 | \$ 3,382,739 |

The Company leases certain equipment which qualify as low-value asset leases. The Company has elected to apply the recognition exemption and, thus, not to recognize right-of-use assets and lease liabilities for these leases.

Lease-out arrangements under operating leases for freehold property, plant, and equipment and investment properties were set out in Notes 14 and 16 to the financial statements.

16. INVESTMENT PROPERTIES

| | Investment Properties |
|------------------------------|------------------------------|
| <u>Cost</u> | |
| Balance on January 1, 2019 | \$ 9,317,677 |
| Additions | 523 |
| Disposal | (5,831) |
| Reclassification | (173,165) |
| Balance on December 31, 2019 | \$ 9,139,204 |

(Continued)

Investment Properties

Accumulated depreciation and impairment

| | |
|-----------------------------|----------------|
| Balance on January 1, 2019 | \$ (1,105,240) |
| Depreciation expense | (25,157) |
| Disposal | 5,831 |
| Reclassification | 23,363 |
| Reversal of impairment loss | <u>56,617</u> |

| | |
|------------------------------|-----------------------|
| Balance on December 31, 2019 | <u>\$ (1,044,586)</u> |
|------------------------------|-----------------------|

| | |
|-----------------------------------|---------------------|
| Balance on January 1, 2019, net | <u>\$ 8,212,437</u> |
| Balance on December 31, 2019, net | <u>\$ 8,094,618</u> |

Cost

| | |
|----------------------------|----------------|
| Balance on January 1, 2020 | \$ 9,139,204 |
| Additions (Note 14) | 1,359,502 |
| Disposal | (36,943) |
| Reclassification | <u>125,912</u> |

| | |
|------------------------------|----------------------|
| Balance on December 31, 2020 | <u>\$ 10,587,675</u> |
|------------------------------|----------------------|

Accumulated depreciation and impairment

| | |
|-----------------------------|----------------|
| Balance on January 1, 2020 | \$ (1,044,586) |
| Depreciation expense | (22,332) |
| Reclassification | (1,276) |
| Reversal of impairment loss | <u>27,066</u> |

| | |
|------------------------------|-----------------------|
| Balance on December 31, 2020 | <u>\$ (1,041,128)</u> |
|------------------------------|-----------------------|

| | |
|-----------------------------------|---------------------|
| Balance on January 1, 2020, net | <u>\$ 8,094,618</u> |
| Balance on December 31, 2020, net | <u>\$ 9,546,547</u> |

(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 reversal of impairment losses of \$27,066 thousand and \$56,617 thousand for the years ended December 31, 2020 and 2019, respectively, and the amounts were recognized only to the extent of 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 | 10-30 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, 2020 and 2019 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 | |
|-------------------------------|----------------------|----------------------|
| | 2020 | 2019 |
| Fair value | <u>\$ 22,411,314</u> | <u>\$ 18,469,212</u> |
| Overall capital interest rate | 0.93%-3.03% | 1.03%-4.04% |
| Profit margin ratio | 12%-20% | 12%-20% |
| Discount rate | - | - |
| Capitalization rate | 0.73%-2.20% | 0.79%-1.74% |

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

The future aggregate lease collection under operating lease for investment properties is as follows:

| | December 31 | |
|---------|--------------------|-------------------|
| | 2020 | 2019 |
| Year 1 | \$ 115,305 | \$ 112,884 |
| Year 2 | 95,223 | 90,701 |
| Year 3 | 75,285 | 70,794 |
| Year 4 | 52,544 | 61,115 |
| Year 5 | 37,588 | 39,386 |
| Onwards | <u>57,773</u> | <u>96,010</u> |
| | <u>\$ 433,718</u> | <u>\$ 470,890</u> |

17. INTANGIBLE ASSETS

| | Mobile Broadband Concession | Computer Software | Others | Total |
|--|--|------------------------------|-------------------|------------------------|
| <u>Cost</u> | | | | |
| Balance on January 1, 2019 | \$ 70,144,000 | \$ 3,024,206 | \$ 17,910 | \$ 73,186,116 |
| Additions - acquired separately | - | 281,691 | 2,101 | 283,792 |
| Disposal | <u>(10,179,000)</u> | <u>(250,865)</u> | <u>-</u> | <u>(10,429,865)</u> |
| Balance on December 31, 2019 | <u>\$ 59,965,000</u> | <u>\$ 3,055,032</u> | <u>\$ 20,011</u> | <u>\$ 63,040,043</u> |
| <u>Accumulated amortization and impairment</u> | | | | |
| Balance on January 1, 2019 | \$ (20,632,474) | \$ (2,143,446) | \$ (5,901) | \$ (22,781,821) |
| Amortization expenses | (3,839,572) | (326,157) | (2,901) | (4,168,630) |
| Disposal | <u>10,179,000</u> | <u>250,865</u> | <u>-</u> | <u>10,429,865</u> |
| Balance on December 31, 2019 | <u>\$ (14,293,046)</u> | <u>\$ (2,218,738)</u> | <u>\$ (8,802)</u> | <u>\$ (16,520,586)</u> |

(Continued)

| | Mobile Broadband Concession | Computer Software | Others | Total |
|--|--|------------------------------|--------------------|-------------------------------------|
| Balance on January 1, 2019, net | <u>\$ 49,511,526</u> | <u>\$ 880,760</u> | <u>\$ 12,009</u> | <u>\$ 50,404,295</u> |
| Balance on December 31, 2019, net | <u>\$ 45,671,954</u> | <u>\$ 836,294</u> | <u>\$ 11,209</u> | <u>\$ 46,519,457</u> |
| <u>Cost</u> | | | | |
| Balance on January 1, 2020 | \$ 59,965,000 | \$ 3,055,032 | \$ 20,011 | \$ 63,040,043 |
| Additions - acquired separately | 48,373,000 | 165,024 | 1,575 | 48,539,599 |
| Disposal | <u>-</u> | <u>(333,110)</u> | <u>(9)</u> | <u>(333,119)</u> |
| Balance on December 31, 2020 | <u>\$ 108,338,000</u> | <u>\$ 2,886,946</u> | <u>\$ 21,577</u> | <u>\$ 111,246,523</u> |
| <u>Accumulated amortization and impairment</u> | | | | |
| Balance on January 1, 2020 | \$ (14,293,046) | \$ (2,218,738) | \$ (8,802) | \$ (16,520,586) |
| Amortization expenses | (5,025,796) | (306,904) | (2,950) | (5,335,650) |
| Disposal | <u>-</u> | <u>333,110</u> | <u>9</u> | <u>333,119</u> |
| Balance on December 31, 2020 | <u>\$ (19,318,842)</u> | <u>\$ (2,192,532)</u> | <u>\$ (11,743)</u> | <u>\$ (21,523,117)</u> |
| Balance on January 1, 2020, net | <u>\$ 45,671,954</u> | <u>\$ 836,294</u> | <u>\$ 11,209</u> | <u>\$ 46,519,457</u> |
| Balance on December 31, 2020, net | <u>\$ 89,019,158</u> | <u>\$ 694,414</u> | <u>\$ 9,834</u> | <u>\$ 89,723,406</u> (Concluded) |

For long-term business development, the Company participated in the 5G mobile broadband license bidding hosted by the NCC and paid the deposit for 5G spectrum bidding amounting to \$1,000,000 thousand (included in other assets) in October 2019. The Company paid \$48,373,000 thousand, including the aforementioned deposit, in February 2020 for the aforementioned license to obtain 90MHz in the 3.5GHz spectrum and 600MHz in the 28GHz spectrum.

The concessions are granted and issued by the NCC. The concession fees are amortized using the straight-line method over the period from the date operations commence through the date the license expires or the useful life, whichever is shorter. The 4G concession fees will be fully amortized by December 2030 and December 2033 and 5G concession fees will be fully amortized by December 2040.

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 1 to 11 years.

18. OTHER ASSETS

| | December 31 | |
|--|---------------------|---------------------|
| | 2020 | 2019 |
| Spare parts | \$ 2,158,511 | \$ 2,337,589 |
| Refundable deposits | 1,539,594 | 1,561,372 |
| Other financial assets | 1,000,000 | 1,000,000 |
| Deposit for mobile broadband license bidding (Note 17) | - | 1,000,000 |
| Others | <u>1,906,485</u> | <u>2,143,070</u> |
| | <u>\$ 6,604,590</u> | <u>\$ 8,042,031</u> |
| Current | | |
| Spare parts | \$ 2,158,511 | \$ 2,337,589 |
| Others | <u>24,960</u> | <u>16,626</u> |
| | <u>\$ 2,183,471</u> | <u>\$ 2,354,215</u> |
| Noncurrent | | |
| Refundable deposits | \$ 1,539,594 | \$ 1,561,372 |
| Other financial assets | 1,000,000 | 1,000,000 |
| Deposit for mobile broadband license bidding | - | 1,000,000 |
| Others | <u>1,881,525</u> | <u>2,126,444</u> |
| | <u>\$ 4,421,119</u> | <u>\$ 5,687,816</u> |

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.

The Company evaluated that certain other assets will not be used in the future and there was no active market for sale; therefore, the Company determined that the recoverable amount of such assets was nil and recognized impairment losses of \$43,971 thousand for the year ended December 31, 2019. The aforementioned impairment loss was included in other income and expenses in the statements of comprehensive income.

19. HEDGING FINANCIAL INSTRUMENTS

The Company's hedge strategy is to enter into forward exchange contracts - buy to avoid its foreign currency exposure to certain foreign currency denominated equipment 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. When forecast purchases actually take place, basis adjustments are made to the initial carrying amounts of hedged items.

For the hedges of highly probable forecast sales and purchases, as the critical terms (i.e. the notional amount, life and underlying) of the forward foreign exchange contracts and their corresponding hedged items are the same, the Company performs a qualitative assessment of effectiveness and it is expected that the value of the forward contracts and the value of the corresponding hedged items will systematically change in opposite direction in response to movements in the underlying exchange rates.

The main source of hedge ineffectiveness in these hedging relationships is the effect of credit risks of the Company and the counterparty on the fair value of the forward exchange contracts. Such credit risks do not impact the fair value of the hedged item attributable to changes in foreign exchange rates. No other sources of ineffectiveness emerged from these hedging relationships.

The following tables summarized the information relating to the hedges for foreign currency risk.

December 31, 2020

| Hedging Instruments | Currency | Notional Amount (In Thousands) | Maturity | Forward Rate | Line Item in Balance Sheet | Carrying Amount | | Change in Fair Values of Hedging Instruments Used for Calculating Hedge Ineffectiveness |
|--|----------|-----------------------------------|----------|--------------|--|---|------------------------------------|---|
| | | | | | | Asset | Liability | |
| Cash flow hedge Forecast purchases - forward exchange contracts | NT\$/EUR | NT\$200,867/ EUR5,831 | 2021.03 | \$ 34.45 | Hedging financial assets (liabilities) | \$ 1,752 | \$ - | \$ 1,425 |
| | | | | | | Change in Value of Hedged Item Used for Calculating Hedge Ineffectiveness | | |
| | | | | | | Accumulated Gain or Loss on Hedging Instruments in Other Equity | | |
| | | | | | | Continuing Hedges | Hedge Accounting No Longer Applied | |
| Cash flow hedge Forecast equipment purchases | | | | | | \$ (1,425) | \$ 1,752 | \$ - |

December 31, 2019

| Hedging Instruments | Currency | Notional Amount (In Thousands) | Maturity | Forward Rate | Line Item in Balance Sheet | Carrying Amount | | Change in Fair Values of Hedging Instruments Used for Calculating Hedge Ineffectiveness |
|--|----------|-----------------------------------|----------|--------------|--|---|------------------------------------|---|
| | | | | | | Asset | Liability | |
| Cash flow hedge Forecast purchases - forward exchange contracts | NT\$/EUR | NT\$ 84,066/ EUR 2,498 | 2020.03 | \$ 33.66 | Hedging financial assets (liabilities) | \$ 327 | \$ - | \$ (742) |
| | | | | | | Change in Value of Hedged Item Used for Calculating Hedge Ineffectiveness | | |
| | | | | | | Accumulated Gain or Loss on Hedging Instruments in Other Equity | | |
| | | | | | | Continuing Hedges | Hedge Accounting No Longer Applied | |
| Cash flow hedge Forecast equipment purchases | | | | | | \$ 742 | \$ 327 | \$ - |

Year ended December 31, 2020

| Hedge Transaction | Comprehensive Income | | | | |
|------------------------------|--|--|--|---|---|
| | Hedging Gain or Loss Recognized in OCI | Amount of Hedge Ineffectiveness Recognized in Profit or Loss | Line Item in Which Hedge Ineffectiveness is Included | Reclassification from Equity to Profit or Loss and the Adjusted Line Item | |
| | | | | Amount Reclassified to P/L and the Adjusted Line Item | Due to Hedged Future Cash Flows No Longer Expected to Occur |
| Cash flow hedge | | | | | |
| Forecast equipment purchases | \$ 1,425 | \$ - | - | \$ 20,564 Construction in progress and equipment to be accepted | \$ - Other gains and losses |

Year ended December 31, 2019

| Hedge Transaction | Comprehensive Income | | | | |
|------------------------------|--|--|--|---|---|
| | Hedging Gain or Loss Recognized in OCI | Amount of Hedge Ineffectiveness Recognized in Profit or Loss | Line Item in Which Hedge Ineffectiveness is Included | Reclassification from Equity to Profit or Loss and the Adjusted Line Item | |
| | | | | Amount Reclassified to P/L and the Adjusted Line Item | Due to Hedged Future Cash Flows No Longer Expected to Occur |
| Cash flow hedge | | | | | |
| Forecast equipment purchases | \$ (742) | \$ - | - | \$ (2,026) Construction in progress and equipment to be accepted | \$ - Other gains and losses |

20. SHORT-TERM BILLS PAYABLE

| | December 31 | |
|---|---------------------|-------------|
| | 2020 | 2019 |
| Commercial paper payable | \$ 7,000,000 | \$ - |
| Less: Discounts on commercial paper payable | <u>(802)</u> | <u>-</u> |
| | <u>\$ 6,999,198</u> | <u>\$ -</u> |

The annual interest rates of commercial paper payable were as follows:

| | December 31 | |
|--------------------------|-------------|------|
| | 2020 | 2019 |
| Commercial paper payable | 0.34%-0.36% | - |

21. BONDS PAYABLE

| | December 31 | |
|----------------------------------|----------------------|-------------|
| | 2020 | 2019 |
| Unsecured domestic bonds | \$ 20,000,000 | \$ - |
| Less: Discounts on bonds payable | <u>(19,728)</u> | <u>-</u> |
| | <u>\$ 19,980,272</u> | <u>\$ -</u> |

The major terms of unsecured domestic bonds issued by Chunghwa were as follows:

| Issuance | Tranche | Issuance Period | Total Amount | Coupon Rate | Repayment and Interest Payment |
|----------|---------|------------------------|--------------|-------------|---|
| 2020-1 | A | July 2020 to July 2025 | \$ 8,800,000 | 0.50% | One-time repayment upon maturity; interest payable annually |
| | B | July 2020 to July 2027 | 7,500,000 | 0.54% | The same as above |
| | C | July 2020 to July 2030 | 3,700,000 | 0.59% | The same as above |

22. TRADE NOTES AND ACCOUNTS PAYABLE

| | December 31 | |
|----------------------------------|----------------------|----------------------|
| | 2020 | 2019 |
| Trade notes and accounts payable | <u>\$ 12,226,935</u> | <u>\$ 12,052,523</u> |

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

23. OTHER PAYABLES

| | December 31 | |
|---|----------------------|----------------------|
| | 2020 | 2019 |
| Accrued salary and compensation | \$ 7,811,452 | \$ 8,084,105 |
| Payables to contractors | 1,667,666 | 1,602,855 |
| Accrued compensation to employees and remuneration to directors | 1,238,251 | 1,161,404 |
| Amounts collected for others | 1,222,144 | 1,139,049 |
| Payable on land (Note 14) | 1,056,680 | - |
| Accrued maintenance costs | 1,024,468 | 953,441 |
| Payables to equipment suppliers | 992,114 | 220,650 |
| Accrued franchise fees | 782,597 | 1,088,333 |
| Others | <u>4,250,713</u> | <u>5,020,746</u> |
| | <u>\$ 20,046,085</u> | <u>\$ 19,270,583</u> |

24. PROVISIONS

| | December 31 | |
|-------------------|-------------------|-------------------|
| | 2020 | 2019 |
| Onerous contracts | \$ 169,986 | \$ 66,907 |
| Warranties | 83,589 | 74,235 |
| Employee benefits | 57,210 | 59,745 |
| Others | <u>4,097</u> | <u>4,397</u> |
| | <u>\$ 314,882</u> | <u>\$ 205,284</u> |
| Current | \$ 214,266 | \$ 107,902 |
| Noncurrent | <u>100,616</u> | <u>97,382</u> |
| | <u>\$ 314,882</u> | <u>\$ 205,284</u> |

| | Onerous Contracts | Warranties | Employee Benefits | Others | Total |
|---|----------------------|------------------|----------------------|-----------------|-------------------|
| Balance on January 1, 2019 | \$ 19,323 | \$ 54,308 | \$ 51,393 | \$ 4,447 | \$ 129,471 |
| Additional provisions recognized | 47,584 | 40,503 | 9,194 | - | 97,281 |
| Used / forfeited during the year | <u>-</u> | <u>(20,576)</u> | <u>(842)</u> | <u>(50)</u> | <u>(21,468)</u> |
| Balance on December 31, 2019 | <u>\$ 66,907</u> | <u>\$ 74,235</u> | <u>\$ 59,745</u> | <u>\$ 4,397</u> | <u>\$ 205,284</u> |
| Balance on January 1, 2020 | \$ 66,907 | \$ 74,235 | \$ 59,745 | \$ 4,397 | \$ 205,284 |
| Additional / (reversal of) provisions recognized | 106,801 | 31,301 | (1,841) | (200) | 136,061 |
| Used / forfeited during the year | <u>(3,722)</u> | <u>(21,947)</u> | <u>(694)</u> | <u>(100)</u> | <u>(26,463)</u> |
| Balance on December 31, 2020 | <u>\$ 169,986</u> | <u>\$ 83,589</u> | <u>\$ 57,210</u> | <u>\$ 4,097</u> | <u>\$ 314,882</u> |

- The provision for warranty 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.
- The provision for employee benefits represents vested long-term service compensation accrued.
- The provision for onerous contracts represents the present obligation resulting from the measurement for the unavoidable costs of meeting the Company's contractual obligations exceed the economic benefits expected to be received from the contracts.

25. RETIREMENT BENEFIT PLANS

- 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 in the ROC 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, entities are required to contribute the difference in one appropriation to their pension funds before the end of next March when the balance of the Funds is insufficient to pay the eligible employees who meet the retirement criteria in the following 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 | |
|--|---------------------|---------------------|
| | 2020 | 2019 |
| Present value of funded defined benefit obligation | \$ 39,220,357 | \$ 40,917,777 |
| Fair value of plan assets | <u>(39,254,971)</u> | <u>(39,613,213)</u> |
| Funded status - deficit (surplus) | \$ <u>(34,614)</u> | \$ <u>1,304,564</u> |
| Net defined benefit liabilities | \$ 3,316,932 | \$ 3,412,740 |
| Net defined benefit assets | <u>(3,351,546)</u> | <u>(2,108,176)</u> |
| | \$ <u>(34,614)</u> | \$ <u>1,304,564</u> |

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, 2019 | \$ 41,088,052 | \$ 38,817,587 | \$ 2,270,465 |
| Current service cost | 2,925,862 | - | 2,925,862 |
| Interest expense / interest income | <u>397,224</u> | <u>388,140</u> | <u>9,084</u> |
| Amounts recognized in profit or loss | <u>3,323,086</u> | <u>388,140</u> | <u>2,934,946</u> |

(Continued)

| | Present Value of Funded Defined Benefit Obligation | Fair Value of Plan Assets | Net Defined Benefit Liabilities (Assets) |
|--|---|--------------------------------------|---|
| Remeasurement on the net defined benefit liability | | | |
| Return on plan assets (excluding amounts included in net interest) | \$ - | \$ 1,330,346 | \$ (1,330,346) |
| Actuarial losses recognized from changes in financial assumptions | 639,398 | - | 639,398 |
| Actuarial gains recognized from experience adjustments | <u>(815,342)</u> | <u>-</u> | <u>(815,342)</u> |
| Amounts recognized in other comprehensive income | <u>(175,944)</u> | <u>1,330,346</u> | <u>(1,506,290)</u> |
| Contributions from employer | - | 2,091,936 | (2,091,936) |
| Benefits paid | (3,014,796) | (3,014,796) | - |
| Benefits paid directly by the Company | <u>(302,621)</u> | <u>-</u> | <u>(302,621)</u> |
| Balance on December 31, 2019 | 40,917,777 | 39,613,213 | 1,304,564 |
| Current service cost | 2,051,349 | - | 2,051,349 |
| Interest expense / interest income | <u>295,819</u> | <u>295,626</u> | <u>193</u> |
| Amounts recognized in profit or loss | <u>2,347,168</u> | <u>295,626</u> | <u>2,051,542</u> |
| Remeasurement on the net defined benefit liability | | | |
| Return on plan assets (excluding amounts included in net interest) | - | 1,299,425 | (1,299,425) |
| Actuarial losses recognized from changes in financial assumptions | 604,943 | - | 604,943 |
| Actuarial gains recognized from experience adjustments | <u>(475,830)</u> | <u>-</u> | <u>(475,830)</u> |
| Amounts recognized in other comprehensive income | <u>129,113</u> | <u>1,299,425</u> | <u>(1,170,312)</u> |
| Contributions from employer | - | 1,957,678 | (1,957,678) |
| Benefits paid | (3,910,971) | (3,910,971) | - |
| Benefits paid directly by the Company | <u>(262,730)</u> | <u>-</u> | <u>(262,730)</u> |
| Balance on December 31, 2020 | <u>\$ 39,220,357</u> | <u>\$ 39,254,971</u> | <u>\$ (34,614)</u> (Concluded) |

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

| | Year Ended December 31 | |
|-------------------------------------|-------------------------------|---------------------|
| | 2020 | 2019 |
| Operating costs | \$ 1,205,306 | \$ 1,725,459 |
| Marketing expenses | 601,609 | 864,796 |
| General and administrative expenses | 120,736 | 163,940 |
| Research and development expenses | <u>72,125</u> | <u>103,156</u> |
| | <u>\$ 1,999,776</u> | <u>\$ 2,857,351</u> |

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 lower 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 | |
| | 2020 | 2019 |
| Discount rates | 0.50% | 0.75% |
| Expected rates of salary increase | 1.20% | 1.20% |

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 values of the defined benefit obligations would increase (decrease) as follows:

| | December 31 | |
|-----------------------------------|--------------------|----------------|
| | 2020 | 2019 |
| Discount rates | | |
| 0.5% increase | \$ (1,191,982) | \$ (1,259,747) |
| 0.5% decrease | \$ 1,266,625 | \$ 1,339,198 |
| Expected rates of salary increase | | |
| 0.5% increase | \$ 1,355,750 | \$ 1,431,825 |
| 0.5% decrease | \$ (1,287,413) | \$ (1,358,894) |

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 | |
|--|---------------------|---------------------|
| | 2020 | 2019 |
| The expected contributions to the plan for the next year | \$ <u>1,924,715</u> | \$ <u>2,069,215</u> |
| The average duration of the defined benefit obligation | 6.4 years | 6.5 years |

As of December 31, 2020, the Company's maturity analysis of the undiscounted benefit payments was as follows:

| Year | Amount |
|---------------------|----------------------|
| 2021 | \$ 3,277,097 |
| 2022 | 7,045,122 |
| 2023 | 10,630,768 |
| 2024 | 11,771,892 |
| 2025 and thereafter | <u>39,413,041</u> |
| | <u>\$ 72,137,920</u> |

26. EQUITY

a. Share capital

1) Common stocks

| | December 31 | |
|---|-----------------------|-----------------------|
| | 2020 | 2019 |
| Number of authorized shares (thousand) | <u>12,000,000</u> | <u>12,000,000</u> |
| Authorized shares | <u>\$ 120,000,000</u> | <u>\$ 120,000,000</u> |
| Number of issued and paid shares (thousand) | <u>7,757,447</u> | <u>7,757,447</u> |
| Issued shares | <u>\$ 77,574,465</u> | <u>\$ 77,574,465</u> |

Each issued common stock with par value of \$10 is 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, 2020, the outstanding ADSs were 220,439 thousand common stocks, which equaled 22,044 thousand units and represented 2.84% 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 are entitled to, 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, 2020 and 2019 were as follows:

| | Share Premium | Movements of Additional Paid-in Capital for Associates 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, 2019 | \$ 147,329,386 | \$ 89,893 | \$ 2,063,148 | \$ 987,611 | \$ 18,648 | \$ 20,648,078 | \$ 171,136,764 |
| Unclaimed dividend | - | - | - | - | 1,266 | - | 1,266 |
| Change in additional paid-in capital from investments in subsidiaries, associates and joint ventures accounted for using equity method | - | 118,853 | - | - | - | - | 118,853 |
| Share-based payment transactions of subsidiaries | - | - | (898) | - | - | - | (898) |
| Balance on December 31, 2019 | 147,329,386 | 208,746 | 2,062,250 | 987,611 | 19,914 | 20,648,078 | 171,255,985 |
| Unclaimed dividend | - | - | - | - | 1,605 | - | 1,605 |
| Change in additional paid-in capital from investments in subsidiaries, associates and joint ventures accounted for using equity method | - | (21,918) | - | - | - | - | (21,918) |
| Change in additional paid-in capital for not proportionately participating in the capital increase of subsidiaries | - | - | (103) | - | - | - | (103) |
| Share-based payment transactions of subsidiaries | - | - | 25,810 | - | - | - | 25,810 |
| Balance on December 31, 2020 | \$ 147,329,386 | \$ 186,828 | \$ 2,087,957 | \$ 987,611 | \$ 21,519 | \$ 20,648,078 | \$ 171,261,379 |

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 except the additional paid-in capital arising from unclaimed dividend can only be utilized to offset deficits.

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.

Among additional paid-in capital from movements of investments in associates and joint ventures accounted for using equity method, the portion arising from 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. However, other additional paid-in capital recognized in proportion of share ownership may only be utilized to offset deficits.

c. Retained earnings and dividends policy

In accordance with the the Company's Articles of Incorporation, the Company 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.

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.

The appropriations of the 2019 and 2018 earnings of the Company approved by the stockholders in their meetings on May 29, 2020 and June 21, 2019 were as follows:

| | Appropriation of Earnings | | Dividends Per Share (NT\$) | |
|----------------|----------------------------------|---------------------------------|---------------------------------------|---------------------------------|
| | For Fiscal Year 2019 | For Fiscal Year 2018 | For Fiscal Year 2019 | For Fiscal Year 2018 |
| Cash dividends | \$ 32,782,969 | \$ 34,745,603 | \$ 4.226 | \$ 4.479 |

The appropriations of earnings for 2020 had been proposed by the Company’s Board of Directors on February 23, 2021. The appropriations and dividends per share were as follows:

| | Appropriation of Earnings | Dividends Per Share (NT\$) |
|----------------|--------------------------------------|---------------------------------------|
| Cash dividends | \$ 33,403,565 | \$ 4.306 |

The appropriations of earnings for 2020 are subject to the resolution of the stockholders’ meeting planned to be held on May 28, 2021. 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. Others

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 or loss on financial assets at FVOCI

| | Year Ended December 31 | |
|--|-------------------------------|-------------|
| | 2020 | 2019 |
| Beginning balance | \$ 836,598 | \$ 538,272 |
| Recognized for the year | | |
| Unrealized gain or loss | | |
| Equity instruments | 546,879 | 399,429 |
| Share from subsidiaries, associates and joint ventures accounted for using the equity method | (126,890) | (101,103) |

(Continued)

| | Year Ended December 31 | |
|--|-------------------------------|----------------------------------|
| | 2020 | 2019 |
| Transferred accumulated gain or loss to retained earnings resulting from the disposal of equity instruments (Note 8) | \$ (16,686) | \$ - |
| Ending balance | <u>\$1,239,901</u> | <u>\$ 836,598</u> (Concluded) |

27. REVENUES

| | Year Ended December 31 | |
|---------------------------------------|-------------------------------|-----------------------|
| | 2020 | 2019 |
| Revenue from contracts with customers | <u>\$ 177,451,021</u> | <u>\$ 178,227,341</u> |
| Other revenues | | |
| Rental income | 801,580 | 752,622 |
| Others | <u>370,226</u> | <u>341,875</u> |
| | <u>1,171,806</u> | <u>1,094,497</u> |
| | <u>\$ 178,622,827</u> | <u>\$ 179,321,838</u> |

For the information of performance obligations related to customer contracts, please refer to Note 3 Summary of Significant Accounting Policies for details.

a. Disaggregation of revenue

2020

| | Domestic Fixed Communi- cations Business | Mobile Communi- cations Business | Internet Business | International Fixed Communi- cations Business | Others | Total |
|---|---|---|------------------------------|--|-------------------|----------------------|
| <u>Main Products and Service Revenues</u> | | | | | | |
| Mobile services revenue | \$ - | \$ 60,396,292 | \$ - | \$ - | \$ - | \$ 60,396,292 |
| Sales of products | 2,214,874 | 11,026,699 | 59,395 | 9,814 | - | 13,310,782 |
| Local telephone and domestic long distance telephone services revenue | 26,495,555 | - | - | - | - | 26,495,555 |
| Broadband access and domestic leased line services revenue | 22,500,492 | - | - | - | - | 22,500,492 |
| Data communications internet services revenue | - | - | 20,017,339 | - | - | 20,017,339 |
| International network and leased line services revenue | - | - | - | 3,367,177 | - | 3,367,177 |
| Others | <u>17,791,674</u> | <u>620,070</u> | <u>9,406,670</u> | <u>3,440,055</u> | <u>104,915</u> | <u>31,363,384</u> |
| | <u>\$ 69,002,595</u> | <u>\$ 72,043,061</u> | <u>\$ 29,483,404</u> | <u>\$ 6,817,046</u> | <u>\$ 104,915</u> | <u>\$177,451,021</u> |

2019

| | Domestic Fixed Communi- cations Business | Mobile Communi- cations Business | Internet Business | International Fixed Communi- cations Business | Others | Total |
|---|---|---|----------------------|---|-------------------|-----------------------|
| <u>Main Products and Service Revenues</u> | | | | | | |
| Mobile services revenue | \$ - | \$ 62,808,959 | \$ - | \$ - | \$ - | \$ 62,808,959 |
| Sales of products | 1,958,028 | 11,634,139 | 8,691 | 8,804 | - | 13,609,662 |
| Local telephone and domestic long distance telephone services revenue | 27,949,534 | - | - | - | - | 27,949,534 |
| Broadband access and domestic leased line services revenue | 22,180,256 | - | - | - | - | 22,180,256 |
| Data communications internet services revenue | - | - | 19,637,375 | - | - | 19,637,375 |
| International network and leased line services revenue | - | - | - | 6,513,830 | - | 6,513,830 |
| Others | 13,169,912 | 354,495 | 8,148,555 | 3,744,286 | 110,477 | 25,527,725 |
| | <u>\$ 65,257,730</u> | <u>\$ 74,797,593</u> | <u>\$ 27,794,621</u> | <u>\$ 10,266,920</u> | <u>\$ 110,477</u> | <u>\$ 178,227,341</u> |

b. Contract balances

| | December 31, 2020 | December 31, 2019 | January 1, 2019 |
|---|----------------------|----------------------|----------------------|
| Trade notes and accounts receivable (Note 9) | <u>\$ 19,554,643</u> | <u>\$ 23,478,061</u> | <u>\$ 27,851,879</u> |
| Contract assets | | | |
| Products and service bundling | \$ 2,649,230 | \$ 2,190,217 | \$ 2,225,636 |
| Others | 99,475 | 91,152 | 101,890 |
| Less: Loss allowance | <u>(7,016)</u> | <u>(5,686)</u> | <u>(6,381)</u> |
| | <u>\$ 2,741,689</u> | <u>\$ 2,275,683</u> | <u>\$ 2,321,145</u> |
| Current | \$ 1,734,081 | \$ 1,470,985 | \$ 1,653,886 |
| Noncurrent | <u>1,007,608</u> | <u>804,698</u> | <u>667,259</u> |
| | <u>\$ 2,741,689</u> | <u>\$ 2,275,683</u> | <u>\$ 2,321,145</u> |
| Contract liabilities | | | |
| Telecommunications business | \$ 11,677,075 | \$ 10,559,858 | \$ 8,443,296 |
| Project business | 6,012,181 | 10,265,409 | 4,439,286 |
| Products and service bundling | 12,455 | 23,319 | 28,689 |
| Others | <u>301,367</u> | <u>251,332</u> | <u>231,812</u> |
| | <u>\$ 18,003,078</u> | <u>\$ 21,099,918</u> | <u>\$ 13,143,083</u> |
| Current | \$ 12,661,964 | \$ 16,684,939 | \$ 10,686,892 |
| Noncurrent | <u>5,341,114</u> | <u>4,414,979</u> | <u>2,456,191</u> |
| | <u>\$ 18,003,078</u> | <u>\$ 21,099,918</u> | <u>\$ 13,143,083</u> |

The changes in the contract asset and the contract liability balances primarily result from the timing difference between the satisfaction of performance obligations and the payments collected from customers. Significant changes of contract assets and liabilities recognized resulting from product and service bundling were as follows:

| | Year Ended December 31 | |
|------------------------------------|-------------------------------|---------------------|
| | 2020 | 2019 |
| Contract assets | | |
| Net increase of customer contracts | \$ 2,340,655 | \$ 1,943,860 |
| Reclassified to trade receivables | <u>(1,851,682)</u> | <u>(2,078,331)</u> |
| | <u>\$ 488,973</u> | <u>\$ (134,471)</u> |
| Contract liabilities | | |
| Net increase of customer contracts | \$ 7,179 | \$ 16,289 |
| Recognized as revenues | <u>(18,043)</u> | <u>(21,659)</u> |
| | <u>\$ (10,864)</u> | <u>\$ (5,370)</u> |

The Company applies the simplified approach to providing for expected credit losses prescribed by IFRS 9, which permits the use of lifetime expected loss provision for receivables. Contract assets will be reclassified to trade receivables when the corresponding invoice is billed to the client. Contract assets have substantially the same risk characteristics as the trade receivables of the same types of contracts. Therefore, the Company concluded that the expected loss rates for trade receivables can be applied to the contract assets.

Revenue recognized for the period that was included in the contract liability at the beginning of the year was as follows:

| | Year Ended December 31 | |
|-----------------------------|-------------------------------|----------------------|
| | 2020 | 2019 |
| Telecommunications business | \$ 5,479,115 | \$ 6,176,801 |
| Project business | 6,078,181 | 3,989,780 |
| Others | <u>222,364</u> | <u>180,839</u> |
| | <u>\$ 11,779,660</u> | <u>\$ 10,347,420</u> |

c. Incremental costs of obtaining contracts

| | December 31 | |
|--|---------------------|---------------------|
| | 2020 | 2019 |
| Noncurrent | | |
| Incremental costs of obtaining contracts | <u>\$ 7,015,079</u> | <u>\$ 6,976,421</u> |

The Company considered the past experience and the default clauses in the telecommunications service contracts and believes the commissions and equipment subsidies paid for obtaining such contracts are expected to be recoverable; therefore, such costs were capitalized. Amortization expenses for the years ended December 31, 2020 and 2019 were \$5,395,125 thousand and \$6,269,916 thousand, respectively.

d. Remaining Performance Obligations

As of December 31, 2020, the aggregate amount of transaction price allocated to performance obligations for non-cancellable telecommunications service contracts that are unsatisfied is \$34,201,806 thousand. The Company recognizes revenue when service is provided over contract terms. The Company expects to recognize such revenue of \$21,878,842 thousand, \$10,484,505 thousand and \$1,838,459 thousand in 2021, 2022 and 2023, respectively. The variable consideration collected from customers on nonrecurring basis resulting from exceeded usage from monthly fee and revenue recognized for contracts that the Company has a right to consideration from customers in the amount corresponding directly with the value to the customers of the Company's performance completed to date have been excluded from the disclosure of remaining performance obligations.

As of December 31, 2020, the aggregate amount of transaction price allocated to performance obligations for non-cancellable project business contracts that are unsatisfied is \$16,098,817 thousand. The Company recognizes revenues when the project business contract is completed and accepted by customers. The Company expects to recognize such revenue of \$6,282,801 thousand, \$5,536,110 thousand and \$4,279,906 thousand in 2021, 2022 and 2023, respectively. Project business contracts whose expected duration are less than a year have been excluded from the aforementioned disclosure.

28. NET INCOME

a. Other income and expenses

| | Year Ended December 31 | |
|--|-------------------------------|---------------------------|
| | 2020 | 2019 |
| Gain (loss) on disposal of property, plant and equipment | \$1,435,864 | \$ (29,229) |
| Gain on disposal of investment properties | 151,357 | - |
| Reversal of impairment loss on investment properties | 27,066 | 56,617 |
| Impairment loss on other assets | <u>-</u> | <u>(43,971)</u> |
| | <u>\$1,614,287</u> | <u>\$ (16,583)</u> |

b. Other income

| | Year Ended December 31 | |
|-----------------|-------------------------------|--------------------------|
| | 2020 | 2019 |
| Dividend income | \$ 240,821 | \$ 292,450 |
| Others | <u>105,924</u> | <u>94,297</u> |
| | <u>\$ 346,745</u> | <u>\$ 386,747</u> |

c. Other gains and losses

| | Year Ended December 31 | |
|---|-------------------------------|-------------|
| | 2020 | 2019 |
| Gain on disposal of investments accounted for using equity method | \$ 13,398 | \$ 30,152 |
| Foreign currency exchange gain or loss, net | 2,608 | 18,591 |
| | | (Continued) |

| | Year Ended December 31 | |
|--|-------------------------------|----------------------|
| | 2020 | 2019 |
| Valuation loss on financial assets and liabilities at fair value through profit or loss, net | \$ (98,404) | \$ (38,588) |
| Others | <u>(17,943)</u> | <u>(15,727)</u> |
| | <u>\$ (100,341)</u> | <u>\$ (5,572)</u> |
| | | (Concluded) |
| d. Interest expenses | | |
| | Year Ended December 31 | |
| | 2020 | 2019 |
| Interest paid to financial institutions | \$ 64,470 | \$ - |
| Interest on lease liabilities | 59,864 | 60,161 |
| Interest on bonds payable | 45,614 | - |
| Others | <u>1,710</u> | <u>1,712</u> |
| | <u>\$ 171,658</u> | <u>\$ 61,873</u> |
| e. Impairment loss (reversal of impairment loss) | | |
| | Year Ended December 31 | |
| | 2020 | 2019 |
| Contract assets | <u>\$ 1,330</u> | <u>\$ (695)</u> |
| Trade notes and accounts receivable | <u>\$ 49,108</u> | <u>\$ (57,088)</u> |
| Other receivables | <u>\$ (4,749)</u> | <u>\$ (69,236)</u> |
| Inventories | <u>\$1,124,350</u> | <u>\$ 475,024</u> |
| Investment properties | <u>\$ (27,066)</u> | <u>\$ (56,617)</u> |
| Others | <u>\$ -</u> | <u>\$ 43,971</u> |
| f. Depreciation and amortization expenses | | |
| | Year Ended December 31 | |
| | 2020 | 2019 |
| Property, plant and equipment | \$ 26,308,062 | \$ 26,280,508 |
| Right-of-use assets | 3,522,245 | 3,547,154 |
| Investment properties | 22,332 | 25,157 |
| Intangible assets | 5,335,650 | 4,168,630 |
| Incremental costs of obtaining contracts | <u>5,395,125</u> | <u>6,269,916</u> |
| Total depreciation and amortization expenses | <u>\$ 40,583,414</u> | <u>\$ 40,291,365</u> |
| Depreciation expenses summarized by functions | | |
| Operating costs | \$ 28,694,921 | \$ 28,630,553 |
| Operating expenses | <u>1,157,718</u> | <u>1,222,266</u> |
| | <u>\$ 29,852,639</u> | <u>\$ 29,852,819</u> |
| | | (Continued) |

| | Year Ended December 31 | |
|---|-------------------------------|----------------------|
| | 2020 | 2019 |
| Amortization expenses summarized by functions | | |
| Operating costs | \$ 10,578,714 | \$ 10,281,841 |
| Marketing expenses | 81,035 | 81,492 |
| General and administrative expenses | 47,724 | 55,402 |
| Research and development expenses | <u>23,302</u> | <u>19,811</u> |
| | <u>\$ 10,730,775</u> | <u>\$ 10,438,546</u> |
| | | (Concluded) |

g. Employee benefit expenses

| | Year Ended December 31 | |
|---------------------------------|-------------------------------|----------------------|
| | 2020 | 2019 |
| Post-employment benefit | | |
| Defined contribution plans | \$ 336,674 | \$ 302,912 |
| Defined benefit plans | <u>1,999,776</u> | <u>2,857,351</u> |
| | <u>2,336,450</u> | <u>3,160,263</u> |
| Other employee benefit | | |
| Salaries | 19,366,322 | 19,887,957 |
| Insurance | 1,959,488 | 2,031,482 |
| Others | <u>11,970,883</u> | <u>12,247,172</u> |
| | <u>33,296,693</u> | <u>34,166,611</u> |
| Total employee benefit expenses | <u>\$ 35,633,143</u> | <u>\$ 37,326,874</u> |
| Summary by functions | | |
| Operating costs | \$ 20,197,935 | \$ 21,192,623 |
| Operating expenses | <u>15,435,208</u> | <u>16,134,251</u> |
| | <u>\$ 35,633,143</u> | <u>\$ 37,326,874</u> |

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. As of December 31, 2020, the payables of the employees' compensation and of the remuneration to directors were \$1,202,448 thousand and \$35,803 thousand, respectively. Such amounts have been approved by the Company's Board of Directors on February 23, 2021 and will be reported to the stockholders in their meeting planned to be held on May 28, 2021.

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

The compensation to the employees and remuneration to the directors of 2019 and 2018 approved by the Board of Directors on February 26, 2020 and March 19, 2019, respectively, were as follows:

| | 2019 | 2018 |
|---|--------------|--------------|
| | Cash | Cash |
| Compensation distributed to the employees | \$ 1,126,194 | \$ 1,404,264 |
| Remuneration paid to the directors | 35,210 | 38,216 |

There was no difference between the initial accrued amounts recognized in 2019 and 2018 and the amounts approved by the Board of Directors in 2020 and 2019 of the aforementioned compensation to employees and the remuneration to directors.

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

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 | |
|---|-------------------------------|---------------------|
| | 2020 | 2019 |
| Current tax | | |
| Current tax expenses recognized for the year | \$ 7,542,030 | \$ 7,590,104 |
| Income tax adjustments on prior years | - | (85,360) |
| Others | <u>19,621</u> | <u>10,660</u> |
| | 7,561,651 | 7,515,404 |
| Deferred tax | | |
| Deferred tax benefits recognized for the year | (99,847) | (41,358) |
| Income tax adjustments on prior years | <u>15,495</u> | <u>-</u> |
| | <u>(84,352)</u> | <u>(41,358)</u> |
| Income tax recognized in profit or loss | <u>\$ 7,477,299</u> | <u>\$ 7,474,046</u> |

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

| | Year Ended December 31 | |
|---|-------------------------------|----------------------|
| | 2020 | 2019 |
| Income before income tax | <u>\$ 40,883,429</u> | <u>\$ 40,262,592</u> |
| Income tax expense calculated at the statutory rate | \$ 8,176,686 | \$ 8,052,518 |
| Nondeductible income and expenses in determining taxable income | (466) | 5,140 |
| Tax-exempt income | (613,694) | (323,439) |
| Investment credits | (117,488) | (192,921) |
| Income tax adjustments on prior years | 15,495 | (85,360) |
| Others | <u>16,766</u> | <u>18,108</u> |
| Income tax expense recognized in profit or loss | <u>\$ 7,477,299</u> | <u>\$ 7,474,046</u> |

The applicable tax rate used by the Company is 20%.

In July 2019, the President of the ROC announced the amendments to the Statute of Industrial Innovation, which stipulate that the unappropriated earnings in 2018 and thereafter that are used to build or acquire certain assets or technologies are allowed as deduction when computing the income tax on unappropriated earnings. The Company has deducted the reinvested capital expenditure while calculating income tax on unappropriated earnings.

b. Income tax recognized in other comprehensive income

| | Year Ended December 31 | |
|---|-------------------------------|-------------------|
| | 2020 | 2019 |
| Deferred tax | | |
| Remeasurement on defined benefit pension plan | <u>\$ 234,062</u> | <u>\$ 301,258</u> |

c. Current tax liabilities

| | December 31 | |
|-------------------------|--------------------|---------------------|
| | 2020 | 2019 |
| Current tax liabilities | | |
| Income tax payable | <u>\$3,914,134</u> | <u>\$ 3,739,435</u> |

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, 2020

| | Beginning Balance | Recognized in Profit or Loss | Recognized in Other Comprehensive Income | Ending Balance |
|--|------------------------------|---|---|---------------------------|
| <u>Deferred income tax assets</u> | | | | |
| Temporary differences | | | | |
| Defined benefit pension plan | \$ 2,017,230 | \$ 19,949 | \$ (234,062) | \$ 1,803,117 |
| Allowance for doubtful receivables over quota | 400,067 | (37,458) | - | 362,609 |
| Valuation loss on inventory | 127,279 | 148,308 | - | 275,587 |
| Deferred revenue | 97,457 | (24,390) | - | 73,067 |
| Accrued award credits liabilities | 17,318 | 1,091 | - | 18,409 |
| Estimated warranty liabilities | 14,847 | 1,871 | - | 16,718 |
| Others | <u>44,837</u> | <u>29,289</u> | <u>-</u> | <u>74,126</u> |
| | <u>\$ 2,719,035</u> | <u>\$ 138,660</u> | <u>\$ (234,062)</u> | <u>\$ 2,623,633</u> |
| <u>Deferred income tax liabilities</u> | | | | |
| Temporary differences | | | | |
| Defined benefit pension plan | \$ 1,756,317 | \$ 53,723 | \$ - | \$ 1,810,040 |
| Land value incremental tax | 94,986 | - | - | 94,986 |
| Deferred revenue for award credits | 28,543 | 1,664 | - | 30,207 |
| Unrealized foreign exchange gain, net | <u>1,079</u> | <u>(1,079)</u> | <u>-</u> | <u>-</u> |
| | <u>\$ 1,880,925</u> | <u>\$ 54,308</u> | <u>\$ -</u> | <u>\$ 1,935,233</u> |

For the year ended December 31, 2019

| | Beginning Balance | Recognized in Profit or Loss | Recognized in Other Comprehensive Income | Ending Balance |
|--|------------------------------|---|---|---------------------------|
| <u>Deferred income tax assets</u> | | | | |
| Temporary differences | | | | |
| Defined benefit pension plan | \$ 2,285,421 | \$ 33,067 | \$ (301,258) | \$ 2,017,230 |
| Allowance for doubtful receivables over quota | 431,538 | (31,471) | - | 400,067 |
| Valuation loss on inventory | 73,841 | 53,438 | - | 127,279 |
| Deferred revenue | 110,929 | (13,472) | - | 97,457 |
| Accrued award credits liabilities | 13,913 | 3,405 | - | 17,318 |
| Estimated warranty liabilities | 10,861 | 3,986 | - | 14,847 |
| Others | <u>129,010</u> | <u>(84,173)</u> | <u>-</u> | <u>44,837</u> |
| | <u>\$ 3,055,513</u> | <u>\$ (35,220)</u> | <u>\$ (301,258)</u> | <u>\$ 2,719,035</u> |
| <u>Deferred income tax liabilities</u> | | | | |
| Temporary differences | | | | |
| Defined benefit pension plan | \$ 1,831,328 | \$ (75,011) | \$ - | \$ 1,756,317 |
| Land value incremental tax | 94,986 | - | - | 94,986 |
| Deferred revenue for award credits | 30,690 | (2,147) | - | 28,543 |
| Unrealized foreign exchange gain, net | <u>499</u> | <u>580</u> | <u>-</u> | <u>1,079</u> |
| | <u>\$ 1,957,503</u> | <u>\$ (76,578)</u> | <u>\$ -</u> | <u>\$ 1,880,925</u> |

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

f. Income tax examinations

Income tax returns of the Company have been examined by the tax authorities through 2017.

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 | |
|---|-------------------------------|----------------------|
| | 2020 | 2019 |
| Net income used to compute the basic earnings per share | \$ 33,406,130 | \$ 32,788,546 |
| Assumed conversion of all dilutive potential common stocks | | |
| Employee stock options and employee compensation of subsidiaries | <u>(7,241)</u> | <u>(3,617)</u> |
| Net income used to compute the diluted earnings per share | <u>\$ 33,398,889</u> | <u>\$ 32,784,929</u> |

Weighted Average Number of Common Stocks

(Thousand Shares)

| | Year Ended December 31 | |
|---|-------------------------------|------------------|
| | 2020 | 2019 |
| 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 | <u>7,108</u> | <u>7,862</u> |
| Weighted average number of common stocks used to compute the diluted earnings per share | <u>7,764,555</u> | <u>7,765,309</u> |

As the Company may settle the employee compensation in shares or cash, the Company shall presume that it will be settled in shares and take 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 the following year.

31. NON-CASH TRANSACTIONS

Except for those disclosed in other notes, the non-cash investing and financing activities the Company entered into were as follows:

| | Year Ended December 31 | |
|--|-------------------------------|----------------------|
| Investing activities | 2020 | 2019 |
| Increase in property, plant and equipment | \$ 24,624,730 | \$ 21,310,261 |
| Changes in other payables | <u>(1,884,118)</u> | <u>1,116,812</u> |
| Acquisition of property, plant and equipment | <u>\$ 22,740,612</u> | <u>\$ 22,427,073</u> |
| Increase in investment properties | \$ 1,359,502 | \$ 523 |
| Trade-in investment properties from asset exchange transaction (Note 14) | <u>(1,305,067)</u> | <u>-</u> |
| Acquisition of investment properties | <u>\$ 54,435</u> | <u>\$ 523</u> |
| Increase in intangible assets | \$ 48,539,599 | \$ 283,792 |
| Changes in other assets | <u>(1,000,000)</u> | <u>-</u> |
| Acquisition of intangible assets | <u>\$ 47,539,599</u> | <u>\$ 283,792</u> |
| Disposal of property, plant and equipment, net | \$ 297,161 | \$ 80,220 |
| Gain (loss) on disposal of property, plant and equipment | 1,435,864 | (29,229) |
| Trade-in investment properties from asset exchange transaction (Note 14) | (1,305,067) | - |
| Changes in other payables | (79,986) | - |
| Changes in other current monetary assets | <u>(31,032)</u> | <u>-</u> |
| Proceeds from disposal of property, plant and equipment | <u>\$ 316,940</u> | <u>\$ 50,991</u> |

Financing Activities

| | Balance on January 1, 2020 | Cash Flows from Financing Activities | Changes in Non-Cash Transactions | | Cash Flows from Operation Activities - Interest Paid | Balance on December 31, 2020 |
|-------------------|----------------------------------|---|-------------------------------------|---------------------|--|------------------------------------|
| | | | New Leases | Others | | |
| Lease liabilities | <u>\$ 8,695,214</u> | <u>\$(3,287,475)</u> | <u>\$ 3,468,664</u> | <u>\$ (195,892)</u> | <u>\$ (59,864)</u> | <u>\$ 8,620,647</u> |

| | Balance on January 1, 2019 | Cash Flows from Financing Activities | Changes in Non-Cash Transactions | | Cash Flows from Operation Activities - Interest Paid | Balance on December 31, 2019 |
|-------------------|----------------------------------|---|-------------------------------------|---------------------|--|------------------------------------|
| | | | New Leases | Others | | |
| Lease liabilities | <u>\$ 9,181,564</u> | <u>\$(3,306,322)</u> | <u>\$ 3,324,178</u> | <u>\$ (444,045)</u> | <u>\$ (60,161)</u> | <u>\$ 8,695,214</u> |

32. 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 outstanding shares, and issuing new debt or repaying debt.

33. 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 those listed in the table below, the Company considers that the carrying amounts of financial assets and liabilities not measured at fair value approximate their fair values or the fair values cannot be reliably estimated.

| | December 31 | | | |
|--|----------------|---------------|----------------|------------|
| | 2020 | | 2019 | |
| | Carrying Value | Fair Value | Carrying Value | Fair Value |
| <u>Financial liabilities</u> | | | | |
| Financial liabilities measured at amortized cost | | | | |
| Bonds payable | \$ 19,980,272 | \$ 20,078,098 | \$ - | \$ - |

The fair value of bonds payable is measured using Level 2 inputs. The valuation of fair value is based on the weighted-average per-hundred price of Taipei Exchange at the end of reporting period.

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

December 31, 2020

| | Level 1 | Level 2 | Level 3 | Total |
|---------------------------|--------------|----------|--------------|--------------|
| Hedging financial assets | \$ - | \$ 1,752 | \$ - | \$ 1,752 |
| Financial assets at FVTPL | | | | |
| Derivatives | \$ - | \$ 2,271 | \$ - | \$ 2,271 |
| Non-listed stocks | - | - | 677,202 | 677,202 |
| | \$ - | \$ 2,271 | \$ 677,202 | \$ 679,473 |
| Financial assets at FVOCI | | | | |
| Listed stocks | \$ 2,610,501 | \$ - | \$ - | \$ 2,610,501 |
| Non-listed stocks | - | - | 4,293,178 | 4,293,178 |
| | \$ 2,610,501 | \$ - | \$ 4,293,178 | \$ 6,903,679 |

December 31, 2019

| | Level 1 | Level 2 | Level 3 | Total |
|---------------------------|--------------|---------|--------------|--------------|
| Hedging financial assets | \$ - | \$ 327 | \$ - | \$ 327 |
| Financial assets at FVTPL | | | | |
| Non-listed stocks | \$ - | \$ - | \$ 778,105 | \$ 778,105 |
| Financial assets at FVOCI | | | | |
| Listed stocks | \$ 2,388,416 | \$ - | \$ - | \$ 2,388,416 |
| Non-listed stocks | - | - | 4,534,899 | 4,534,899 |
| | \$ 2,388,416 | \$ - | \$ 4,534,899 | \$ 6,923,315 |

(Continued)

| | Level 1 | Level 2 | Level 3 | Total |
|--------------------------------|-----------------------|---------------------|-----------------------|------------------------------------|
| Financial liabilities at FVTPL | | | | |
| Derivatives | \$ <u> -</u> | \$ <u> 228</u> | \$ <u> -</u> | \$ <u> 228</u> (Concluded) |

There were no transfers between Levels 1 and 2 for the years ended December 31, 2020 and 2019.

The reconciliations for financial assets measured at Level 3 were listed below:

2020

| Financial Assets | Measured at Fair Value through Profit or Loss | Measured at Fair Value through Other Comprehensive Income | Total |
|---|---|---|---------------------|
| Balance on January 1, 2020 | \$ 778,105 | \$ 4,534,899 | \$ 5,313,004 |
| Reclassified from investments accounted for using equity method | - | 1,282 | 1,282 |
| Recognized in profit or loss under “Other gains and losses” | (100,903) | - | (100,903) |
| Recognized in other comprehensive income under “Unrealized gain or loss on financial assets at fair value through other comprehensive income” | <u>-</u> | <u>(243,003)</u> | <u>(243,003)</u> |
| Balance on December 31, 2020 | <u>\$ 677,202</u> | <u>\$ 4,293,178</u> | <u>\$ 4,970,380</u> |
| Unrealized loss in 2020 | <u>\$ (100,903)</u> | | |

2019

| Financial Assets | Measured at Fair Value through Profit or Loss | Measured at Fair Value through Other Comprehensive Income | Total |
|---|---|---|---------------------|
| Balance on January 1, 2019 | \$ 517,362 | \$ 3,633,210 | \$ 4,150,572 |
| Acquisition | 300,000 | - | 300,000 |
| Recognized in profit or loss under “Other gains and losses” | (39,257) | - | (39,257) |
| Recognized in other comprehensive income under “Unrealized gain or loss on financial assets at fair value through other comprehensive income” | - | 910,856 | 910,856 |
| Proceed from return of investments | <u>-</u> | <u>(9,167)</u> | <u>(9,167)</u> |
| Balance on December 31, 2019 | <u>\$ 778,105</u> | <u>\$ 4,534,899</u> | <u>\$ 5,313,004</u> |
| Unrealized loss in 2019 | <u>\$ (39,257)</u> | | |

The fair values of financial assets and financial liabilities of Level 2 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.

The fair values of non-listed domestic and foreign equity investments were Level 3 financial assets, and determined using the market approach by reference the Price-to-Book ratios (P/B ratios) of peer companies that traded in active market or using assets approach. The significant unobservable inputs used were listed in the table below. A decrease in discount for the lack of marketability or noncontrolling interests discount would result in increases in the fair values.

| | December 31 | |
|------------------------------------|--------------------|-------------|
| | 2020 | 2019 |
| Discount for lack of marketability | 20% | 20% |
| Noncontrolling interests discount | 25% | 25% |

If the inputs to the valuation model were changed to reflect reasonably possible alternative assumptions while all the other variables were held constant, the fair values of equity investments would increase as below table. When related discounts increase, the fair value of equity investments would be the negative amount of the same amount.

| | December 31 | |
|------------------------------------|--------------------|-------------|
| | 2020 | 2019 |
| Discount for lack of marketability | | |
| 5% decrease | \$ 310,649 | \$ 332,063 |
| Noncontrolling interests discount | | |
| 5% decrease | \$ 46,906 | \$ 53,585 |

Categories of Financial Instruments

| | December 31 | |
|---|--------------------|-------------|
| | 2020 | 2019 |
| <u>Financial assets</u> | | |
| Measured at FVTPL | | |
| Mandatorily measured at FVTPL | \$ 679,473 | \$ 778,105 |
| Hedging financial assets | 1,752 | 327 |
| Financial assets at amortized cost (Note a) | 44,806,233 | 55,772,774 |
| Financial assets at FVOCI | 6,903,679 | 6,923,315 |
| <u>Financial liabilities</u> | | |
| Measured at FVTPL | | |
| Held for trading | - | 228 |
| Measured at amortized cost (Note b) | 58,305,555 | 30,394,827 |

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

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

Financial Risk Management Objectives

The main financial instruments of the Company include equity investments, trade notes and accounts receivable, trade notes and accounts payable, lease liabilities, short-term bills payable and bonds payable. 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 | |
|--------|----|--------------------|--------------|
| | | 2020 | 2019 |
| Assets | | | |
| USD | \$ | 697,597 | \$ 3,398,099 |
| EUR | | 11,883 | 10,618 |
| SGD | | 62 | 69 |
| JPY | | 482 | 539 |
| HKD | | 68,707 | 186 |

(Continued)

| | December 31 | |
|-------------|--------------------|--------------|
| | 2020 | 2019 |
| Liabilities | | |
| USD | \$ 503,192 | \$ 3,772,682 |
| EUR | 954,040 | 206,447 |
| SGD | 1,046,395 | 1,260,190 |
| JPY | 7,483 | 6,271 |
| HKD | 7,559 | 14,185 |
| | | (Concluded) |

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

| | December 31 | |
|-------------|--------------------|-------------|
| | 2020 | 2019 |
| Assets | | |
| EUR | \$ 3,902 | \$ 327 |
| USD | 121 | - |
| Liabilities | | |
| EUR | - | 228 |

Foreign currency sensitivity analysis

The Company is mainly exposed to the fluctuations of the currencies USD, EUR, SGD, JPY and HKD as 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 | |
|-------------------------------------|-------------------------------|-------------|
| | 2020 | 2019 |
| Profit or loss | | |
| Monetary assets and liabilities (a) | | |
| USD | \$ 9,720 | \$ (18,729) |
| EUR | (47,108) | (9,791) |
| SGD | (52,317) | (63,006) |
| JPY | (350) | (287) |
| HKD | 3,057 | (700) |
| Derivatives (b) | | |
| EUR | 2,627 | 2,519 |
| USD | (18,512) | - |
| Equity | | |
| Derivatives (c) | | |
| EUR | 10,210 | 4,195 |

- 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 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, there would be an equal and 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 and financial liabilities at the balance sheet dates were as follows:

| | December 31 | |
|-------------------------------|--------------------|---------------|
| | 2020 | 2019 |
| Fair value interest rate risk | | |
| Financial assets | \$ 16,006,853 | \$ 23,072,032 |
| Financial liabilities | 35,600,117 | 8,695,214 |
| Cash flow interest rate risk | | |
| Financial assets | 2,855,144 | 2,414,392 |

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 \$7,138 thousand and \$6,036 thousand for the years ended December 31, 2020 and 2019, 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 holding other company's equity. 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 had been 5% higher/lower, pre-tax profit and pre-tax other comprehensive income for the year ended December 31, 2020 would have increased/decreased by \$33,860 thousand and \$345,184 thousand as a result of the changes in fair value of financial assets at FVTPL and financial assets at FVOCI, respectively. If equity prices had been 5% higher/lower, pre-tax profit and pre-tax other comprehensive income for the year ended December 31, 2019 would have increased/decreased by \$38,905 thousand and \$346,166

thousand as a result of the changes in fair value of financial assets at FVTPL and financial assets at FVOCI, 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 the 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 maintains 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 |
|--------------------------------------|--|----------------------|-------------|-----------------------|----------------------|----------------------|----------------------|
| <u>December 31, 2020</u> | | | | | | | |
| Non-derivative financial liabilities | | | | | | | |
| Non-interest bearing | - | \$ 33,632,660 | \$ - | \$ 2,020,848 | \$ 4,722,280 | \$ - | \$ 40,375,788 |
| Fixed interest rate instruments | 0.50 | <u>7,000,000</u> | <u>-</u> | <u>-</u> | <u>8,800,000</u> | <u>11,200,000</u> | <u>27,000,000</u> |
| | | <u>\$ 40,632,660</u> | <u>\$ -</u> | <u>\$ 2,020,848</u> | <u>\$ 13,522,280</u> | <u>\$ 11,200,000</u> | <u>\$ 67,375,788</u> |

Information about the maturity analysis for lease liabilities was as follows:

| | Less than 1 Year | 1-3 Years | 3-5 Years | More than 5 Years | Total |
|-------------------|---------------------|---------------------|---------------------|----------------------|---------------------|
| Lease liabilities | <u>\$ 2,946,519</u> | <u>\$ 3,799,518</u> | <u>\$ 1,603,147</u> | <u>\$ 391,240</u> | <u>\$ 8,740,424</u> |

| | 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 |
|--------------------------------------|--|----------------------|------------|-----------------------|--------------|----------------------|---------------|
| <u>December 31, 2019</u> | | | | | | | |
| Non-derivative financial liabilities | | | | | | | |
| Non-interest bearing | - | \$ 32,737,082 | \$ - | \$ 2,249,737 | \$ 4,653,517 | \$ - | \$ 39,640,336 |

Information about the maturity analysis for lease liabilities was as follows:

| | Less than 1 Year | 1-3 Years | 3-5 Years | More than 5 Years | Total |
|-------------------|-----------------------------|---------------------|---------------------|------------------------------|---------------------|
| Lease liabilities | <u>\$ 2,948,276</u> | <u>\$ 3,815,757</u> | <u>\$ 1,456,469</u> | <u>\$ 614,828</u> | <u>\$ 8,835,330</u> |

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 |
|----------------------------|------------------------------|-------------------|-------------------------------|------------------|-----------------|
| <u>December 31, 2020</u> | | | | | |
| <u>Gross settled</u> | | | | | |
| Forward exchange contracts | | | | | |
| Inflow | \$ - | \$620,579 | \$ - | \$ - | \$620,579 |
| Outflow | <u>-</u> | <u>616,556</u> | <u>-</u> | <u>-</u> | <u>616,556</u> |
| | <u>\$ -</u> | <u>\$ 4,023</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 4,023</u> |
| <u>December 31, 2019</u> | | | | | |
| <u>Gross settled</u> | | | | | |
| Forward exchange contracts | | | | | |
| Inflow | \$ - | \$135,075 | \$ - | \$ - | \$135,075 |
| Outflow | <u>-</u> | <u>134,976</u> | <u>-</u> | <u>-</u> | <u>134,976</u> |
| | <u>\$ -</u> | <u>\$ 99</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 99</u> |

2) Financing facilities

| | <u>December 31</u> | |
|--|----------------------|----------------------|
| | 2020 | 2019 |
| Facilities of unsecured bank loan and commercial paper payable | | |
| Amount used | \$ 7,000,000 | \$ - |
| Amount unused | <u>53,000,000</u> | <u>40,000,000</u> |
| | <u>\$ 60,000,000</u> | <u>\$ 40,000,000</u> |

34. 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. Except for those disclosed in other notes or this note, 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. (“LED”) | 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 |
| CHYP Multimedia Marketing & Communications 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 |
| Chunghwa Telecom (Thailand) Co., Ltd. (“CHTT”) | Subsidiary |
| CHT Security Co., Ltd. (“CHTSC”) | Subsidiary |
| International Integrated Systems, Inc. (“IISI”) | Subsidiary (Note 1) |
| 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 |
| Senyoung Insurance Agent Co., Ltd. | Subsidiary of SENAO |
| Senaolife Insurance Agent Co., Ltd. | Subsidiary of SENAO |
| Wiin Technologies Co., Ltd. (“Wiin”) | Subsidiary of SENAO |
| Unigate Telecom Inc. | Subsidiary of CHIEF |
| Chief International Corp. | Subsidiary of CHIEF |
| Shanghai Chief Telecom Co., Ltd. | Subsidiary of CHIEF |
| Chunghwa Precision Test Tech. Co., Ltd. (“CHPT”) | Subsidiary of CHI |
| 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 |
| 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 |
| Chunghwa Hsingta Co., Ltd. (“CHC”) | Subsidiary of Prime Asia |
| Chunghwa Telecom (China) Co., Ltd. | Subsidiary of CHC |
| Shanghai Taihua Electronic Technology Limited (“STET”) | Subsidiary of CHPT (International) |
| Su Zhou Precision Test Tech. Ltd. | Subsidiary of CHPT (International) |

(Continued)

| Company | Relationship |
|---|---|
| Taoyuan Asia Silicon Valley Innovation Co, Ltd. | Subsidiary of LED |
| Infoexplorer International Co., Ltd. (“IESA”) | Subsidiary of IISI |
| IISI Investment Co., Ltd. (“IICL”) | Subsidiary of IISI |
| Unitronics Technology Corp. | Subsidiary of IISI |
| International Integrated Systems (Hong Kong) Limited | Subsidiary of IESA |
| Leading Tech Co., Ltd. (“LTCL”) | Subsidiary of IICL |
| Leading Systems Co., Ltd. (“LSCL”) | Subsidiary of LTCL |
| International Integrated Systems Inc. (Shanghai) (“IISS”) | Subsidiary of LSCL |
| Huiyu Shanghai Management Consultancy Co., Ltd. (“HSMC”) | Subsidiary of IISS |
| Taiwan International Standard Electronics Co., Ltd. | Associate |
| So-net Entertainment Taiwan Limited | Associate |
| KKBOX Taiwan Co., Ltd. | Associate |
| KingwayTek Technology Co., Ltd. | Associate |
| UUPON Inc. | Associate (Note 2) |
| Viettel-CHT Co., Ltd. | Associate |
| Alliance Digital Tech Co., Ltd. | Associate |
| Taiwan International Ports Logistics Corporation | Associate |
| Chunghwa PChome Fund I Co., Ltd. | Associate |
| Cornerstone Ventures Co., Ltd. | Associate |
| Next Commercial Bank Co., Ltd. (“NCB”) | Associate |
| Chunghwa SEA Holdings | Joint venture |
| Click Force Co., Ltd. | Associate of CHYP |
| ST-2 Satellite Ventures Pte., Ltd. | Associate of CHTS |
| Other related parties | |
| Chunghwa Telecom Foundation | A nonprofit organization of which the funds donated by the Company exceeds one third of its total funds |
| Chunghwa Post Co., Ltd. | Government-related entity as Chunghwa Telecom |

(Concluded)

Note 1: IISI was an associate and has become a subsidiary starting from July 1, 2020. Please refer to Note 13.

Note 2 : UUPON was previously an associate. As the Company did not participate in the capital increase of UUPON in October 2020; therefore, the Company lost its significant influence over UUPON. Since then, UUPON was no longer a related party of the Company. Please refer to Note 13.

- 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 | |
| | | 2020 | 2019 |
| Subsidiaries | \$ | 4,460,961 | \$ 3,587,663 |
| Associates | | 1,385,767 | 201,078 |
| Others | | <u>3,480</u> | <u>3,728</u> |
| | \$ | <u>5,850,208</u> | <u>\$ 3,792,469</u> |
| | | Operating Costs and Expenses | |
| | | Year Ended December 31 | |
| | | 2020 | 2019 |
| Subsidiaries | \$ | 9,164,958 | \$ 9,070,165 |
| Associates | | 708,563 | 924,410 |
| Others | | <u>51,700</u> | <u>57,700</u> |
| | \$ | <u>9,925,221</u> | <u>\$ 10,052,275</u> |

2) Non-operating transactions

| | | Non-operating Income and (Expenses) | |
|--------------|----|--|------------------|
| | | Year Ended December 31 | |
| | | 2020 | 2019 |
| Subsidiaries | \$ | 825 | \$ 13,091 |
| Associates | | <u>(8,895)</u> | <u>257</u> |
| | \$ | <u>(8,070)</u> | <u>\$ 13,348</u> |

3) Receivables

| | | December 31 | |
|--------------|----|--------------------|-------------------|
| | | 2020 | 2019 |
| Subsidiaries | \$ | 1,135,699 | \$ 781,356 |
| Associates | | 204,845 | 4,209 |
| Others | | <u>6</u> | <u>5</u> |
| | \$ | <u>1,340,550</u> | <u>\$ 785,570</u> |

4) Contract liabilities-current

| | | December 31 | |
|------------|----|--------------------|-------------|
| | | 2020 | 2019 |
| Associates | \$ | <u>182,857</u> | <u>\$ -</u> |

5) Payables

| | December 31 | |
|--------------|---------------------|---------------------|
| | 2020 | 2019 |
| Subsidiaries | \$ 2,743,831 | \$ 3,021,896 |
| Associates | <u>636,657</u> | <u>641,817</u> |
| | <u>\$ 3,380,488</u> | <u>\$ 3,663,713</u> |

6) Customers' deposits

| | December 31 | |
|--------------|--------------------|------------------|
| | 2020 | 2019 |
| Subsidiaries | \$ 30,729 | \$ 10,477 |
| Associates | <u>2,066</u> | <u>5,035</u> |
| | <u>\$ 32,795</u> | <u>\$ 15,512</u> |

7) Acquisition of property, plant and equipment

| | Year Ended December 31 | |
|--------------|-------------------------------|---------------------|
| | 2020 | 2019 |
| Subsidiaries | \$ 515,718 | \$ 874,373 |
| Associates | <u>375,469</u> | <u>241,626</u> |
| | <u>\$ 891,187</u> | <u>\$ 1,115,999</u> |

8) Disposal of property, plant and equipment and investment properties to Chunghwa Post Co., Ltd.

| | Proceeds | | Gain on Disposal | |
|--------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|
| | Year Ended December 31 | Year Ended December 31 | Year Ended December 31 | Year Ended December 31 |
| | 2020 | 2019 | 2020 | 2019 |
| Others | <u>\$ 385,760</u> | <u>\$ -</u> | <u>\$ 310,205</u> | <u>\$ -</u> |

9) Lease-in agreements

Chunghwa 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 (SGD\$260,723 thousand), including a prepayment of \$3,067,711 thousand at the inception of the lease, 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 lease liabilities of ST-2 Satellite Ventures Pte., Ltd. as of balance sheet dates were as follows:

| | December 31 | |
|--------------------------------|--------------------|---------------------|
| | 2020 | 2019 |
| Lease liabilities - current | \$ 182,187 | \$ 188,271 |
| Lease liabilities - noncurrent | <u>816,610</u> | <u>1,023,889</u> |
| | <u>\$ 998,797</u> | <u>\$ 1,212,160</u> |

The interest expense recognized for the aforementioned lease liabilities were \$8,895 thousand and \$10,887 thousand for the years ended December 31, 2020 and 2019, respectively.

c. Compensation of key management personnel

The compensation of directors and key management personnel was as follows:

| | Year Ended December 31 | |
|------------------------------|-------------------------------|------------------|
| | 2020 | 2019 |
| Short-term employee benefits | \$ 67,048 | \$ 66,341 |
| Post-employment benefits | <u>4,613</u> | <u>5,578</u> |
| | <u>\$ 71,661</u> | <u>\$ 71,919</u> |

The compensation of directors and key management personnel was mainly determined by the compensation committee having regard to the performances.

35. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED COMMITMENTS

Except for those disclosed in other notes, the Company's significant commitments and contingent liabilities as of December 31, 2020 were as follows:

- a. Acquisitions of telecommunications-related inventory and equipment of \$25,567,736 thousand.
- b. 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.
- c. The Company committed that when its ownership interest in NCB is greater than 25% and NCB encounters financial difficulty or the capital adequacy ratio of NCB cannot meet the related regulation requirements, the Company will provide financial support to assist NCB in maintaining a healthy financial condition.

36. OTHER MATTERS

The Company has assessed the economic impact of COVID-19 and determined that there were no significant impacts on the Company's financial statements as of the date the financial statements were authorized for issue. The Company will continue to monitor developments of the pandemic and assess the related impacts.

37. SIGNIFICANT ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

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

| December 31, 2020 | | | |
|--|--------------------------------------|---------------|--------------------------------------|
| | Foreign Currencies (Thousands) | Exchange Rate | New Taiwan Dollars (Thousands) |
| <u>Assets denominated in foreign currencies</u> | | | |
| Monetary items | | | |
| USD | \$ 24,494 | 28.48 | \$ 697,597 |
| EUR | 339 | 35.02 | 11,883 |
| SGD | 3 | 21.56 | 62 |
| JPY | 1,744 | 0.276 | 482 |
| HKD | 18,706 | 3.673 | 68,707 |
| Non-monetary items | | | |
| Investments accounted for using equity method | | | |
| USD | 49,724 | 28.48 | 1,416,152 |
| HKD | 404,643 | 3.673 | 1,486,252 |
| JPY | 326,093 | 0.276 | 90,099 |
| VND | 409,377,361 | 0.0011 | 454,409 |
| RMB | 37,268 | 4.377 | 163,121 |
| THB | 115,281 | 0.9556 | 110,163 |
| <u>Liabilities denominated in foreign currencies</u> | | | |
| Monetary items | | | |
| USD | 17,668 | 28.48 | 503,192 |
| EUR | 27,243 | 35.02 | 954,040 |
| SGD | 48,534 | 21.56 | 1,046,395 |
| JPY | 27,083 | 0.276 | 7,483 |
| HKD | 2,058 | 3.673 | 7,559 |
| December 31, 2019 | | | |
| | Foreign Currencies (Thousands) | Exchange Rate | New Taiwan Dollars (Thousands) |
| <u>Assets denominated in foreign currencies</u> | | | |
| Monetary items | | | |
| USD | \$ 113,346 | 29.98 | \$ 3,398,099 |
| EUR | 316 | 33.59 | 10,618 |
| SGD | 3 | 22.28 | 69 |
| JPY | 1,954 | 0.276 | 539 |
| HKD | 48 | 3.849 | 186 |
| Non-monetary items | | | |
| Investments accounted for using equity method | | | |
| USD | 42,782 | 29.98 | 1,282,608 |
| HKD | 422,835 | 3.849 | 1,627,491 |
| JPY | 277,417 | 0.276 | 76,567 |

(Continued)

| | December 31, 2019 | | |
|-----|--------------------------------------|---------------|--------------------------------------|
| | Foreign Currencies (Thousands) | Exchange Rate | New Taiwan Dollars (Thousands) |
| VND | \$ 354,492,164 | 0.0012 | \$ 414,756 |
| RMB | 42,506 | 4.31 | 182,989 |
| THB | 113,123 | 1.0098 | 114,231 |

Liabilities denominated in foreign currencies

Monetary items

| | | | |
|-----|---------|-------|-----------|
| USD | 125,840 | 29.98 | 3,772,682 |
| EUR | 6,146 | 33.59 | 206,447 |
| SGD | 56,561 | 22.28 | 1,260,190 |
| JPY | 22,720 | 0.276 | 6,271 |
| HKD | 3,685 | 3.849 | 14,185 |

(Concluded)

The unrealized foreign currency exchange gains and losses were loss of \$15,703 thousand and gain of \$8,315 thousand for the years ended December 31, 2020 and 2019, respectively. Due to the various foreign currency transactions of the Company, foreign exchange gains and losses cannot be disclosed by 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 or 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: Please see Table 5.
- 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 6.
- h. Receivables from related parties amounting to \$100 million or 20% of the paid-in capital: Please see Table 7.
- i. Names, locations, and other information of investees on which the Company exercises significant influence (excluding investment in Mainland China): Please see Table 8.

- j. Derivative instruments transactions: Please see Notes 7, 19 and 33.
- k. Investment in Mainland China: Please see Table 9.
- l. Information of main stakeholders: Please see Table 10.

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 the CEO who allocates resources and assesses segment performance. The Company's measure of segment performance is mainly based on revenues and income before income 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.

Some operating segments have been aggregated into a single operating segment taking into account the following factors: (a) similar economic characteristics such as long-term gross profit margins; (b) the nature of the telecommunications products and services are similar; (c) the nature of production processes of the telecommunications products and services are similar; (d) the type or class of customer for the telecommunications products and services are similar; and (e) the methods used to provide the services to the customers are similar.

The accounting policies of the operating segments are the same as those described in Note 3.

Segment Revenues and Operating Results

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

| | Domestic Fixed Communications Business | Mobile Communications Business | Internet Business | International Fixed Communications Business | Others | Total |
|---|--|--------------------------------------|----------------------|--|-----------------------|-----------------------|
| <u>Year ended December 31, 2020</u> | | | | | | |
| Revenues | | | | | | |
| From external customers | \$ 69,787,891 | \$ 72,132,979 | \$ 29,623,809 | \$ 6,841,292 | \$ 236,856 | \$ 178,622,827 |
| Intersegment revenues | <u>15,610,387</u> | <u>1,009,495</u> | <u>3,489,556</u> | <u>1,675,274</u> | <u>19,371</u> | <u>21,804,083</u> |
| Segment revenues | <u>\$ 85,398,278</u> | <u>\$ 73,142,474</u> | <u>\$ 33,113,365</u> | <u>\$ 8,516,566</u> | <u>\$ 256,227</u> | <u>200,426,910</u> |
| Intersegment elimination | | | | | | <u>(21,804,083)</u> |
| Revenues | | | | | | <u>\$ 178,622,827</u> |
| Segments operating costs and expenses | <u>\$ 63,452,258</u> | <u>\$ 52,242,328</u> | <u>\$ 14,043,381</u> | <u>\$ 6,843,254</u> | <u>\$ 4,116,236</u> | <u>\$ 140,697,457</u> |
| Segment income (loss) before income tax | <u>\$ 22,504,443</u> | <u>\$ 8,568,040</u> | <u>\$ 12,204,370</u> | <u>\$ 674,697</u> | <u>\$ (3,068,121)</u> | <u>\$ 40,883,429</u> |

(Continued)

| | Domestic Fixed Communications Business | Mobile Communications Business | Internet Business | International Fixed Communications Business | Others | Total |
|---|--|--------------------------------------|----------------------|--|-----------------------|-----------------------|
| <u>Year ended December 31, 2019</u> | | | | | | |
| Revenues | | | | | | |
| From external customers | \$ 66,027,403 | \$ 74,880,047 | \$ 27,889,068 | \$ 10,282,592 | \$ 242,728 | \$ 179,321,838 |
| Intersegment revenues | <u>15,868,086</u> | <u>1,157,136</u> | <u>3,670,450</u> | <u>1,690,231</u> | <u>12,275</u> | <u>22,398,178</u> |
| Segment revenues | <u>\$ 81,895,489</u> | <u>\$ 76,037,183</u> | <u>\$ 31,559,518</u> | <u>\$ 11,972,823</u> | <u>\$ 255,003</u> | <u>201,720,016</u> |
| Intersegment elimination | | | | | | <u>(22,398,178)</u> |
| Revenues | | | | | | <u>\$ 179,321,838</u> |
| Segments operating costs and expenses | <u>\$ 59,888,575</u> | <u>\$ 53,854,703</u> | <u>\$ 13,057,785</u> | <u>\$ 10,154,672</u> | <u>\$ 4,003,655</u> | <u>\$ 140,959,390</u> |
| Segment income (loss) before income tax | <u>\$ 20,795,017</u> | <u>\$ 9,644,680</u> | <u>\$ 11,561,837</u> | <u>\$ 610,811</u> | <u>\$ (2,349,753)</u> | <u>\$ 40,262,592</u> |

(Concluded)

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 |
|---|--|--------------------------------------|----------------------|--|-------------------|----------------------|
| <u>Year ended December 31, 2020</u> | | | | | | |
| Share of profits of subsidiaries, associates and joint ventures accounted for using equity method | \$ - | \$ - | \$ - | \$ - | \$ 1,216,137 | \$ 1,216,137 |
| Interest income | <u>\$ 13,151</u> | <u>\$ 252</u> | <u>\$ 1,283</u> | <u>\$ 1,368</u> | <u>\$ 36,835</u> | <u>\$ 52,889</u> |
| Interest expenses | <u>\$ 6,060</u> | <u>\$ 45,355</u> | <u>\$ 892</u> | <u>\$ 9,059</u> | <u>\$ 110,292</u> | <u>\$ 171,658</u> |
| Depreciation and amortization | <u>\$ 14,249,950</u> | <u>\$ 22,046,689</u> | <u>\$ 2,680,473</u> | <u>\$ 1,298,905</u> | <u>\$ 307,397</u> | <u>\$ 40,583,414</u> |
| Capital expenditure | <u>\$ 11,482,779</u> | <u>\$ 8,813,389</u> | <u>\$ 1,319,687</u> | <u>\$ 685,941</u> | <u>\$ 438,816</u> | <u>\$ 22,740,612</u> |
| Gain on disposal of property, plant and equipment | <u>\$ 1,435,864</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 1,435,864</u> |
| Gain on disposal of investment properties | <u>\$ 151,357</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 151,357</u> |
| Reversal of impairment loss on investment properties | <u>\$ 27,066</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 27,066</u> |
| <u>Year ended December 31, 2019</u> | | | | | | |
| Share of profits of subsidiaries, associates and joint ventures accounted for using equity method | \$ - | \$ - | \$ - | \$ - | \$ 1,440,326 | \$ 1,440,326 |
| Interest income | <u>\$ 15,156</u> | <u>\$ 429</u> | <u>\$ 1,305</u> | <u>\$ 3,384</u> | <u>\$ 136,825</u> | <u>\$ 157,099</u> |
| Interest expenses | <u>\$ 5,076</u> | <u>\$ 44,058</u> | <u>\$ 1,638</u> | <u>\$ 10,927</u> | <u>\$ 174</u> | <u>\$ 61,873</u> |
| Depreciation and amortization | <u>\$ 14,841,890</u> | <u>\$ 20,924,992</u> | <u>\$ 2,915,995</u> | <u>\$ 1,389,964</u> | <u>\$ 218,524</u> | <u>\$ 40,291,365</u> |
| Capital expenditure | <u>\$ 12,070,922</u> | <u>\$ 7,755,829</u> | <u>\$ 1,263,403</u> | <u>\$ 982,893</u> | <u>\$ 354,026</u> | <u>\$ 22,427,073</u> |
| Reversal of impairment loss on investment properties | <u>\$ 56,617</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 56,617</u> |
| Impairment loss on other assets | <u>\$ 13,191</u> | <u>\$ -</u> | <u>\$ 13,191</u> | <u>\$ -</u> | <u>\$ 17,589</u> | <u>\$ 43,971</u> |

Main Products and Service Revenues

| | <u>Year Ended December 31</u> | |
|---|-------------------------------|-----------------------|
| | <u>2020</u> | <u>2019</u> |
| Mobile services revenue | \$ 60,396,292 | \$ 62,808,959 |
| Local telephone and domestic long distance telephone services revenue | 26,495,555 | 27,949,534 |
| Broadband access and domestic leased line services revenue | 22,500,492 | 22,180,256 |
| Data Communications internet services revenue | 20,017,339 | 19,637,375 |
| Sale of products | 13,310,782 | 13,609,662 |
| International network and leased line services revenue | 3,367,177 | 6,513,830 |
| Others | <u>32,535,190</u> | <u>26,622,222</u> |
| | <u>\$ 178,622,827</u> | <u>\$ 179,321,838</u> |

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 | |
|-------------|-------------------------------|-----------------------|
| | 2020 | 2019 |
| Taiwan, ROC | \$ 175,571,237 | \$ 172,531,947 |
| Overseas | <u>3,051,590</u> | <u>6,789,891</u> |
| | <u>\$ 178,622,827</u> | <u>\$ 179,321,838</u> |

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

Major Customers

As of December 31, 2020 and 2019, the Company did not have any single customer whose revenue exceeded 10% of the total revenues.

TABLE 1**CHUNGHWA TELECOM CO., LTD.****ENDORSEMENTS/GUARANTEES PROVIDED****YEAR ENDED DECEMBER 31, 2020****(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. | Aval Technologies Co., Ltd. | b | \$ 591,338 | \$ 300,000 | \$ 300,000 | \$ 300,000 | \$ - | 5.07 | \$ 2,956,690 | Yes | No | No | Notes 3 and 4 |
| | | Wiin Technology Co., Ltd. | b | 591,338 | 100,000 | 100,000 | 100,000 | - | 1.69 | 2,956,690 | 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. A company with which it does business.
- b. A company in which the Company directly and indirectly holds more than 50 percent of the voting shares.
- c. A company that directly and indirectly holds more than 50 percent of the voting shares in the Company.
- d. Companies in which the Company holds, directly or indirectly, 90% or more of the voting shares.
- e. The Company fulfills its contractual obligations by providing mutual endorsements/guarantees for another company in the same industry or for joint builders for purposes of undertaking a construction project.
- f. All capital contributing shareholders make endorsements/guarantees for their jointly invested company in proportion to their shareholding percentages.
- g. Companies in the same industry provide among themselves jointly and severally guarantee for a performance guarantee of a sales contract for pre-construction homes pursuant to the Consumer Protection Act for each other.

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.

TABLE 2**CHUNGHWA TELECOM CO., LTD.****MARKETABLE SECURITIES HELD****DECEMBER 31, 2020****(Amounts in Thousands of New Taiwan Dollars)**

| Held Company Name | Marketable Securities Type and Name | Relationship with the Company | Financial Statement Account | December 31, 2020 | | | | Note |
|-------------------------------|---|-------------------------------|--|-----------------------------------|-------------------------|-------------------------|--------------|--------|
| | | | | Shares (Thousands/Thousand Units) | Carrying Value (Note 1) | Percentage of Ownership | Fair Value | |
| Chunghwa Telecom Co., Ltd. | <u>Stocks</u> | | | | | | | |
| | Taipei Financial Center Corp. | - | Financial assets at FVOCI | 172,927 | \$ 4,163,227 | 12 | \$ 4,163,227 | - |
| | Innovation Works Development Fund, L.P. | - | Financial assets at FVTPL - noncurrent | - | 236,107 | 4 | 236,107 | - |
| | Industrial Bank of Taiwan II Venture Capital Co., Ltd. (IBT II) | - | Financial assets at FVOCI | 5,252 | 17,084 | 17 | 17,084 | - |
| | Global Mobile Corp. | - | Financial assets at FVOCI | 7,617 | - | 3 | - | - |
| | Innovation Works Limited | - | Financial assets at FVOCI | 1,000 | 3,698 | 2 | 3,698 | - |
| | RPTI Intergroup International Ltd. | - | Financial assets at FVOCI | 4,765 | - | 10 | - | - |
| | Taiwan mobile payment Co., Ltd. | - | Financial assets at FVOCI | 1,200 | 4,324 | 2 | 4,324 | - |
| | Taiwania Capital Buffalo Fund Co., Ltd. | - | Financial assets at FVTPL - noncurrent | 600,000 | 441,095 | 13 | 441,095 | - |
| | China Airlines, Ltd. | - | Financial assets at FVOCI | 216,639 | 2,610,501 | 4 | 2,610,501 | Note 2 |
| Senao International Co., Ltd. | 4 Gamers Entertainment Inc. | - | Financial assets at FVOCI | 136 | 103,556 | 19.9 | 103,556 | - |
| | UUPON Inc. | - | Financial assets at FVOCI | 246 | 1,289 | 4 | 1,289 | - |
| | | | | | | | | |
| CHIEF Telecom Inc. | <u>Stocks</u> | | | | | | | |
| | 3 Link Information Service Co., Ltd. | - | Financial assets at FVOCI | 374 | 1,220 | 10 | 1,220 | - |
| | WPG Holdings Limited | - | Financial assets at FVTPL - current | 9 | 448 | - | 448 | Note 2 |
| Chunghwa Investment Co., Ltd. | WPG Holdings Limited | - | Financial assets at FVOCI | 1,736 | 86,974 | - | 86,974 | Note 2 |
| | Taichung Commercial Bank Co., Ltd. | - | Financial assets at FVTPL - current | 662 | 7,178 | - | 7,178 | Note 2 |
| | | | | | | | | |
| Chunghwa Hsingta Co., Ltd. | <u>Stocks</u> | | | | | | | |
| | Tatung Technology Inc. | - | Financial assets at FVOCI | 4,571 | 127,431 | 11 | 127,431 | - |
| | iSing99 Inc. | - | Financial assets at FVOCI | 10,000 | - | 7 | - | - |
| | Powtec ElectroChemical Corporation | - | Financial assets at FVOCI | 20,000 | - | 2 | - | - |
| | Bosssdom Digiinnovation Co., Ltd. | - | Financial assets at FVOCI | 2,000 | 56,700 | 7 | 56,700 | Note 2 |
| Chunghwa Hsingta Co., Ltd. | <u>Stocks</u> | | | | | | | |
| | Cotech Engineering Fuzhou Corp. | - | Financial assets at FVOCI | - | 7,153 | 5 | 7,153 | - |

Note 1: Showed at carrying amounts with fair value adjustments.

Note 2: Fair value was based on the closing price on December 31, 2020.

TABLE 3**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, 2020

(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 | Shares (Thousands/ Thousand Units) | Amount | Shares (Thousands/ Thousand Units) | Amount | Carrying Value | Gain on Disposal | Shares (Thousands/ Thousand Units) | Amount |
| Chunghwa Telecom Co., Ltd. | Stocks China Airlines, Ltd. | Financial assets at FVOCI | - | - | 263,622 | \$ 3,092,287 (Note) | - | \$ - | 46,983 | \$ 567,797 | \$ 551,111 (Note) | \$ 16,686 | 216,639 | \$ 2,541,176 (Note) |

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

TABLE 4**CHUNGHWA TELECOM CO., LTD.**

ACQUISITION OF INDIVIDUAL REAL ESTATE AT COSTS OF AT LEAST \$300 MILLION OR 20% OF THE PAID-IN CAPITAL
 YEAR ENDED DECEMBER 31, 2020
 (Amounts in Thousands of New Taiwan Dollars)

| Buyer | Property | Event Date | Transaction Amount | Payment Status | Counterparty | Relationship | Information on Previous Title Transfer If Counterparty is a Related Party | | | | Pricing Reference | Purpose of Acquisition | Other Terms |
|---|---|-----------------------|--------------------|--|-------------------------------|-------------------|---|----------------|------------------|----------------|--|------------------------|-------------|
| | | | | | | | Property Owner | Relationship | Transaction Date | Amount | | | |
| Chunghwa Telecom Co., Ltd. | Land that specific office building is located on | 2020.05.06 | \$ 3,243,689 | \$1,056,680 to be paid | MOTC | Major Shareholder | None | None | None | None | Assessed value from National Property Administration | Operating purpose | - |
| | Buildings | 2020.10.06 | 1,305,067 | Not applicable (Note) | Kindom Development Co., Ltd | - | Not applicable | Not applicable | Not applicable | Not applicable | Assessed value from real estate appraisal report | Leasing purpose | - |
| Chunghwa Precision Test Tech. Co., Ltd. | Electrical and mechanical engineering and fit-out constructions for buildings | 2020.07.03-2020.10.05 | 173,120 | Monthly settlement based on the construction progress and acceptance | Fu Tsu Construction Co., Ltd. | - | Not applicable | Not applicable | Not applicable | Not applicable | Bidding, price comparison and price negotiation | Manufacturing purpose | - |

Note: This is the urban renewal project for the asset exchange transaction for trade-in buildings. Please refer to Note14 for details.

TABLE 5**CHUNGHWA TELECOM CO., LTD.****DISPOSAL OF INDIVIDUAL REAL ESTATE AT PRICES OF AT LEAST NT\$300 MILLION OR 20% OF THE PAID-IN CAPITAL****YEAR ENDED DECEMBER 31, 2020****(Amounts in Thousands of New Taiwan Dollars)**

| Seller | Property | Event Date | Original Acquisition Date | Carrying Amount | Transaction Amount | Collection | Gain on Disposal | Counterparty | Relationship | Purpose of Disposal | Price Reference | Other Terms |
|----------------------------|----------|------------|---------------------------------------|-----------------|--------------------|-----------------------|------------------|------------------------------|--------------|---|------------------------------|-------------|
| Chunghwa Telecom Co., Ltd. | Land | 2020.08.05 | 2017.12.20, 2004.07.07 and 2004.12.16 | \$ 75,555 | \$ 385,760 | Collected | \$ 310,205 | Chunghwa Post Co., Ltd. | Others | Asset activation | Real estate appraisal report | - |
| | Land | 2020.10.06 | 2000.07.24 | 37,087 | 1,305,067 | Not applicable (Note) | 1,267,980 | Kindom Development Co., Ltd. | - | Participation in government-led urban renewal project | Real estate appraisal report | - |

Note: This is the urban renewal project for the asset exchange transaction for trade-in buildings. Please refer to Note14 for details.

TABLE 6

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, 2020
(Amounts in Thousands of New Taiwan Dollars)

| Company Name | Related Party | Nature of Relationship | Transaction Details | | | | Abnormal Transaction | | Notes / Accounts Payable or Receivable | |
|--|--|------------------------|--------------------------|------------------|------------|---------------|----------------------|---------------|--|------------|
| | | | Purchases/Sales (Note 1) | Amount (Notes 2) | % to Total | Payment Terms | Units Price | Payment Terms | Ending Balance (Notes 3) | % to Total |
| Chunghwa Telecom Co., Ltd. | Senao International Co., Ltd. | Subsidiary | Sales | \$ 3,164,854 | 2 | 30 days | \$ - | - | \$ 642,604 | 3 |
| | | | Purchase | 676,125 | 1 | 30-90 days | - | - | (753,706) | (5) |
| | Aval Technologies Co., Ltd. | Subsidiary | Purchase | 224,122 | - | 30 days | - | - | (37,085) | - |
| | Senyoung Insurance Agent Co., Ltd. | Subsidiary | Sales | 107,879 | - | 90 days | - | - | 45,799 | - |
| | CHIEF Telecom Inc. | Subsidiary | Sales | 406,642 | - | 30 days | - | - | 59,926 | - |
| | | | Purchase | 122,025 | - | 60 days | - | - | (22,164) | - |
| | Chunghwa System Integration Co., Ltd. | Subsidiary | Purchase | 1,293,906 | 1 | 30 days | - | - | (345,168) | (2) |
| | CHYP Multimedia Marketing & Communications Co., Ltd. | Subsidiary | Purchase | 110,915 | - | 30 days | - | - | (36,588) | - |
| | Honghwa International Co., Ltd. | Subsidiary | Sales | 268,779 | - | 30-60 days | - | - | 49,555 | - |
| | | | Purchase | 5,536,303 | 5 | 30-60 days | - | - | (682,373) | (4) |
| | Donghwa Telecom Co., Ltd. | Subsidiary | Sales | 178,470 | - | 30 days | - | - | 31,020 | - |
| | | | Purchase | 451,365 | - | 90 days | - | - | (144,874) | (1) |
| | Chunghwa Telecom Global, Inc. | Subsidiary | Purchase | 313,914 | - | 90 days | - | - | (35,056) | - |
| | Chunghwa Telecom Singapore Pte., Ltd. | Subsidiary | Purchase | 157,772 | - | 30 days | - | - | (66,693) | - |
| | CHT Security Co., Ltd. | Subsidiary | Purchase | 338,666 | - | 30 days | - | - | (109,857) | (1) |
| | International Integrated Systems, Inc. | Subsidiary | Purchase | 400,195 | - | 30 days | - | - | (235,565) | (2) |
| | Taiwan International Standard Electronics Co., Ltd. | Associate | Purchase | 591,195 | 1 | 30-90 days | - | - | (488,244) | (3) |
| | Next Commercial Bank Co., Ltd. | Associate | Sales | 1,245,178 | 1 | 30-60 days | - | - | 192,000 | 1 |
| Senao International Co., Ltd. | Chunghwa Telecom Co., Ltd. | Parent company | Sales | 5,839,843 | 22 | 30-90 days | - | - | 753,496 | 44 |
| | | | Purchase | 2,998,442 | 13 | 30 days | - | - | (598,985) | (31) |
| | Aval Technologies Co., Ltd. | Subsidiary | Sales | 312,968 | 1 | 60 days | - | - | 136,785 | 8 |
| | | | Purchase | 286,553 | 1 | 30 days | - | - | (9,660) | (1) |
| | Senyoung Insurance Agent Co., Ltd. | Subsidiary | Sales | 124,628 | - | 30 days | - | - | 45,070 | 3 |
| CHIEF Telecom Inc. | Chunghwa Telecom Co., Ltd. | Parent company | Sales | 254,402 | 10 | 60 days | - | - | 33,122 | 15 |
| | | | Purchase | 406,101 | 29 | 30 days | - | - | (59,926) | (51) |
| Chunghwa System Integration Co., Ltd. | Chunghwa Telecom Co., Ltd. | Parent company | Sales | 1,597,664 | 76 | 30 days | - | - | 342,578 | 67 |
| CHYP Multimedia Marketing & Communications Co., Ltd. | Chunghwa Telecom Co., Ltd. | Parent company | Sales | 110,915 | 27 | 30 days | - | - | 34,238 | 44 |
| Honghwa International Co., Ltd. | Chunghwa Telecom Co., Ltd. | Parent company | Sales | 5,641,817 | 97 | 30-60 days | - | - | 681,107 | 94 |
| Donghwa Telecom Co., Ltd. | Chunghwa Telecom Co., Ltd. | Parent company | Sales | 451,365 | 40 | 90 days | - | - | 144,874 | 39 |
| | | | Purchase | 178,470 | 16 | 30 days | - | - | (31,020) | (19) |
| Chunghwa Telecom Global, Inc. | Chunghwa Telecom Co., Ltd. | Parent company | Sales | 313,914 | 53 | 90 days | - | - | 35,056 | 67 |
| Chunghwa Telecom Singapore Pte., Ltd. | Chunghwa Telecom Co., Ltd. | Parent company | Sales | 157,772 | 12 | 30 days | - | - | 66,693 | 19 |
| CHT Security Co., Ltd. | Chunghwa Telecom Co., Ltd. | Parent company | Sales | 362,082 | 38 | 30 days | - | - | 109,813 | 33 |
| International Integrated System, Inc. | Chunghwa Telecom Co., Ltd. | Parent company | Sales | 400,195 | 15 | 30 days | - | - | 235,565 | 47 |
| Aval Technologies Co., Ltd. | Chunghwa Telecom Co., Ltd. | Parent company | Sales | 224,122 | 1 | 30 days | - | - | 37,085 | 2 |
| | Youth Co., Ltd. | Fellow subsidiary | Sales | 131,466 | - | 30 days | - | - | 19,955 | 1 |

Note 1: Purchases include costs to acquire services.

Note 2: The differences were because Chunghwa Telecom Co., Ltd. and subsidiaries classified the amount as incremental costs of obtaining contracts, 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 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.

TABLE 7**CHUNGHWA TELECOM CO., LTD.****RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL****DECEMBER 31, 2020****(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 | \$ 816,927 | 11.18 | \$ - | - | \$ 800,156 | \$ - |
| | Next Commercial Bank Co., Ltd. | Associate | 192,000 | 6.25 | - | - | - | - |
| Senao International Co., Ltd. | Chunghwa Telecom Co., Ltd. | Parent company | 891,312 | 7.53 | - | - | 103,851 | - |
| | Aval Technologies Co., Ltd. | Subsidiary | 136,808 | 3.52 | - | - | 77,628 | - |
| Chunghwa System Integration Co., Ltd. | Chunghwa Telecom Co., Ltd. | Parent company | 342,578 | 3.19 | - | - | 208,487 | - |
| Honghwa International Co., Ltd. | Chunghwa Telecom Co., Ltd. | Parent company | 681,107 | 7.68 | - | - | 202,685 | - |
| CHT Security Co., Ltd. | Chunghwa Telecom Co., Ltd. | Parent company | 109,813 | 1.08 | - | - | 103,935 | - |
| International Integrated Systems, Inc. | Chunghwa Telecom Co., Ltd. | Parent company | 216,269 | 3.30 | - | - | 216,269 | - |
| Donghwa Telecom Co., Ltd. | Chunghwa Telecom Co., Ltd. | Parent company | 144,874 | 3.03 | - | - | 107,027 | - |

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

TABLE 8

CHUNGHWA TELECOM CO., LTD.

NAMES, LOCATIONS, AND OTHER INFORMATION OF INVESTEEES IN WHICH THE COMPANY EXERCISES SIGNIFICANT INFLUENCE (EXCLUDING INVESTEEES IN MAINLAND CHINA)

YEAR ENDED DECEMBER 31, 2020

(Amounts in Thousands of New Taiwan Dollars)

| Investor Company | Investee Company | Location | Main Businesses and Products | Original Investment Amount | | Balance as of December 31, 2020 | | | Net Income (Loss) of the Investee | Recognized Gain (Loss) (Notes 1, 2 and 3) | Note |
|----------------------------|--|------------------------|--|----------------------------|-------------------|---------------------------------|-----------------------------|-------------------------|-----------------------------------|---|------------|
| | | | | December 31, 2020 | December 31, 2019 | Shares (Thousands) | Percentage of Ownership (%) | Carrying Value (Note 3) | | | |
| 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 | 28 | \$ 1,630,230 | \$ 436,717 | \$ 117,500 | 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 | 3,853,234 | 15,160 | 9,673 | 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 | 1,486,252 | 7,379 | 7,379 | 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 | 1,013,529 | 116,771 | 116,791 | Subsidiary |
| | Chunghwa System Integration Co., Ltd. | Taiwan | Providing system integration services and telecommunications equipment | 838,506 | 838,506 | 60,000 | 100 | 725,213 | 12,840 | 13,254 | Subsidiary |
| | CHIEF Telecom Inc. | Taiwan | Network integration, internet data center ("IDC"), communications integration and cloud application services | 459,652 | 459,652 | 39,426 | 56 | 1,785,968 | 607,779 | 348,533 | Subsidiary |
| | Chunghwa Investment Co., Ltd. | Taiwan | Investment | 639,559 | 639,559 | 68,085 | 89 | 3,017,569 | 317,590 | 282,776 | Subsidiary |
| | Prime Asia Investments Group Ltd. (B.V.I.) | British Virgin Islands | Investment | 385,274 | 385,274 | 1 | 100 | 163,121 | (19,434) | (19,434) | Subsidiary |
| | Honghwa International Co., Ltd. | Taiwan | Telecommunication engineering, sales agent of mobile phone plan application and other business services, etc. | 180,000 | 180,000 | 18,000 | 100 | 491,985 | 229,464 | 213,346 | Subsidiary |
| | CHYP Multimedia Marketing & Communications Co., Ltd. | Taiwan | Digital information supply services and advertisement services | 150,000 | 150,000 | 15,000 | 100 | 194,399 | 17,358 | 17,064 | 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 | 90,887 | (2,380) | (2,380) | Subsidiary |
| | Chunghwa Telecom Global, Inc. | United States | International private leased circuit, internet services, and transit services | 70,429 | 70,429 | 6,000 | 100 | 402,623 | 73,147 | 75,078 | Subsidiary |
| | CHT Security Co., Ltd. | Taiwan | Computing equipment installation, wholesale of computing and business machinery equipment and software, management consulting services, data processing services, digital information supply services and internet identify services | 240,000 | 240,000 | 24,000 | 80 | 329,943 | 124,159 | 93,983 | Subsidiary |
| | Chunghwa Telecom (Thailand) Co., Ltd. | Thailand | International private leased circuit, IP VPN service, ICT and cloud VAS services | 119,624 | 119,624 | 1,300 | 100 | 110,163 | 2,050 | 2,050 | Subsidiary |
| | Spring House Entertainment Tech. Inc. | Taiwan | Software design services, internet contents production and play, and motion picture production and distribution | 41,941 | 41,941 | 8,251 | 56 | 126,947 | 44,962 | 25,197 | Subsidiary |
| | Chunghwa leading Photonics Tech Co., Ltd. | Taiwan | Production and sale of electronic components and finished products | 70,500 | 70,500 | 7,050 | 75 | 123,967 | 10,264 | 12,287 | Subsidiary |
| | Smartfun Digital Co., Ltd. | Taiwan | Providing diversified family education digital services | 65,000 | 65,000 | 6,500 | 65 | 74,055 | 9,804 | 6,369 | Subsidiary |
| | Chunghwa Telecom Japan Co., Ltd. | Japan | International private leased circuit, IP VPN service, and IP transit services | 17,291 | 17,291 | 1 | 100 | 90,099 | 13,478 | 13,478 | 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 | (5,039) | (2,015) | 5,047 | Subsidiary |
| | International Integrated Systems, Inc. | Taiwan | IT solution provider, IT application consultation, system integration and package solution | 517,423 | 283,500 | 37,211 | 51 | 593,049 | 169,948 | 49,633 | Subsidiary |

(Continued)

CHUNGHWA TELECOM CO., LTD.

NAMES, LOCATIONS, AND OTHER INFORMATION OF INVESTEEES IN WHICH THE COMPANY EXERCISES SIGNIFICANT INFLUENCE (EXCLUDING INVESTMENT IN MAINLAND CHINA)

YEAR ENDED DECEMBER 31, 2020

(Amounts in Thousands of New Taiwan Dollars)

| Investor Company | Investee Company | Location | Main Businesses and Products | Original Investment Amount | | Balance as of December 31, 2020 | | | Net Income (Loss) of the Investee | Recognized Gain (Loss) (Notes 1, 2 and 3) | Note |
|---------------------------------------|---|---------------|--|----------------------------|-------------------|---------------------------------|-----------------------------|-------------------------|-----------------------------------|---|--------------------|
| | | | | December 31, 2020 | December 31, 2019 | Shares (Thousands) | Percentage of Ownership (%) | Carrying Value (Note 3) | | | |
| | Viettel-CHT Co., Ltd. | Vietnam | IDC services | \$ 288,327 | \$ 288,327 | - | 30 | \$ 363,522 | \$ 307,323 | \$ 92,228 | 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 | 330,031 | 294,205 | 150,477 | Associate |
| | KKBOX Taiwan Co., Ltd. | Taiwan | Providing of music on-line, software, electronic information, and advertisement services | 67,025 | 67,025 | 4,438 | 30 | 163,809 | 46,987 | 14,038 | Associate |
| | So-net Entertainment Taiwan Limited | Taiwan | Online service and sale of computer hardware | 120,008 | 120,008 | 9,429 | 30 | 226,647 | 124,759 | 37,428 | Associate |
| | KingwayTek Technology Co., Ltd. | Taiwan | Publishing books, data processing and software services | 66,684 | 66,684 | 8,688 | 23 | 249,044 | 5,484 | 2,156 | Associate |
| | Taiwan International Ports Logistics Corporation | Taiwan | Import and export storage, logistic warehouse, and ocean shipping service | 80,000 | 80,000 | 8,000 | 27 | 55,925 | 18,514 | 4,946 | Associate |
| | UUPON Inc. | Taiwan | Information technology service and general advertisement service | 97,598 | 97,598 | 246 | 4 | - | (40,580) | (6,103) | Associate (Note 5) |
| | Alliance Digital Tech Co., Ltd. | Taiwan | Development of mobile payments and information processing service | 60,000 | 60,000 | 6,000 | 14 | 5,080 | - | - | Associate |
| | Chunghwa PChome Fund I Co., Ltd. | Taiwan | Investment, venture capital, investment advisor, management consultant and other consultancy service | 200,000 | 200,000 | 20,000 | 50 | 192,856 | (2,450) | (1,225) | Associate |
| | Cornerstone Ventures Co., Ltd. | Taiwan | Investment, venture capital, investment advisor, management consultant and other consultancy service | 4,900 | 4,900 | 490 | 49 | 6,058 | 1,125 | 551 | Associate |
| Senao International Co., Ltd. | Next Commercial Bank Co., Ltd. | Taiwan | Online banking business | 4,190,000 | 4,190,000 | 419,000 | 42 | 3,776,876 | (605,419) | (297,292) | Associate |
| | Chunghwa SEA Holdings | Taiwan | Investment business | 10,200 | - | 1,020 | 51 | 10,200 | - | - | Joint venture |
| | Senao Networks, Inc. | Taiwan | Telecommunication facilities manufactures and sales | 202,758 | 202,758 | 16,579 | 34 | 991,610 | 376,365 | 127,184 | Associate |
| | Senao International (Samoa) Holding Ltd. | Samoa Islands | International investment | 2,253,828 | 2,333,620 | 74,975 | 100 | 232,099 | (24,526) | (24,526) | Subsidiary |
| | UUPON Inc. | Taiwan | Information technology service and general advertisement service | 24,000 | 24,000 | 109 | 2 | - | (40,580) | (2,715) | Associate (Note 5) |
| | Youth Co., Ltd. | Taiwan | Sale of information and communication technologies products | 427,850 | 364,950 | 14,752 | 96 | 231,976 | 1,404 | (16,418) | Subsidiary |
| | Aval Technologies Co., Ltd. | Taiwan | Sale of information and communication technologies products | 89,550 | 89,550 | 10,060 | 100 | 110,508 | 8,656 | 8,658 | Subsidiary |
| | Senyoung Insurance Agent Co., Ltd. | Taiwan | Property and liability insurance agency | 59,000 | 59,000 | 5,900 | 100 | 90,862 | 30,144 | 30,120 | Subsidiary |
| | Unigate Telecom Inc. | Taiwan | Telecommunications and internet service | 2,000 | 2,000 | 200 | 100 | 980 | 94 | 94 | Subsidiary |
| | Chief International Corp. | Samoa Islands | Telecommunications and internet service | 6,068 | 6,068 | 200 | 100 | 78,699 | 9,338 | 9,338 | Subsidiary |
| Chunghwa Telecom Singapore Pte., Ltd. | ST-2 Satellite Ventures Pte., Ltd. | Singapore | Operation of ST-2 telecommunications satellite | 409,061 | 409,061 | 18,102 | 38 | 488,257 | 280,191 | 106,472 | Associate |
| Chunghwa Investment Co., Ltd. | Chunghwa Precision Test Tech. Co., Ltd. | Taiwan | Production and sale of semiconductor testing components and printed circuit board | 178,608 | 178,608 | 11,230 | 34 | 2,414,555 | 933,693 | 319,786 | Subsidiary |
| | CHIEF Telecom Inc. | Taiwan | Network integration, internet data center ("IDC"), communications integration and cloud application services | 19,064 | 19,064 | 2,078 | 3 | 88,104 | 607,779 | 18,051 | Associate |
| | Senao International Co., Ltd. | Taiwan | Selling and maintaining mobile phones and its peripheral products | 49,731 | 49,731 | 1,001 | - | 43,664 | 436,717 | 1,693 | Associate |

(Continued)

CHUNGHWA TELECOM CO., LTD.

NAMES, LOCATIONS, AND OTHER INFORMATION OF INVESTEEES IN WHICH THE COMPANY EXERCISES SIGNIFICANT INFLUENCE (EXCLUDING INVESTMENT IN MAINLAND CHINA)

YEAR ENDED DECEMBER 31, 2020

(Amounts in Thousands of New Taiwan Dollars)

| Investor Company | Investee Company | Location | Main Businesses and Products | Original Investment Amount | | Balance as of December 31, 2020 | | | Net Income (Loss) of the Investee | Recognized Gain (Loss) (Notes 1, 2 and 3) | Note |
|---|--|---------------|--|----------------------------|-------------------|---------------------------------|-----------------------------|-------------------------|-----------------------------------|---|------------|
| | | | | December 31, 2020 | December 31, 2019 | Shares (Thousands) | Percentage of Ownership (%) | Carrying Value (Note 3) | | | |
| 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 | \$ 23,847 | \$ 755 | \$ 755 | Subsidiary |
| | CHPT Japan Co., Ltd. | Japan | Related services of electronic parts, machinery processed products and printed circuit board | 2,008 | 2,008 | 1 | 100 | 2,472 | 89 | 89 | Subsidiary |
| | Chunghwa Precision Test Tech. International, Ltd. | Samoa Islands | Wholesale and retail of electronic materials, and investment | 116,790 | 116,790 | 3,700 | 100 | 92,315 | 8,441 | 8,956 | Subsidiary |
| Prime Asia Investments Group, Ltd. (B.V.I.) | Chunghwa Hsingta Co., Ltd. | Hong Kong | Investment | 375,274 | 375,274 | 1 | 100 | 163,121 | (19,434) | (19,434) | Subsidiary |
| | MeWorks Limited (HK) | Hong Kong | Investment | - | 10,000 | - | - | - | - | - | Associate |
| Senao International (Samoa) Holding Ltd. | Senao International HK Limited | Hong Kong | International investment | 2,248,963 | 2,328,754 | 80,440 | 100 | 212,814 | (24,766) | (24,766) | Subsidiary |
| Youth Co., Ltd. | ISPOT Co., Ltd. | Taiwan | Sale of information and communication technologies products | 53,021 | 53,021 | - | 100 | 10,562 | 1,656 | 1,464 | Subsidiary |
| | Youyi Co., Ltd. | Taiwan | Maintenance of information and communication technologies products | 21,354 | 21,354 | - | 100 | 18,145 | 1,234 | 993 | Subsidiary |
| Aval Technologies Co., Ltd. | Wiin Technology Co., Ltd. | Taiwan | Sale of information and communication technologies products | 29,550 | 29,550 | 2,955 | 100 | 33,476 | 3,695 | 3,695 | Subsidiary |
| Senyoung Insurance Agent Co., Ltd. | Senaolife Insurance Agent Co., Ltd. | Taiwan | Life insurance services | 29,500 | 29,500 | 2,950 | 100 | 26,186 | (3,034) | (3,034) | Subsidiary |
| CHYP Multimedia Marketing & Communications Co., Ltd | Click Force Marketing Company | Taiwan | Advertisement services | 44,607 | 44,607 | 1,078 | 49 | 33,086 | 3,998 | (209) | Associate |
| International Integrated Systems, Inc. | Infoexplorer International Co., Ltd. | Samoa | Investment | 24,806 | 24,806 | 795 | 100 | 27,018 | 850 | 850 | Subsidiary |
| | IISI Investment Co., Ltd. | Mauritius | Investment | 81,302 | 81,302 | 244 | 100 | 28,990 | (10,872) | (10,872) | Subsidiary |
| | Unitronics Technology Corp. | Taiwan | Development and maintenance of information system | 55,569 | 55,569 | 5,065 | 99.96 | 69,867 | 7,783 | 7,780 | Subsidiary |
| Infoexplorer International Co., Ltd. | International Integrated Systems (Hong Kong) Limited | Hong Kong | Investment and engaging in technical consulting service | 24,336 | 24,336 | 780 | 100 | 27,011 | 870 | 870 | Subsidiary |
| IISI Investment Co., Ltd. | Leading Tech Co., Ltd. | Mauritius | Investment | 65,374 | 65,374 | 316 | 100 | 18,466 | (10,587) | (10,587) | Subsidiary |
| Leading Tech Co., Ltd. | Leading Systems Co., Ltd. | Mauritius | Investment | 100,693 | 100,693 | 300 | 100 | 13,615 | (10,588) | (10,588) | Subsidiary |

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: Recognized gain (loss) and carrying value of the investees did not include the adjustment of the difference between the accounting treatment on standalone basis and consolidated basis as a result of the application of IFRS 15.

Note 4: Investments in mainland China are included in Table 9.

Note 5: UUPON Inc. was transferred to financial assets at fair value through other comprehensive income.

(Concluded)

TABLE 9

CHUNGHWA TELECOM CO., LTD.

INVESTMENT IN MAINLAND CHINA

YEAR ENDED DECEMBER 31, 2020

(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, 2020 | Investment Flows | | Accumulated Outflow of Investment from Taiwan as of December 31, 2020 | Net Income (Loss) of the Investee | % Ownership of Direct or Indirect Investment | Investment Gain (Loss) (Note 2) | Carrying Value as of December 31, 2020 | Accumulated Inward Remittance of Earnings as of December 31, 2020 | Note |
|--|---|---------------------------------|--------------------------|---|------------------|--------|---|-----------------------------------|--|---------------------------------|--|---|---------|
| | | | | | Outflow | Inflow | | | | | | | |
| Senao Trading (Fujian) Co., Ltd. | Sale of information and communication technologies products | \$ 1,073,170 | 2 | \$ 1,073,170 | \$ - | \$ - | \$ 1,073,170 | \$ - | 100 | \$ - | \$ - | \$ - | Note 8 |
| Senao International Trading (Shanghai) Co., Ltd. | Sale of information and communication technologies products | 955,838 | 2 | 955,838 | - | - | 955,838 | (21,189) | 100 | (21,189) | 29,402 | - | Note 9 |
| Senao International Trading (Shanghai) Co., Ltd. (Note 15) | Maintenance of information and communication technologies products | 26,053 | 2 | 26,053 | - | - | 26,053 | - | 100 | - | - | - | Note 10 |
| Senao International Trading (Jiangsu) Co., Ltd. | Sale of information and communication technologies products | 183,944 | 2 | 263,736 | - | 79,792 | 183,944 | - | 100 | - | - | - | Note 11 |
| 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 | (12,712) | 100 | (12,712) | 32,224 | - | Note 13 |
| Jiangsu Zhenghua Information Technology Company, LLC | Providing intelligent energy saving solution and intelligent buildings services | 189,410 | 2 | 142,057 | - | - | 142,057 | - | 75 | - | - | - | Note 12 |
| Shanghai Taihua Electronic Technology Limited | Design of printed circuit board and related consultation service | 51,233 | 2 | 51,233 | - | - | 51,233 | (9,675) | 100 | (9,675) | 16,490 | - | - |
| Su Zhou Precision Test Tech. Ltd. | Assembly processed of circuit board, design of printed circuit board and related consultation service | 62,340 | 2 | 62,340 | - | - | 62,340 | 18,127 | 100 | 18,127 | 78,314 | - | - |
| Shanghai Chief Telecom Co., Ltd. | Telecommunications and internet service | 10,150 | 1 | 4,973 | - | - | 4,973 | 5,047 | 49 | 2,473 | 13,561 | - | - |
| International Integrated Systems Inc. (Shanghai) | Development and maintenance of information system | 48,753 | 2 | 39,923 | - | - | 39,923 | (10,588) | 100 | (10,588) | 18,550 | - | - |

(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, 2020 | Investment Flows | | Accumulated Outflow of Investment from Taiwan as of December 31, 2020 | Net Income (Loss) of the Investee | % Ownership of Direct or Indirect Investment | Investment Gain (Loss) (Note 2) | Carrying Value as of December 31, 2020 | Accumulated Inward Remittance of Earnings as of December 31, 2020 | Note |
|---|---|---------------------------------|--------------------------|---|------------------|--------|---|-----------------------------------|--|---------------------------------|--|---|---------|
| | | | | | Outflow | Inflow | | | | | | | |
| Huiyu Shanghai Management Consultancy Co., Ltd. | Development and maintenance of information system | \$ 13,670 | 3 | \$ - | \$ - | \$ - | \$ - | \$ (4,093) | 100 | \$ (4,093) | \$ - | \$ - | Note 14 |

| Investee | Accumulated Investment in Mainland China as of December 31, 2020 | Investment Amounts Authorized by Investment Commission, MOEA | Upper Limit on Investment Stipulated by Investment Commission, MOEA |
|---|--|--|---|
| SENAO and its subsidiaries (Note 3) | \$ 2,239,005 | \$ 2,239,005 | \$ 3,556,272 |
| Chunghwa Telecom (China) Co., Ltd. (Note 4) | 177,176 | 177,176 | 233,555,074 |
| Jiangsu Zhenghua Information Technology Company, LLC (Note 4) | 142,057 | 142,057 | 233,555,074 |
| Chunghwa Precision Test Tech Co., Ltd and its subsidiaries (Note 5) | 113,573 | 159,725 | 4,229,876 |
| Shanghai Chief Telecom Co., Ltd. (Note 6) | 4,973 | 4,973 | 1,794,361 |
| IISI and its subsidiaries (Note 7) | 39,923 | 39,923 | 640,718 |

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

Note 4: Chunghwa Telecom (China) Co., Ltd. and Jiangsu Zhenghua Information Technology Company, LLC were calculated based on the consolidated net assets value of Chunghwa Telecom Co., Ltd.

Note 5: Chunghwa Precision Test Tech. Co., Ltd. and its subsidiaries were calculated based on the consolidated net assets value of Chunghwa Precision Test Tech. Co., Ltd.

Note 6: Shanghai Chief Telecom Co., Ltd. was calculated based on the consolidated net assets value of CHIEF Telecom Inc.

Note 7: IISI and its subsidiaries were calculated based on the consolidated net assets value of IISI.

Note 8: The liquidation of Senao Trading (Fujian) Co., Ltd. was completed in May 2019.

Note 9: Senao International Trading (Shanghai) Co., Ltd. was approved to end and dissolve its business in December 2020. The liquidation of Senao International Trading (Shanghai) Co., Ltd. is still in process.

Note 10: The liquidation of Senao International Trading (Shanghai) Co., Ltd. was completed in March 2018.

Note 11: The liquidation of Senao International Trading (Jiangsu) Co., Ltd. was completed in March 2019.

Note 12: The liquidation of Jiangsu Zhenhua Information Technology Company, LLC. was completed in December 2018.

Note 13: Chunghwa Telecom (China) Co., Ltd. was approved to end and dissolve its business in August 2020. The liquidation of Chunghwa Telecom (China) Co., Ltd. is still in process.

Note 14: The liquidation of Huiyu Shanghai Management Consultancy Co., Ltd. was completed in December 2020.

Note 15: The English name is the same as the above entity; however, the Chinese name included in the respective Articles of Incorporation is different from the above entity.

(Concluded)

TABLE 10**CHUNGHWA TELECOM CO., LTD.****INFORMATION OF MAJOR STOCKHOLDERS
DECEMBER 31, 2020**

| Name of Major Stockholders | Shares | |
|---|------------------|-----------------------------|
| | Number of Shares | Percentage of Ownership (%) |
| Ministry of Transportation and Communications | 2,737,718,976 | 35.29 |
| Shin Kong Life Insurance Co., Ltd. | 551,639,184 | 7.11 |

Note: This table presents information provided by the Taiwan Depository & Clearing Corporation on stockholders holding greater than 5% of Chunghwa's dematerialized securities that have completed the process of registration and delivery by book-entry transfer as of the last business day for the current quarter.

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STATEMENT 1**CHUNGHWA TELECOM CO., LTD.****STATEMENT OF CASH AND CASH EQUIVALENTS****DECEMBER 31, 2020****(In Thousands of New Taiwan Dollars, Unless Specified Otherwise)**

| Item | Period | Annual Interest Rate / Earnings Rate | Amount |
|--|-----------------------|---|----------------------|
| Cash | | | |
| Cash on hand | | | \$ 125,611 |
| Bank deposits | | | |
| Checking deposits | | | 1,608,252 |
| Demand deposits | | | <u>2,855,144</u> |
| | | | <u>4,463,396</u> |
| Cash equivalents | | | |
| Commercial paper | | | |
| Grand Bills Finance Corporation | 2020.12.02-2021.01.25 | 0.21%-0.24% | 2,747,622 |
| Ta Ching Bills Finance Corporation | 2020.12.02-2021.01.15 | 0.21%-0.23% | 2,198,905 |
| Taiwan Cooperative Bills Finance Corporation | 2020.12.04-2021.01.15 | 0.21%-0.26% | 1,847,866 |
| Taishin International Bank Co., Ltd. | 2020.12.02-2021.01.15 | 0.21%-0.24% | 1,599,091 |
| Taiwan Finance Corporation | 2020.12.01-2021.01.15 | 0.21%-0.24% | 1,558,131 |
| China Bills Finance Corporation | 2020.12.07-2021.01.25 | 0.20%-0.26% | 1,178,811 |
| Dah Chung Bills Finance Corp. | 2020.12.30-2021.01.25 | 0.22% | 499,748 |
| Mega Bills Finance Co., Ltd. | 2020.12.21-2021.01.11 | 0.22% | 469,755 |
| CTBC Bank Co., Ltd. | 2020.12.31-2021.01.11 | 0.14% | 399,924 |
| International Bills Finance Corporation | 2020.12.29-2021.01.15 | 0.22%-0.23% | <u>399,849</u> |
| | | | <u>12,899,702</u> |
| Negotiable certificates of deposit | 2020.11.27-2021.01.11 | 0.24%-0.30% | <u>2,600,000</u> |
| Triple stimulus vouchers | | | <u>1,344</u> |
| | | | <u>15,501,046</u> |
| | | | <u>\$ 20,090,053</u> |

Note: Including USD7,268 thousand @28.48, EUR339 thousand @35.02, JPY1,744 thousand @0.276, SGD3 thousand @21.56 and HKD18,706 thousand @3.673.

CHUNGHWA TELECOM CO., LTD.
STATEMENT OF CHANGES IN FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS-NONCURRENT
FOR THE YEAR ENDED DECEMBER 31, 2020
(In Thousands of New Taiwan Dollars)

| Investee Company | Balance, January 1, 2020 | | Additions in Investment | | Decrease in Investment | | Balance, December 31, 2020 | | | Note |
|---|--------------------------|-------------------|-------------------------|-------------|-------------------------|-------------------|----------------------------|--------------------------------|-------------------|------|
| | Shares (In Thousand) | Amount | Shares (In Thousand) | Amount | Shares (In Thousand) | Amount | Shares (In Thousand) | Percentage of Ownership (%) | Amount | |
| Financial assets at fair value through profit or loss | | | | | | | | | | |
| Taiwania Capital Buffalo Fund Co., Ltd. | 600,000 | \$ 510,801 | - | \$ - | - | \$ 69,706 | 600,000 | 12.90 | \$ 441,095 | Note |
| Innovation Works Development Fund, L.P. | - | <u>267,304</u> | - | <u>-</u> | - | <u>31,197</u> | - | 3.55 | <u>236,107</u> | Note |
| | | <u>\$ 778,105</u> | | <u>\$ -</u> | | <u>\$ 100,903</u> | | | <u>\$ 677,202</u> | |

Note: Change in investment was fair value adjustments.

STATEMENT 3**CHUNGHWA TELECOM CO., LTD.****STATEMENT OF TRADE NOTES AND ACCOUNTS RECEIVABLE, NET
DECEMBER 31, 2020
(In Thousands of New Taiwan Dollars)**

| Item | Amount |
|---|----------------------|
| Mobile broadband services revenue | \$ 5,749,848 |
| Project services revenue | 4,865,304 |
| Leased line services revenue | 3,552,670 |
| Internet and value-added services revenue | 2,143,720 |
| Local telephone services revenue | 1,863,557 |
| Others (Note) | <u>3,496,260</u> |
| | 21,671,359 |
| Less: Loss allowance | <u>(2,116,716)</u> |
| | <u>\$ 19,554,643</u> |

Note: The amount of individual item included in others does not exceed 5% of the account balance.

STATEMENT 4

CHUNGHWA TELECOM CO., LTD.

STATEMENT OF INVENTORIES

DECEMBER 31, 2020

(In Thousands of New Taiwan Dollars)

| Item | Amount | |
|--------------------|---------------------|---------------------|
| | Cost | Market Price (Note) |
| Merchandise | \$ 1,696,390 | \$ 2,221,925 |
| Project in process | <u>5,350,296</u> | <u>6,987,264</u> |
| | <u>\$ 7,046,686</u> | <u>\$ 9,209,189</u> |

Note: Amount of net realizable value.

CHUNGHWA TELECOM CO., LTD.

STATEMENT OF CHANGES IN FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME-NONCURRENT
 FOR THE YEAR ENDED DECEMBER 31, 2020
 (In Thousands of New Taiwan Dollars)

| Investee Company | Balance, January 1, 2020 | | Additions in Investment | | Decrease in Investment | | Balance, December 31, 2020 | | | Note |
|---|--------------------------|---------------------|-------------------------|-------------------|-------------------------|-------------------|----------------------------|--------------------------------|---------------------|--------|
| | Shares (In Thousand) | Amount | Shares (In Thousand) | Amount | Shares (In Thousand) | Amount | Shares (In Thousand) | Percentage of Ownership (%) | Amount | |
| Financial assets at fair value through other comprehensive income | | | | | | | | | | |
| Listed stocks | | | | | | | | | | |
| China Airlines, Ltd. | 263,622 | \$ 2,388,416 | - | \$ 789,882 | 46,983 | \$ 567,797 | 216,639 | 4.00 | \$ 2,610,501 | Note 2 |
| Non-listed stocks | | | | | | | | | | |
| Taipei Financial Center Corp. | 172,927 | 4,388,984 | - | - | - | 225,757 | 172,927 | 11.76 | 4,163,227 | Note 1 |
| Industrial Bank of Taiwan II Venture Capital Co., Ltd. (IBT II) | 5,252 | 17,084 | - | - | - | - | 5,252 | 16.67 | 17,084 | Note 1 |
| Global Mobile Corp. | 7,617 | - | - | - | - | - | 7,617 | 2.76 | - | |
| Innovation Works Limited | 1,000 | 4,078 | - | - | - | 380 | 1,000 | 1.93 | 3,698 | Note 1 |
| RPTI Intergroup International Ltd. | 4,765 | - | - | - | - | - | 4,765 | 10.19 | - | |
| Taiwan mobile payment Co., Ltd. | 1,200 | 4,510 | - | - | - | 186 | 1,200 | 2.00 | 4,324 | Note 1 |
| 4 Gamers Entertainment Inc. | 136 | 120,243 | - | - | - | 16,687 | 136 | 19.93 | 103,556 | Note 1 |
| UUPON Inc. | - | - | 246 | 1,289 | - | - | 246 | 3.71 | 1,289 | Note 3 |
| | | <u>\$ 6,923,315</u> | | <u>\$ 791,171</u> | | <u>\$ 810,807</u> | | | <u>\$ 6,903,679</u> | |

Note 1: Change in investment was fair value adjustments.

Note 2: Addition in investment was fair value adjustments. Decrease in investment was due to the disposal a portion of equity interests.

Note 3: Addition in investment was the reclassification from an associate to financial assets at fair value through other comprehensive income and fair value adjustments.

CHUNGHWA TELECOM CO., LTD.
STATEMENT OF CHANGES IN INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD
FOR THE YEAR ENDED DECEMBER 31, 2020
(In Thousands of New Taiwan Dollars)

| Investee Company | Balance, January 1, 2020 | | Additions in Investment | | Decrease in Investment | | Increase (Decrease) in Using the Equity Method | Balance, December 31, 2020 | | | Market Value / Net Asset Value | Note |
|--|--------------------------|----------------------|-------------------------|-------------------|-------------------------|---------------------|---|----------------------------|--------------------------------|----------------------|-----------------------------------|------------------|
| | Shares (In Thousand) | Amount | Shares (In Thousand) | Amount | Shares (In Thousand) | Amount | | Shares (In Thousand) | Percentage of Ownership (%) | Amount | | |
| Investments accounted for using equity method | | | | | | | | | | | | |
| Subsidiaries | | | | | | | | | | | | |
| Listed stocks | | | | | | | | | | | | |
| Senao International Co., Ltd. | 71,773 | \$ 456,545 | - | \$ - | - | \$ 104,071 | \$ (58,193) | 71,773 | 28 | \$ 294,281 | \$ 2,547,942 | Notes 2 and 3 |
| CHIEF Telecom Inc. | 39,426 | 1,729,189 | - | - | - | 315,406 | 372,185 | 39,426 | 56 | 1,785,968 | 13,976,517 | Notes 2 and 3 |
| Non-listed stocks | | | | | | | | | | | | |
| Light Era Development Co., Ltd. | 300,000 | 3,850,095 | - | - | - | 6,534 | 9,673 | 300,000 | 100 | 3,853,234 | 3,867,424 | Notes 1 and 3 |
| Donghua Telecom Co., Ltd. | 402,590 | 1,627,491 | - | - | - | 76,593 | (64,646) | 402,590 | 100 | 1,486,252 | 1,486,252 | Notes 1 and 3 |
| Chunghwa Telecom Singapore Pte., Ltd. | 26,383 | 935,228 | - | - | - | - | 78,301 | 26,383 | 100 | 1,013,529 | 1,013,500 | Note 1 |
| Chunghwa System Integration Co., Ltd. | 60,000 | 717,883 | - | - | - | 6,345 | 13,675 | 60,000 | 100 | 725,213 | 657,522 | Notes 1 and 3 |
| Chunghwa Investment Co., Ltd. | 68,085 | 3,130,389 | - | - | - | 272,340 | 159,520 | 68,085 | 89 | 3,017,569 | 3,093,298 | Notes 1 and 3 |
| Prime Asia Investments Group Ltd. (B.V.I.) | 1 | 182,989 | - | - | - | - | (19,868) | 1 | 100 | 163,121 | 163,121 | Note 1 |
| Honghua International Co., Ltd. | 18,000 | 411,291 | - | - | - | 143,630 | 220,243 | 18,000 | 100 | 487,904 | 524,533 | Notes 1 and 3 |
| CHYP Multimedia Marketing & Communications Co., Ltd. | 15,000 | 190,972 | - | - | - | 13,637 | 17,064 | 15,000 | 100 | 194,399 | 194,082 | Notes 1 and 3 |
| Spring House Entertainment Tech. Inc. | 8,251 | 110,357 | - | - | - | 8,663 | 25,253 | 8,251 | 56 | 126,947 | 111,211 | Notes 1 and 3 |
| Chunghwa Telecom Global, Inc. | 6,000 | 347,380 | - | - | - | - | 55,243 | 6,000 | 100 | 402,623 | 397,385 | Note 1 |
| Chunghwa Telecom Vietnam Co., Ltd. | - | 98,221 | - | - | - | - | (7,334) | - | 100 | 90,887 | 90,887 | Note 1 |
| Smartfun Digital Co., Ltd. | 6,500 | 73,688 | - | - | - | 6,002 | 6,369 | 6,500 | 65 | 74,055 | 74,242 | Notes 1 and 3 |
| Chunghwa Telecom Japan Co., Ltd. | 1 | 76,567 | - | - | - | - | 13,532 | 1 | 100 | 90,099 | 90,099 | Note 1 |
| Chunghwa Sochamp Technology Inc. | 2,040 | (10,086) | - | - | - | - | 5,047 | 2,040 | 51 | (5,039) | 5,027 | Note 1 |
| Chunghwa Leading Photonics Tech. Co., Ltd. | 7,050 | 111,680 | - | - | - | - | 12,287 | 7,050 | 75 | 123,967 | 126,645 | Note 1 |
| Chunghwa Telecom (Thailand) Co., Ltd. | 1,300 | 114,231 | - | - | - | - | (4,068) | 1,300 | 100 | 110,163 | 110,163 | Note 1 |
| CHT Security Co., Ltd. | 24,000 | 306,851 | - | - | - | 70,891 | 93,983 | 24,000 | 80 | 329,943 | 352,683 | Notes 1 and 3 |
| International Integrated Systems, Inc. | - | - | 37,211 | 561,210 | - | - | 31,839 | 37,211 | 51 | 593,049 | 546,732 | Notes 1 and 7 |
| | | <u>14,460,961</u> | | <u>561,210</u> | | <u>1,024,112</u> | <u>960,105</u> | | | <u>14,958,164</u> | | |
| Associates | | | | | | | | | | | | |
| Listed stocks | | | | | | | | | | | | |
| KingwayTek Technology Co., Ltd. | 7,898 | 253,021 | 790 | - | - | 553 | (3,424) | 8,688 | 23 | 249,044 | 675,911 | Notes 2, 3 and 4 |
| Non-listed stocks | | | | | | | | | | | | |
| International Integrated System, Inc. | 22,498 | 340,240 | - | - | 22,498 | 353,687 | 13,447 | - | - | - | - | Notes 3 and 6 |
| Viettel-CHT Co., Ltd. | - | 316,535 | - | - | - | 26,769 | 73,756 | - | 30 | 363,522 | 363,522 | Notes 1 and 3 |
| Taiwan International Standard Electronics Co., Ltd. | 1,760 | 272,166 | - | - | - | 89,558 | 147,423 | 1,760 | 40 | 330,031 | 403,593 | Notes 1 and 3 |
| KKBOX Taiwan Co., Ltd. | 4,438 | 150,789 | - | - | - | - | - | 4,438 | 30 | 163,809 | 124,568 | Note 1 |
| So-net Entertainment Taiwan Limited | 9,429 | 189,396 | - | - | - | - | 37,251 | 9,429 | 30 | 226,647 | 208,792 | Note 1 |
| Alliance Digital Tech Co., Ltd. | 6,000 | 5,080 | - | - | - | - | - | 6,000 | 14 | 5,080 | 5,080 | Note 1 |
| UUPON Inc. | 5,400 | 7,199 | - | - | 5,400 | 1,096 | (6,103) | - | - | - | - | Notes 1 and 8 |
| Taiwan International Ports Logistics Corporation | 8,000 | 50,979 | - | - | - | - | 4,946 | 8,000 | 27 | 55,925 | 55,925 | Note 1 |
| Chunghwa PChome Fund I Co., Ltd. | 20,000 | 194,081 | - | - | - | - | (1,225) | 20,000 | 50 | 192,856 | 192,856 | Note 1 |
| Cornerstone Ventures Co., Ltd. | 490 | 5,507 | - | - | - | - | 551 | 490 | 49 | 6,058 | 6,058 | Note 1 |
| Next Commercial Bank Co., Ltd. | 419,000 | 4,074,168 | - | - | - | - | (297,292) | 419,000 | 42 | 3,776,876 | 3,820,497 | Note 1 |
| | | <u>5,859,161</u> | | <u>-</u> | | <u>471,663</u> | <u>(17,650)</u> | | | <u>5,369,848</u> | | |
| Joint Ventures | | | | | | | | | | | | |
| Non-listed stocks | | | | | | | | | | | | |
| Chunghwa SEA Holdings | - | - | 1,020 | 10,200 | - | - | - | 1,020 | 51 | 10,200 | 10,200 | Notes 1 and 5 |
| | | <u>\$ 20,320,122</u> | | <u>\$ 571,410</u> | | <u>\$ 1,495,775</u> | <u>\$ 942,455</u> | | | <u>\$ 20,338,212</u> | | |

Note 1: The amounts of net asset value were based on audited financial statements.

Note 2: Fair value was based on the closing price at the end of 2020.

Note 3: Decrease in investment was cash dividends received.

Note 4: Additions in shares of investment was stock dividends received.

Note 5: Additions in investment was the investment in establishing a new company.

Note 6: Decrease in investment was the transfer from an associate to a subsidiary.

Note 7: Additions in investment was the fair value of equity held before the acquisition of IISI, plus the cash consideration \$233,923 thousand paid for the acquisition.

Note 8: Decrease in investment was the reclassification from an associate to financial assets at fair value through other comprehensive income.

STATEMENT 7**CHUNGHWA TELECOM CO., LTD.****STATEMENT OF RIGHT-OF-USE ASSETS****DECEMBER 31, 2020****(In Thousands of New Taiwan Dollars)**

| | Land and Buildings (Handsets Base Stations) | Land and Buildings (Others) | Equipment | Total |
|--|--|--|---------------------|----------------------|
| <u>Cost</u> | | | | |
| Balance on January 1, 2020 | \$ 9,538,566 | \$ 1,260,026 | \$ 2,989,525 | \$ 13,788,117 |
| Additions | 3,157,109 | 303,572 | 7,983 | 3,468,664 |
| Decreases | <u>(303,190)</u> | <u>(72,199)</u> | <u>(4,283)</u> | <u>(379,672)</u> |
| Balance on December 31, 2020 | <u>\$ 12,392,485</u> | <u>\$ 1,491,399</u> | <u>\$ 2,993,225</u> | <u>\$ 16,877,109</u> |
| <u>Accumulated depreciation and impairment</u> | | | | |
| Balance on January 1, 2020 | \$ 2,690,525 | \$ 402,474 | \$ 403,093 | \$ 3,496,092 |
| Depreciation expenses | 2,730,579 | 388,528 | 403,138 | 3,522,245 |
| Decreases | <u>(127,434)</u> | <u>(38,453)</u> | <u>(3,568)</u> | <u>(169,455)</u> |
| Balance on December 31, 2020 | <u>\$ 5,293,670</u> | <u>\$ 752,549</u> | <u>\$ 802,663</u> | <u>\$ 6,848,882</u> |
| Balance on January 1, 2020, net | <u>\$ 6,848,041</u> | <u>\$ 857,552</u> | <u>\$ 2,586,432</u> | <u>\$ 10,292,025</u> |
| Balance on December 31, 2020, net | <u>\$ 7,098,815</u> | <u>\$ 738,850</u> | <u>\$ 2,190,562</u> | <u>\$ 10,028,227</u> |

CHUNGHWA TELECOM CO., LTD.

STATEMENT OF SHORT-TERM BILLS PAYABLE

DECEMBER 31, 2020

(In Thousands of New Taiwan Dollars)

| Item | Underwriting Agency | Period | Rate (%) | Issuance Amount | Unamortized Amount | Carrying Value |
|--------------------------|----------------------------------|-----------------------|-----------|---------------------|--------------------|---------------------|
| Commercial paper payable | Yuanta Commercial Bank Co., Ltd. | 2020.08.05-2021.01.12 | 0.35-0.36 | \$ 1,425,000 | \$ 165 | \$ 1,424,835 |
| | Cathay United Bank | 2020.08.05-2021.01.12 | 0.35-0.36 | 1,425,000 | 166 | 1,424,834 |
| | Mega Bills Finance Co., Ltd. | 2020.08.05-2021.01.12 | 0.34-0.35 | 1,100,000 | 126 | 1,099,874 |
| | Grand Bills Finance Corporation | 2020.08.05-2021.01.12 | 0.34-0.35 | 1,050,000 | 121 | 1,049,879 |
| | CTBC Bank Co., Ltd. | 2020.08.05-2021.01.12 | 0.34 | 1,000,000 | 111 | 999,889 |
| | China Bills Finance Corporation | 2020.08.05-2021.01.12 | 0.34-0.35 | <u>1,000,000</u> | <u>113</u> | <u>999,887</u> |
| | | | | <u>\$ 7,000,000</u> | <u>\$ 802</u> | <u>\$ 6,999,198</u> |

STATEMENT 9

CHUNGHWA TELECOM CO., LTD.

STATEMENT OF TRADE NOTES AND ACCOUNTS PAYABLE

DECEMBER 31, 2020

(In Thousands of New Taiwan Dollars)

| Item | Amount |
|--------------------------------------|----------------------|
| Payable of spare parts for equipment | \$ 2,308,164 |
| Payable of products | 1,363,998 |
| Other (Note) | <u>8,554,773</u> |
| | <u>\$ 12,226,935</u> |

Note: The amount of each item in others does not exceed 5% of the account balance.

CHUNGHWA TELECOM CO., LTD.
STATEMENT OF BONDS PAYABLE
FOR THE YEAR ENDED DECEMBER 31, 2020
(In Thousands of New Taiwan Dollars)

| Bond Name | Trustee | Issuance Period | Repayment of the Principal and Interest Payment Date | Coupon Rate (%) | Total Amount | Repayments Made | Balance at December 31, 2020 | Costs of Issuance | Carrying Value | Guarantee |
|--------------------------|----------------|-----------------|--|-----------------|----------------------|-----------------|------------------------------|---------------------|----------------------|-----------|
| Unsecured domestic bonds | Bank of Taiwan | 2020.07-2025.07 | Interest payable in July annually and one-time repayment upon maturity | 0.50 | \$ 8,800,000 | \$ - | \$ 8,800,000 | \$ (8,521) | \$ 8,791,479 | None |
| | Bank of Taiwan | 2020.07-2027.07 | Interest payable in July annually and one-time repayment upon maturity | 0.54 | 7,500,000 | - | 7,500,000 | (7,455) | 7,492,545 | None |
| | Bank of Taiwan | 2020.07-2030.07 | Interest payable in July annually and one-time repayment upon maturity | 0.59 | <u>3,700,000</u> | <u>-</u> | <u>3,700,000</u> | <u>(3,752)</u> | <u>3,696,248</u> | None |
| | | | | | <u>\$ 20,000,000</u> | <u>\$ -</u> | <u>\$ 20,000,000</u> | <u>\$ (19,728)</u> | <u>\$ 19,980,272</u> | |

CHUNGHWA TELECOM CO., LTD.**STATEMENT OF LEASE LIABILITIES****DECEMBER 31, 2020****(In Thousands of New Taiwan Dollars)**

| Item | Period | Discount Rate (%) | Amount |
|---------------------------------|---------------|------------------------------|---------------------|
| Land and buildings | | | |
| Handsets base stations | 1-20 years | 0.46-1.18 | \$ 6,793,253 |
| Others | 1-30 years | 0.46-1.12 | 802,547 |
| Equipment | 1-15 years | 0.46-0.82 | <u>1,024,847</u> |
| | | | 8,620,647 |
| Less: Lease Liabilities-current | | | <u>(2,938,305)</u> |
| Lease Liabilities-noncurrent | | | <u>\$ 5,682,342</u> |

STATEMENT 12**CHUNGHWA TELECOM CO., LTD.****STATEMENT OF OPERATING COSTS
FOR THE YEAR ENDED DECEMBER 31, 2020
(In Thousands of New Taiwan Dollars)**

| Item | Amount |
|---|-----------------------|
| Depreciation | \$ 28,694,921 |
| Cost of products | 14,195,109 |
| Salaries | 10,961,990 |
| Amortization | 10,578,714 |
| Repair, maintenance and warranty expenses | 6,099,791 |
| Compensation | 5,885,908 |
| Other (Note) | <u>40,789,811</u> |
| | <u>\$ 117,206,244</u> |

Note: The amount of each item in others does not exceed 5% of the account balance.

CHUNGHWA TELECOM CO., LTD.
STATEMENT OF OPERATING EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2020
(In Thousands of New Taiwan Dollars)

| Item | Marketing | General and Administrative | Research and Development | Expected Credit Loss | Total |
|-------------------------------------|----------------------|---------------------------------------|-------------------------------------|---------------------------------|----------------------|
| Salaries | \$ 5,702,880 | \$ 1,300,941 | \$ 1,400,511 | \$ - | \$ 8,404,332 |
| Compensation | 3,104,800 | 649,068 | 757,642 | - | 4,511,510 |
| Professional service fee | 1,894,421 | 177,821 | 203,581 | - | 2,275,823 |
| Depreciation | 643,379 | 341,354 | 172,985 | - | 1,157,718 |
| Welfare fee | 996,969 | 211,674 | 229,426 | - | 1,438,069 |
| Marketing and promotion expenses | 797,113 | - | - | - | 797,113 |
| Expected credit loss | - | - | - | 45,689 | 45,689 |
| Other (Note) | <u>3,456,534</u> | <u>1,039,334</u> | <u>365,091</u> | <u>-</u> | <u>4,860,959</u> |
| | <u>\$ 16,596,096</u> | <u>\$ 3,720,192</u> | <u>\$ 3,129,236</u> | <u>\$ 45,689</u> | <u>\$ 23,491,213</u> |

Note: The amount of each item in others does not exceed 5% of the account balance.

CHUNGHWA TELECOM CO., LTD.

STATEMENT OF EMPLOYEE BENEFIT, DEPRECIATION AND AMORTIZATION BY FUNCTION
FOR THE YEAR ENDED DECEMBER 31, 2020 and 2019
(In Thousands of New Taiwan Dollars)

| | Year Ended December 31, 2020 | | | Year Ended December 31, 2019 | | |
|---------------------------|-------------------------------------|--|----------------------|-------------------------------------|--|----------------------|
| | Classified as Operating Costs | Classified as Operating Expenses | Total | Classified as Operating Costs | Classified as Operating Expenses | Total |
| Employee benefit expenses | | | | | | |
| Salaries | \$ 10,961,990 | \$ 8,404,332 | \$ 19,366,322 | \$ 11,218,855 | \$ 8,669,102 | \$ 19,887,957 |
| Insurance | 1,084,119 | 875,369 | 1,959,488 | 1,161,980 | 869,502 | 2,031,482 |
| Pension | 1,362,646 | 973,804 | 2,336,450 | 1,861,185 | 1,299,078 | 3,160,263 |
| Remuneration to directors | - | 41,045 | 41,045 | - | 40,565 | 40,565 |
| Others | 6,789,180 | 5,140,658 | 11,929,838 | 6,950,603 | 5,256,004 | 12,206,607 |
| | <u>\$ 20,197,935</u> | <u>\$ 15,435,208</u> | <u>\$ 35,633,143</u> | <u>\$ 21,192,623</u> | <u>\$ 16,134,251</u> | <u>\$ 37,326,874</u> |
| Depreciation | <u>\$ 28,694,921</u> | <u>\$ 1,157,718</u> | <u>\$ 29,852,639</u> | <u>\$ 28,630,553</u> | <u>\$ 1,222,266</u> | <u>\$ 29,852,819</u> |
| Amortization | <u>\$ 10,578,714</u> | <u>\$ 152,061</u> | <u>\$ 10,730,775</u> | <u>\$ 10,281,841</u> | <u>\$ 156,705</u> | <u>\$ 10,438,546</u> |

Note 1: The average numbers of the Company's employees were 21,050 and 21,661, including 10 non-employee directors in 2020 and 2019, respectively.

Note 2: The average employee benefits expense were \$1,692 thousand and \$1,721 thousand for the years ended December 31, 2020 and 2019, respectively. (Which refers to [total employee benefits-total directors' remuneration] divided by [number of employees-number of non-employee directors].)

Note 3: The average salary expenses were \$920 thousand and \$918 thousand for the years ended December 31, 2020 and 2019, respectively. (Which refers to [salary expenses] divided by [number of employees-number of non-employee directors]). The adjustment on the average salary expenses in 2020 is approximately -0.2%.

Note 4: The Company does not have supervisors; therefore, there is no remuneration to supervisors.

Note 5: The remuneration policies for directors, management personnel, and employees were as follows:

- a. General directors and independent directors:
 - (i) Fixed remuneration is based on monthly basis resolved by the Board of Directors.
 - (ii) Floating remuneration is based on distribution stated in the Company's Articles of Incorporation. Please refer to Note 28(7) for details. Independent directors are excluded from the aforementioned distribution.
- b. The remuneration to management personnel is based on the executive performance management and guidelines which are linked to the Company's performance, business unit performance and personal performance. In addition, the result of corporate social responsibilities is a reference item taking into consideration for the floating remuneration.
- c. Compensation to employees is based on the Company's salary guidance.
- d. The remuneration to directors and management personnel are evaluated regularly and determined by the compensation committee of the Company.

Note 6: The Company's salary expenses refer to recurring grants such as base salary, job premiums, and overtime pay, etc.