

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

**Consolidated Financial Statements for the  
Three Months Ended March 31, 2018 and 2017**

**CHUNGHWA TELECOM CO., LTD. AND SUBSIDIARIES**

**CONSOLIDATED BALANCE SHEETS**  
(In Millions of New Taiwan Dollars)

| ASSETS  | March 31, 2018<br>(Unaudited) |            | December 31, 2017<br>(Audited) |            | March 31, 2017<br>(Unaudited) |            | LIABILITIES AND EQUITY                                     | March 31, 2018<br>(Unaudited) |            | December 31, 2017<br>(Audited) |            | March 31, 2017<br>(Unaudited) |            |
|---|-------------------------------|------------|--------------------------------|------------|-------------------------------|------------|--|-------------------------------|------------|--------------------------------|------------|-------------------------------|------------|
|   | Amount                        | %          | Amount                         | %          | Amount                        | %          |  | Amount                        | %          | Amount                         | %          | Amount                        | %          |
| <b>CURRENT ASSETS</b>   |                               |            |                                |            |                               |            | <b>CURRENT LIABILITIES</b>                                 |                               |            |                                |            |                               |            |
| Cash and cash equivalents   | \$ 31,529                     | 7          | \$ 28,825                      | 7          | \$ 38,006                     | 9          | Short-term loans   | \$ 170                        | -          | \$ 70                          | -          | \$ 439                        | -          |
| Financial assets at fair value through profit or loss             | -                             | -          | -                              | -          | -                             | -          | Financial liabilities at fair value through profit or loss | 1                             | -          | 1                              | -          | 4                             | -          |
| Hedging derivative financial assets                               | -                             | -          | -                              | -          | -                             | -          | Hedging derivative financial liabilities                   | -                             | -          | 1                              | -          | 1                             | -          |
| Held-to-maturity financial assets                                 | -                             | -          | -                              | -          | 1,290                         | -          | Contract liabilities                                       | 8,654                         | 2          | -                              | -          | -                             | -          |
| Contract assets   | 6,259                         | 1          | -                              | -          | -                             | -          | Trade notes and accounts payable                           | 14,695                        | 3          | 19,396                         | 4          | 12,881                        | 3          |
| Trade notes and accounts receivable, net                          | 29,999                        | 7          | 31,941                         | 7          | 28,187                        | 6          | Payables to related parties                                | 415                           | -          | 684                            | -          | 398                           | -          |
| Receivables from related parties                                  | 29                            | -          | 49                             | -          | 31                            | -          | Current tax liabilities                                    | 13,124                        | 3          | 8,674                          | 2          | 9,439                         | 2          |
| Inventories   | 11,080                        | 2          | 8,840                          | 2          | 8,369                         | 2          | Other payables   | 21,576                        | 5          | 25,001                         | 6          | 21,885                        | 5          |
| Prepayments   | 5,535                         | 1          | 2,188                          | -          | 5,209                         | 1          | Provisions   | 100                           | -          | 189                            | -          | 123                           | -          |
| Other current monetary assets                                     | 5,394                         | 1          | 5,308                          | 1          | 4,710                         | 1          | Advance receipts   | -                             | -          | 8,842                          | 2          | 9,253                         | 2          |
| Other current assets  | 2,246                         | -          | 2,183                          | -          | 1,825                         | -          | Other current liabilities                                  | 1,300                         | -          | 1,081                          | -          | 1,233                         | -          |
| Total current assets  | 92,071                        | 19         | 79,334                         | 17         | 87,627                        | 19         | Total current liabilities                                  | 60,035                        | 13         | 63,939                         | 14         | 55,656                        | 12         |
| <b>NONCURRENT ASSETS</b>  |                               |            |                                |            |                               |            | <b>NONCURRENT LIABILITIES</b>                              |                               |            |                                |            |                               |            |
| Financial assets at fair value through other comprehensive income | 7,305                         | 2          | -                              | -          | -                             | -          | Contract liabilities                                       | 2,384                         | 1          | -                              | -          | -                             | -          |
| Available-for-sale financial assets                               | -                             | -          | 5,751                          | 1          | 5,088                         | 1          | Long-term loans  | 1,600                         | -          | 1,600                          | -          | 1,600                         | -          |
| Investments accounted for using equity method                     | 2,381                         | -          | 2,326                          | 1          | 2,470                         | 1          | Deferred income taxes liabilities                          | 2,065                         | -          | 1,430                          | -          | 1,498                         | -          |
| Contract assets   | 3,588                         | 1          | -                              | -          | -                             | -          | Provisions   | 79                            | -          | 78                             | -          | 67                            | -          |
| Property, plant and equipment                                     | 284,977                       | 61         | 288,708                        | 64         | 285,915                       | 64         | Customers' deposits  | 4,560                         | 1          | 4,671                          | 1          | 4,539                         | 1          |
| Investment properties   | 8,048                         | 2          | 8,048                          | 2          | 8,109                         | 2          | Net defined benefit liabilities                            | 2,002                         | -          | 2,704                          | 1          | 1,546                         | -          |
| Intangible assets   | 53,833                        | 12         | 54,883                         | 12         | 46,498                        | 10         | Deferred revenue   | -                             | -          | 3,612                          | 1          | 3,605                         | 1          |
| Deferred income tax assets  | 3,250                         | 1          | 2,730                          | 1          | 2,343                         | 1          | Other noncurrent liabilities                               | 4,537                         | 1          | 3,458                          | 1          | 3,790                         | 1          |
| Incremental costs of obtaining contracts                          | 2,283                         | -          | -                              | -          | -                             | -          | Total noncurrent liabilities                               | 17,227                        | 3          | 17,553                         | 4          | 16,645                        | 3          |
| Net defined benefit assets  | 1,289                         | -          | 13                             | -          | 1,171                         | -          | Total liabilities  | 77,262                        | 16         | 81,492                         | 18         | 72,301                        | 15         |
| Prepayments   | 3,412                         | 1          | 3,573                          | 1          | 3,910                         | 1          | <b>EQUITY ATTRIBUTABLE TO STOCKHOLDERS OF THE PARENT</b>   |                               |            |                                |            |                               |            |
| Other noncurrent assets   | 5,434                         | 1          | 5,536                          | 1          | 5,055                         | 1          | Common stocks  | 77,574                        | 17         | 77,574                         | 17         | 77,574                        | 17         |
| Total noncurrent assets   | 375,800                       | 81         | 371,568                        | 83         | 360,559                       | 81         | Additional paid-in capital                                 | 148,103                       | 32         | 148,091                        | 33         | 147,180                       | 33         |
|   |                               |            |                                |            |                               |            | Retained earnings  |                               |            |                                |            |                               |            |
|   |                               |            |                                |            |                               |            | Legal reserve  | 77,574                        | 17         | 77,574                         | 17         | 77,574                        | 17         |
|   |                               |            |                                |            |                               |            | Special reserve  | 2,681                         | -          | 2,681                          | 1          | 2,676                         | 1          |
|   |                               |            |                                |            |                               |            | Unappropriated earnings                                    | 75,499                        | 16         | 54,633                         | 12         | 64,284                        | 15         |
|   |                               |            |                                |            |                               |            | Total retained earnings                                    | 155,754                       | 33         | 134,888                        | 30         | 144,534                       | 33         |
|   |                               |            |                                |            |                               |            | Other adjustments  | 417                           | -          | 383                            | -          | 133                           | -          |
|   |                               |            |                                |            |                               |            | Total equity attributable to stockholders of the parent    | 381,848                       | 82         | 360,936                        | 80         | 369,421                       | 83         |
|   |                               |            |                                |            |                               |            | <b>NONCONTROLLING INTERESTS</b>                            | 8,761                         | 2          | 8,474                          | 2          | 6,464                         | 2          |
|   |                               |            |                                |            |                               |            | Total equity   | 390,609                       | 84         | 369,410                        | 82         | 375,885                       | 85         |
| <b>TOTAL</b>  | <b>\$ 467,871</b>             | <b>100</b> | <b>\$ 450,902</b>              | <b>100</b> | <b>\$ 448,186</b>             | <b>100</b> | <b>TOTAL</b>   | <b>\$ 467,871</b>             | <b>100</b> | <b>\$ 450,902</b>              | <b>100</b> | <b>\$ 448,186</b>             | <b>100</b> |

# CHUNGHWA TELECOM CO., LTD. AND SUBSIDIARIES

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

|   | Three Months Ended March 31 |           |               |           |
|---|-----------------------------|-----------|---------------|-----------|
|   | 2018                        |           | 2017          |           |
|   | Amount                      | %         | Amount        | %         |
| REVENUES  | \$ 53,632                   | 100       | \$ 54,533     | 100       |
| OPERATING COSTS   | <u>34,450</u>               | <u>64</u> | <u>34,621</u> | <u>63</u> |
| GROSS PROFIT  | <u>19,182</u>               | <u>36</u> | <u>19,912</u> | <u>37</u> |
| OPERATING EXPENSES  |                             |           |               |           |
| Marketing   | 5,653                       | 10        | 6,282         | 12        |
| General and administrative  | 1,191                       | 2         | 1,164         | 2         |
| Research and development  | 925                         | 2         | 921           | 1         |
| Expected credit loss  | <u>398</u>                  | <u>1</u>  | <u>-</u>      | <u>-</u>  |
| Total operating expenses  | <u>8,167</u>                | <u>15</u> | <u>8,367</u>  | <u>15</u> |
| OTHER INCOME AND EXPENSES   | <u>(72)</u>                 | <u>-</u>  | <u>(12)</u>   | <u>-</u>  |
| INCOME FROM OPERATIONS  | <u>10,943</u>               | <u>21</u> | <u>11,533</u> | <u>22</u> |
| NON-OPERATING INCOME AND EXPENSES   |                             |           |               |           |
| Interest income   | 39                          | -         | 44            | -         |
| Other income  | 56                          | -         | 60            | -         |
| Other gains and losses  | (33)                        | -         | 44            | -         |
| Interest expenses   | (4)                         | -         | (6)           | -         |
| Share of the profits of associates and joint ventures accounted for using equity method                                     | <u>80</u>                   | <u>-</u>  | <u>118</u>    | <u>-</u>  |
| Total non-operating income and expenses   | <u>138</u>                  | <u>-</u>  | <u>260</u>    | <u>-</u>  |
| INCOME BEFORE INCOME TAX  | 11,081                      | 21        | 11,793        | 22        |
| INCOME TAX EXPENSE  | <u>2,558</u>                | <u>5</u>  | <u>2,939</u>  | <u>6</u>  |
| NET INCOME  | <u>8,523</u>                | <u>16</u> | <u>8,854</u>  | <u>16</u> |
| TOTAL OTHER COMPREHENSIVE INCOME (LOSS)   |                             |           |               |           |
| Items that will not be reclassified to profit or loss:  |                             |           |               |           |
| Unrealized gain or loss on investments in equity instruments designated as at fair value through other comprehensive income | (234)                       | -         | -             | -         |
| Gain on hedging instruments subject to basis adjustment   | 1                           | -         | -             | -         |

(Continued)

# CHUNGHWA TELECOM CO., LTD. AND SUBSIDIARIES

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

|   | Three Months Ended March 31 |           |                 |           |
|---|-----------------------------|-----------|-----------------|-----------|
|   | 2018                        |           | 2017            |           |
|   | Amount                      | %         | Amount          | %         |
| Income tax benefit relating to items that will not be reclassified to profit or loss                                  | \$ 207                      | -         | \$ -            | -         |
|   | <u>(26)</u>                 | -         | <u>-</u>        | -         |
| Items that may be reclassified subsequently to profit or loss:  |                             |           |                 |           |
| Exchange differences arising from the translation of the foreign operations   | (52)                        | -         | (214)           | -         |
| Unrealized gain or loss on available-for-sale financial assets  | -                           | -         | 327             | -         |
| Cash flow hedges  | -                           | -         | (1)             | -         |
| Share of exchange differences arising from the translation of the foreign operations of associates and joint ventures | 1                           | -         | (3)             | -         |
| Income tax benefit relating to items that may be reclassified subsequently to profit or loss                          | <u>-</u>                    | -         | <u>1</u>        | -         |
|   | <u>(51)</u>                 | -         | <u>110</u>      | -         |
| Total other comprehensive income (loss), net of income tax  | <u>(77)</u>                 | -         | <u>110</u>      | -         |
| <b>TOTAL COMPREHENSIVE INCOME</b>   | <u>\$ 8,446</u>             | <u>16</u> | <u>\$ 8,964</u> | <u>16</u> |
| <b>NET INCOME ATTRIBUTABLE TO</b>   |                             |           |                 |           |
| Stockholders of the parent  | \$ 8,267                    | 15        | \$ 8,627        | 16        |
| Noncontrolling interests  | <u>256</u>                  | <u>1</u>  | <u>227</u>      | -         |
|   | <u>\$ 8,523</u>             | <u>16</u> | <u>\$ 8,854</u> | <u>16</u> |
| <b>COMPREHENSIVE INCOME ATTRIBUTABLE TO</b>   |                             |           |                 |           |
| <b>TO</b>   |                             |           |                 |           |
| Stockholders of the parent  | \$ 8,182                    | 15        | \$ 8,765        | 16        |
| Noncontrolling interests  | <u>264</u>                  | <u>1</u>  | <u>199</u>      | -         |
|   | <u>\$ 8,446</u>             | <u>16</u> | <u>\$ 8,964</u> | <u>16</u> |
| <b>EARNINGS PER SHARE</b>   |                             |           |                 |           |
| Basic   | <u>\$1.07</u>               |           | <u>\$1.11</u>   |           |
| Diluted   | <u>\$1.07</u>               |           | <u>\$1.11</u>   |           |

(Concluded)

**CHUNGHWA TELECOM CO., LTD. AND SUBSIDIARIES**

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

|   | Equity Attributable to Stockholders of the Parent |                            |                   |                 |                         |                         | Other Adjustments   |  |  |                  |                             |                         | Total Equity Attributable to Stockholders of the Parent | Noncontrolling Interests | Total Equity      |
|---|---|----------------------------|-------------------|-----------------|-------------------------|-------------------------|---|--|--|------------------|-----------------------------|-------------------------|---|--------------------------|-------------------|
|   | Common Stocks                                     | Additional Paid-in Capital | Retained Earnings |                 |                         | Total Retained Earnings | Exchange Differences Arising from the Translation of the Foreign Operations | Unrealized Gain or Loss on Available-for-sale Financial Assets | Unrealized Gain or Loss on Financial Assets at FVOCI | Cash Flow Hedges | Gain on Hedging Instruments | Total Other Adjustments |   |                          |                   |
|   |   |                            | Legal Reserve     | Special Reserve | Unappropriated Earnings |                         |   |  |  |                  |                             |                         |   |                          |                   |
| BALANCE, JANUARY 1, 2017  | \$ 77,574   | \$ 147,180                 | \$ 77,574         | \$ 2,676        | \$ 55,657               | \$ 135,907              | \$ 46   | \$ (51)  | \$ -   | \$ -             | \$ -                        | \$ (5)                  | \$ 360,656  | \$ 6,272                 | \$ 366,928        |
| Cash dividends distributed by subsidiaries                                  | -   | -                          | -                 | -               | -                       | -                       | -   | -  | -  | -                | -                           | -                       | -   | (11)                     | (11)              |
| Net income for the three months ended March 31, 2017                        | -   | -                          | -                 | -               | 8,627                   | 8,627                   | -   | -  | -  | -                | -                           | -                       | 8,627   | 227                      | 8,854             |
| Other comprehensive income (loss) for the three months ended March 31, 2017 | -   | -                          | -                 | -               | -                       | -                       | (189)   | 328  | -  | (1)              | -                           | 138                     | 138   | (28)                     | 110               |
| Total comprehensive income (loss) for the three months ended March 31, 2017 | -   | -                          | -                 | -               | 8,627                   | 8,627                   | (189)   | 328  | -  | (1)              | -                           | 138                     | 8,765   | 199                      | 8,964             |
| Share-based payment transactions of subsidiaries                            | -   | -                          | -                 | -               | -                       | -                       | -   | -  | -  | -                | -                           | -                       | -   | 4                        | 4                 |
| BALANCE, MARCH 31, 2017   | <u>\$ 77,574</u>                                  | <u>\$ 147,180</u>          | <u>\$ 77,574</u>  | <u>\$ 2,676</u> | <u>\$ 64,284</u>        | <u>\$ 144,534</u>       | <u>\$ (143)</u>   | <u>\$ 277</u>  | <u>\$ -</u>  | <u>\$ (1)</u>    | <u>\$ -</u>                 | <u>\$ 133</u>           | <u>\$ 369,421</u>                                       | <u>\$ 6,464</u>          | <u>\$ 375,885</u> |
| BALANCE, JANUARY 1, 2018  | \$ 77,574   | \$ 148,091                 | \$ 77,574         | \$ 2,681        | \$ 54,633               | \$ 134,888              | \$ (174)  | \$ 558   | \$ -   | \$ (1)           | \$ -                        | \$ 383                  | \$ 360,936  | \$ 8,474                 | \$ 369,410        |
| Effect of retrospective application (Note 2)                                | -   | -                          | -                 | -               | 12,393                  | 12,393                  | -   | (558)  | 883  | 1                | (1)                         | 325                     | 12,718  | (4)                      | 12,714            |
| BALANCE, JANUARY 1, 2018 AS ADJUSTED  | 77,574  | 148,091                    | 77,574            | 2,681           | 67,026                  | 147,281                 | (174)   | -  | 883  | -                | (1)                         | 708                     | 373,654   | 8,470                    | 382,124           |
| Net income for the three months ended March 31, 2018                        | -   | -                          | -                 | -               | 8,267                   | 8,267                   | -   | -  | -  | -                | -                           | -                       | 8,267   | 256                      | 8,523             |
| Other comprehensive income (loss) for the three months ended March 31, 2018 | -   | -                          | -                 | -               | 206                     | 206                     | (54)  | -  | (238)  | -                | 1                           | (291)                   | (85)  | 8                        | (77)              |
| Total comprehensive income (loss) for the three months ended March 31, 2018 | -   | -                          | -                 | -               | 8,473                   | 8,473                   | (54)  | -  | (238)  | -                | 1                           | (291)                   | 8,182   | 264                      | 8,446             |
| Share-based payment transactions of subsidiaries                            | -   | 12                         | -                 | -               | -                       | -                       | -   | -  | -  | -                | -                           | -                       | 12  | 22                       | 34                |
| Net increase in noncontrolling interests                                    | -   | -                          | -                 | -               | -                       | -                       | -   | -  | -  | -                | -                           | -                       | -   | 5                        | 5                 |
| BALANCE, MARCH 31, 2018   | <u>\$ 77,574</u>                                  | <u>\$ 148,103</u>          | <u>\$ 77,574</u>  | <u>\$ 2,681</u> | <u>\$ 75,499</u>        | <u>\$ 155,754</u>       | <u>\$ (228)</u>   | <u>\$ -</u>  | <u>\$ 645</u>  | <u>\$ -</u>      | <u>\$ -</u>                 | <u>\$ 417</u>           | <u>\$ 381,848</u>                                       | <u>\$ 8,761</u>          | <u>\$ 390,609</u> |

# CHUNGHWA TELECOM CO., LTD. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Millions of New Taiwan Dollars)

(Unaudited)

|   | <b>Three Months Ended March 31</b> |             |
|---|------------------------------------|-------------|
|   | <b>2018</b>                        | <b>2017</b> |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>   |                                    |             |
| Income before income tax  | \$ 11,081                          | \$ 11,793   |
| Adjustments to reconcile income before income tax to net cash provided by operating activities: |                                    |             |
| Depreciation  | 6,895                              | 7,176       |
| Amortization  | 1,070                              | 903         |
| Amortization of incremental costs of obtaining contracts  | 452                                | -           |
| Expected credit loss  | 398                                | -           |
| Provision for doubtful accounts   | -                                  | 303         |
| Interest expenses   | 4                                  | 6           |
| Interest income   | (39)                               | (44)        |
| Dividend income   | -                                  | -           |
| Compensation cost of share-based payment transactions   | -                                  | 4           |
| Share of the profits of associates and joint ventures accounted for using equity method         | (80)                               | (118)       |
| Loss on disposal of property, plant and equipment   | 21                                 | 12          |
| Gain on disposal of financial instruments   | (6)                                | (1)         |
| Provision for inventory and obsolescence  | 32                                 | 13          |
| Impairment loss on intangible assets  | 51                                 | -           |
| Valuation loss on financial assets and liabilities at fair value through profit or loss, net    | -                                  | 3           |
| Gain on foreign exchange, net   | (22)                               | (26)        |
| Changes in operating assets and liabilities:  |                                    |             |
| Decrease (increase) in:   |                                    |             |
| Financial assets held for trading   | -                                  | -           |
| Financial assets mandatorily measured at fair value through profit or loss                      | 60                                 | -           |
| Contract assets   | 135                                | -           |
| Trade notes and accounts receivable   | 1,593                              | 2,603       |
| Receivables from related parties  | 21                                 | (18)        |
| Inventories   | (2,405)                            | (959)       |
| Prepayments   | (3,193)                            | (2,900)     |
| Other current monetary assets   | 79                                 | 120         |
| Other current assets  | 69                                 | 297         |
| Incremental cost of obtaining contracts   | (261)                              | -           |
| Increase (decrease) in:   |                                    |             |
| Contract liabilities  | 409                                | -           |
| Trade notes and accounts payable  | (4,701)                            | (5,924)     |
| Payables to related parties   | (269)                              | (364)       |
| Other payables  | (2,257)                            | (1,945)     |
| Provisions  | -                                  | 5           |
| Advance receipts  | -                                  | (11)        |
| Other current liabilities   | 182                                | (82)        |
| Deferred revenue  | -                                  | 59          |

(Continued)

# CHUNGHWA TELECOM CO., LTD. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Millions of New Taiwan Dollars)

(Unaudited)

|   | <b>Three Months Ended March 31</b> |                  |
|---|------------------------------------|------------------|
|   | <b>2018</b>                        | <b>2017</b>      |
| Net defined benefit plans   | \$ (1,978)                         | \$ (243)         |
| Cash generated from operations  | 7,341                              | 10,662           |
| Interest paid   | (5)                                | (6)              |
| Income tax paid   | <u>(12)</u>                        | <u>(8)</u>       |
| Net cash provided by operating activities   | <u>7,324</u>                       | <u>10,648</u>    |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>   |                                    |                  |
| Acquisition of time deposits and negotiable certificate of deposit with maturities of more than three months            | (2,317)                            | (2,188)          |
| Proceeds from disposal of time deposits and negotiable certificate of deposit with maturities of more than three months | 2,118                              | 2,147            |
| Proceeds from disposal of held-to-maturity financial assets   | -                                  | 850              |
| Proceeds from disposal of available-for-sale financial assets   | -                                  | 2                |
| Acquisition of property, plant and equipment  | (4,390)                            | (4,612)          |
| Proceeds from disposal of property, plant and equipment   | 10                                 | 1                |
| Proceeds from capital reduction of available-for-sale financial assets  | -                                  | -                |
| Proceeds from capital reduction of investments accounted for using equity method  | 19                                 | -                |
| Acquisition of intangible assets  | (70)                               | (48)             |
| Acquisition of investment properties  | (6)                                | -                |
| Increase in other noncurrent assets   | (43)                               | (85)             |
| Interest received   | 42                                 | 54               |
| Cash dividends received   | <u>-</u>                           | <u>-</u>         |
| Net cash used in investing activities   | <u>(4,637)</u>                     | <u>(3,879)</u>   |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>   |                                    |                  |
| Proceeds from short-term loans  | 200                                | 2,259            |
| Repayment of short-term loans   | (100)                              | (1,958)          |
| Decrease in customers' deposits   | (101)                              | (86)             |
| Decrease in other noncurrent liabilities  | (38)                               | (8)              |
| Change in other noncontrolling interests  | <u>38</u>                          | <u>-</u>         |
| Net cash provided by (used in) financial activities   | <u>(1)</u>                         | <u>207</u>       |
| EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS  | <u>18</u>                          | <u>(70)</u>      |
| NET INCREASE IN CASH AND CASH EQUIVALENTS   | 2,704                              | 6,906            |
| CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD  | <u>28,825</u>                      | <u>31,100</u>    |
| CASH AND CASH EQUIVALENTS, END OF PERIOD  | <u>\$ 31,529</u>                   | <u>\$ 38,006</u> |

(Concluded)

# CHUNGHWA TELECOM CO., LTD. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS THREE MONTHS ENDED MARCH 31, 2018 and 2017 (In Millions of New Taiwan Dollars, Except Earnings Per Share) (Unaudited)

### 1. STATEMENT OF COMPLIANCE

The Company has prepared its consolidated balance sheets as of March 31, 2018 and 2017, the related consolidated statements of comprehensive income, changes in equity and cash flows for the three months ended March 31, 2018 and 2017 in accordance with IAS 34 “Interim Financial Reporting” as issued by the International Accounting Standard Board (IASB). The consolidated financial statements are incomplete as they omit the related footnote disclosures as required under International Financial Reporting Standards as issued by IASB.

### 2. APPLICATION OF NEW AND REVISED STANDARDS AND INTERPRETATIONS

Except for the effect of application of IFRS 9 and IFRS 15 discussed below, the application of other new, revised or amended standards and interpretations effective from January 1, 2018 does not have material impact on the Company’s consolidated financial statements.

#### a. IFRS 9 “Financial Instruments” and related amendment

IFRS 9 supersedes IAS 39 “Financial Instruments: Recognition and Measurement”, with consequential amendments to IFRS 7 “Financial Instruments: Disclosures” and other standards. IFRS 9 sets out the requirements for classification, measurement and impairment of financial assets and hedge accounting.

The requirements for classification, measurement and impairment of financial assets have been applied retrospectively on January 1, 2018, and the requirements for hedge accounting have been applied prospectively. IFRS 9 is not applicable to items that have already been derecognized on or before December 31, 2017.

#### Classification, measurement and impairment of financial assets

On the basis of the facts and circumstances that existed on January 1, 2018, the Company performed an assessment of the classifications of financial assets and elected not to restate the comparative figures.

The following table shows the original measurement categories and carrying amounts under IAS 39 and the new measurement categories and carrying amounts under IFRS 9 for each class of the Company’s financial assets and financial liabilities as of January 1, 2018.

|                           | Measurement category  |  | Carrying amount |           | Note |
|---------------------------|-----------------------|--|-----------------|-----------|------|
|                           | IAS 39                | IFRS 9   | IAS 39          | IFRS 9    |      |
| <u>Financial assets</u>   |                       |  |                 |           |      |
| Cash and cash equivalents | Loans and receivables | Amortized cost   | \$ 28,825       | \$ 28,825 | 1)   |
| Equity securities         | Available-for-sale    | Fair value through profit and loss (FVTPL)                                 | 54              | 54        | 2)   |
|                           | Available-for-sale    | Fair value through other comprehensive income (FVOCI) - equity investments | 5,697           | 7,539     | 2)   |

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|   | Measurement category  |   | Carrying amount |           | Note |
|---|---|---|-----------------|-----------|------|
|   | IAS 39  | IFRS 9                                    | IAS 39          | IFRS 9    |      |
| Trade notes and accounts receivable, receivables from related parties, other current monetary assets and refundable deposits                    | Loans and receivables   | Amortized cost                            | \$ 40,158       | \$ 40,158 | 1)   |
| <b>Financial Liabilities</b>  |   |   |                 |           |      |
| Short-term loans, trade notes and accounts payable, payables to related parties, partial other payables, customers' deposit and loan-term loans | Amortized cost  | Amortized cost                            | 39,725          | 39,725    |      |
| Derivatives   | Held-for-trading<br>Hedging derivative<br>financial liabilities | FVTPL<br>Hedging financial<br>liabilities | 1<br>1          | 1<br>1    | 3)   |

(Concluded)

|  | IAS 39<br>Carrying<br>Amount<br>January 1,<br>2018 | Reclassifi-<br>cations | Remea-<br>surements | IFRS 9<br>Carrying<br>Amount<br>January 1,<br>2018 | Retained<br>Earnings effect<br>on January 1,<br>2018 | Other<br>adjustment<br>effect on<br>January 1,<br>2018 | Noncontrolling<br>interests effect<br>on January 1,<br>2018 | Note |
|--|--|------------------------|---------------------|--|--|--|---|------|
| Financial assets measured at FVTPL   | \$ -   | \$ -                   | \$ -                | \$ -   | \$ -   | \$ -   | \$ -  |      |
| Add: reclassification from available for sale (IAS 39) - mandatory reclassification    | -  | 54                     | -                   | 54   | 6  | (6)  | -   | 2)   |
|  | -  | 54                     | -                   | 54   | 6  | (6)  | -   |      |
| Financial liabilities measured at FVTPL  | (1)  | -                      | -                   | (1)  | -  | -  | -   |      |
| Financial assets measured at FVOCI- equity investments                                 | -  | -                      | -                   | -  | -  | -  | -   |      |
| Add: reclassification from available for sale (IAS 39) - designated at January 1, 2018 | -  | 5,697                  | 1,842               | 7,539  | 1,516  | 327  | (1)   | 2)   |
|  | -  | 5,697                  | 1,842               | 7,539  | 1,516  | 327  | (1)   |      |
| Financial assets measured at Amortized cost  | -  | -                      | -                   | -  | -  | -  | -   |      |
| Add: reclassification from loans and receivables (IAS 39)                              | -  | 68,983                 | -                   | 68,983   | -  | -  | -   | 1)   |
|  | -  | 68,983                 | -                   | 68,983   | -  | -  | -   |      |
| Financial liabilities measured at amortized cost                                       | -  | -                      | -                   | -  | -  | -  | -   |      |
| Add: reclassification from amortized cost (IAS 39)                                     | -  | (39,725)               | -                   | (39,725)   | -  | -  | -   |      |
|  | -  | (39,725)               | -                   | (39,725)   | -  | -  | -   |      |
| Hedging financial liabilities  | -  | -                      | -                   | -  | -  | -  | -   |      |
| Add: reclassification from Hedging derivative instrument (IAS 39)                      | -  | (1)                    | -                   | (1)  | -  | -  | -   | 3)   |
|  | -  | (1)                    | -                   | (1)  | -  | -  | -   |      |
| Total  | \$ (1)   | \$ 35,008              | \$ 1,842            | \$ 36,849  | \$ 1,522   | \$ 321   | \$ (1)  |      |

- 1) Cash and cash equivalents, trade notes and accounts receivable, receivables from related parties, other current monetary assets and refundable deposit that were classified as loans and receivables under IAS 39 are now classified as financial assets measured at amortized cost with assessment of expected credit loss.
- 2) The Company elected to reclassify equity securities originally classified as available-for-sale under IAS 39 to FVTPL and designated at FVOCI in accordance with IFRS 9. As a result, the related other equity - unrealized gain (loss) on available-for-sale financial assets was reclassified \$6 million to retained earnings and \$556 million to other equity - unrealized gain or loss on financial assets at FVOCI.

Equity investments in non-listed stocks previously carried at cost under IAS 39 are designated as FVOCI and remeasured at fair values. As a result, financial assets at FVOCI and other equity - unrealized gain or loss on financial assets at FVOCI were increased by \$1,842 million and \$1,843 million, respectively, and noncontrolling interest was decreased by \$1 million.

The Company recognized impairment loss on certain investments in equity securities previously classified as available-for-sale and measured at cost and the loss was accumulated in retained earnings under IAS 39. Since those investments were designated as financial assets measured at FVOCI under IFRS 9 and no impairment assessment is required, an adjustment was made that resulted in a decrease of \$1,516 million in other equity - unrealized gain or loss on financial assets at FVOCI and an increase of the \$1,516 million in retained earnings on January 1, 2018.

- 3) Due to the amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers, all derivative and non-derivative financial assets and financial liabilities which were designated as hedging instruments are presented as hedging financial assets and hedging financial liabilities for starting from January 1, 2018.

As the Company expects there is no tax obligations upon the disposal of the available-for-sale financial assets, the deferred income tax liabilities was decreased by \$1 million, unrealized gain or loss on available-for-sale financial assets was increased by \$4 million and noncontrolling interests was decreased by of \$3 million respectively.

b. IFRS 15 “Revenue from Contracts with Customers” and related amendment

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

When applying IFRS 15 and related amendments, the Company allocates 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 stand-alone 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 contracts 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 recognizes, 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 was reduced when revenue was recognized for the contract under IAS 18.

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

Impact on items of assets, liabilities and equity

|  | <b>Carrying<br/>amounts before<br/>retrospective<br/>adjustments as<br/>of January 1,<br/>2018</b> | <b>Adjustments<br/>Arising from<br/>Initial<br/>Application</b> | <b>Carrying<br/>amounts after<br/>retrospective<br/>adjustments as<br/>of January 1,<br/>2018</b> |
|--|--|---|---|
| Contract assets - current                        | <u>\$ -</u>  | \$ 6,065  | <u>\$ 6,065</u>   |
| Trade notes and accounts receivable, net         | <u>\$ 31,941</u>   | (118)   | <u>\$ 31,823</u>  |
| Inventories                                      | <u>\$ 8,840</u>  | (132)   | <u>\$ 8,708</u>   |
| Prepayments                                      | <u>\$ 2,188</u>  | (7)   | <u>\$ 2,181</u>   |
| Other current assets                             | <u>\$ 2,183</u>  | 132   | <u>\$ 2,315</u>   |
| Contract assets - noncurrent                     | <u>\$ -</u>  | 3,917   | <u>\$ 3,917</u>   |
| Incremental costs of obtaining contracts         | <u>\$ -</u>  | <u>2,474</u>  | <u>\$ 2,474</u>   |
| Total effect on assets                           |  | <u>\$ 12,331</u>  |   |
| Contract liabilities - current                   | <u>\$ -</u>  | \$ 8,004  | <u>\$ 8,004</u>   |
| Current tax liabilities                          | <u>\$ 8,674</u>  | 2,227   | <u>\$ 10,901</u>  |
| Provisions - current                             | <u>\$ 189</u>  | (88)  | <u>\$ 101</u>   |
| Advance receipts                                 | <u>\$ 8,842</u>  | (8,842)   | <u>\$ -</u>   |
| Other current liabilities                        | <u>\$ 1,081</u>  | 72  | <u>\$ 1,153</u>   |
| Contract liabilities - noncurrent                | <u>\$ -</u>  | 2,626   | <u>\$ 2,626</u>   |
| Deferred revenue                                 | <u>\$ 3,612</u>  | (3,612)   | <u>\$ -</u>   |
| Other noncurrent liabilities                     | <u>\$ 3,458</u>  | <u>1,072</u>  | <u>\$ 4,530</u>   |
| Total effect on liabilities                      |  | <u>\$ 1,459</u>   |   |
| Total effect on equity (unappropriated earnings) | <u>\$ 54,633</u>   | <u>\$ 10,872</u>  | <u>\$ 65,505</u>  |

The following table shows the increase (decrease) in assets, liabilities and equity resulting from the application of IFRS 15 on the balance sheet date.

|  | <b>March 31, 2018</b> |
|--|-----------------------|
| Contract assets – current                | \$ 6,259              |
| Trade notes and accounts receivable, net | (128)                 |
| Inventories                              | (115)                 |
| Prepayments – current                    | (9)                   |
| Other current assets                     | 115                   |
| Contract assets – noncurrent             | 3,588                 |
| Incremental costs of obtaining contracts | <u>2,283</u>          |
| Assets                                   | <u>\$ 11,993</u>      |

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**March 31, 2018**

|                                   |                                 |
|-----------------------------------|---------------------------------|
| Contract liabilities - current    | \$ 8,654                        |
| Current tax liabilities           | 2,142                           |
| Provisions - current              | (77)                            |
| Advance receipts                  | (9,493)                         |
| Other current liabilities         | 206                             |
| Contract liabilities - noncurrent | 2,384                           |
| Deferred revenue                  | (3,393)                         |
| Other noncurrent liabilities      | <u>1,063</u>                    |
| Liabilities                       | <u>\$ 1,486</u>                 |
| Equity (unappropriated earnings)  | <u>\$ 10,507</u><br>(Concluded) |

Impact on items of statement of comprehensive income for current period**Three months  
ended March  
31, 2018**

|   |                  |
|---|------------------|
| Revenues                                | \$ (258)         |
| Operating costs                         | 341              |
| Operating expenses                      | <u>(149)</u>     |
| Income from operations                  | (450)            |
| Income tax expense                      | <u>(85)</u>      |
| Net income                              | <u>\$ (365)</u>  |
| Decrease in net income attributable to: |                  |
| Stockholders of the parent              | \$ (365)         |
| Noncontrolling interests                | <u>-</u>         |
|   | <u>\$ (365)</u>  |
| Impact on earnings per share:           |                  |
| Basic earnings per share                | <u>\$ (0.05)</u> |
| Diluted earnings per share              | <u>\$ (0.05)</u> |