Chunghwa Telecom Co., Ltd. and Subsidiaries

Consolidated Financial Statements as of December 31, 2016 and 2017 and for Each of the Three Years in the Period Ended December 31, 2017 and Report of Independent Registered Public Accounting Firm

Deloitte.

勤業眾信

勤業眾信聯合會計師事務所
10596 台北市民生東路三段156號12樓

Deloitte & Touche
12th Floor, Hung Tai Financial Plaza
156 Min Sheng East Road, Sec. 3
Taipei 10596, Taiwan

Tel :+886 (2) 2545-9988
Fax:+886 (2) 4051-6888
www.deloitte.com.tw

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and the Board of Directors of Chunghwa Telecom Co., Ltd.

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Chunghwa Telecom Co., Ltd. and subsidiaries (the "Company") as of December 31, 2016 and 2017, the related consolidated statements of comprehensive income, changes in equity, and cash flows, for each of the three years in the period ended December 31, 2017, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2016 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2017, in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Our audits also comprehended the translation of New Taiwan dollar amounts into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 6 to the consolidated financial statements. Such U.S. dollar amounts are presented solely for the convenience of readers outside Taiwan.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2017, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated April 27, 2018, expressed an unqualified opinion on the Company's internal control over financial reporting.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

Deloitte & Touche

Deloitte & Touche
Taipei, Taiwan
The Republic of China

April 27, 2018

We have served as the Company's auditor since 1998.

CHUNGHWA TELECOM CO., LTD. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2016 and 2017
(In Millions of New Taiwan or U.S. Dollars)

ASSETS	Notes	2016 NT$	2017 NT$	2017 US$ (Note 6)
CURRENT ASSETS				
Cash and cash equivalents	3, 7	$ 31,100	$ 28,825	$ 973
Financial assets at fair value through profit or loss	3, 8	-	-	-
Held-to-maturity financial assets	3, 10	2,140	-	-
Trade notes and accounts receivable, net	3, 4, 11	31,022	31,941	1,077
Receivables from related parties	40	14	49	2
Inventories	3, 4, 12, 41	7,423	8,840	298
Prepayments	13, 40	2,978	2,188	74
Other current monetary assets	14, 28	4,821	5,308	179
Other current assets	20, 32, 41	2,122	2,183	74
Total current assets		81,620	79,334	2,677
NONCURRENT ASSETS				
Available-for-sale financial assets	3, 9	4,764	5,751	194
Investments accounted for using equity method	3, 16	2,386	2,326	78
Property, plant and equipment	3, 4, 17, 40, 41	291,170	288,708	9,740
Investment properties	3, 4, 18	8,115	8,048	272
Intangible assets	3, 4, 19	47,353	54,883	1,852
Deferred income tax assets	3, 32	2,322	2,730	92
Net defined benefit assets	3, 4, 28	919	13	-
Prepayments	13, 40	3,241	3,573	121
Other noncurrent assets	20, 41	5,025	5,536	187
Total noncurrent assets		365,295	371,568	12,536
TOTAL		$ 446,915	$ 450,902	$ 15,213

LIABILITIES AND EQUITY	Notes	2016 NT$	2017 NT$	2017 US$ (Note 6)
CURRENT LIABILITIES				
Short-term loans	22, 41	$ 138	$ 70	$ 2
Financial liabilities at fair value through profit or loss	3, 8	1	1	-
Hedging derivative financial liabilities	3, 21	1	1	-
Trade notes and accounts payable	24	18,810	19,396	654
Payables to related parties	40	762	684	23
Current tax liabilities	3, 32	6,522	8,674	293
Other payables	25	26,418	25,001	844
Provisions	3, 26	119	189	6
Advance receipts	27	10,059	8,842	298
Other current liabilities		1,330	1,081	37
Total current liabilities		64,160	63,939	2,157
NONCURRENT LIABILITIES				
Long-term loans	23, 41	1,600	1,600	54
Deferred income tax liabilities	3, 32	1,464	1,430	48
Provisions	3, 26	66	78	3
Customers' deposits	40	4,610	4,671	158
Net defined benefit liabilities	3, 4, 28	1,537	2,704	91
Deferred revenue	3	3,546	3,612	122
Other noncurrent liabilities		3,004	3,458	117
Total noncurrent liabilities		15,827	17,553	593
Total liabilities		79,987	81,492	2,750
EQUITY ATTRIBUTABLE TO STOCKHOLDERS OF THE PARENT				
Common stocks		77,574	77,574	2,617
Additional paid-in capital		147,180	148,091	4,996
Retained earnings				
Legal reserve		77,574	77,574	2,617
Special reserve		2,676	2,681	91
Unappropriated earnings		55,657	54,633	1,843
Total retained earnings		135,907	134,888	4,551
Other adjustments		(5)	383	13
Total equity attributable to stockholders of the parent	15, 29	360,656	360,936	12,177
NONCONTROLLING INTERESTS	15, 29	6,272	8,474	286
Total equity		366,928	369,410	12,463
TOTAL		$ 446,915	$ 450,902	$ 15,213

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

CHUNGHWA TELECOM CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
YEARS ENDED DECEMBER 31, 2015, 2016 and 2017
(In Millions of New Taiwan or U.S. Dollars, Except Earnings Per Share That Are in New Taiwan or U.S. Dollars)

		2015	2016	2017	
	Notes	**NT$**	**NT$**	**NT$**	**US$ (Note 6)**
REVENUES	4, 30, 40, 43	$ 231,795	$ 229,991	$ 227,514	$ 7,676
OPERATING COSTS	12, 28, 31, 40	148,126	147,552	146,837	4,954
GROSS PROFIT		83,669	82,439	80,677	2,722
OPERATING EXPENSES					
Marketing		25,071	25,516	25,357	856
General and administrative		4,515	4,537	4,626	156
Research and development		3,617	3,785	3,886	131
Total operating expenses	28, 31, 40	33,203	33,838	33,869	1,143
OTHER INCOME AND EXPENSES	15, 17, 18, 31, 43	(105)	(496)	(105)	(3)
INCOME FROM OPERATIONS		50,361	48,105	46,703	1,576
NON-OPERATING INCOME AND EXPENSES					
Interest income		306	189	205	7
Other income	31, 40	650	1,072	836	28
Other gains and losses	31, 40	(228)	(448)	(132)	(4)
Interest expenses		(33)	(20)	(22)	(1)
Share of the profits of associates and joint ventures accounted for using equity method	16	897	515	419	14
Total non-operating income and expenses		1,592	1,308	1,306	44
INCOME BEFORE INCOME TAX		51,953	49,413	48,009	1,620
INCOME TAX EXPENSE	3, 32	9,101	7,787	7,849	265
NET INCOME		42,852	41,626	40,160	1,355
TOTAL OTHER COMPREHENSIVE INCOME (LOSS)					
Items that will not be reclassified to profit or loss:					
Remeasurements of defined benefit pension plans	28	(231)	(2,043)	(2,024)	(68)
Share of remeasurements of defined benefit pension plans of associates and joint ventures	16	(25)	(44)	1	-
Income tax benefit relating to items that will not be reclassified to profit or loss	32	39	347	344	11
		(217)	(1,740)	(1,679)	(57)

(Continued)

CHUNGHWA TELECOM CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
YEARS ENDED DECEMBER 31, 2015, 2016 and 2017
(In Millions of New Taiwan or U.S. Dollars, Except Earnings Per Share That Are in New Taiwan or U.S. Dollars)

	Notes	2015 NT$	2016 NT$	2017 NT$	2017 US$ (Note 6)
Items that may be reclassified subsequently to profit or loss:					
Exchange differences arising from the translation of the foreign operations		$ 24	$ (170)	$ (229)	$ (8)
Unrealized gain or loss on available-for-sale financial assets	31	(645)	(144)	605	21
Cash flow hedges	21, 31	1	(1)	(1)	-
Share of exchange differences arising from the translation of the foreign operations of associates and joint ventures	16	6	(3)	(5)	-
Income tax benefit (expense) relating to items that may be reclassified subsequently	32	(2)	2	3	-
		(616)	(316)	373	13
Total other comprehensive loss, net of income tax		(833)	(2,056)	(1,306)	(44)
TOTAL COMPREHENSIVE INCOME		$ 42,019	$ 39,570	$ 38,854	$ 1,311
NET INCOME ATTRIBUTABLE TO					
Stockholders of the parent		$ 42,039	$ 40,485	$ 38,988	$ 1,315
Noncontrolling interests		813	1,141	1,172	40
		$ 42,852	$ 41,626	$ 40,160	$ 1,355
COMPREHENSIVE INCOME ATTRIBUTABLE TO					
Stockholders of the parent		$ 41,207	$ 38,486	$ 37,705	$ 1,272
Noncontrolling interests		812	1,084	1,149	39
		$ 42,019	$ 39,570	$ 38,854	$ 1,311
EARNINGS PER SHARE	33				
Basic		$5.42	$5.22	$5.03	$0.17
Diluted		$5.41	$5.21	$5.02	$0.17
EARNINGS PER EQUIVALENT ADS					
Basic		$54.19	$52.19	$50.26	$1.70
Diluted		$54.06	$52.11	$50.19	$1.69

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

CHUNGHWA TELECOM CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
YEARS ENDED DECEMBER 31, 2015, 2016 and 2017
(In Millions of New Taiwan or U.S. Dollars)

	Equity Attributable to Stockholders of the Parent												
			Retained Earnings				Other Adjustments						
	Common Stocks NT$	Additional Paid-in Capital NT$	Legal Reserve NT$	Special Reserve NT$	Unappropriated Earnings NT$	Total Retained Earnings NT$	Exchange Differences Arising from the Translation of the Foreign Operations NT$	Unrealized Gain or Loss on Available-for-sale Financial Assets NT$	Cash Flow Hedges NT$	Total Other Adjustments NT$	Total Equity Attributable to Stockholders of the Parent NT$	Noncontrolling Interests NT$	Total Equity NT$
BALANCE, JANUARY 1, 2015	$ 77,574	$ 146,720	$ 76,893	$ 2,820	$ 55,895	$ 135,608	$ 146	$ 740	$ -	$ 886	$ 360,788	$ 4,924	$ 365,712
Appropriation of 2014 earnings													
Legal reserve	-	-	681	-	(681)	-	-	-	-	-	-	-	-
Special reserve	-	-	-	(144)	144	-	-	-	-	-	-	-	-
Cash dividends paid by Chunghwa	-	-	-	-	(37,673)	(37,673)	-	-	-	-	(37,673)	-	(37,673)
Cash dividends distributed by subsidiaries	-	-	-	-	-	-	-	-	-	-	-	(350)	(350)
Reversal of special reserve recognized from land disposal	-	-	-	-	-	-	-	-	-	-	-	-	-
Partial disposal of interests in subsidiaries	-	27	-	-	-	-	-	-	-	-	27	18	45
Other changes in additional paid-in capital in subsidiaries	-	1	-	-	-	-	-	-	-	-	1	2	3
Change in additional paid-in capital from share subscription not based on original ownership of a subsidiary	-	-	-	-	-	-	-	-	-	-	-	-	-
Net income for the year ended December 31, 2015	-	-	-	-	42,039	42,039	-	-	-	-	42,039	813	42,852
Other comprehensive income for the year ended December 31, 2015	-	-	-	-	(215)	(215)	31	(649)	1	(617)	(832)	(1)	(833)
Total comprehensive income for the year ended December 31, 2015	-	-	-	-	41,824	41,824	31	(649)	1	(617)	41,207	812	42,019
Compensation cost of employee stock options of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	36	36
Subsidiary purchased its treasury stock	-	(15)	-	-	(61)	(61)	-	-	-	-	(76)	(416)	(492)
Net increase in noncontrolling interests	-	-	-	-	-	-	-	-	-	-	-	39	39
BALANCE, DECEMBER 31, 2015	77,574	146,733	77,574	2,676	59,448	139,698	177	91	1	269	364,274	5,065	369,339
Appropriation of 2015 earnings													
Cash dividends paid by Chunghwa	-	-	-	-	(42,551)	(42,551)	-	-	-	-	(42,551)	-	(42,551)
Cash dividends distributed by subsidiaries	-	-	-	-	-	-	-	-	-	-	-	(710)	(710)
Partial disposal of interests in subsidiaries	-	58	-	-	-	-	-	-	-	-	58	25	83
Change in additional paid-in capital for not participating in the capital increase of a subsidiary	-	389	-	-	-	-	-	-	-	-	389	786	1,175
Net income for the year ended December 31, 2016	-	-	-	-	40,485	40,485	-	-	-	-	40,485	1,141	41,626
Other comprehensive loss for the year ended December 31, 2016	-	-	-	-	(1,725)	(1,725)	(131)	(142)	(1)	(274)	(1,999)	(57)	(2,056)
Total comprehensive income (loss) for the year ended December 31, 2016	-	-	-	-	38,760	38,760	(131)	(142)	(1)	(274)	38,486	1,084	39,570
Share-based payment transactions of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	17	17
Net increase in noncontrolling interests	-	-	-	-	-	-	-	-	-	-	-	5	5
BALANCE, DECEMBER 31, 2016	77,574	147,180	77,574	2,676	55,657	135,907	46	(51)	-	(5)	360,656	6,272	366,928
Appropriation of 2016 earnings													
Special reserve	-	-	-	5	(5)	-	-	-	-	-	-	-	-
Cash dividends paid by Chunghwa	-	-	-	-	(38,336)	(38,336)	-	-	-	-	(38,336)	-	(38,336)
Cash dividends distributed by subsidiaries	-	-	-	-	-	-	-	-	-	-	-	(942)	(942)
Unclaimed dividend	-	3	-	-	-	-	-	-	-	-	3	-	3
Change in additional paid-in capital from investments in associates and joint ventures accounted for using equity method	-	-	-	-	-	-	-	-	-	-	-	-	-
Partial disposal of interests in subsidiaries	-	77	-	-	-	-	-	-	-	-	77	29	106
Change in additional paid-in capital for not participating in the capital increase of a subsidiary	-	802	-	-	-	-	-	-	-	-	802	1,750	2,552
Other changes in additional paid-in capital of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	-
Net income for the year ended December 31, 2017	-	-	-	-	38,988	38,988	-	-	-	-	38,988	1,172	40,160
Other comprehensive loss for the year ended December 31, 2017	-	-	-	-	(1,671)	(1,671)	(220)	609	(1)	388	(1,283)	(23)	(1,306)
Total comprehensive income (loss) for the year ended December 31, 2017	-	-	-	-	37,317	37,317	(220)	609	(1)	388	37,705	1,149	38,854
Share-based payment transactions of subsidiaries	-	2	-	-	-	-	-	-	-	-	2	20	22
Net increase in noncontrolling interests	-	27	-	-	-	-	-	-	-	-	27	196	223
BALANCE, DECEMBER 31, 2017	$ 77,574	$ 148,091	$ 77,574	$ 2,681	$ 54,633	$ 134,888	$ (174)	$ 558	$ (1)	$ 383	$ 360,936	$ 8,474	$ 369,410
BALANCE, DECEMBER 31, 2017 (IN MILLIONS OF US$ - Note 6)	$ 2,617	$ 4,996	$ 2,617	$ 91	$ 1,843	$ 4,551	$ (6)	$ 19	$ -	$ 13	$ 12,177	$ 286	$ 12,463

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

CHUNGHWA TELECOM CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2015, 2016 and 2017
(In Millions of New Taiwan or U.S. Dollars)

	2015	2016	2017	
	NT$	NT$	NT$	US$ (Note 6)
CASH FLOWS FROM OPERATING ACTIVITIES				
Income before income tax	$ 51,953	$ 49,413	$ 48,009	$ 1,620
Adjustments to reconcile income before income tax to net cash provided by operating activities:				
Depreciation	30,368	29,106	28,164	950
Amortization	3,080	3,379	3,766	127
Provision for doubtful accounts	519	941	643	22
Interest expenses	33	20	22	1
Interest income	(306)	(189)	(205)	(7)
Dividend income	(218)	(391)	(328)	(11)
Compensation cost of share-based payment transactions	36	17	22	1
Share of profits of associates and joint ventures accounted for using equity method	(897)	(515)	(419)	(14)
Loss on disposal of property, plant and equipment	109	48	107	4
Property, plant and equipment transferred to expenses	-	-	3	-
Loss on disposal of intangible assets	-	-	-	-
Gain on disposal of financial instruments	-	-	(3)	-
Loss (gain) on disposal of investments accounted for using equity method	(4)	2	-	-
Impairment loss on available-for-sale financial assets	107	577	-	-
Impairment loss on investments accounted for using equity method	8	-	-	-
Provision for inventory and obsolescence	198	192	52	2
Impairment loss on property, plant and equipment	138	596	-	-
Reversal of impairment loss on investment properties	(142)	(148)	(11)	-
Impairment loss on intangible assets	-	-	9	-
Valuation loss (gain) on financial assets and liabilities at fair value through profit or loss, net	-	1	(1)	-
Loss (gain) on foreign exchange, net	54	(80)	83	3
Changes in operating assets and liabilities:				
Decrease (increase) in:				
Financial assets held for trading	1	-	-	-
Trade notes and accounts receivable	(1,172)	(4,613)	(1,191)	(40)
Receivables from related parties	39	28	(36)	(1)
Inventories	(1,852)	1,166	(1,469)	(50)
Prepayments	(327)	62	458	15
Other current monetary assets	(357)	(242)	(81)	(3)
Other current assets	889	214	(61)	(2)
Increase (decrease) in:				
Trade notes and accounts payable	(2,223)	2,497	587	20
Payables to related parties	203	151	(78)	(3)
Other payables	1,644	(76)	(691)	(24)
Provisions	(24)	(63)	82	3
Advance receipts	1,134	504	(728)	(25)
Other current liabilities	(112)	7	(76)	(3)
Deferred revenue	218	(70)	66	2
Net defined benefit plans	439	(8,539)	49	2
Cash generated from operations	83,536	73,995	76,744	2,589
Interest paid	(33)	(20)	(22)	(1)
Income tax paid	(7,178)	(9,023)	(5,790)	(195)
Net cash provided by operating activities	76,325	64,952	70,932	2,393

(Continued)

CHUNGHWA TELECOM CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2015, 2016 and 2017
(In Millions of New Taiwan or U.S. Dollars)

	2015	2016	2017	
	NT$	NT$	NT$	US$ (Note 6)
CASH FLOWS FROM INVESTING ACTIVITIES				
Acquisition of available-for-sale financial assets	$ (29)	$ (53)	$ (400)	$ (13)
Proceeds from disposal of available-for-sale financial assets	2	39	9	-
Proceeds from capital reduction of available-for-sale financial assets	44	37	12	-
Acquisition of time deposits and negotiable certificate of deposit with maturities of more than three months	(11,494)	(4,119)	(6,231)	(210)
Proceeds from disposal of time deposits and negotiable certificate of deposit with maturities of more than three months	11,824	2,834	5,650	191
Acquisition of held-to-maturity financial assets	(1,002)	-	-	-
Proceeds from disposal of held-to-maturity financial assets	4,450	1,875	2,140	72
Acquisition of investments accounted for using equity method	(6)	(30)	-	-
Proceeds from disposal of investments accounted for using equity method	16	182	-	-
Net cash outflow on acquisition of subsidiaries	(114)	-	-	-
Acquisition of property, plant and equipment	(25,084)	(23,517)	(26,875)	(907)
Proceeds from disposal of property, plant and equipment	4	44	159	5
Acquisition of intangible assets	(10,380)	(282)	(11,305)	(381)
Acquisition of investment properties	-	-	-	-
Decrease (increase) in other noncurrent assets	72	63	(788)	(27)
Interest received	337	198	233	8
Cash dividends received	907	1,066	675	23
Net cash used in investing activities	(30,453)	(21,663)	(36,721)	(1,239)
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from short-term loans	2,750	1,415	6,952	235
Repayment of short-term loans	(3,258)	(1,387)	(7,020)	(237)
Repayment of long-term loans	(190)	(150)	-	-
Decrease in customers' deposits	(37)	(294)	(111)	(4)
Increase (decrease) in other noncurrent liabilities	12	(104)	(37)	(1)
Cash dividends paid	(37,673)	(42,551)	(38,336)	(1,293)
Partial disposal of interests in subsidiaries without losing control	45	83	106	4
Cash dividends distributed to noncontrolling interests	(350)	(710)	(942)	(32)
Change in other noncontrolling interests	(485)	1,180	2,777	94
Unclaimed dividend	-	-	3	-
Net cash used in financing activities	(39,186)	(42,518)	(36,608)	(1,234)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	25	58	122	4
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	6,711	829	(2,275)	(76)
CASH AND CASH EQUIVALENTS, BEGINNING OF THE YEAR	23,560	30,271	31,100	1,049
CASH AND CASH EQUIVALENTS, END OF THE YEAR	$ 30,271	$ 31,100	$ 28,825	$ 973

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

CHUNGHWA TELECOM CO., LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In Millions of New Taiwan Dollars, Unless Stated Otherwise)

1. GENERAL

Chunghwa Telecom Co., Ltd. ("Chunghwa") was incorporated on July 1, 1996 in the Republic of China ("ROC") pursuant to the Article 30 of the Telecommunications Act. Chunghwa is a company limited by shares and, prior to August 2000, was wholly owned by the Ministry of Transportation and Communications ("MOTC"). Prior to July 1, 1996, the current operations of Chunghwa were carried out under the Directorate General of Telecommunications ("DGT"). The DGT was established by the MOTC in June 1943 to take primary responsibility in the development of telecommunications infrastructure and to formulate policies related to telecommunications. On July 1, 1996, the telecom operations of the DGT were spun-off as Chunghwa which continues to carry out the business and the DGT continues to be the industry regulator.

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

Effective August 12, 2005, the MOTC completed the process of privatizing Chunghwa by reducing the government ownership to below 50% in various stages. In July 2000, Chunghwa received approval from the Securities and Futures Commission (the "SFC") for a domestic initial public offering and its common stocks were listed and traded on the Taiwan Stock Exchange (the "TWSE") on October 27, 2000. Certain of Chunghwa'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 Chunghwa's common stocks were also sold in an international offering of securities in the form of American Depository Shares ("ADS") on July 17, 2003 and were listed and traded on the New York Stock Exchange (the "NYSE"). The MOTC sold common stocks of Chunghwa 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 Chunghwa and completed the privatization plan.

Chunghwa together with its subsidiaries are hereinafter referred to collectively as "the Company".

2. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements were authorized for issue by the management on April 19, 2018.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance

The accompanying consolidated financial statements have been prepared in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board (collectively, "IFRSs").

Basis of Preparation

The consolidated 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.

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.

Light Era Development Co., Ltd. (LED) engages mainly in development of property for rent and sale. The assets and liabilities of LED related to property development within its operating cycle, which is over one year, are classified as current items.

Basis of Consolidation

a. Principles for preparing consolidated financial statements

   The consolidated financial statements incorporate the financial statements of Chunghwa and entities controlled by Chunghwa (its subsidiaries).

   Income and expenses of subsidiaries acquired during the period are included in the consolidated statements of comprehensive income from the acquisition date.

   When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by the Company.

   All inter-company transactions, balances, income and expenses are eliminated in full upon consolidation.

   <u>Attribution of total comprehensive income to the noncontrolling interests</u>

   Profit or loss and each component of other comprehensive income are attributed to the stockholders of the parent and to the noncontrolling interests. Total comprehensive income of subsidiaries is attributed to the stockholders of the parent and to the noncontrolling interests even if it results in the noncontrolling interests having a deficit balance.

Changes in the Company's ownership interests in subsidiaries

Changes in the Company's ownership interests in subsidiaries that do not result in the Company losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Company's interests and the noncontrolling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the noncontrolling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to stockholders of the parent.

b. The subsidiaries in the consolidated financial statements

The detail information of the subsidiaries at the end of reporting period was as follows:

			Percentage of Ownership		
			December 31		
Name of Investor	Name of Investee	Main Businesses and Products	2016	2017	Note
Chunghwa Telecom Co., Ltd.	Senao International Co., Ltd. ("SENAO")	Handset and peripherals retailer; sales of CHT mobile phone plans as an agent	29	29	1)
	Light Era Development Co., Ltd. ("LED")	Planning and development of real estate and intelligent buildings, and property management	100	100	
	Donghwa Telecom Co., Ltd. ("DHT")	International private leased circuit, IP VPN service, and IP transit services	100	100	
	Chunghwa Telecom Singapore Pte., Ltd. ("CHTS")	International private leased circuit, IP VPN service, and IP transit services	100	100	
	Chunghwa System Integration Co., Ltd. ("CHSI")	Providing system integration services and telecommunications equipment	100	100	
	Chunghwa Investment Co., Ltd. ("CHI")	Investment	89	89	
	CHIEF Telecom Inc. ("CHIEF")	Network integration, internet data center ("IDC"), communications integration and cloud application services	69	67	2)
	CHYP Multimedia Marketing & Communications Co., Ltd. ("CHYP")	Digital information supply services and advertisement services	100	100	3)
	Prime Asia Investments Group Ltd. (B.V.I.) ("Prime Asia")	Investment	100	100	
	Spring House Entertainment Tech. Inc. ("SHE")	Digital entertainment contents production, animated character licensing and endorsement, and mobile digital platform construction	56	56	
	Chunghwa Telecom Global, Inc. ("CHTG")	International private leased circuit, internet services, and transit services	100	100	
	Chunghwa Telecom Vietnam Co., Ltd. ("CHTV")	Intelligent energy saving solutions, international circuit, and information and communication technology ("ICT") services	100	100	
	Smartfun Digital Co., Ltd. ("SFD")	Providing diversified family education digital services	65	65	
	Chunghwa Telecom Japan Co., Ltd. ("CHTJ")	International private leased circuit, IP VPN service, and IP transit services	100	100	
	Chunghwa Sochamp Technology Inc. ("CHST")	Design, development and production of Automatic License Plate Recognition software and hardware	51	51	
	Honghwa International Co., Ltd. ("HHI")	Telecommunication engineering, sales agent of mobile phone plan application and other business services	100	100	
	Chunghwa Leading Photonics Tech Co., Ltd. ("CLPT")	Production and sale of electronic components and finished products	75	75	4)
	Chunghwa Telecom (Thailand) Co., Ltd. ("CHTT")	International private leased circuit, IP VPN service, ICT and cloud VAS services	-	100	5)

(Continued)

Name of Investor	Name of Investee	Main Businesses and Products	Percentage of Ownership December 31 2016	2017	Note
	CHT Security Co., Ltd. (“CHTSC”)	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	-	80	6)
	New Prospect Investments Holdings Ltd. (B.V.I.) (“New Prospect”)	Investment	100	-	7)
Senao International Co., Ltd.	Senao International (Samoa) Holding Ltd. (“SIS”)	International investment	100	100	
	Youth Co., Ltd. (“Youth”)	Sale of information and communication technologies products	89	89	
	Aval Technologies Co., Ltd. (“Aval”)	Sale of information and communication technologies products	100	100	
	SENYOUNG Insurance Agent Co., Ltd. (“SENYOUNG”)	Property and liability insurance agency	-	100	8)
Youth Co., Ltd.	ISPOT Co., Ltd. (“ISPOT”)	Sale of information and communication technologies products	100	100	
	Youyi Co., Ltd. (“Youyi”)	Maintenance of information and communication technologies products	100	100	
CHIEF Telecom Inc.	Unigate Telecom Inc. (“Unigate”)	Telecommunications and internet service	100	100	
	Chief International Corp. (“CIC”)	Telecommunications and internet service	100	100	
	Shanghai Chief Telecom Co., Ltd. (“SCT”)	Telecommunications and internet service	49	49	
Chunghwa System Integration Co., Ltd.	Concord Technology Co., Ltd. (“Concord”)	Investment	100	100	9)
Spring House Entertainment Tech. Inc.	Ceylon Innovation Co., Ltd. (“CEI”)	E-book publishing and copyright negotiation of digital music	-	-	10)
Chunghwa Investment Co., Ltd.	Chunghwa Precision Test Tech. Co., Ltd. (“CHPT”)	Production and sale of semiconductor testing components and printed circuit board	41	38	11)
	Chunghwa Investment Holding Co., Ltd. (“CIHC”)	Investment	-	-	12)
Concord Technology Co., Ltd.	Glory Network System Service (Shanghai) Co., Ltd. (“GNSS (Shanghai)”)	Design, development and production of computer and internet software, installment, maintenance and consulting services of information system integration, and sales of self-production products	100	-	13)
Chunghwa Precision Test Tech. Co., Ltd.	Chunghwa Precision Test Tech. USA Corporation (“CHPT (US)”)	Design and after-sale services of semiconductor testing components and printed circuit board	100	100	
	CHPT Japan Co., Ltd. (“CHPT (JP)”)	Related services of electronic parts, machinery processed products and printed circuit board	100	100	
	Chunghwa Precision Test Tech. International, Ltd. (“CHPT (International)”)	Wholesale and retail of electronic materials, and investment	100	100	
Senao International (Samoa) Holding Ltd.	Senao International HK Limited (“SIHK”)	International investment	100	100	
Chunghwa Investment Holding Co., Ltd.	CHI One Investment Co., Limited (“COI”)	Investment	-	-	14)

(Continued)

Name of Investor	Name of Investee	Main Businesses and Products	Percentage of Ownership December 31 2016	2017	Note
Senao International HK Limited	Senao Trading (Fujian) Co., Ltd. ("STF")	Sale of information and communication technologies products	100	100	
	Senao International Trading (Shanghai) Co., Ltd. ("SITS")	Sale of information and communication technologies products	100	100	
	Senao International Trading (Shanghai) Co., Ltd. ("SEITS")	Maintenance of information and communication technologies products	100	100	15)
	Senao International Trading (Jiangsu) Co., Ltd. ("SITJ")	Sale of information and communication technologies products	100	100	17)
Prime Asia Investments Group Ltd. (B.V.I.)	Chunghwa Hsingta Co., Ltd. ("CHC")	Investment	100	100	
Chunghwa Hsingta Co., Ltd. ("CHC")	Chunghwa Telecom (China) Co., Ltd. ("CTC")	Integrated information and communication solution services for enterprise clients, and intelligent energy network service	100	100	
	Jiangsu Zhenhua Information Technology Company, LLC. ("JZIT")	Providing intelligent energy saving solution and intelligent buildings services	75	75	16)
Chunghwa Precision Test Tech. International, Ltd.	Shanghai Taihua Electronic Technology Limited ("STET")	Design of printed circuit board and related consultation service	100	100	

(Concluded)

1) The Company owns 28.93% equity shares of SENAO. Chunghwa had originally four out of seven seats of the Board of Directors of SENAO through the support of large beneficial stockholders. In order to comply with the local regulations, SENAO increased two seats of independent directors in June 2016; therefore, total seats of its Board of Directors increased to nine and Chunghwa continues to hold four out of nine seats of the Board of Directors. As Chunghwa remains the control over SENAO's relevant activities, the accounts of SENAO are included in the consolidated financial statements.

2) Chunghwa and CHI disposed some shares of CHIEF in June 2017 before CHIEF traded its shares on the emerging stock market according to the local requirements. The Company's equity ownership of CHIEF decreased to 70.43% as of December 31, 2017. CHIEF issued new shares in March 2018 as its employees exercised their options. The Company's equity ownership decreased to 69.31% on March 31, 2018.

3) Chunghwa International Yellow Pages Co., Ltd. changed its name to CHYP Multimedia Marketing & Communications Co., Ltd. starting from September 4, 2017.

4) Chunghwa invested 75% equity shares of Chunghwa Leading Photonics Tech Co., Ltd. ("CLPT") in July 2016.

5) Chunghwa invested 100% equity shares of Chunghwa Telecom (Thailand) Co., Ltd. ("CHTT") in March 2017.

6) Chunghwa invested 80% equity shares of CHT Security Co., Ltd. ("CHTSC") in December 2017.

7) New Prospect was approved to dissolve its business in April 2017. The liquidation of New Prospect was completed in May 2017.

8) SENAO invested 100% equity shares of SENYOUNG Insurance Agent Co., Ltd. ("SENYOUNG") in November 2017.

9) Concord was approved to end and dissolve its business in August 2017. The liquidation of Concord was completed in January 2018.

10) CEI’s liquidation was completed in August 2016 and SHE received the proceeds from the liquidation.

11) CHI disposed of some shares of CHPT in March 2016. Furthermore, CHI did not participate in the capital increase of CHPT in March 2016 and September 2017. Therefore, its ownership interest in CHPT decreased to 38.30%. However, considering the absolute and relative size of ownership interest, and the dispersion of shares owned by the other stockholders, the management concluded that the Company has a sufficiently dominant voting interest to direct the relevant activities; hence, CHPT is deemed as a subsidiary of the Company.

12) CIHC’s dissolution was approved in August 2016 and the liquidation was completed in September 2016. CHI received the proceeds from the liquidation.

13) GNSS (Shanghai) completed its liquidation in August 2017 and Concord received the proceeds from the liquidation.

14) COI completed its liquidation in July 2016 and CIHC received the proceeds from the liquidation.

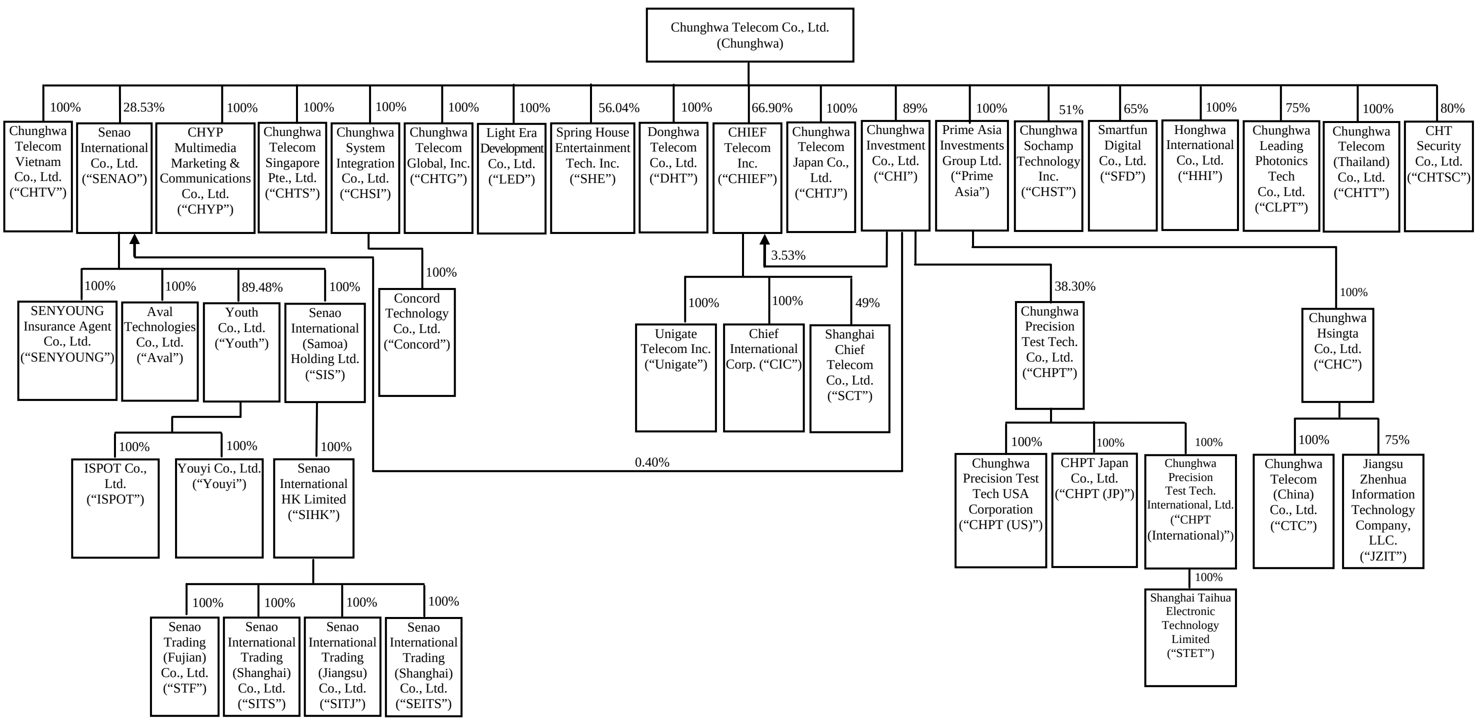
15) SEITS was approved to end and dissolve its business in March 2017. The liquidation of SEITS was completed in March 2018.

16) JZIT was approved to end and dissolve its business in May 2016. The liquidation of JZIT is still in process.

17) SITJ was approved to end and dissolve its business in April 2018. The liquidation of SITJ is still in process.

18) LED invested 60% equity shares of Taoyuan Asia Silicon Valley Innovation Co., Ltd. (“TASVI”) in March 2018.

The following diagram presents information regarding the relationship and ownership percentages between Chunghwa and its subsidiaries as of December 31, 2017:



Business Combination

Acquisitions of businesses are accounted for using the acquisition method. Acquisition-related costs are recognized in profit or loss as incurred.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any noncontrolling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

Noncontrolling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the present ownership instruments' proportionate share in the recognized amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of noncontrolling interests are measured at fair value.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Company reports its financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, the Company retrospectively adjusts the provisional amounts recognized at the acquisition date or recognizes additional assets or liabilities to reflect new information obtained about facts and circumstances that existed as of the acquisition date and if known, would have affected the measurement of the amounts recognized as of that date.

Foreign Currencies

In preparing the financial statements of each individual entity, transactions in currencies other than the entity'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 denominated in foreign currencies 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.

Chunghwa uses New Taiwan dollars (NT$) as the functional currency. For the purposes of presenting consolidated financial statements, the assets and liabilities of the Company's foreign operations (including of the subsidiaries and associates in other countries or currencies used different with Chunghwa) 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 and attributed to stockholders of the parent and noncontrolling interests as appropriate.

Cash Equivalents

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

Inventories

Inventories are stated at the lower of cost 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.

Buildings and Land Consigned to Construction Contractors

Inventories of LED are stated at the lower of cost or net realizable value item by item, except for those that may be appropriate to group as similar items or related inventories. Land acquired before construction is classified as land held for development, and then reclassified as land held under development after LED begins its construction project.

When using the completed-contract method for its construction projects, LED recognizes the proceeds from customers as advances from customers for land and building before the construction project is completed. After completion of the construction project and ownership is transferred to the customers, LED recognizes the relevant revenues.

Investments in Associates and Joint Ventures

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

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

When the Company reduces its ownership interest in an associate or a joint venture but the Company continues to use the equity method, the Company reclassifies to profit or loss the proportion of the gain or loss that had previously been recognized in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

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

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

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

Property, Plant and Equipment

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

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

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

Investment Properties

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

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

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

Goodwill

Goodwill arising from the acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment loss.

For the purpose of impairment testing, goodwill is allocated to each of the Company's cash-generating units or groups of cash-generating units (referred to as "cash-generating unit") that are expected to benefit from the synergies of the business combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired, by comparing its carrying amount, including the attributable goodwill, with its recoverable amount. However, if the goodwill allocated to a cash-generating unit was acquired in a business combination during the current annual period, that unit shall be tested for impairment before the end of the current annual period. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss is recognized directly in profit or loss. An impairment loss recognized for goodwill is not reversed in subsequent periods.

Intangible Assets Other Than Goodwill

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. Intangible assets with indefinite useful lives that are acquired separately are measured at cost less accumulated impairment loss.

Intangible assets acquired in a business combination and recognized separately from goodwill are initially recognized at their fair value at the acquisition date (which is regarded as their cost). Subsequent to initial recognition, they are measured on the same basis as intangible assets that are acquired separately.

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 Tangible and Intangible Assets Other Than Goodwill

At the end of each reporting period, the Company reviews the carrying amounts of its tangible and intangible assets, excluding goodwill, 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 with indefinite useful lives and 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.

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

Financial Instruments

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

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

a. Financial assets

   All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis. The regular way of transaction means the purchase or sale of financial assets delivered within the time frame established by regulation or convention in the marketplace.

   1) Measurement category

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

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

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

b) Held-to-maturity financial assets

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturity date that the Company has positive intention and ability to hold to maturity other than those that are designated as at fair value through profit or loss or as available-for-sale and those that meet the definition of loans and receivables on initial recognition.

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

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

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

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

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

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

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

d) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including cash and cash equivalents, trade notes and accounts receivable, receivables from related parties, other financial assets and refundable deposits) are measured at amortized cost using the effective interest method, less any impairment loss, except for short-term receivables as the effect of discounting is immaterial.

2) Impairment of financial assets

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

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

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

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

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

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

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

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

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

3) Derecognition of financial assets

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

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

b. Financial liabilities

1) Subsequent measurement

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

2) Derecognition of financial liabilities

The Company derecognizes financial liabilities when, and only when, the Company's obligations are discharged, cancelled or they expire. 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 a variety of derivative financial instruments to manage its exposure to foreign exchange rate risks, including forward exchange contracts.

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

Hedge Accounting

The Company designates some derivatives instruments as cash flow hedges. 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.

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

Provisions

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

Revenue Recognition

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

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

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

c. The amount of revenue can be measured reliably;

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

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

Revenue is measured at the fair value of the consideration received or receivable and represents amounts for goods sold in the normal course of business, net of sales discounts and volume rebates. For trade notes and accounts receivable due within one year from the balance sheet date, as the nominal value of the consideration to be received approximates its fair value and transactions are frequent, fair value of the consideration is not determined by discounting all future receipts using an imputed rate of interest.

Usage revenues from fixed-line services (including local, domestic long distance and international long distance telephone services), cellular services, Internet and data services, and interconnection and call transfer fees from other telecommunications companies and carriers are billed in arrears and are recognized based upon seconds or minutes of traffic processed when the services are provided in accordance with contract terms.

Other revenues are recognized as follows: (a) one-time subscriber connection fees (on fixed-line services) are deferred and recognized over the average expected customer service periods, (b) monthly fees (on fixed-line services, mobile, Internet and data services) are accrued every month, and (c) prepaid services (fixed-line, mobile, Internet and data services) are recognized as income based upon actual usage by customers.

Where the Company enters into transactions which involve both the provision of telecommunications service bundled with products such as handsets, total consideration received from products and telecommunications service in these arrangements are allocated and measured using units of accounting within the arrangement based on their relative fair values limited to the amount paid by the customer for the products.

Revenue from a contract to provide services is recognized by reference to the stage of completion of the contract.

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

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

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

Leasing

a. The Company as lessor

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

b. The Company as lessee

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

Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Other than stated above, all other borrowing costs are recognized in profit or loss in the period in which they are incurred.

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.

Share-based Payment Arrangements - Employee Stock Options

The fair value determined at the grant date of the employee share options is expensed on a straight-line basis over the vesting period, based on the Company's estimate of employee stock options that are expected to ultimately vest, with a corresponding increase in additional paid-in capital - employee stock options. If the equity instruments granted vest immediately at the grant date, expenses are recognized in full in profit or loss.

At the end of each reporting period, the Company revises its estimate of the number of employee share options expected to vest. The impact of the revision of the original estimates is recognized in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to additional paid-in capital - employee stock options.

Income Tax

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

a. Current tax

The current tax is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Income tax (10%) on undistributed earnings is accrued during the period the earnings arise and adjusted to the extent that distributions are approved by the stockholders in the following year.

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 consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. If the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit, the resulting deferred tax asset or liability is not recognized. In addition, a deferred tax liability is not recognized on taxable temporary difference arising from initial recognition of goodwill.

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

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

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

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

c. Current and deferred tax

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 a business combination, the tax effect is included in the accounting for the business combination.

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

In the application of the Company's accounting policies, which are described in Note 3, the management is required to make judgments, estimates and assumptions which are based on historical experience and other factors that are not readily apparent from other sources. Actual results may differ from these estimates.

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

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

a. Revenue recognition

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

Company. Only when the Company is acting as a principal, gross inflows of economic benefits arising from transactions is recognized as revenue.

b. Impairment of trade notes and accounts receivable

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

c. Provision for inventory valuation and obsolescence

Inventories are stated at the lower of cost or net realizable value. Estimates of net realizable value are based on the most reliable evidence available at the time the estimates are made at the end of reporting period. These estimates take into consideration fluctuations of price or cost directly relating to events occurring after the end of the period to the extent that such events confirm conditions existing at the end of the period. Inventory write-downs are 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.

d. Impairment of tangible and intangible assets

In the process of evaluating the potential impairment of tangible and intangible assets, the Company is required to consider internal and external indicators of impairment and make subjective judgments in determining the independent cash flows, useful lives, expected future revenue and expenses related to the specific asset groups within the context of the telecommunication industry. Any changes in these estimates based on changed economic conditions or business strategies could result in significant impairment charges in future periods.

e. Useful lives of property, plant and equipment

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

f. Recognition and measurement of defined benefit plans

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

g. Control over subsidiaries

As discussed in Note 3, 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.

5. APPLICATION OF NEW AND AMENDED INTERNATIONAL FINANCIAL REPORTING STANDARDS

Amendments to IFRSs and the New Interpretation That Are Mandatorily Effective for the Current Year

The Company has applied the amendments to IFRS 12 included in the Annual Improvements to IFRSs 2014-2016 Cycle, Amendments to IAS 7: Disclosure Initiative, and Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealized Losses for the first time in 2017. The application of these amendments has had no impact on the disclosures or amounts recognized in the Company's consolidated financial statements.

New and Amended IFRSs in Issue But Not Yet Effective

The Company has not applied the following new and amended IFRSs that have been issued but are not yet effective.

New or Amended Standards and Interpretations		Effective Date Issued by IASB (Note 1)
Amendments to IFRSs	Annual Improvements to IFRSs 2014-2016 Cycle	Note 2
Amendments to IFRSs	Annual Improvements to IFRSs 2015-2017 Cycle	January 1, 2019
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions	January 1, 2018
IFRS 9	Financial Instruments	January 1, 2018
Amendments to IFRS 9 and IFRS 7	Mandatory Effective Date of IFRS 9 and Transition Disclosures	January 1, 2018
Amendments to IFRS 9	Prepayment Features with Negative Compensation	January 1, 2019
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined by IASB
IFRS 15	Revenue from Contracts with Customers	January 1, 2018
Amendments to IFRS 15	Clarifications to IFRS 15	January 1, 2018
IFRS 16	Leases	January 1, 2019
Amendments to IAS 40	Transfers of Investment Property	January 1, 2018
IFRIC 22	Foreign Currency Transactions and Advance Consideration	January 1, 2018
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures	January 1, 2019
IFRIC 23	Uncertainty Over Income Tax Treatments	January 1, 2019
Amendments to IAS 19	Plan Amendment, Curtailment or Settlement	January 1, 2019 (Note 3)

Note 1: The aforementioned new or amended standards or interpretations are effective after fiscal year beginning on or after the effective dates, unless specified otherwise.

Note 2: The Company has applied the amendment to IFRS 12 included in the Annual Improvements to IFRSs 2014-2016 Cycle for the first time in 2017; the amendment to IAS 28 is retrospectively applied for annual periods beginning on or after January 1, 2018.

Note 3: Companies shall apply the amendments to pension plan amendments, curtailments or settlements occurring on or after January 1, 2019.

Except for the following items, the Company believes the adoption of the aforementioned new and amended IFRSs will not have material impact on the Company's consolidated financial statements.

a. IFRS 15 "Revenue from Contracts with Customers" and related amendments

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

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

1) Identify the contract with the customer;

2) Identify the performance obligations in the contract;

3) Determine the transaction price;

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

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

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

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

Incremental costs of obtaining a contract will be recognized as an asset to the extent the Company expects to recover those costs. Such asset will be amortized on a basis that is consistent with the transfer to the customer of the goods or services to which the asset relates. Before the application of IFRS 15, the relevant expenditures were recognized as expenses.

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

Under IFRS 15, the net effect of revenue recognized, consideration received and receivable is recognized as a contract asset or a contract liability. Before the application of IFRS 15, receivable is recognized or advance receipts and deferred revenue is reduced when revenue is recognized for the contract under IAS 18.

Under IFRS 15, the Company will recognize a trade-in liability (other current liability) and a right to recover a product (other current asset) when recognizing revenue for the sale with a trade-in right. Before the application of IFRS 15, trade-in right provisions and inventories are recognized when recognizing revenue.

The Company elected to retrospectively apply IFRS 15 to contracts that were not completed on January 1, 2018 and recognized the cumulative effect of the change in the retained earnings on January 1, 2018. In addition, the Company will disclose the difference between the amounts that result from applying IFRS 15 and the amounts that result from applying current standards for 2018.

The anticipated significant impact on assets, liabilities and equity when retrospectively applying IFRS 15 on January 1, 2018 is showed as follows (The following table only disclosed the summary of differences arising from recognitions and measurements. The differences arising from presentations are not included.):

	Carrying Amount as of December 31, 2017	**Adjustments Arising from Initial Application of IFRS 15**	**Adjusted Carrying Amount as of January 1, 2018**
	NT$	**NT$ (In Millions)**	**NT$**
Contract assets - current	$ -	$ 6,998	$ 6,998
Contract assets - noncurrent	$ -	3,917	$ 3,917
Incremental costs to obtain a contract	$ -	2,467	$ 2,467
Total effect on assets		$ 13,382	
Contract liability - current	$ -	$ 197	$ 197
Contract liability - noncurrent	$ -	86	$ 86
Current tax liabilities	$ 8,674	2,227	$ 10,901
Total effect on liabilities		$ 2,510	
Total effect on equity (unappropriated earnings)	$ 54,633	$ 10,872	$ 65,505

b. IFRS 9 “Financial Instruments” and related amendments

With regard to financial assets, all recognized financial assets that are within the scope of IAS 39 “Financial Instruments: Recognition and Measurement” are subsequently measured at amortized cost or fair value.

Non-debt financial instruments held by the Company are measured at fair values. Changes in fair values are recognized in profit or loss. However, the Company may make an irrevocable election to designate equity investments that are not held for trading as financial assets at fair value through other comprehensive income with only dividend income recognized in profit or loss and subsequent changes in the fair value of an equity investment recognized in other comprehensive income. No subsequent impairment assessment is required, and the cumulative gain or loss previously recognized in other comprehensive income cannot be reclassified from equity to profit or loss.

The Company analyzed the facts and circumstances of its financial assets that exist at December 31, 2017 and performed the assessment of the impact of IFRS 9 on the classification and measurement of financial assets.

Under IFRS 9, except the available-for-sale financial asset listed on the TWSE will be designated as financial asset at fair value through other comprehensive income, other listed available-for-sale equity investment will be designated as financial asset at fair value through profit or loss. In addition, investments in unlisted shares measured at cost will be measured at fair value, and designated as financial assets at fair value through other comprehensive income at initial recognition.

IFRS 9 introduces a new expected loss impairment model to measure the impairment of financial assets and recognize loss allowance for the related expected credit losses. If the credit risk on a financial instrument has not increased significantly since initial recognition, the loss allowance for that financial instrument should be measured at an amount equal to 12-month expected credit losses. If the credit risk on a financial instrument has increased significantly since initial recognition and is not deemed to be a low credit risk, the loss allowance for that financial instrument should be measured at an amount equal to the lifetime expected credit losses. A simplified approach is used for trade accounts receivables and contract assets and the loss allowance for these financial instruments could be measured at an amount equal to lifetime expected credit losses. As a result of retrospective application of expected loss impairment model, there was no material impact on the Company's consolidated financial statements.

The Company elected not to restate prior reporting periods when applying the requirements for the financial assets under IFRS 9 with the cumulative effect of the initial application recognized at the date of initial application and will provide the disclosures related to the classification and the adjustment information upon the application of IFRS 9.

The anticipated significant impact on assets, liabilities and equity of retrospective application of the IFRS 9 on January 1, 2018 is set out below:

	Carrying Amount as of December 31, 2017	Adjustments Arising from Initial Application of IFRS 9	Adjusted Carrying Amount as of January 1, 2018
	NT$	NT$ (In Millions)	NT$
Impact on assets, liabilities and equity			
Financial assets at fair value through profit or loss - noncurrent	$ -	$ 54	$ 54
Financial assets at fair value through other comprehensive income - noncurrent	$ -	7,539	$ 7,539
Available-for-sale financial assets - noncurrent	$ 5,751	(5,751)	$ -
Total effect on assets		$ 1,842	
Total effect on liabilities (deferred income tax liabilities)	$ 1,430	$ (1)	$ 1,429

(Continued)

	Carrying Amount as of December 31, 2017	Adjustments Arising from Initial Application of IFRS 9	Adjusted Carrying Amount as of January 1, 2018
	NT$	NT$ (In Millions)	NT$
Unrealized gain or loss on available-for-sale financial assets	$ 558	$ (558)	$ -
Unrealized gain or loss on financial assets at fair value through other comprehensive income	$ -	883	$ 883
Unappropriated earnings	$ 54,633	1,522	$ 56,155
Noncontrolling interests	$ 8,474	(4)	$ 8,470
Total effect on equity		$ 1,843	

(Concluded)

c. IFRS 16 "Leases"

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

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

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

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

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

6. U.S. DOLLAR AMOUNTS

The Company maintains its accounts and expresses its consolidated financial statements in New Taiwan dollars. For readers' convenience only, U.S. dollar amounts presented in the accompanying consolidated financial statements have been translated from New Taiwan dollars as set forth in the statistical release of the Federal Reserve Board of the United States as of December 29, 2017, which was NT$29.64 to US$1.00. The convenience translations should not be construed as representations that the New Taiwan dollar amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

7. CASH AND CASH EQUIVALENTS

	December 31	
	2016	2017
	NT$	NT$
	(In Millions)	
Cash		
Cash on hand	$ 370	$ 383
Bank deposits	7,240	7,877
	7,610	8,260
Cash equivalents (investments with maturities of less than three months)		
Commercial paper	11,436	10,179
Negotiable certificate of deposit	10,800	7,950
Time deposits	1,254	2,436
	23,490	20,565
	$ 31,100	$ 28,825

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

	December 31	
	2016	2017
Bank deposits	0.00%-0.42%	0.00%-0.70%
Commercial paper	0.32%-0.42%	0.32%-0.40%
Negotiable certificate of deposit	0.35%-0.50%	0.40%-0.50%
Time deposits	0.40%-3.30%	0.52%-4.40%

8. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	December 31	
	2016	2017
	NT$	NT$
	(In Millions)	
Financial assets held for trading		
Derivatives (not designated for hedge)		
Forward exchange contracts	$ -	$ -
Financial liabilities held for trading		
Derivatives (not designated for hedge)		
Forward exchange contracts	$ 1	$ 1

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

	Currency	Maturity Period	Contract Amount (In Millions)
December 31, 2016			
Forward exchange contracts - buy	EUR/NT$	2017.03	EUR5/NT$167
Forward exchange contracts - buy	US$/NT$	2017.01	US$2/NT$55
December 31, 2017			
Forward exchange contracts - buy	EUR/NT$	2018.03-06	EUR2/NT$69
Forward exchange contracts - buy	US$/NT$	2018.01	US$4/NT$125

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.

9. AVAILABLE-FOR-SALE FINANCIAL ASSETS - NONCURRENT

	December 31	
	2016	2017
	NT$	NT$
	(In Millions)	
Equity securities		
Domestic listed stocks	$ 2,521	$ 3,125
Domestic non-listed stocks	1,949	2,332
Foreign non-listed stocks	294	294
	$ 4,764	$ 5,751

CHI evaluated and concluded its listed available-for-sale financial assets were partially impaired and recorded an impairment loss of $26 million for the year ended December 31, 2015. Chunghwa evaluated and concluded its listed available-for-sale financial assets were impaired and recorded an impairment loss of $577 million for the year ended December 31, 2016. The Company evaluated and concluded that there was no indication that its listed available-for-sale financial assets were impaired; therefore, no impairment loss was recognized for the year ended December 31, 2017.

The fair values of the above non-listed stocks investments cannot be reliably measured due to the range of reasonable fair value estimates was so significant, the above non-listed stocks investments owned by the Company were carried at costs less any impairment losses at the balance sheet dates.

The Company invested $300 million to invest Taiwania Capital Buffalo Fund Co., Ltd. in December 2017 and owns 12.9% equity shares of Taiwania Capital Buffalo Fund Co., Ltd.. Taiwania Capital Buffalo Fund Co., Ltd. engaged mainly in investment business.

The Company disposed non-listed available-for-sale financial assets with carrying amounts of $2 million, $9 million and $5 million for the years ended 2015, 2016 and 2017, respectively, and recognized the gains (losses) from the disposal of $(0.4) million, $1 million and $3 million for the years ended December 31, 2015, 2016 and 2017, respectively.

After the Company evaluated the financial positions and future operation results of non-listed available-for-sale financial assets, the Company concluded some of its investments that have ceased their operations were fully impaired, and recognized an impairment loss of $77 million for the year ended December 31, 2015. In addition, some of its investments were encountering profit recession or deficit. The Company concluded the recoverable amount of such investments which represented present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset or based on the market approach using financial indicators such as PE ratios of the comparable listed companies was lower than the carrying amount. Therefore, the Company recognized impairment losses of $4 million for the year ended December 31, 2015. The Company evaluated and concluded that there was no indication that non-listed available-for-sale financial assets were impaired; therefore, no impairment loss was recognized for the years ended December 31, 2016 and 2017.

10. HELD-TO-MATURITY FINANCIAL ASSETS - CURRENT

	December 31	
	2016	2017
	NT$	NT$
	(In Millions)	
Corporate bonds	$ 1,990	$ -
Bank debentures	150	-
	$ 2,140	$ -

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

	December 31	
	2016	2017
	NT$	NT$
	(In Millions)	
Corporate bonds		
Par value	$ 1,990	$ -
Nominal interest rate	1.18%-1.35%	-
Effective interest rate	1.20%-1.35%	-
Average remaining maturity life	0.34 year	-
Bank debentures		
Par value	$ 150	$ -
Nominal interest rate	1.25%	-
Effective interest rate	1.25%	-
Average remaining maturity life	0.41 year	-

11. TRADE NOTES AND ACCOUNTS RECEIVABLE, NET

	December 31	
	2016	2017
	NT$	NT$
	(In Millions)	
Trade notes and accounts receivable	$ 32,795	$ 34,058
Less: Allowance for doubtful accounts	(1,773)	(2,117)
	$ 31,022	$ 31,941

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

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

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

	December 31	
	2016	2017
	NT$	NT$
	(In Millions)	
Non-overdue	$ 29,596	$ 30,032
Less than 30 days	1,050	1,280
31-60 days	348	485
61-90 days	286	278
91-120 days	198	253
121-180 days	119	122
More than 181 days	1,198	1,608
	$ 32,795	$ 34,058

The above aging analysis was based on days overdue.

At the balance sheet dates, the receivables that were past due but not impaired were considered recoverable by the management of the Company. The aging of these receivables as of balance sheet dates was as follows:

	December 31	
	2016	2017
	NT$	NT$
	(In Millions)	
Less than 30 days	$ 256	$ 328
31-60 days	47	36
61-90 days	9	7
91-120 days	74	70

(Continued)

	December 31	
	2016	2017
	NT$	NT$
	(In Millions)	
121-180 days	$ 1	$ 1
More than 181 days	13	7
	$ 400	$ 449

(Concluded)

The above aging analysis was based on days overdue.

Movements of the allowance for doubtful accounts were as follows:

	Individually Assessed for Impairment	Collectively Assessed for Impairment	Total
	NT$	NT$ (In Millions)	NT$
Balance on January 1, 2015	$ 276	$ 773	$ 1,049
Add: Provision for doubtful accounts	88	392	480
Deduct: Amounts written off	-	(195)	(195)
Balance on December 31, 2015	364	970	1,334
Add: Provision for doubtful accounts	715	228	943
Deduct: Amounts written off	(274)	(230)	(504)
Balance on December 31, 2016	805	968	1,773
Add: Provision for doubtful accounts	535	43	578
Deduct: Amounts written off	(15)	(219)	(234)
Balance on December 31, 2017	$ 1,325	$ 792	$ 2,117

12. INVENTORIES

	December 31	
	2016	2017
	NT$	NT$
	(In Millions)	
Merchandise	$ 4,136	$ 5,133
Project in process	961	1,390
Work in process	109	152
Raw materials	143	89
	5,349	6,764
Land held under development	1,999	1,999
Construction in progress	75	77
	$ 7,423	$ 8,840

The operating costs related to inventories were $52,666 million, $54,183 million and $56,342 million for the years ended December 31, 2015, 2016 and 2017, respectively.

For the years ended December 31, 2015, 2016 and 2017, the provisions for inventory and obsolescence recognized as operating costs included the amounts of $198 million, $192 million and $52 million, respectively.

As of December 31, 2016 and 2017, inventories of $2,074 million and $2,076 million, respectively, were expected to be recovered for a time period longer than twelve months. The aforementioned amount of inventories is related to property development owned by LED.

Land held under development and construction in progress on December 31, 2016 and 2017 was developed by LED for Qingshan Sec., Dayuan Dist., Taoyuan City project.

13. PREPAYMENTS

	December 31	
	2016	2017
	NT$	NT$
	(In Millions)	
Prepaid rents	$ 2,934	$ 2,687
Others	3,285	3,074
	$ 6,219	$ 5,761
Current		
Prepaid rents	$ 899	$ 812
Others	2,079	1,376
	$ 2,978	$ 2,188
Noncurrent		
Prepaid rents	$ 2,035	$ 1,875
Others	1,206	1,698
	$ 3,241	$ 3,573

14. OTHER CURRENT MONETARY ASSETS

	December 31	
	2016	2017
	NT$	NT$
	(In Millions)	
Time deposits and negotiable certificates of deposit with maturities of more than three months	$ 3,568	$ 4,054
Others	1,253	1,254
	$ 4,821	$ 5,308

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	
	2016	**2017**
Time deposits and negotiable certificates of deposit with maturities of more than three months	0.11%-1.95%	0.06%-4.15%

15. SUBSIDIARIES

a. Information on significant noncontrolling interest subsidiary

The table below shows details of less than wholly owned subsidiaries of the Company that have material noncontrolling interests:

		Proportion of Ownership Interests and Voting Rights Held by Noncontrolling Interests	
		December 31	
Subsidiaries	**Place of Incorporation and Principal Place of Business**	**2016**	**2017**
SENAO	Taiwan	71%	71%
CHPT	Taiwan	59%	62%

	Profit Allocated to Noncontrolling Interests			Accumulated Noncontrolling Interests	
	Year Ended December 31			December 31	
	2015	**2016**	**2017**	**2016**	**2017**
	NT$	**NT$**	**NT$**	**NT$**	**NT$**
			(In Millions)		
SENAO	$ 551	$ 690	$ 592	$ 4,069	$ 4,092
CHPT	$ 212	$ 341	$ 431	1,575	3,513
Individually immaterial subsidiaries with noncontrolling interests				628	869
				$ 6,272	$ 8,474

Summarized financial information in respect of SENAO and its subsidiaries that has material noncontrolling interests is set out below. The summarized financial information below represents amounts before intercompany eliminations.

	December 31	
	2016	**2017**
	NT$	**NT$**
	(In Millions)	
Current assets	$ 7,762	$ 7,584
Noncurrent assets	$ 2,535	$ 2,531
Current liabilities	$ 4,466	$ 4,278
Noncurrent liabilities	$ 155	$ 160
Equity attributable to the parent	$ 1,607	$ 1,585
Equity attributable to noncontrolling interests	$ 4,069	$ 4,092

	Year Ended December 31		
	2015	2016	2017
	NT$	NT$ (In Millions)	NT$
Revenue and income	$ 35,944	$ 34,453	$ 36,038
Costs and expenses	35,171	33,476	35,200
Profit for the year	$ 773	$ 977	$ 838
Profit attributable to the parent	$ 222	$ 287	$ 246
Profit attributable to noncontrolling interests	551	690	592
Profit for the year	$ 773	$ 977	$ 838
Other comprehensive income (loss) attributable to the parent	$ (1)	$ (21)	$ 3
Other comprehensive loss attributable to noncontrolling interests	(2)	(53)	(17)
Other comprehensive loss for the year	$ (3)	$ (74)	$ (14)
Total comprehensive income attributable to the parent	$ 222	$ 266	$ 249
Total comprehensive income attributable to noncontrolling interests	548	637	575
Total comprehensive income for the year	$ 770	$ 903	$ 824
Dividends paid to noncontrolling interests	$ 274	$ 526	$ 703
Net cash flow from operating activities	$ 1,739	$ 531	$ 1,081
Net cash flow from investing activities	54	130	(57)
Net cash flow from financing activities	(1,530)	(677)	(897)
Effect of exchange rate changes on cash and cash equivalents	11	(7)	(2)
Net cash inflow (outflow)	$ 274	$ (23)	$ 125

Summarized financial information in respect of CHPT and its subsidiaries that has material noncontrolling interests is set out below. The summarized financial information below represents amounts before intercompany eliminations.

	December 31	
	2016	2017
	NT$ (In Millions)	NT$
Current assets	$ 2,116	$ 4,496
Noncurrent assets	$ 1,872	$ 2,167
Current liabilities	$ 1,323	$ 965
Noncurrent liabilities	$ 1	$ 1
Equity attributable to CHI	$ 1,089	$ 2,184
Equity attributable to noncontrolling interests	$ 1,575	$ 3,513

	Year Ended December 31		
	2015	2016	2017
	NT$	NT$ (In Millions)	NT$
Revenues and income	$ 1,735	$ 2,607	$ 3,127
Costs and expenses	1,341	2,020	2,402
Profit for the year	$ 394	$ 587	$ 725
Profit attributable to CHI	$ 182	$ 246	$ 294
Profit attributable to noncontrolling interests	212	341	431
Profit for the year	$ 394	$ 587	$ 725
Other comprehensive loss attributable to CHI	$ -	$ -	$ (1)
Other comprehensive loss attributable to noncontrolling interests	-	-	(2)
	$ -	$ -	$ (3)
Total comprehensive income attributable to CHI	$ 182	$ 246	$ 293
Total comprehensive income attributable to noncontrolling interests	212	341	429
	$ 394	$ 587	$ 722
Dividends paid to noncontrolling interest	$ 35	$ 109	$ 146
Net cash flow from operating activities	$ 532	$ 671	$ 1,052
Net cash flow from investing activities	(200)	(904)	(639)
Net cash flow from financing activities	(112)	841	2,306
Effect of exchange rate changes on cash and cash equivalents	3	(2)	(4)
Net cash inflow	$ 223	$ 606	$ 2,715

b. Equity transactions with noncontrolling interests

CHI disposed of some shares of CHPT in January 2015 and March 2016, and did not participate in the capital increase of CHPT in March 2016 and September 2017. Therefore, the Company's ownership interest in CHPT decreased to 38.30%. See Note 34(d) for details.

SENAO purchased its treasury stock in June and July 2015, and the Company's ownership interest of SENAO increased from 28.18% to 29.31%.

SENAO participated in share subscription of Youth in December 2015 at a percentage different from its original ownership interest. Therefore, the ownership interest of Youth increased from 70% to 89.48%.

SENAO transferred its treasury stock to employees in May and November 2017 and the Company’s ownership interest in SENAO decreased to 28.93%. See Note 34(b) for details.

Chunghwa and CHI disposed some shares of CHIEF in June 2017 before CHIEF traded its shares on the emerging stock market according to the local requirements. The Company’s equity ownership of CHIEF decreased to 70.43%.

The above transactions were accounted for as equity transactions since the Company did not cease to have control over these subsidiaries.

The detailed information of the equity transactions for the years ended December 31, 2015, 2016 and 2017 was as follows:

	Year Ended December 31							
	2015			2016		2017		
	CHI Disposed Some Shares of CHPT	SENAO Purchased Its Treasury Stock	SENAO Participated in Youth's Share Subscription	CHI Disposed Some Shares of CHPT	CHI Did Not Participate in the Capital Increase of CHPT	CHI Did Not Participate in the Capital Increase of CHPT	SENAO Transferred its Treasury Stock	Chunghwa and CHI Disposed Some Shares of CHIEF
	NT$	NT$	NT$	NT$	NT$ (In Millions)	NT$	NT$	NT$
Cash consideration received from (paid to) Noncontrolling interests	$ 45	$ (492)	$ -	$ 83	$ 1,175	$ 2,552	$ 164	$ 106
The proportionate share of the carrying amount of the net assets of the subsidiary transferred (to) from noncontrolling interests	(18)	416	(0.4)	(25)	(786)	(1,750)	(137)	(29)
Differences arising from equity transactions	$ 27	$ (76)	$ (0.4)	$ 58	$ 389	$ 802	$ 27	$ 77
Line items for equity transaction adjustments								
Additional paid-in capital - difference between consideration received or paid and the carrying amount of the subsidiaries’ net assets upon actual disposal or acquisition	$ 27	$ -	$ -	$ 58	$ -	$ -	$ -	$ 77
Additional paid-in capital - arising from changes in equities of subsidiaries	$ -	$ (15)	$ (0.4)	$ -	$ 389	$ 802	$ 27	$ -
Unappropriated earnings	$ -	$ (61)	$ -	$ -	$ -	$ -	$ -	$ -

c. Business combinations

1) Subsidiaries acquired

	Principal Activity	Date of Acquisition	Proportion of Voting Equity Interests Acquired (%)	Consideration Transferred
				NT$ (In Millions)
Youth Co., Ltd. and its subsidiaries	Sale and maintenance of information and communication technologies products	September 2, 2015	70	$ 135

Youth and its subsidiaries were acquired in cash in order to continue the expansion of SENAO’s activities in selling telecommunications products.

2) Assets acquired and liabilities assumed at the date of acquisition

	Youth and Its Subsidiaries
	NT$ (In Millions)
Current assets	
Cash and cash equivalents	$ 21
Accounts and other receivables	10
Inventories	30
Prepayments	6
Other current assets	6
Noncurrent assets	
Property, plant and equipment	36
Intangible assets	259
Refundable deposits	22
Deferred income tax assets	4
Other noncurrent assets	32
Current liabilities	
Short-term loans	(54)
Trade notes payable	(9)
Accounts and other payables	(75)
Other current liabilities	(80)
Noncurrent liabilities	
Long-term loans	(40)
Deferred income tax liabilities	(44)
Other noncurrent liabilities	(10)
	$ 114

3) Goodwill arising on acquisition

	Youth and Its Subsidiaries
	NT$ (In Millions)
Consideration transferred	$ 135
Add: Noncontrolling interest (30% of the recognized amounts of Youth and its subsidiaries' identifiable net assets)	34
Less: Fair value of identifiable net assets acquired	(114)
Goodwill arising on acquisition	$ 55

Goodwill that arose in the acquisition of Youth and its subsidiaries mainly included the amount in relation to the benefit of expected synergies from integrating the businesses of Youth and its subsidiaries into the Company that operate sales and maintenance of Apple's products for many years. These benefits were not recognized separately from goodwill because they did not meet the recognition criteria for identifiable intangible assets.

Goodwill arising from business combinations is not deductible for tax purposes.

SENAO evaluated the goodwill that arose in the acquisition of Youth and its subsidiaries at the end of each year. SENAO determined the smallest identifiable group of assets that generates cash inflows as single cash generating units by business type, and evaluated the recoverable amount of those cash generating units by their value in use. The management of SENAO estimated the cash flow projections based on the financial budgets for the following five years. Discount rates were 16.3%, 14.6% and 14.8% as of December 31 2015, 2016 and 2017, respectively and were used to calculate the recoverable amount of related cash generating units by discounting aforementioned cash flows.

SENAO concluded that there was no impairment loss recognized for the years ended December 31, 2015 and 2016. Furthermore, SENAO concluded the recoverable amount of the goodwill was lower than the carrying value and recognized impairment loss of $9 million for the year ended December 31, 2017. The impairment loss was included in other income and expenses in the statements of comprehensive income.

4) Net cash outflow on acquisition of subsidiaries

	Youth and Its Subsidiaries
	NT$ (In Millions)
Consideration paid in cash	$ 135
Less: Cash and cash equivalents acquired	(21)
	$ 114

5) Impact of acquisitions on the results of the Company's financial performance

The results of the acquired subsidiaries' financial performance from the acquisition date to December 31, 2015, were as follows:

	Youth and Its Subsidiaries
	NT$ (In Millions)
Revenue	$ 188
Net loss	$ 18

Had these business combinations been in effect at the beginning of the annual reporting period, the Company's pro-forma revenue and net income would have been $232,187 million and $42,774 million, respectively, for the year ended December 31, 2015. This pro-forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Company that actually would have been achieved had the acquisition been completed on January 1, 2015, nor is it intended to be a projection of future results.

In determining the pro-forma revenue and net income of the Company had Youth and its subsidiaries been acquired at the beginning of 2015, management calculated depreciation of property, plant and equipment and amortization of intangible assets acquired on the basis of the fair values arising in the initial accounting for the business combination rather than the carrying amounts recognized in the pre-acquisition financial statements.

16. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

	December 31	
	2016	2017
	NT$	NT$
	(In Millions)	
Investments in associates	$ 2,383	$ 2,326
Investments in joint ventures	3	-
	$ 2,386	$ 2,326

a. Investments in associates

Investments in associates were as follows:

	Carrying Amount	
	December 31	
	2016	2017
	NT$	NT$
	(In Millions)	
Listed		
Senao Networks, Inc. ("SNI")	$ 680	$ 704
Non-listed		
ST-2 Satellite Ventures Pte. Ltd. ("STS")	467	472
International Integrated System, Inc. ("IISI")	307	292
Viettel-CHT Co., Ltd. ("Viettel-CHT")	275	256
Skysoft Co., Ltd. ("SKYSOFT")	145	140
Taiwan International Standard Electronics Co., Ltd. ("TISE")	142	132
KingwayTek Technology Co., Ltd. ("KWT")	84	90
So-net Entertainment Taiwan Limited ("So-net")	111	104
Taiwan International Ports Logistics Corporation ("TIPL")	57	50
Click Force Co., Ltd. ("CF")	37	38
Dian Zuan Integrating Marketing Co., Ltd. ("DZIM")	22	12
HopeTech Technologies Limited ("HopeTech")	24	23
Alliance Digital Tech Co., Ltd. ("ADT")	32	13
MeWorks LIMITED (HK) ("MeWorks")	-	-
	$ 2,383	$ 2,326

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

	% of Ownership and Voting Rights	
	December 31	
	2016	2017
Senao Networks, Inc. ("SNI")	34	34
ST-2 Satellite Ventures Pte., Ltd. ("STS")	38	38
International Integrated System, Inc. ("IISI")	32	32
Viettel-CHT Co., Ltd. ("Viettel-CHT")	30	30
Skysoft Co., Ltd. ("SKYSOFT")	30	30
Taiwan International Standard Electronics Co., Ltd. ("TISE")	40	40
KingwayTek Technology Co., Ltd. ("KWT")	26	26
So-net Entertainment Taiwan Limited ("So-net")	30	30
Taiwan International Ports Logistics Corporation ("TIPL")	27	27
Click Force Co., Ltd. ("CF")	49	49
Dian Zuan Integrating Marketing Co., Ltd. ("DZIM")	26	22
HopeTech Technologies Limited ("HopeTech")	45	45
Alliance Digital Tech Co., Ltd. ("ADT")	14	14
MeWorks LIMITED (HK) ("MeWorks")	20	20

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

	Year Ended December 31		
	2015	2016	2017
	NT$	NT$ (In Millions)	NT$
The Company's share of profit	$ 926	$ 557	$ 420
The Company's share of other comprehensive loss	(19)	(47)	(4)
The Company's share of total comprehensive income	$ 907	$ 510	$ 416

The Level 1 fair values based on the closing market prices of SNI as of the balance sheet dates were as follows:

	December 31	
	2016	2017
	NT$ (In Millions)	NT$
SNI	$ 2,537	$ 2,130

Chunghwa sold its partial ownership interest in KWT in January 2015. The gain on disposal of KWT was $7 million.

CHYP participated in the capital increase of CF by investing $6 million in April 2015. CHYP holds 49% ownership interest of CF. CF engages mainly in advertisement services.

Sertec completed its liquidation in June 2015. CHI recognized the gain on disposal of Sertec of $1 million and received the proceeds from disposal in July 2015.

CHI disposed all ownership interest in Panda Monium Company Ltd. in September 2015.

As the operation of MeWorks ceased, the Company concluded that this investment was fully impaired and recognized an impairment loss of $8 million for the year ended December 31, 2015.

Chunghwa participated in the capital increase of ADT by investing $30 million in December 2016. The Company owns 14% equity shares of ADT. As the Company remains the 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 remains significant influence over ADT. ADT engages mainly in the development of mobile payments and information processing service.

The Company did not participate in the capital increase of DZIM in April 2017 and the ownership interest of DZIM decreased from 26% to 22%. DZIM engages mainly in information technology service and general advertisement service.

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

b. Investments in joint ventures

Investments in joint ventures were as follows:

	Carrying Amount		**% of Ownership and Voting Rights**	
	December 31		**December 31**	
	2016	**2017**	**2016**	**2017**
	NT$ (In Millions)	**NT$**		
Non-listed				
Chunghwa Benefit One Co., Ltd. (“CBO”)	$ 3	$ -	50	-
Huada Digital Corporation (“HDD”)	-	-	50	-
	$ 3	$ -		

In March 2016, the stockholders of HDD approved that HDD should start its dissolution from March 31, 2016. Chunghwa received the proceeds from the liquidation in September 2016 and recognized the disposal loss of $0.4 million. HDD completed its liquidation in March 2017.

In December 2016, the stockholders of CBO approved that CBO should start its dissolution from December 31, 2016. CBO completed its liquidation in December 2017 and recognized the disposal loss of $0.2 million.

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

	Year Ended December 31		
	2015	2016	2017
	NT$	NT$ (In Millions)	NT$
The Company's share of loss	$ (29)	$ (42)	$ (1)
The Company's share of other comprehensive income	-	-	-
The Company's share of total comprehensive loss	$ (29)	$ (42)	$ (1)

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

17. PROPERTY, PLANT AND EQUIPMENT

	December 31	
	2016	2017
	NT$ (In Millions)	NT$
Carrying amount		
Land	$ 103,872	$ 104,079
Land improvements	333	302
Buildings	42,147	45,895
Computer equipment	2,713	2,374
Telecommunications equipment	119,195	114,900
Transportation equipment	629	321
Miscellaneous equipment	2,140	2,310
Construction in progress and equipment to be accepted	20,141	18,527
	$ 291,170	$ 288,708

	Land	Land Improvements	Buildings	Computer Equipment	Telecommuni-cations Equipment	Transportation Equipment	Miscellaneous Equipment	Construction in Progress and Equipment to be Accepted	Total
	NT$	NT$	NT$	NT$	NT$ (In Millions)	NT$	NT$	NT$	NT$
Cost									
Balance on January 1, 2015	$ 102,774	$ 1,558	$ 67,600	$ 15,318	$ 695,076	$ 3,824	$ 8,643	$ 20,930	$ 915,723
Additions	-	-	59	37	159	-	203	23,993	24,451
Disposal	-	-	(11)	(1,073)	(13,047)	(69)	(511)	-	(14,711)
Effect of foreign exchange differences	-	-	-	-	69	-	-	-	69
Acquisitions through business combinations	19	-	7	-	-	-	39	-	65
Others	(46)	17	135	714	23,115	60	363	(24,521)	(163)
Balance on December 31, 2015	$ 102,747	$ 1,575	$ 67,790	$ 14,996	$ 705,372	$ 3,815	$ 8,737	$ 20,402	$ 925,434

(Continued)

	Land	Land Improvements	Buildings	Computer Equipment	Telecommuni-cations Equipment	Transportation Equipment	Miscellaneous Equipment	Construction in Progress and Equipment to be Accepted	Total
	NT$	NT$	NT$	NT$	NT$ (In Millions)	NT$	NT$	NT$	NT$
Accumulated depreciation and impairment									
Balance on January 1, 2015	$ -	$ (1,145)	$ (23,202)	$ (11,308)	$ (568,767)	$ (2,208)	$ (6,443)	$ -	$ (613,073)
Depreciation expenses	-	(53)	(1,269)	(1,467)	(26,291)	(599)	(671)	-	(30,350)
Disposal	-	-	10	1,061	13,033	69	425	-	14,598
Impairment losses	-	-	-	-	(138)	-	-	-	(138)
Effect of foreign exchange differences	-	-	-	-	(14)	-	-	-	(14)
Acquisitions through business combinations	-	-	(1)	-	-	-	(28)	-	(29)
Others	-	(5)	41	(1)	(28)	(12)	(24)	-	(29)
Balance on December 31, 2015	$ -	$ (1,203)	$ (24,421)	$ (11,715)	$ (582,205)	$ (2,750)	$ (6,741)	$ -	$ (629,035)
Cost									
Balance on January 1, 2016	$ 102,747	$ 1,575	$ 67,790	$ 14,996	$ 705,372	$ 3,815	$ 8,737	$ 20,402	$ 925,434
Additions	791	-	36	42	171	1	255	23,295	24,591
Disposal	(2)	(6)	(35)	(1,546)	(11,542)	(54)	(625)	-	(13,810)
Effect of foreign exchange differences	-	-	-	(3)	(35)	-	(4)	-	(42)
Others	336	12	(53)	806	21,726	104	580	(23,556)	(45)
Balance on December 31, 2016	$ 103,872	$ 1,581	$ 67,738	$ 14,295	$ 715,692	$ 3,866	$ 8,943	$ 20,141	$ 936,128
Accumulated depreciation and impairment									
Balance on January 1, 2016	$ -	$ (1,203)	$ (24,421)	$ (11,715)	$ (582,205)	$ (2,750)	$ (6,741)	$ -	$ (629,035)
Depreciation expenses	-	(51)	(1,269)	(1,332)	(25,280)	(529)	(626)	-	(29,087)
Disposal	-	6	34	1,529	11,512	54	583	-	13,718
Impairment losses	-	-	-	-	(596)	-	-	-	(596)
Effect of foreign exchange differences	-	-	-	1	7	-	4	-	12
Others	-	-	65	(65)	65	(12)	(23)	-	30
Balance on December 31, 2016	$ -	$ (1,248)	$ (25,591)	$ (11,582)	$ (596,497)	$ (3,237)	$ (6,803)	$ -	$ (644,958)
Cost									
Balance on January 1, 2017	$ 103,872	$ 1,581	$ 67,738	$ 14,295	$ 715,692	$ 3,866	$ 8,943	$ 20,141	$ 936,128
Additions	-	-	30	78	193	1	193	25,574	26,069
Disposal	(158)	(5)	(108)	(974)	(13,739)	(62)	(402)	-	(15,448)
Effect of foreign exchange differences	-	-	-	(1)	(172)	-	(3)	-	(176)
Others	365	19	5,034	764	20,080	29	784	(27,188)	(113)
Balance on December 31, 2017	$ 104,079	$ 1,595	$ 72,694	$ 14,162	$ 722,054	$ 3,834	$ 9,515	$ 18,527	$ 946,460
Accumulated depreciation and impairment									
Balance on January 1, 2017	$ -	$ (1,248)	$ (25,591)	$ (11,582)	$ (596,497)	$ (3,237)	$ (6,803)	$ -	$ (644,958)
Depreciation expenses	-	(50)	(1,402)	(1,192)	(24,492)	(330)	(677)	-	(28,143)
Disposal	-	4	47	967	13,712	63	389	-	15,182
Effect of foreign exchange differences	-	-	-	-	45	-	2	-	47
Others	-	1	147	19	78	(9)	(116)	-	120
Balance on December 31, 2017	$ -	$ (1,293)	$ (26,799)	$ (11,788)	$ (607,154)	$ (3,513)	$ (7,205)	$ -	$ (657,752)

(Concluded)

Due to technology upgrade, some telecommunications equipment became obsolete in 2015. The Company determined that some telecommunications equipment was impaired in 2016 due to the expiration of 2G license in June 2017 which will lead to the termination of the related service. The Company evaluated and concluded the recoverable amount determined on the basis of value in use of aforementioned telecommunications equipment was lower than the carrying value, and recognized impairment losses of $138 million and $596 million for the years ended December 31, 2015 and 2016, respectively. In addition, the Company evaluated and concluded the recoverable amount of partial computer and miscellaneous equipment was nil and recognized impairment losses of $0.4 million for the year ended December 31, 2016. The impairment loss was included in other income and expenses in the statements of comprehensive income. There was no indication that property, plant and equipment was impaired so the Company did not recognize any impairment loss for the year ended December 31, 2017.

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

Land improvements	8-30 years
Buildings	
Main buildings	35-60 years
Other building facilities	3-20 years
Computer equipment	2-8 years
Telecommunications equipment	
Telecommunication circuits	2-30 years
Telecommunication machinery and antennas equipment	2-30 years
Transportation equipment	3-10 years
Miscellaneous equipment	
Leasehold improvements	1-6 years
Mechanical and air conditioner equipment	3-16 years
Others	1-10 years

18. INVESTMENT PROPERTIES

	December 31	
	2016	2017
	NT$	NT$
	(In Millions)	
Carrying amount		
Investment properties	$ 8,115	$ 8,048

	Investment Properties
	NT$ (In Millions)
Cost	
Balance on January 1, 2015	$ 8,883
Disposal	-
Reclassification	175
Balance on December 31, 2015	$ 9,058
Accumulated depreciation and impairment	
Balance on January 1, 2015	$ (1,262)
Depreciation expense	(18)
Disposal	-
Reclassification	(18)
Reversal of impairment loss	142
Balance on December 31, 2015	$ (1,156)

(Continued)

	Investment Properties NT$ (In Millions)
Cost	
Balance on January 1, 2016	$ 9,058
Additions	-
Reclassification	137
Balance on December 31, 2016	$ 9,195
Accumulated depreciation and impairment	
Balance on January 1, 2016	$ (1,156)
Depreciation expense	(19)
Reclassification	(53)
Reversal of impairment loss	148
Balance on December 31, 2016	$ (1,080)
Cost	
Balance on January 1, 2017	$ 9,195
Reclassification	(60)
Balance on December 31, 2017	$ 9,135
Accumulated depreciation and impairment	
Balance on January 1, 2017	$ (1,080)
Depreciation expense	(21)
Reclassification	3
Reversal of impairment loss	11
Balance on December 31, 2017	$ (1,087)

(Concluded)

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

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

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 in 2015, 2016 and 2017. Therefore, the Company recognized reversals of impairment loss of $142 million, $148 million and $11 million for the years ended December 31, 2015, 2016 and 2017, 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.

The fair values of the Company's investment properties as of December 31, 2016 and 2017 were determined by Level 3 fair value measurements inputs based on the appraisal reports conducted by independent appraisers. Those appraisal reports are based on the comparison approach, income approach or cost approach. Key assumptions and the fair values were as follows:

	December 31	
	2016	2017
	NT$	NT$
	(In Millions)	
Fair value	$ 17,778	$ 17,728
Overall capital interest rate	1.46%-2.20%	1.46%-2.20%
Profit margin ratio	10%-20%	12%-20%
Discount rate	1.04%	1.04%
Capitalization rate	0.43%-1.78%	0.47%-1.69%

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

19. INTANGIBLE ASSETS

	December 31	
	2016	2017
	NT$	NT$
	(In Millions)	
Carrying amount		
3G and 4G concession	$ 45,796	$ 53,469
Computer software	995	880
Goodwill	218	209
Others	344	325
	$ 47,353	$ 54,883

	3G and 4G Concession	Computer Software	Goodwill	Others	Total
	NT$	NT$	NT$ (In Millions)	NT$	NT$
Cost					
Balance on January 1, 2015	$ 49,254	$ 3,192	$ 181	$ 151	$ 52,778
Additions-acquired separately	9,955	424	-	1	10,380
Disposal	-	(375)	-	(2)	(377)
Effect of foreign exchange difference	-	-	-	-	-
Acquisitions through business combinations	-	-	55	259	314
Others	-	8	-	-	8
Balance on December 31, 2015	$ 59,209	$ 3,249	$ 236	$ 409	$ 63,103
Accumulated amortization and impairment					
Balance on January 1, 2015	$ (8,104)	$ (1,793)	$ (18)	$ (38)	$ (9,953)
Amortization expenses	(2,504)	(565)	-	(11)	(3,080)
Disposal	-	375	-	2	377
Effect of foreign exchange difference	-	-	-	-	-
Others	-	-	-	-	-
Balance on December 31, 2015	$ (10,608)	$ (1,983)	$ (18)	$ (47)	$ (12,656)

(Continued)

	3G and 4G Concession NT$	Computer Software NT$	Goodwill NT$ (In Millions)	Others NT$	Total NT$
Cost					
Balance on January 1, 2016	$ 59,209	$ 3,249	$ 236	$ 409	$ 63,103
Additions-acquired separately	-	277	-	5	282
Disposal	-	(121)	-	-	(121)
Effect of foreign exchange difference	-	-	-	-	-
Others	-	3	-	-	3
Balance on December 31, 2016	$ 59,209	$ 3,408	$ 236	$ 414	$ 63,267
Accumulated amortization and impairment					
Balance on January 1, 2016	$ (10,608)	$ (1,983)	$ (18)	$ (47)	$ (12,656)
Amortization expenses	(2,805)	(551)	-	(23)	(3,379)
Disposal	-	121	-	-	121
Impairment losses	-	-	-	-	-
Effect of foreign exchange difference	-	-	-	-	-
Balance on December 31, 2016	$ (13,413)	$ (2,413)	$ (18)	$ (70)	$ (15,914)
Cost					
Balance on January 1, 2017	$ 59,209	$ 3,408	$ 236	$ 414	$ 63,267
Additions-acquired separately	10,935	366	-	4	11,305
Disposal	-	(462)	-	-	(462)
Effect of foreign exchange difference	-	-	-	-	-
Balance on December 31, 2017	$ 70,144	$ 3,312	$ 236	$ 418	$ 74,110
Accumulated amortization and impairment					
Balance on January 1, 2017	$ (13,413)	$ (2,413)	$ (18)	$ (70)	$ (15,914)
Amortization expenses	(3,262)	(481)	-	(23)	(3,766)
Disposal	-	462	-	-	462
Impairment losses	-	-	(9)	-	(9)
Effect of foreign exchange difference	-	-	-	-	-
Balance on December 31, 2017	$ (16,675)	$ (2,432)	$ (27)	$ (93)	$ (19,227)

(Concluded)

For long-term business development, Chunghwa participated in mobile broadband license (4G license) in 2.5 and 2.6 GHz bands bidding process announced by NCC and obtained certain spectrums. Chunghwa paid the 4G concession fees amounting to $9,955 million in December 2015. For long-term business development, Chunghwa submitted an application to NCC for 4G mobile broadband license in 1.8 and 2.1 GHz frequency bands and obtained certain spectrums. Chunghwa paid the 4G concession fee amounting to $10,935 million in November 2017.

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

The computer software is amortized using the straight-line method over the estimated useful lives of 1 to 10 years. Other intangible assets are amortized using the straight-line method over the estimated useful lives of 1 to 20 years. Goodwill is not amortized.

20. OTHER ASSETS

	December 31	
	2016	2017
	NT$	NT$
	(In Millions)	
Spare parts	$ 1,776	$ 2,059
Refundable deposits	2,083	1,860
Other financial assets	1,000	1,000
Others	2,288	2,800
	$ 7,147	$ 7,719
Current		
Spare parts	$ 1,776	$ 2,059
Others	346	124
	$ 2,122	$ 2,183
Noncurrent		
Refundable deposits	$ 2,083	$ 1,860
Other financial assets	1,000	1,000
Others	1,942	2,676
	$ 5,025	$ 5,536

Other financial assets - noncurrent was Piping Fund. As part of the government's effort to upgrade the existing telecommunications infrastructure, Chunghwa and other public utility companies were required by the ROC government to contribute 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.

21. HEDGING DERIVATIVE FINANCIAL INSTRUMENTS

	December 31	
	2016	2017
	NT$	NT$
	(In Millions)	
Hedging derivative financial liabilities		
Cash flow hedge - forward exchange contracts	$ 1	$ 1

Chunghwa's hedge strategy is to enter forward exchange contracts - buy to avoid its foreign currency exposure to certain foreign currency denominated equipment payments in the following six months. In addition, Chunghwa'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.

Chunghwa signed equipment purchase contracts with suppliers, and entered into forward exchange contracts to avoid foreign currency risk exposure to Euro-denominated purchase commitments. Those forward exchange contracts were designated as cash flow hedges. For the years ended December 31, 2015, 2016 and 2017, gain (loss) arising from changes in fair value of the hedged items recognized in other comprehensive income was gain of $1 million, loss of $1 million and loss of $1 million, respectively. Upon the completion of the purchase transaction, the amount deferred and recognized in equity initially will be reclassified into equipment as its carrying value.

As of December 31, 2015, 2016 and 2017, Chunghwa expected part of the equipment purchase transactions will not occur and reclassified the related loss of $1 million, gain of $1 million and gain of $2 million, respectively, arising from the forward exchange contracts of the aforementioned transactions from equity to profit or loss.

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

	Currency	Maturity Period	Contract Amount (Millions)
December 31, 2016			
Forward exchange contracts - buy	EUR/NT$	2017.03	EUR3/NT$102
December 31, 2017			
Forward exchange contracts - buy	EUR/NT$	2018.03-06	EUR4/NT$142

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

	Year Ended December 31		
	2015	2016	2017
	NT$	NT$ (In Millions)	NT$
Construction in progress and equipment to be accepted	$ (18)	$ (15)	$ (2)

22. SHORT-TERM LOANS

	December 31	
	2016	2017
	NT$ (In Millions)	NT$
Secured loans (Note 41)	$ 20	$ -
Unsecured loans	118	70
	$ 138	$ 70

The annual interest rates of loans were as follows:

	December 31	
	2016	2017
Secured loans	1.98%	-
Unsecured loans	1.95%-2.25%	2.15%-2.19%

23. LONG-TERM LOANS

	December 31	
	2016	2017
	NT$	NT$
	(In Millions)	
Secured loans (Note 41)	$ 1,600	$ 1,600

The annual interest rates of loans were as follows:

	December 31	
	2016	2017
Secured loans	0.91%	0.91%

LED obtained a secured loan from Chang Hwa Bank in September 2010. Interest is paid monthly. $300 million and $1,350 million were originally due in December 2014 and September 2015, respectively. LED obtained another secured loan from Chang Hwa Bank in December 2012 in the amount of $400 million which is due in December 2017; LED made early repayments of $350 million and $50 million in 2013 and January 2015, respectively. In October 2014, the bank borrowing mentioned above was extended to September 2018 for one time repayment. LED made an early repayment of $50 million in April 2015. LED entered into a contract with Chang Hwa Bank to renew the contract upon the maturity of the aforementioned contract in December 2017 and the due date of the renew contract is extended to September 2021.

CHPT entered into a secured loan contract of $348 million with Bank of Taiwan in April 2014, interest is paid monthly, amortization of principal began in May 2016, and the loan is due in April 2029. CHPT made early repayments of $148 million, $50 million and $150 million from September to December 2014, in November 2015 and from March to April 2016, respectively.

24. TRADE NOTES AND ACCOUNTS PAYABLE

	December 31	
	2016	2017
	NT$	NT$
	(In Millions)	
Trade notes and accounts payable	$ 18,810	$ 19,396

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

25. OTHER PAYABLES

	December 31	
	2016	2017
	NT$	NT$
	(In Millions)	
Accrued salary and compensation	$ 9,770	$ 9,748
Payables to contractors	2,396	2,058
Accrued compensation to employees and remuneration to directors and supervisors	2,015	1,949
Payables to equipment suppliers	1,623	1,690
Accrued franchise fees	1,326	1,248
Amounts collected for others	1,407	1,203
Accrued maintenance costs	1,062	1,081
Others	6,819	6,024
	$ 26,418	$ 25,001

26. PROVISIONS

	December 31	
	2016	2017
	NT$	NT$
	(In Millions)	
Warranties	$ 111	$ 132
Trade-in right	31	87
Employee benefits	38	43
Others	5	5
	$ 185	$ 267
Current	$ 119	$ 189
Noncurrent	66	78
	$ 185	$ 267

	Warranties	Trade-in rights	Employee Benefits	Others	Total
	NT$	NT$	NT$	NT$	NT$
			(In Millions)		
Balance on January 1, 2015	$ 212	$ -	$ 55	$ 5	$ 272
Additional provisions recognized	100	-	12	-	112
Used / forfeited during the year	(99)	-	(37)	-	(136)
Balance on December 31, 2015	$ 213	$ -	$ 30	$ 5	$ 248
Balance on January 1, 2016	$ 213	$ -	$ 30	$ 5	$ 248
Additional provisions recognized	81	31	9	-	121
Used / forfeited during the year	(183)	-	(1)	-	(184)
Balance on December 31, 2016	$ 111	$ 31	$ 38	$ 5	$ 185

(Continued)

	Warranties	Trade-in rights	Employee Benefits	Others	Total
	NT$	NT$	NT$ (In Millions)	NT$	NT$
Balance on January 1, 2017	$ 111	$ 31	$ 38	$ 5	$ 185
Additional provisions recognized	79	69	7	-	155
Used / forfeited during the year	(58)	(13)	(2)	-	(73)
Balance on December 31, 2017	$ 132	$ 87	$ 43	$ 5	$ 267

(Concluded)

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

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

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

27. ADVANCE RECEIPTS

Advance receipts are mainly from advance telecommunication charges. In accordance with NCC's regulation named "Mandatory and Prohibitory Provisions To Be Included In Standard Contracts for Telecommunication Goods (Services) Coupons", the Company entered into a contract with Bank of Taiwan to provide a performance guarantee for advance receipts from selling prepaid cards amounting to $797 million as of December 31, 2017.

28. RETIREMENT BENEFIT PLANS

a. Defined contribution plans

The pension plan under the Labor Pension Act of ROC (the "LPA") is considered as a defined contribution plan. Based on the LPA, Chunghwa and its domestic subsidiaries make monthly contributions to employees' individual pension accounts at 6% of monthly salaries and wages. Its foreign subsidiaries would make monthly contributions based on the local pension requirements.

b. Defined benefit plans

Chunghwa completed its privatization plans on August 12, 2005. Chunghwa is required to pay all accrued pension obligations including service clearance payment, lump sum payment under civil service plan, additional separation payments, etc. upon the completion of the privatization in accordance with the Statute Governing Privatization of Stated-owned Enterprises. After paying all pension obligations for privatization, the plan assets of Chunghwa should be transferred to the Fund for Privatization of Government-owned Enterprises (the "Privatization Fund") under the Executive Yuan. On August 7, 2006, Chunghwa transferred the remaining balance of fund to the Privatization Fund. However, according to the instructions of MOTC, Chunghwa 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.

Chunghwa and its subsidiaries SENAO, CHIEF, CHSI, and SHE with the pension mechanism under the Labor Standards Law are 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. Chunghwa and its subsidiaries contribute 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 of the ROC revised in February 2015, entities are required to contribute the difference in one appropriation to the Funds before the end of next March when the balance of the Funds is insufficient to pay employees who will meet the retirement eligibility criteria within next year.

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

	December 31	
	2016	2017
	NT$	NT$
	(In Millions)	
Present value of funded defined benefit obligation	$ 34,572	$ 37,663
Fair value of plan assets	(33,954)	(34,972)
Funded status - deficit	$ 618	$ 2,691
Net defined benefit liabilities	$ 1,537	$ 2,704
Net defined benefit assets	(919)	(13)
	$ 618	$ 2,691

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)
	NT$	NT$	NT$
		(In Millions)	
Balance on January 1, 2015	$ 27,958	$ 21,496	$ 6,462
Current service cost	2,884	-	2,884
Interest expense/interest income	546	444	102
Amounts recognized in profit or loss	3,430	444	2,986
Remeasurement on the net defined benefit liability			
Return on plan assets (excluding amounts included in net interest)	-	136	(136)
Actuarial losses recognized from changes in demographic assumptions	11	-	11
Actuarial gains recognized from changes in financial assumptions	(1)	-	(1)

(Continued)

	Present Value of Funded Defined Benefit Obligation	Fair Value of Plan Assets	Net Defined Benefit Liabilities (Assets)
	NT$	NT$ (In Millions)	NT$
Actuarial losses recognized from experience adjustments	$ 357	$ -	$ 357
Amounts recognized in other comprehensive income	367	136	231
Contributions from employer	-	2,435	(2,435)
Benefits paid	(717)	(717)	-
Benefits paid directly by the Company	(156)	-	(156)
Balance on December 31, 2015	30,882	23,794	7,088
Current service cost	2,866	-	2,866
Interest expense/interest income	600	573	27
Amounts recognized in profit or loss	3,466	573	2,893
Remeasurement on the net defined benefit liability			
Return on plan assets (excluding amounts included in net interest)	-	(352)	352
Actuarial gains recognized from changes in demographic assumptions	(124)	-	(124)
Actuarial losses recognized from changes in financial assumptions	1,715	-	1,715
Actuarial losses recognized from experience adjustments	100	-	100
Amounts recognized in other comprehensive income	1,691	(352)	2,043
Contributions from employer	-	11,235	(11,235)
Benefits paid	(1,296)	(1,296)	-
Benefits paid directly by the Company	(171)	-	(171)
Balance on December 31, 2016	34,572	33,954	618
Current service cost	2,918	-	2,918
Interest expense/interest income	506	519	(13)
Amounts recognized in profit or loss	3,424	519	2,905
Remeasurement on the net defined benefit liability			
Return on plan assets (excluding amounts included in net interest)	-	(193)	193
Actuarial losses recognized from changes in demographic assumptions	15	-	15
Actuarial losses recognized from experience adjustments	1,816	-	1,816
Amounts recognized in other comprehensive income	1,831	(193)	2,024
Contributions from employer	-	2,635	(2,635)
Benefits paid	(1,943)	(1,943)	-
Benefits paid directly by the Company	(221)	-	(221)
Balance on December 31, 2017	$ 37,663	$ 34,972	$ 2,691

(Concluded)

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

	Year Ended December 31		
	2015	2016	2017
	NT$	NT$ (In Millions)	NT$
Operating costs	$ 1,794	$ 1,732	$ 1,734
Marketing expenses	856	838	847
General and administrative expenses	162	155	156
Research and development expenses	102	97	97
	$ 2,914	$ 2,822	$ 2,834

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	
	2016	2017
Discount rates	1.50%	1.50%
Expected rates of salary increase	1.20%-2.00%	1.20%-2.00%

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

	December 31	
	2016	2017
	NT$	NT$
	(In Millions)	
Discount rates		
0.5% increase	$ (1,219)	$ (1,232)
0.5% decrease	$ 1,298	$ 1,310
Expected rates of salary increase		
0.5% increase	$ 1,379	$ 1,398
0.5% decrease	$ (1,306)	$ (1,326)

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.

Furthermore, in presenting the above sensitivity analysis, the present value of the defined benefit obligation has been calculated using the projected unit credit method at the end of the reporting period, which is the same as that applied in calculating the defined benefit obligation liability recognized in the consolidated balance sheets.

There is no change in the methods and assumptions used in preparing the sensitivity analysis from the previous period.

	December 31	
	2016	2017
	NT$	NT$
	(In Millions)	
The expected contributions to the plan for the next year	$ 2,724	$ 4,393
The average duration of the defined benefit obligation	7-14 years	6-13 years

The Company's maturity analysis of the undiscounted benefit payments as of December 31, 2017 was as follows:

Year	Amount
	NT$
	(In Millions)
2018	$ 2,042
2019	4,716
2020	8,088
2021	11,201
2022 and thereafter	48,310
	$ 74,357

29. EQUITY

a. Share capital

1) Common stocks

	December 31	
	2016	2017
	NT$	NT$
	(In Millions)	
Number of authorized shares	12,000	12,000
Authorized shares	$ 120,000	$ 120,000
Number of issued and paid shares	7,757	7,757
Issued and outstanding shares	$ 77,574	$ 77,574

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

2) Global depositary receipts

The MOTC and some stockholders sold some common stocks of Chunghwa 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, 2017, the outstanding ADSs were 261 million common stocks, which equaled 26 million units and represented 3.36% of Chunghwa'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, 2015, 2016 and 2017 were as follows:

	Share Premium	Movements of Additional Paid-in Capital for Associates and Joint Ventures Accounted for Using Equity Method	Movements of Additional Paid-in Capital Arising from Changes in Equities of Subsidiaries	Difference between Consideration Received and Carrying Amount of the Subsidiaries' Net Assets upon Disposal	Donated Capital	Stockholders' Contribution Due to Privatization	Total
	NT$	NT$	NT$	NT$ (In Millions)	NT$	NT$	NT$
Balance on January 1, 2015	$ 126,045	$ -	$ 14	$ -	$ 13	$ 20,648	$ 146,720
Partial disposal of interests in subsidiaries	-	-	-	27	-	-	27
Other changes in additional paid-in capital in subsidiaries	-	-	1	-	-	-	1
Subsidiary purchased its treasury stock	-	-	(15)	-	-	-	(15)
Balance on December 31, 2015	$ 126,045	$ -	$ -	$ 27	$ 13	$ 20,648	$ 146,733

(Continued)

	Share Premium NT$	Movements of Additional Paid-in Capital for Associates and Joint Ventures Accounted for Using Equity Method NT$	Movements of Additional Paid-in Capital Arising from Changes in Equities of Subsidiaries NT$	Difference between Consideration Received and Carrying Amount of the Subsidiaries' Net Assets upon Disposal NT$ (In Millions)	Donated Capital NT$	Stockholders' Contribution Due to Privatization NT$	Total NT$
Balance on January 1, 2016	$ 126,045	$ -	$ -	$ 27	$ 13	$ 20,648	$ 146,733
Partial disposal of interests in subsidiaries	-	-	-	58	-	-	58
Change in additional paid-in capital for not participating in the capital increase of a subsidiary	-	-	389	-	-	-	389
Share-based payment transactions of subsidiaries	-	-	-	-	-	-	-
Balance on December 31, 2016	$ 126,045	$ -	$ 389	$ 85	$ 13	$ 20,648	$ 147,180
Balance on January 1, 2017	$ 126,045	$ -	$ 389	$ 85	$ 13	$ 20,648	$ 147,180
Unclaimed dividend	-	-	-	-	3	-	3
Change in additional paid-in capital from investments in associates and joint ventures accounted for using equity method	-	-	-	-	-	-	-
Partial disposal of interests in subsidiaries	-	-	1	76	-	-	77
Change in additional paid-in capital for not participating in the capital increase of a subsidiary	-	-	802	-	-	-	802
Other changes in additional paid-in capital in subsidiaries	-	-	-	-	-	-	-
Share-based payment transactions of subsidiaries	-	-	2	-	-	-	2
Treasury stock transfer of subsidiaries	-	-	27	-	-	-	27
Balance on December 31, 2017	$ 126,045	$ -	$ 1,221	$ 161	$ 16	$ 20,648	$ 148,091

(Concluded)

Additional paid-in capital from share premium, donated capital and the difference between consideration received and the carrying amount of the subsidiaries' net assets upon disposal may be utilized to offset deficits. Furthermore, when Chunghwa has no deficit, it may be distributed in cash or capitalized, which however is limited to a certain percentage of Chunghwa'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 amendments to the Company Act of the ROC in May 2015, the recipients of dividends and bonuses are limited to stockholders and do not include employees. To comply with the above amendments to the Company Act of the ROC, amendments to the policy on dividend distribution and the addition of the policy on distribution of employees' and directors' compensation in Chunghwa's Articles of Incorporation were approved by the stockholders in their meeting on June 24, 2016.

In accordance with the Chunghwa's amended Articles of Incorporation, Chunghwa 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 Chunghwa's total issued capital, and depending on its business needs or requirements, may also set aside or reverse special reserves. No less than 50% of the remaining earnings comprising remaining balance of net income, if any, plus cumulative undistributed earnings shall be distributed as stockholders' dividends, of which cash dividends to be distributed shall not be less than 50% of the total amount of dividends to be distributed. If cash dividend to be distributed is less than $0.10 per share, such cash dividend shall be distributed in the form of common stocks.

For the information on compensation to the employees and remuneration to the directors accrued based on the Chunghwa's amended Articles of Incorporation, please refer to Note 31.g. Employee benefit expenses.

Special reserve was appropriated in accordance with the relevant laws and regulations or as requested by local authority. Pursuant to existing regulations, Chunghwa is required to set aside additional special reserve equivalent to debit balances under stockholder's equity. For subsequent decrease in the deduction amount to stockholder's equity, the decreased amount could be reversed from the special reserve to retained earnings.

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

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

The appropriations of the 2015 and 2016 earnings of Chunghwa approved by the stockholders in their meetings on June 24, 2016 and June 23, 2017 were as follows:

	Appropriation of Earnings		**Dividends Per Share**	
	For Fiscal Year 2015	**For Fiscal Year 2016**	**For Fiscal Year 2015**	**For Fiscal Year 2016**
	NT$ (In Millions)	**NT$**	**NT$**	**NT$**
Special reserve	$ -	$ 5		
Cash dividends	42,551	38,336	$5.4852	$4.9419

The appropriations of earnings for 2017 had been proposed by Chunghwa's Board of Directors on March 13, 2018. The appropriations and dividends per share were as follows:

	For Fiscal Year 2017	
	Appropriation of Earnings	**Dividends Per Share**
	NT$ (In Millions)	**NT$**
Reversal of special reserve	$ 5	
Cash dividends	37,205	$4.796

The appropriations of earnings for 2017 are subject to the resolution of the stockholders' meeting planned to be held on June 15, 2018.

d. Other equity items

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

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

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

	Year Ended December 31		
	2015	2016	2017
	NT$	NT$ (In Millions)	NT$
Beginning balance	$ 740	$ 91	$ (51)
Unrealized gain (loss) on available-for-sale financial assets	(670)	(721)	607
Income tax relating to unrealized gain and loss on available-for-sale financial assets	(2)	2	2
Amount reclassified from equity to profit or loss on disposal of available-for-sale financial assets	-	-	-
Amount reclassified from equity to profit or loss on impairment of available-for-sale financial assets	23	577	-
Ending balance	$ 91	$ (51)	$ 558

Unrealized gain (loss) on available-for-sale financial assets were accumulated gains and losses on the available-for-sale financial assets measured at fair value, which were recognized in other comprehensive income and were included in the calculation of the related disposal gain and loss or impairment loss of such financial assets upon reclassified to profits or losses.

e. Noncontrolling interests

	Year Ended December 31		
	2015	2016	2017
	NT$	NT$ (In Millions)	NT$
Beginning balance	$ 4,924	$ 5,065	$ 6,272
Attributable to noncontrolling interests			
Net income for the year	813	1,141	1,172
Exchange differences arising from the translation of the foreign operations	(3)	(41)	(12)
Unrealized gain (loss) on available-for-sale financial assets	2	-	(2)
Income tax relating to unrealized gain and loss on available-for-sale financial assets	-	-	1
Remeasurements of defined benefit pension plans	(3)	(18)	(8)

(Continued)

	Year Ended December 31		
	2015	2016	2017
	NT$	NT$ (In Millions)	NT$
Income tax relating to remeasurements of defined benefit pension plans	$ 1	$ 3	$ -
Share of other comprehensive income (loss) of associates accounted for using equity method	2	(1)	(2)
Cash dividends distributed by subsidiaries	(350)	(710)	(942)
Partial disposal of interests in subsidiaries	18	25	29
Change in additional paid-in capital for not participating in the capital increase of a subsidiary	-	786	1,750
Other changes in additional paid-in capital of subsidiaries	2	-	-
Share-based payment transactions of subsidiaries	36	17	20
Subsidiary purchased its treasury stock	(416)	-	-
Net increase in noncontrolling interests	39	5	196
Ending balance	$ 5,065	$ 6,272	$ 8,474

(Concluded)

30. REVENUE

The main source of revenue of the Company includes various telecommunications services in various different streams, and the related information was as discussed in Note 43.

31. NET INCOME AND OTHER COMPREHENSIVE INCOME (LOSS)

a. Other income and expenses

	Year Ended December 31		
	2015	2016	2017
	NT$	NT$ (In Millions)	NT$
Loss on disposal of property, plant and equipment	$ (109)	$ (48)	$ (107)
Impairment loss on property, plant and equipment	(138)	(596)	-
Reversal of impairment loss on investment properties	142	148	11
Loss on disposal of intangible assets	-	-	-
Impairment loss on intangible assets	-	-	(9)
	$ (105)	$ (496)	$ (105)

b. Other income

	Year Ended December 31		
	2015	2016	2017
	NT$	NT$ (In Millions)	NT$
Dividend income	$ 218	$ 391	$ 328
Rental income	38	41	61
Income from Piping Fund	202	202	-
Others	192	438	447
	$ 650	$ 1,072	$ 836

c. Other gains and losses

	Year Ended December 31		
	2015	2016	2017
	NT$	NT$ (In Millions)	NT$
Net foreign currency exchange gains (losses)	$ 63	$ 181	$ (88)
Gain on disposal of financial instruments	-	-	3
Valuation gain (loss) on financial assets and liabilities at fair value through profit or loss, net	-	(1)	1
Gain (loss) on disposal of investments accounted for using equity method	4	(2)	-
Impairment loss on investments accounted for using equity method	(8)	-	-
Impairment loss on available-for-sale financial assets	(107)	(577)	-
Others	(180)	(49)	(48)
	$ (228)	$ (448)	$ (132)

d. Impairment loss (reversal of impairment loss) on financial instruments

	Year Ended December 31		
	2015	2016	2017
	NT$	NT$ (In Millions)	NT$
Trade notes and accounts receivable	$ 480	$ 943	$ 578
Other receivables	$ 39	$ (2)	$ 65
Available-for-sale financial assets	$ 107	$ 577	$ -

e. Impairment loss (reversal of impairment loss) on non-financial assets

	Year Ended December 31		
	2015	2016	2017
	NT$	NT$ (In Millions)	NT$
Inventories	$ 198	$ 192	$ 52
Property, plant and equipment	$ 138	$ 596	$ -
Investments accounted for using equity method	$ 8	$ -	$ -
Investment properties	$ (142)	$ (148)	$ (11)
Intangible assets	$ -	$ -	$ 9

f. Depreciation and amortization expenses

	Year Ended December 31		
	2015	2016	2017
	NT$	NT$ (In Millions)	NT$
Property, plant and equipment	$ 30,350	$ 29,087	$ 28,143
Investment properties	18	19	21
Intangible assets	3,080	3,379	3,766
Total depreciation and amortization expenses	$ 33,448	$ 32,485	$ 31,930
Depreciation expenses summarized by functions			
Operating costs	$ 28,292	$ 27,214	$ 26,402
Operating expenses	2,076	1,892	1,762
	$ 30,368	$ 29,106	$ 28,164
Amortization expenses summarized by functions			
Operating costs	$ 2,742	$ 3,042	$ 3,473
Marketing expenses	178	173	154
General and administrative expenses	116	126	104
Research and development expenses	44	38	35
	$ 3,080	$ 3,379	$ 3,766

g. Employee benefit expenses

	Year Ended December 31		
	2015	2016	2017
	NT$	NT$ (In Millions)	NT$
Post-employment benefit			
Defined contribution plans	$ 489	$ 544	$ 594
Defined benefit plans	2,914	2,822	2,834
	3,403	3,366	3,428
Share-based payment			
Equity-settled share-based payment	36	17	22
Other employee benefit			
Salaries	25,526	25,985	25,760
Insurance	2,643	2,652	2,748
Others	15,717	15,730	15,449
	43,886	44,367	43,957
Total employee benefit expenses	$ 47,325	$ 47,750	$ 47,407
Summary by functions			
Operating costs	$ 25,320	$ 25,190	$ 24,725
Operating expenses	22,005	22,560	22,682
	$ 47,325	$ 47,750	$ 47,407

According to the Company Act as amended in May 2015 and the amendments to the Chunghwa's Articles of Incorporation approved by the Chunghwa's stockholders in their meeting on June 24, 2016, Chunghwa shall distribute 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, 2017, the payables of the employees' compensation and the remuneration to directors were $1,596 million and $41 million, respectively. Such amounts have been approved by the Chunghwa's Board of Directors on March 13, 2018 and will be reported to the stockholders in their meeting planned to be held on June 15, 2018.

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

The compensation to the employees and remuneration to the directors of 2015 and 2016 approved by the Board of Directors on March 11, 2016 and March 7, 2017, respectively, were as follows.

	2015	2016
	Cash	Cash
	NT$ (In Millions)	NT$
Compensation distributed to the employees	$ 1,928	$ 1,702
Remuneration paid to the directors	45	42

There was no difference between the initial accrual amounts and the amounts proposed in the Board of Directors in 2016 and 2017 of the aforementioned compensation to employees and the remuneration to directors.

h. Reclassification adjustments of other comprehensive income (loss)

	Year Ended December 31		
	2015	2016	2017
	NT$	NT$ (In Millions)	NT$
Unrealized gain (loss) on available-for-sale financial assets			
Arising during the year	$ (671)	$ (721)	$ 605
Reclassification adjustments			
Upon disposal	-	-	-
Upon impairment	26	577	-
	$ (645)	$ (144)	$ 605
Cash flow hedges			
Gain arising during the year	$ 18	$ 15	$ 3
Reclassification adjustments included in profit or loss	1	(1)	(2)
Adjusted against the carrying amount of hedged items	(18)	(15)	(2)
	$ 1	$ (1)	$ (1)

32. INCOME TAX

a. Income tax recognized in profit or loss

The major components of income tax expense were as follows:

	Year Ended December 31		
	2015	2016	2017
	NT$	NT$ (In Millions)	NT$
Current tax			
Current tax expenses recognized for the year	$ 8,570	$ 6,736	$ 7,996
Tax on unappropriated earnings	821	(346)	(60)
Income tax adjustments on prior years	(83)	(22)	(2)
Others	15	15	10
	9,323	6,383	7,944
Deferred tax			
Deferred tax expense recognized for the year	(222)	1,404	(101)
Income tax adjustments on prior years	-	-	6
	(222)	1,404	(95)
Income tax recognized in profit or loss	$ 9,101	$ 7,787	$ 7,849

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

	Year Ended December 31		
	2015	2016	2017
	NT$	NT$ (In Millions)	NT$
Income before income tax	$ 51,953	$ 49,413	$ 48,009
Income tax expense calculated at the statutory rate (17%)	$ 8,832	$ 8,400	$ 8,162
Nondeductible revenues and expenses in determining taxable income	28	5	34
Imputed income on tax	-	-	-
Unrecognized deductible temporary differences	11	(9)	(1)
Unrecognized loss carryforwards	83	12	10
Tax-exempt income	(183)	(25)	(87)
Income tax on unappropriated earnings	821	(346)	(60)
Investment credits	(329)	(234)	(212)
Effect of different tax rates of group entities operating in other jurisdictions	(94)	(8)	(2)
Income tax adjustments on prior years	(83)	(22)	4
Others	15	14	1
Income tax expense recognized in profit or loss	$ 9,101	$ 7,787	$ 7,849

The applicable tax rate used above is the corporate tax rate of 17% payable by the entities subject to the Income Tax Act of the Republic of China, while the applicable tax rate used by subsidiaries in China is 25%. Tax rates used by other entities in the Company operating in other jurisdictions are based on the tax laws in those jurisdictions.

In February 2018, it was announced by the President that the Income Tax Act in the ROC was amended and starting from 2018, the corporate income tax rate will be adjusted from 17% to 20%. In addition, the tax rate applicable to 2018 unappropriated earnings will be reduced from 10% to 5%. Deferred tax assets and deferred tax liabilities recognized as at December 31, 2017 are expected to increase by $480 million and $236 million, respectively, as a result of the aforementioned tax rate changes in 2018.

b. Income tax expense (benefit) recognized in other comprehensive income

	Year Ended December 31		
	2015	2016	2017
	NT$	NT$ (In Millions)	NT$
Deferred tax			
Unrealized gain or loss on available-for-sale financial assets	$ 2	$ (2)	$ (3)
Remeasurement on defined benefit plan	(39)	(347)	(344)
Total income tax benefit recognized in other comprehensive income	$ (37)	$ (349)	$ (347)

c. Current tax assets and liabilities

	December 31	
	2016	2017
	NT$	NT$
	(In Millions)	
Current tax assets		
Tax refund receivable (included in other current assets - other)	$ 5	$ 2
Current tax liabilities		
Income tax payable	$ 6,522	$ 8,674

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, 2015

	January 1, 2015	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	From Business Combination	December 31, 2015
	NT$	NT$	NT$ (In Millions)	NT$	NT$
Deferred income tax assets					
Temporary differences					
Defined benefit obligation	$ 1,096	$ 71	$ 39	$ -	$ 1,206
Share of the profit of associates and joint ventures accounted for using equity method	277	48	-	-	325
Allowance for doubtful receivables over quota	114	55	-	-	169
Impairment loss on property, plant and equipment	32	12	-	-	44
Deferred revenue	156	(20)	-	-	136
Valuation loss on inventory	41	(8)	-	-	33
Estimated warranty liabilities	19	(1)	-	-	18
Unrealized foreign exchange loss, net	-	18	-	-	18
Accrued award credits liabilities	28	(6)	-	-	22
Property, plant and equipment	-	-	-	2	2
Others	34	6	-	-	40
	1,797	175	39	2	2,013
Loss carryforwards	29	17	-	2	48
	$ 1,826	$ 192	$ 39	$ 4	$ 2,061

(Continued)

	January 1, 2015	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	From Business Combination	December 31, 2015
	NT$	NT$	NT$ (In Millions)	NT$	NT$
Deferred income tax liabilities					
Temporary differences					
Defined benefit obligation	$ -	$ (1)	$ -	$ -	$ (1)
Land value incremental tax	(95)	-	-	-	(95)
Intangible assets	-	1	-	(44)	(43)
Deferred revenue for award credits	(5)	3	-	-	(2)
Valuation gain or loss on financial instruments, net	(3)	-	(2)	-	(5)
Unrealized foreign exchange gain, net	(29)	28	-	-	(1)
Others	-	(1)	-	-	(1)
	$ (132)	$ 30	$ (2)	$ (44)	$ (148)

(Concluded)

For the year ended December 31, 2016

	January 1, 2016	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	December 31, 2016
	NT$	NT$ (In Millions)	NT$	NT$
Deferred income tax assets				
Temporary differences				
Defined benefit obligation	$ 1,206	$ (179)	$ 347	$ 1,374
Share of profits of associates and joint ventures accounted for using equity method	325	5	-	330
Allowance for doubtful receivables over quota	169	61	-	230
Impairment loss on property, plant and equipment	44	78	-	122
Deferred revenue	136	(19)	-	117

(Continued)

	January 1, 2016	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	December 31, 2016
	NT$	NT$	NT$	NT$
		(In Millions)		
Valuation loss on inventory	$ 33	$ (13)	$ -	$ 20
Estimated warranty liabilities	18	1	-	19
Unrealized foreign exchange loss, net	18	(18)	-	-
Accrued award credits liabilities	22	(2)	-	20
Property, plant and equipment	2	-	-	2
Others	40	(6)	-	34
	2,013	(92)	347	2,268
Loss carryforwards	48	6	-	54
	$ 2,061	$ (86)	$ 347	$ 2,322
Deferred income tax liabilities				
Temporary differences				
Defined benefit obligation	$ (1)	$ (1,268)	$ -	$ (1,269)
Land value incremental tax	(95)	-	-	(95)
Intangible assets	(43)	3	-	(40)
Deferred revenue for award credits	(2)	(44)	-	(46)
Valuation gain or loss on financial instruments, net	(5)	-	2	(3)
Unrealized foreign exchange gain, net	(1)	(9)	-	(10)
Others	(1)	-	-	(1)
	$ (148)	$ (1,318)	$ 2	$ (1,464)

(Concluded)

For the year ended December 31, 2017

	January 1, 2017	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	December 31, 2017
	NT$	NT$	NT$	NT$
		(In Millions)		
Deferred income tax assets				
Temporary differences				
Defined benefit obligation	$ 1,374	$ 5	$ 344	$ 1,723
Share of profits of associates and joint ventures accounted for using equity method	330	1	-	331
Allowance for doubtful receivables over quota	230	59	-	289
Impairment loss on property, plant and equipment	122	(10)	-	112
Deferred revenue	117	(11)	-	106
Valuation loss on inventory	20	3	-	23
Estimated warranty liabilities	19	3	-	22
Unrealized foreign exchange loss, net	-	17	-	17
Accrued award credits liabilities	20	(5)	-	15
Trade-in right	-	15	-	15
Property, plant and equipment	2	-	-	2
Others	34	(5)	-	29
	2,268	72	344	2,684
Loss carryforwards	54	(8)	-	46
	$ 2,322	$ 64	$ 344	$ 2,730
Deferred income tax liabilities				
Temporary differences				
Defined benefit obligation	$ (1,269)	$ 4	$ -	$ (1,265)
Land value incremental tax	(95)	-	-	(95)

(Continued)

	January 1, 2017	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	December 31, 2017
	NT$	NT$	NT$	NT$
		(In Millions)		
Intangible assets	$ (40)	$ 1	$ -	$ (39)
Deferred revenue for award credits	(46)	17	-	(29)
Valuation gain or loss on financial instruments, net	(3)	(1)	3	(1)
Unrealized foreign exchange gain, net	(10)	10	-	-
Others	(1)	-	-	(1)
	$ (1,464)	$ 31	$ 3	$ (1,430)

(Concluded)

e. Items for which no deferred income tax assets have been recognized

	December 31	
	2016	2017
	NT$	NT$
	(In Millions)	
Loss carryforwards		
Expire in 2018	$ 126	$ 126
Expire in 2019	138	138
Expire in 2020	42	42
Expire in 2021	13	9
Expire in 2022	1	11
Expire in 2023	1	-
Expire in 2024	-	-
Expire in 2025	14	13
Expire in 2026	-	-
Expire in 2027	-	2
	$ 335	$ 341
Deductible temporary differences	$ 3	$ 2

f. Information about unused loss carryforwards

As of December 31, 2017, unused loss carryforwards was as follows:

Remaining Creditable Amount NT$ (In Millions)	Expiry Year
$ 126	2018
138	2019
45	2020
20	2021
12	2022
1	2023
4	2024
28	2025
10	2026
3	2027
$ 387	

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

Unappropriated earnings information

Chunghwa's earnings generated prior to June 30, 1988 have been appropriated.

Imputation credit account

	December 31, 2016 NT$ (In Millions)
Balance of Imputation Credit Account ("ICA")	$ 7,691

The creditable ratio for distribution of earnings of 2016 was 20.48%. Effective from January 1, 2015, the creditable ratio for individual stockholders residing in the Republic of China is half of the original creditable ratio according to the revised Article 66-6 of the Income Tax Act of the ROC in June 2014. However, starting from January 1, 2018, the imputation tax system was abolished and imputation credit account is no longer applicable based on amended ROC Income Tax Act announced in February 2018.

h. Income tax examinations

Income tax returns of Chunghwa have been examined by the tax authorities through 2014 (except 2013). Income tax returns of SENAO, HHI, CHSI and CHPT have been examined by the tax authorities through 2015. Income tax returns of CHI, SFD, SHE, CHYP, LED, CHIEF, Unigate, CLPT, ISPOT, Youth, Youyi, Aval and CHST have been examined through 2016, and income tax returns of CEI's 2015 current final reports on total business income to liquidation date and on income earned from liquidation have been examined by the tax authorities.

33. 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		
	2015	2016	2017
	NT$	NT$ (In Millions)	NT$
Net income used to compute the basic earnings per share			
Net income attributable to the parent	$ 42,039	$ 40,485	$ 38,988
Assumed conversion of all dilutive potential common stocks			
Employee stock options, employee bonus and compensation of subsidiaries	(1)	(1)	-
Net income used to compute the diluted earnings per share	$ 42,038	$ 40,484	$ 38,988

Weighted Average Number of Common Stocks

(Millions Shares)

	Year Ended December 31		
	2015	2016	2017
Weighted average number of common stocks used to compute the basic earnings per share	7,757	7,757	7,757
Assumed conversion of all dilutive potential common stocks			
Employee bonus or employee compensation	19	12	11
Weighted average number of common stocks used to compute the diluted earnings per share	7,776	7,769	7,768

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

34. SHARE-BASED PAYMENT ARRANGEMENT

a. SENAO share-based compensation plan (“SENAO Plan”) described as follows:

Effective Date	Grant Date	Stock Options Units (In Thousands)	Exercise Price NT$
2012.05.28	2013.05.07	10,000	$70.70 (Original price $93.00)

Each option is eligible to subscribe for one common share when exercisable. Under the terms of the SENAO Plan, the options are granted at an exercise price equal to the closing price of the SENAO’s common stocks listed on the TWSE on the higher of closing price or par value. The SENAO Plan have exercise price adjustment formula upon the changes in common stocks equity (including cash capital increase, new share issue through capitalization of earnings and additional paid-in capital, merger, spin off and new share issue for Global Depositary Shares, and so on) or distribution of cash dividends. The options of SENAO Plan are valid for six years and the graded vesting schedule for which 50% of option granted will vest two years after the grant date and another two tranches of 25%, each will vest three and four years after the grant date respectively.

The compensation costs of stock options granted on May 7, 2013, were $35 million, $13 million and $4 million for the years ended December 31, 2015, 2016 and 2017, respectively.

SENAO modified the plan terms of the outstanding stock options in August 2015, the exercise price changed from $84.30 to $81.40 per share. The modification did not cause any incremental fair value granted.

SENAO modified the plan terms of the outstanding stock options in July 2016, the exercise price changed from $81.40 to $76.10 per share. The modification did not cause any incremental fair value granted.

SENAO modified the plan terms of the outstanding stock options in July 2017, the exercise price changed from $76.10 to $70.70 per share. The modification did not cause any incremental fair value granted.

Information about SENAO’s outstanding stock options for the years ended December 31, 2015, 2016 and 2017 was as follows:

	Year Ended December 31, 2015	
	Granted on May 7, 2013	
	Number of Options (In Thousands)	Weighted-average Exercise Price NT$
Employee stock options		
Options outstanding at beginning of the year	9,027	$ 84.30
Options exercised	-	-
Options forfeited	(1,240)	-
Options outstanding at end of the year	7,787	81.40
Options exercisable at end of the year	4,049	81.40

	Year Ended December 31, 2016	
	Granted on May 7, 2013	
	Number of Options (In Thousands)	Weighted-average Exercise Price NT$
Employee stock options		
Options outstanding at beginning of the year	7,787	$ 81.40
Options exercised	-	-
Options forfeited	(1,200)	-
Options outstanding at end of the year	6,587	76.10
Options exercisable at end of the year	4,947	76.10

	Year Ended December 31, 2017	
	Granted on May 7, 2013	
	Number of Options (In Thousands)	Weighted-average Exercise Price NT$
Employee stock options		
Options outstanding at beginning of the year	6,587	$ 76.10
Options exercised	-	-
Options forfeited	(661)	-
Options outstanding at end of the year	5,926	70.70
Options exercisable at end of the year	5,926	70.70

As of December 31, 2016 information about employee stock options outstanding was as follows:

Options Outstanding				Options Exercisable	
Range of Exercise Price NT$	Number of Options (In Thousands)	Weighted-average Remaining Contractual Life (Years)	Weighted-average Exercise Price NT$	Number of Options (In Thousands)	Weighted-average Exercise Price NT$
$76.10	6,587	2.35	$76.10	4,947	$ 76.10

As of December 31, 2017 information about employee stock options outstanding was as follows:

Options Outstanding				Options Exercisable	
Range of Exercise Price	Number of Options	Weighted-average Remaining Contractual Life	Weighted-average Exercise Price	Number of Options	Weighted-average Exercise Price
NT$	(In Thousands)	(Years)	NT$	(In Thousands)	NT$
$70.70	5,926	1.35	$70.70	5,926	$ 70.70

SENAO used the fair value method to evaluate the options using the Black-Scholes model and the related assumptions and the fair value of the options were as follows:

	Stock Options Granted on May 7, 2013
Grant-date share price (NT$)	$93.00
Exercise price (NT$)	$93.00
Dividends yield	-
Risk-free interest rate	0.91%
Expected life	4.375 years
Expected volatility	36.22%
Weighted-average fair value of grants (NT$)	$28.72

Expected volatility was based on the historical share price volatility of SENAO over the period equal to the expected life of SENAO Plan.

b. SENAO transferred the treasury stock

The Board of Directors of SENAO resolved to transfer treasury stock to specific employees in May and November 2017. The aforementioned treasury stock transferred to employees were measured at the fair value of the grant date. SENAO totally transfered 3,342 thousand shares of treasury stock and the compensation cost of $9 million was recognized for the year ended December 31, 2017.

SENAO used the fair value method to evaluate share-based payment transaction using the Black-Scholes model and the related assumptions and the fair value of the option were as follows:

	Stock Options Granted on May 23 , 2017	Stock Options Granted on November 17 , 2017
Grant-date share price (NT$)	$53.60	$51.00
Exercise price (NT$)	$49.28	$49.28
Dividends yield	-	-
Risk-free interest rate	0.59%	0.59%
Expected life	9 days	14 days
Expected volatility	12.35%	9.94%
Weighted average fair value of grants (NT$)	$4.33	$1.75

Expected volatility was based on the historical share price volatility of SENAO over three months before the grant date.

c. CHIEF share-based compensation plan ("CHIEF Plan") described as follows:

Effective Date	Grant Date	Stock Options Units	Exercise Price NT$
2015.10.22	2015.10.22	2,000	$34.40 (Original price $43.00)
2017.12.18	2017.12.19	950	147.00

Each option is eligible to subscribe for one thousand common stocks when exercisable. Under the terms of the CHIEF Plan, the options are granted at an exercise price equal to $147.00 and $43.00, respectively. The options are granted to specific employees that meet the vesting conditions. The CHIEF Plan has exercise price adjustment formula upon the changes in common stocks or distribution of cash dividends. The options of CHIEF Plan are valid for five years and the graded vesting schedule will vest two years after the grant date.

The compensation costs recognized for stock options granted on October 22, 2015 were $1 million, $4 million and $3 million for the years ended December 31, 2015, 2016 and 2017, respectively.

The compensation cost recognized for stock options granted on December 19, 2017 was $0.1 million for the year ended December 31, 2017.

CHIEF modified the plan terms of the outstanding stock options in July 2016, the exercise price changed from $43.00 to $34.40 per share. The modification did not cause any incremental fair value granted.

Information about CHIEF's outstanding stock options for the years ended December 31, 2015, 2016 and 2017 was as follows:

	For the year ended December 31			
	2015		2016	
	Granted on October 22, 2015		Granted on October 22, 2015	
	Number of Options	Weighted Average Exercise Price (NT$)	Number of Options	Weighted Average Exercise Price (NT$)
Employee stock options				
Options outstanding at beginning of the year	-	$ -	2,000	$ 43.00
Options granted	2,000	43.00	-	-
Options forfeited	-	-	(52)	-
Options outstanding at end of the year	2,000	43.00	1,948	34.40
Option exercisable at end of the year	-	-	-	-

	For the year ended December 31			
	2017			
	Granted on October 22, 2015		Granted on December 19, 2017	
	Number of Options	Weighted Average Exercise Price (NT$)	Number of Options	Weighted Average Exercise Price (NT$)
Employee stock options				
Options outstanding at beginning of the year	1,948	$ 34.40	-	$ -
Options granted	-	-	950	147.00
Options forfeited	(12)	-	-	-
Options outstanding at end of the year	1,936	34.40	950	147.00
Option exercisable at end of the year	968	34.40	-	-

As of December 31, 2016, information about employee stock options outstanding was as follows:

Granted on October 22, 2015					
Options Outstanding				Options Exercisable	
Range of Exercise Price	Number of Options	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
NT$		(Years)	NT$		NT$
$ 34.40	1,948	3.81	$ 34.40	-	$ -

As of December 31, 2017, information about employee stock options outstanding was as follows:

Granted on October 22, 2015					
Options Outstanding				Options Exercisable	
Range of Exercise Price	Number of Options	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
NT$		(Years)	NT$		NT$
$ 34.40	1,936	2.81	$ 34.40	968	$ 34.40

Granted on December 19, 2017

Options Outstanding				Options Exercisable	
Range of Exercise Price	Number of Options	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
NT$		(Years)	NT$		NT$
$147.00	950	4.96	$147.00	-	$ -

CHIEF used the fair value method to evaluate the options using the Black-Scholes model and binomial option pricing model and the related assumptions and the fair value of the options were as follows:

	Stock Options Granted on October 22, 2015	Stock Options Granted on December 19, 2017
Grant-date share price (NT$)	$39.55	$95.92
Exercise price (NT$)	$43.00	$147.00
Dividends yield	-	-
Risk-free interest rate	0.86%	0.62%
Expected life	5 years	5 years
Expected volatility	21.02%	17.35%
Weighted average fair value of grants (NT$)	$4,863	$2,318

Expected volatility was based on the average annualized historical share price volatility of CHIEF’s comparable companies before the grant date.

d. New shares reserved for subscription by employees under cash injection of CHPT

1) Capital Increase in March 2016

On December 8, 2015, the Board of Directors of CHPT approved the cash injection to issue 2,787 thousand shares and simultaneously reserved 418 thousand shares for subscription by employees according to the Company Act of the ROC. Furthermore, when the employees subscribed some shares or discarded their rights to subscribe shares, the Board of Directors of CHPT authorized the chairman of the Board of Directors to contact specific people or group to subscribe.

The aforementioned options granted to employees are accounted for and measured at fair value. The compensation cost was $0.016 million for the year ended December 31, 2016.

CHPT used the fair value method to evaluate the options granted to employees on March 10, 2016 using the Black-Scholes model and the related assumptions and the fair value of the options were as follows:

	Stock Options Granted on March 10, 2016
Grant-date share price (NT$)	$302.46
Exercise price (NT$)	$360.00
Dividends yield	-
Risk-free interest rate	0.37%
Expected life	12 days
Expected volatility	37.43%
Weighted average fair value of grants (NT$)	$0.04

Expected volatility was based on the average annualized historical share price volatility of CHPT's comparable companies before the grant date.

2) Capital Increase in September 2017

On February 8, 2017, the Board of Directors of CHPT approved the cash injection to issue 2,000 thousand shares and simultaneously reserved 300 thousand shares for subscription by employees according to the Company Act of the ROC. Furthermore, when the employees subscribed some shares or discarded their rights to subscribe shares, the Board of Directors of CHPT authorized the chairman of the Board of Directors to contact specific people or group to subscribe.

The aforementioned options granted to employees are accounted for and measured at fair value. The compensation cost was $6 million for the year ended December 31, 2017.

CHPT used the fair value method to evaluate the options granted to employees on September 18, 2017 using the Black-Scholes model and the related assumptions and the fair value of the options were as follows:

	Stock Options Granted on September 18, 2017
Grant-date share price (NT$)	$1,295.00
Exercise price (NT$)	$1,267.33
Dividends yield	-
Risk-free interest rate	0.35%
Expected life	4 days
Expected volatility	28.30%
Weighted average fair value of grants (NT$)	$31.60

Expected volatility was based on the historical share price volatility of CHPT over the period equal to the expected life.

35. NON-CASH TRANSACTIONS

For the years ended December 31, 2015, 2016 and 2017, the Company entered into the following non-cash investing activities:

	Year Ended December 31		
	2015	2016	2017
	NT$	NT$ (In Millions)	NT$
Increase in property, plant and equipment	$ 24,451	$ 24,591	$ 26,069
Other payables	633	(1,074)	806
	$ 25,084	$ 23,517	$ 26,875

36. OPERATING LEASE ARRANGEMENTS

a. The Company as lessee

Except for the ST-2 satellite referred in Note 40 to the consolidated financial statements, the Company entered into several lease agreements for base stations located all over in Taiwan. The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	December 31	
	2016	2017
	NT$ (In Millions)	NT$
Within one year	$ 2,811	$ 2,918
Longer than one year but within five years	5,450	5,796
Longer than five years	960	779
	$ 9,221	$ 9,493

b. The Company as lessor

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

	December 31	
	2016	2017
	NT$ (In Millions)	NT$
Within one year	$ 427	$ 353
Longer than one year but within five years	600	659
Longer than five years	321	243
	$ 1,348	$ 1,255

37. CAPITAL MANAGEMENT

The Company manages its capital to ensure that entities in 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 of the Company and the equity attributable to the parent.

Some consolidated entities are 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 proceeds from new debt or repayment of debt.

38. FINANCIAL INSTRUMENTS

Categories of Financial Instruments

	December 31	
	2016	**2017**
	NT$	**NT$**
	(In Millions)	
Financial assets		
Measured at FVTPL		
Held for trading	$ -	$ -
Held-to-maturity financial assets	2,140	-
Loans and receivables (Note a)	70,040	68,983
Available-for-sale financial assets	4,764	5,751
Financial liabilities		
Measured at FVTPL		
Held for trading	1	1
Hedging derivative financial liabilities	1	1
Measured at amortized cost (Note b)	40,553	39,725

Note a: The balances included cash and cash equivalents, trade notes and accounts receivable, receivables from related parties, other current monetary assets, other financial assets and refundable deposits (classified as other noncurrent assets) which were loans and receivables. Please refer to Notes 7, 11, 14, 20 and 40.

Note b: The balances included short-term loans, trade notes and accounts payable, payables to related parties, partial other payables, customers' deposits and long-term loans which were financial liabilities carried at amortized cost. Please refer to Notes 22, 23, 24, 25 and 40.

Financial Risk Management Objectives

The main financial instruments of the Company include equity and debt investments, accounts receivable, accounts payable and loans. 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.

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

a. Market risk

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

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

1) Foreign currency risk

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

	December 31	
	2016	2017
	NT$	NT$
	(In Millions)	
Assets		
USD	$ 5,327	$ 5,584
EUR	14	28
SGD	106	63
RMB	30	3
JPY	13	36
Liabilities		
USD	4,238	4,964
EUR	968	1,323
SGD	1	96
RMB	-	-
JPY	10	12

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

	December 31	
	2016	2017
	NT$	NT$
	(In Millions)	
Assets		
USD	$ -	$ -
Liabilities		
USD	-	-
EUR	2	1

Foreign currency sensitivity analysis

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

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

	Year Ended December 31		
	2015	2016	2017
	NT$	NT$	NT$
		(In Millions)	
Profit or loss			
Monetary assets and liabilities (a)			
USD	$ 21	$ 54	$ 31
EUR	(62)	(48)	(65)
SGD	5	5	(2)
RMB	2	1	-
JPY	12	-	1
Derivatives (b)			
USD	1	3	6
EUR	33	8	3
Equity			
Derivatives (c)			
EUR	15	5	7

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

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

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

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

2) Interest rate risk

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

	December 31	
	2016	**2017**
	NT$	**NT$**
	(In Millions)	
Fair value interest rate risk		
Financial assets	$ 28,303	$ 25,911
Cash flow interest rate risk		
Financial assets	6,582	6,715
Financial liabilities	1,738	1,670

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 $12 million, $12 million and $13 million for the years ended December 31, 2015, 2016 and 2017, respectively. This is mainly attributable to the Company's exposure to floating interest rates on its financial assets and short-term and long-term loan.

3) Other price risk

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

Equity price sensitivity analysis

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

If equity prices of listed equity securities had been 5% higher/lower, other comprehensive income would have increased/decreased by $162 million, $126 million and $156 million as a result of the changes in fair value of available-for-sale assets for the years ended December 31, 2015, 2016 and 2017, 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 consolidated 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 Year	Total
		NT$	NT$	NT$	NT$	NT$	NT$
				(In Millions)			
December 31, 2016							
Non-derivative financial liabilities							
Non-interest bearing	-	$ 43,975	$ -	$ 2,015	$ 4,610	$ -	$ 50,600
Floating interest rate instruments	1.00	-	38	100	1,600	-	1,738
		$ 43,975	$ 38	$ 2,115	$ 6,210	$ -	$ 52,338
December 31, 2017							
Non-derivative financial liabilities							
Non-interest bearing	-	$ 41,884	$ -	$ 3,197	$ 4,671	$ -	$ 49,752
Floating interest rate instruments	0.97	50	-	20	1,600	-	1,670
		$ 41,934	$ -	$ 3,217	$ 6,271	$ -	$ 51,422

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
	NT$	NT$	NT$	NT$	NT$
			(In Millions)		
December 31, 2016					
Gross settled					
Forward exchange contracts					
Inflows	$ 55	$ 267	$ -	$ -	$ 322
Outflows	55	269	-	-	324
	$ -	$ (2)	$ -	$ -	$ (2)

(Continued)

	Less Than 1 Month	1-3 Months	3 Months to 1 Year	1-5 Years	Total
	NT$	NT$	NT$ (In Millions)	NT$	NT$
December 31, 2017					
Gross settled					
Forward exchange contracts					
Inflows	$ 125	$ 173	$ 36	$ -	$ 334
Outflows	126	174	36	-	336
	$ (1)	$ (1)	$ -	$ -	$ (2)

(Concluded)

2) Financing facilities

	December 31	
	2016	2017
	NT$	NT$
	(In Millions)	
Unsecured bank loan facility		
Amount used	$ 118	$ 90
Amount unused	46,219	45,749
	$ 46,337	$ 45,839
Secured bank loan facility		
Amount used	$ 1,620	$ 1,600
Amount unused	200	1,910
	$ 1,820	$ 3,510

39. FAIR VALUE INFORMATION

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

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

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

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

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

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

December 31, 2016

	Carrying Amount	Fair Value		
		Level 1	Level 2	Level 3
Held-to-maturity financial assets				
Corporate bonds	$ 1,990	$ -	$ 1,996	$ -
Bank debentures	150	-	150	-
	$ 2,140	$ -	$ 2,146	$ -

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

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

December 31, 2016

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Derivative	$ -	$ -	$ -	$ -
Available-for-sale financial assets				
Listed securities				
Equity investments	$ 2,521	$ -	$ -	$ 2,521
Financial liabilities at FVTPL				
Derivative	$ -	$ 1	$ -	$ 1
Hedging derivative financial liabilities	$ -	$ 1	$ -	$ 1

December 31, 2017

	Level 1	Level 2	Level 3	Total
Available-for-sale financial assets				
Listed securities				
Equity investments	$ 3,125	$ -	$ -	$ 3,125
Financial liabilities at FVTPL				
Derivative	$ -	$ 1	$ -	$ 1
Hedging derivative financial liabilities	$ -	$ 1	$ -	$ 1

There were no transfers between Levels 1 and 2 for the years ended December 31, 2016 and 2017. There were no Level 3 investments measured at fair value on a recurring basis.

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

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

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

40. RELATED PARTIES TRANSACTIONS

The ROC Government, one of Chunghwa's customers has significant equity interest in Chunghwa. Chunghwa provides fixed-line services, wireless services, internet and data and other services to the various departments and institutions of the ROC Government in the normal course of business and at arm's-length prices. The transactions with the ROC government bodies have not been provided 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
Taiwan International Standard Electronics Co., Ltd.	Associate
So-net Entertainment Taiwan Limited	Associate
Skysoft Co., Ltd.	Associate
KingwayTek Technology Co., Ltd.	Associate
Dian Zuan Integrating Marketing Co., Ltd.	Associate
Taiwan International Ports Logistics Corporation	Associate
Huada Digital Corporation	Joint venture
Chunghwa Benefit One Co., Ltd.	Joint venture
International Integrated System, Inc.	Associate
Senao Networks, Inc.	Associate
EnGenius Tech. Co., Ltd.	Associate
HopeTech Technologies Limited	Associate
ST-2 Satellite Ventures Pte., Ltd.	Associate
Viettel-CHT Co., Ltd.	Associate
Click Force Co., Ltd.	Associate
Other related parties	
Chunghwa Telecom Foundation	A nonprofit organization of which the funds donated by Chunghwa exceeds one third of its total funds
Senao Technical and Cultural Foundation	A nonprofit organization of which the funds donated by SENAO exceeds one third of its total funds
Sochamp Technology Co., Ltd.	Investor of significant influence over CHST
E-Life Mall Co., Ltd.	One of the directors of E-Life Mall and a director of SENAO are members of an immediate family

(Continued)

Company	Relationship
Engenius Technologies Co., Ltd.	Chairman of Engenius Technologies Co., Ltd. is a member of SENAO's management
United Daily News Co., Ltd.	Investor of significant influence over SFD
Shenzhen Century Communication Co., Ltd.	Investor of significant influence over SCT
	(Concluded)

b. Balances and transactions between Chunghwa and its subsidiaries, which are related parties of Chunghwa, have been eliminated on consolidation and are not disclosed in this note. 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		
	2015	2016	2017
	NT$	NT$ (In Millions)	NT$
Associates	$ 333	$ 292	$ 344
Joint ventures	9	7	1
Others	81	49	65
	$ 423	$ 348	$ 410

	Operating Costs and Expenses		
	Year Ended December 31		
	2015	2016	2017
	NT$	NT$ (In Millions)	NT$
Associates	$ 1,451	$ 1,405	$ 1,197
Joint ventures	17	17	2
Others	62	74	71
	$ 1,530	$ 1,496	$ 1,270

2) Non-operating transactions

	Non-operating Income and Expenses		
	Year Ended December 31		
	2015	2016	2017
	NT$	NT$ (In Millions)	NT$
Associates	$ 36	$ 37	$ 32
Others	-	-	-
	$ 36	$ 37	$ 32

3) Receivables

	December 31	
	2016	2017
	NT$	NT$
	(In Millions)	
Associates	$ 9	$ 43
Joint ventures	-	-
Others	5	6
	$ 14	$ 49

4) Payables

	December 31	
	2016	2017
	NT$	NT$
	(In Millions)	
Associates	$ 757	$ 680
Joint ventures	1	-
Others	4	4
	$ 762	$ 684

5) Customers' deposits

	December 31	
	2016	2017
	NT$	NT$
	(In Millions)	
Associates	$ 10	$ 6
Joint ventures	1	-
	$ 11	$ 6

6) Acquisition of property, plant and equipment

	Year Ended December 31		
	2015	2016	2017
	NT$	NT$	NT$
		(In Millions)	
Associates	$ 314	$ 313	$ 390
Joint ventures	11	7	-
	$ 325	$ 320	$ 390

7) Prepayments

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 is for 15 years which should start from the official operation of ST-2 satellite and the total contract value is approximately $6,000 million (SG$261 million), including a prepayment of $3,068 million, and the rest of amount should be paid annually when ST-2 satellite starts its official operation. ST-2 satellite was launched in May 2011, and began its official operation in August 2011. The total rental expense for the year ended December 31, 2015 was $404 million, which consisted of an offsetting credit of the prepayment of $204 million and an additional accrual of $200 million. The total rental expense for the year ended December 31, 2016 was $394 million, which consisted of an offsetting credit of the prepayment of $204 million and an additional accrual of $190 million. The total rental expense for the year ended December 31, 2017 was $392 million, which consisted of an offsetting credit of the prepayment of $204 million and an additional accrual of $188 million. The prepaid rents (classified as prepayments) as of December 31, 2016 and 2017, were as follows:

	December 31	
	2016	2017
	NT$	NT$
	(In Millions)	
Prepaid rents - current	$ 204	$ 204
Prepaid rents - noncurrent	1,755	1,551
	$ 1,959	$ 1,755

c. Compensation of key management personnel

The compensation of directors and other key management personnel for the years ended December 31, 2015, 2016 and 2017 were as follows:

	Year Ended December 31		
	2015	2016	2017
	NT$	NT$	NT$
		(In Millions)	
Short-term employee benefits	$ 212	$ 251	$ 254
Post-employment benefits	9	8	9
Share-based payment	3	2	2
	$ 224	$ 261	$ 265

The compensation of directors and other key management personnel was mainly determined by the compensation committee having regard to the performance of individual and market trends.

41. PLEDGED ASSETS

The following assets are pledged as collaterals for bank loans and custom duties of the imported materials.

	December 31	
	2016	2017
	NT$	NT$
	(In Millions)	
Property, plant and equipment	$ 2,580	$ 2,550
Land held under development (included in inventories)	1,999	1,999
Restricted assets (included in other assets - others)	21	3
	$ 4,600	$ 4,552

42. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED COMMITMENTS

The Company's significant contingent liabilities and recognized commitments, excluding those disclosed in other notes, were as follows:

a. Acquisitions of land and buildings of $118 million as of December 31, 2017.

b. Acquisitions of telecommunications equipment of $16,199 million as of December 31, 2017.

c. Unused letters of credit amounting to $50 million as of December 31, 2017.

d. A commitment to contribute $2,000 million to a Piping Fund administered by the Taipei City Government, of which $1,000 million was contributed by Chunghwa on August 15, 1996 (classified as other monetary assets - noncurrent). If the fund is not sufficient, Chunghwa will contribute the remaining $1,000 million upon notification from the Taipei City Government.

e. CHPT signed the contract for its headquarters construction amounted to $1,614 million in July 2017. The payment of $98 million has been made as of March 31, 2018.

43. SEGMENT INFORMATION

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

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

a. Segment revenues and operating results

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

	Domestic Fixed Communi-cations Business NT$	Mobile Communi-cations Business NT$	Internet Business NT$	International Fixed Communi-cations Business NT$	Others NT$	Total NT$
			(In Millions)			
Year ended December 31, 2015						
Revenues						
From external customers	$ 72,535	$ 114,877	$ 25,777	$ 15,460	$ 3,146	$ 231,795
Intersegment revenues	21,401	3,475	4,701	2,120	3,214	34,911
Segment revenues	$ 93,936	$ 118,352	$ 30,478	$ 17,580	$ 6,360	266,706
Intersegment elimination						(34,911)
Consolidated revenues						$ 231,795
Segment income before income tax	$ 23,231	$ 19,394	$ 9,918	$ 1,120	$ (1,710)	$ 51,953
Year ended December 31, 2016						
Revenues						
From external customers	$ 72,784	$ 110,801	$ 28,100	$ 14,434	$ 3,872	$ 229,991
Intersegment revenues	22,669	2,530	4,734	2,680	4,122	36,735
Segment revenues	$ 95,453	$ 113,331	$ 32,834	$ 17,114	$ 7,994	266,726
Intersegment elimination						(36,735)
Consolidated revenues						$ 229,991
Segment income before income tax	$ 25,658	$ 13,926	$ 10,729	$ 1,098	$ (1,998)	$ 49,413
Year ended December 31, 2017						
Revenues						
From external customers	$ 71,137	$ 109,376	$ 28,917	$ 13,552	$ 4,532	$ 227,514
Intersegment revenues	22,515	2,031	4,209	2,375	4,600	35,730
Segment revenues	$ 93,652	$ 111,407	$ 33,126	$ 15,927	$ 9,132	263,244
Intersegment elimination						(35,730)
Consolidated revenues						$ 227,514
Segment income before income tax	$ 24,888	$ 12,433	$ 11,118	$ 1,029	$ (1,459)	$ 48,009

b. Other segment information

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

For the year ended December 31, 2015

	Domestic Fixed Communi-cations Business	Mobile Communi-cations Business	Internet Business	International Fixed Communi-cations Business	Others	Total
	NT$	NT$	NT$	NT$	NT$	NT$
				(In Millions)		
Share of the profit of associates and joint ventures accounted for using equity method	$ -	$ -	$ -	$ -	$ 897	$ 897
Interest income	$ 19	$ 19	$ 11	$ 2	$ 255	$ 306
Interest expenses	$ -	$ 10	$ -	$ -	$ 23	$ 33
Operating costs and expenses	$ 64,960	$ 81,213	$ 12,062	$ 14,411	$ 8,683	$ 181,329
Depreciation and amortization	$ 17,487	$ 10,444	$ 3,611	$ 1,536	$ 370	$ 33,448
Capital expenditure	$ 10,196	$ 8,596	$ 4,795	$ 968	$ 529	$ 25,084
Impairment loss on property, plant and equipment	$ 22	$ 116	$ -	$ -	$ -	$ 138
Reversal of impairment loss on investment properties	$ 142	$ -	$ -	$ -	$ -	$ 142

For the year ended December 31, 2016

	Domestic Fixed Communi-cations Business	Mobile Communi-cations Business	Internet Business	International Fixed Communi-cations Business	Others	Total
	NT$	NT$	NT$	NT$	NT$	NT$
				(In Millions)		
Share of the profit of associates and joint ventures accounted for using equity method	$ -	$ -	$ -	$ -	$ 515	$ 515
Interest income	$ 15	$ 11	$ 7	$ 6	$ 150	$ 189
Interest expenses	$ -	$ 2	$ -	$ -	$ 18	$ 20
Operating costs and expenses	$ 64,230	$ 79,593	$ 13,160	$ 14,313	$ 10,094	$ 181,390
Depreciation and amortization	$ 16,414	$ 10,620	$ 3,626	$ 1,451	$ 374	$ 32,485
Capital expenditure	$ 9,846	$ 8,981	$ 2,718	$ 1,136	$ 836	$ 23,517
Impairment loss on property, plant and equipment	$ -	$ 596	$ -	$ -	$ -	$ 596
Reversal of impairment loss on investment properties	$ 148	$ -	$ -	$ -	$ -	$ 148

For the year ended December 31, 2017

	Domestic Fixed Communi-cations Business	Mobile Communi-cations Business	Internet Business	International Fixed Communi-cations Business	Others	Total
	NT$	NT$	NT$	NT$	NT$	NT$
				(In Millions)		
Share of the profit of associates and joint ventures accounted for using equity method	$ -	$ -	$ -	$ -	$ 419	$ 419
Interest income	$ 21	$ 15	$ 9	$ 15	$ 145	$ 205
Interest expenses	$ -	$ 6	$ -	$ -	$ 16	$ 22
Operating costs and expenses	$ 62,795	$ 80,275	$ 13,288	$ 13,385	$ 10,963	$ 180,706
Depreciation and amortization	$ 15,614	$ 11,001	$ 3,385	$ 1,477	$ 453	$ 31,930
Capital expenditure	$ 11,647	$ 9,742	$ 2,779	$ 1,580	$ 1,127	$ 26,875
Impairment loss on property, plant and equipment	$ -	$ -	$ -	$ -	$ -	$ -
Reversal of impairment loss on investment properties	$ 11	$ -	$ -	$ -	$ -	$ 11

c. Main products and service revenues

The following is an analysis of the Company's revenue from its major products and services.

	Year Ended December 31		
	2015	2016	2017
	NT$	NT$ (In Millions)	NT$
Mobile services revenue	$ 80,867	$ 78,788	$ 75,823
Local telephone and domestic long distance telephone services revenue	36,690	34,531	32,247
Sales of product	36,509	35,377	37,649
Broadband access and domestic leased line services revenue	23,711	23,315	22,950
Data communications internet services revenue	17,455	20,906	21,143
International network and leased telephone services revenue	11,319	10,634	9,328
Others	25,244	26,440	28,374
	$ 231,795	$ 229,991	$ 227,514

d. 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		
	2015	2016	2017
	NT$	NT$ (In Millions)	NT$
Taiwan, ROC	$ 220,917	$ 218,933	$ 217,568
Overseas	10,878	11,058	9,946
	$ 231,795	$ 229,991	$ 227,514

The Company has long-lived assets in U.S., Singapore, Hong Kong, China, Vietnam, Japan, and Thailand and except for $3,947 million and $4,445 million as of December 31, 2016 and 2017, respectively, in the aforementioned areas, the other long-lived assets are located in Taiwan, ROC.

e. Major customers

For the years ended December 31, 2015, 2016 and 2017, the Company did not have any single customer whose revenue exceeded 10% of the total revenues.