

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

**Consolidated Financial Statements for the
Six Months Ended June 30, 2018 and 2017**

CHUNGHWA TELECOM CO., LTD. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (In Millions of New Taiwan Dollars)

ASSETS	June 30, 2018 (Unaudited)		December 31, 2017 (Audited)		June 30, 2017 (Unaudited)		LIABILITIES AND EQUITY	June 30, 2018 (Unaudited)		December 31, 2017 (Audited)		June 30, 2017 (Unaudited)	
	Amount	%	Amount	%	Amount	%		Amount	%	Amount	%	Amount	%
CURRENT ASSETS							CURRENT LIABILITIES						
Cash and cash equivalents	\$ 43,844	9	\$ 28,825	7	\$ 48,310	11	Short-term loans	\$ 80	-	\$ 70	-	\$ 125	-
Financial assets at fair value through profit or loss	277	-	-	-	7	-	Financial liabilities at fair value through profit or loss	-	-	1	-	-	-
Hedging derivative financial assets	-	-	-	-	1	-	Hedging derivative financial liabilities	-	-	1	-	-	-
Held-to-maturity financial assets	-	-	-	-	900	-	Hedging financial liabilities	-	-	-	-	-	-
Contract assets	5,233	1	-	-	-	-	Contract liabilities	9,735	2	-	-	-	-
Trade notes and accounts receivable, net	29,224	6	31,941	7	29,643	6	Trade notes and accounts payable	17,115	4	19,396	4	14,902	3
Receivables from related parties	31	-	49	-	24	-	Payables to related parties	425	-	684	-	548	-
Inventories	11,938	2	8,840	2	9,329	2	Current tax liabilities	5,575	1	8,674	2	6,398	2
Prepayments	5,689	1	2,188	-	5,215	1	Dividends payables	37,205	8	-	-	38,336	8
Other current monetary assets	6,619	1	5,308	1	6,613	2	Other payables	22,892	5	25,001	6	21,082	5
Other current assets	3,677	1	2,183	-	2,113	-	Provisions	105	-	189	-	125	-
Total current assets	<u>106,532</u>	<u>21</u>	<u>79,334</u>	<u>17</u>	<u>102,155</u>	<u>22</u>	Advance receipts	-	-	8,842	2	8,825	2
							Other current liabilities	1,298	-	1,081	-	1,224	-
NONCURRENT ASSETS							Total current liabilities	<u>94,430</u>	<u>20</u>	<u>63,939</u>	<u>14</u>	<u>91,565</u>	<u>20</u>
Financial assets at fair value through other comprehensive income	7,052	1	-	-	-	-	NONCURRENT LIABILITIES						
Available-for-sale financial assets	-	-	5,751	1	4,729	1	Contract liabilities	2,360	1	-	-	-	-
Investments accounted for using equity method	2,353	1	2,326	1	2,257	-	Long-term loans	1,600	-	1,600	-	1,600	-
Contract assets	2,562	1	-	-	-	-	Deferred income taxes liabilities	2,040	-	1,430	-	1,473	-
Property, plant and equipment	285,685	60	288,708	64	283,306	62	Provisions	81	-	78	-	68	-
Investment properties	8,043	2	8,048	2	8,100	2	Customers' deposits	4,627	1	4,671	1	4,524	1
Intangible assets	52,805	11	54,883	12	45,631	10	Net defined benefit liabilities	2,036	-	2,704	1	1,544	-
Deferred income tax assets	3,269	1	2,730	1	2,363	1	Deferred revenue	-	-	3,612	1	3,549	1
Incremental costs of obtaining contracts	1,841	-	-	-	-	-	Other noncurrent liabilities	4,726	1	3,458	1	3,777	1
Net defined benefit assets	1,184	-	13	-	1,072	-	Total noncurrent liabilities	<u>17,470</u>	<u>3</u>	<u>17,553</u>	<u>4</u>	<u>16,535</u>	<u>3</u>
Prepayments	3,375	1	3,573	1	3,820	1	Total liabilities	<u>111,900</u>	<u>23</u>	<u>81,492</u>	<u>18</u>	<u>108,100</u>	<u>23</u>
Other noncurrent assets	5,372	1	5,536	1	4,858	1	EQUITY ATTRIBUTABLE TO STOCKHOLDERS OF THE PARENT						
Total noncurrent assets	<u>373,541</u>	<u>79</u>	<u>371,568</u>	<u>83</u>	<u>356,136</u>	<u>78</u>	Common stocks	77,574	16	77,574	17	77,574	17
							Additional paid-in capital	149,455	31	148,091	33	147,266	32
							Retained earnings						
							Legal reserve	77,574	16	77,574	17	77,574	17
							Special reserve	2,676	1	2,681	1	2,681	1
							Unappropriated earnings	51,503	11	54,633	12	39,248	9
							Total retained earnings	131,753	28	134,888	30	119,503	27
							Other adjustments	80	-	383	-	(197)	-
							Total equity attributable to stockholders of the parent	358,862	75	360,936	80	344,146	76
							NONCONTROLLING INTERESTS						
								9,311	2	8,474	2	6,045	1
							Total equity	<u>368,173</u>	<u>77</u>	<u>369,410</u>	<u>82</u>	<u>350,191</u>	<u>77</u>
TOTAL	<u>\$ 480,073</u>	<u>100</u>	<u>\$ 450,902</u>	<u>100</u>	<u>\$ 458,291</u>	<u>100</u>	TOTAL	<u>\$ 480,073</u>	<u>100</u>	<u>\$ 450,902</u>	<u>100</u>	<u>\$ 458,291</u>	<u>100</u>

CHUNGHWA TELECOM CO., LTD. AND SUBSIDIARIES

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

	Three Months Ended June 30				Six Months Ended June 30			
	2018		2017		2018		2017	
	Amount	%	Amount	%	Amount	%	Amount	%
REVENUES	\$ 53,659	100	\$ 55,672	100	\$ 107,291	100	\$ 110,205	100
OPERATING COSTS	33,193	62	35,078	63	67,643	63	69,699	63
GROSS PROFIT	20,466	38	20,594	37	39,648	37	40,506	37
OPERATING EXPENSES								
Marketing	5,955	11	6,153	11	11,608	10	12,435	11
General and administrative	1,168	2	1,158	2	2,359	2	2,322	2
Research and development	910	2	958	2	1,835	2	1,879	2
Expected credit loss	370	1	-	-	768	1	-	-
Total operating expenses	8,403	16	8,269	15	16,570	15	16,636	15
OTHER INCOME AND EXPENSES	(9)	-	(5)	-	(81)	-	(17)	-
INCOME FROM OPERATIONS	12,054	22	12,320	22	22,997	22	23,853	22
NON-OPERATING INCOME AND EXPENSES								
Interest income	59	-	63	-	98	-	107	-
Other income	301	1	444	1	357	-	504	-
Other gains and losses	12	-	(44)	-	(21)	-	-	-
Interest expenses	(5)	-	(5)	-	(9)	-	(11)	-
Share of profits of associates and joint ventures accounted for using equity method	127	-	122	-	207	-	240	-
Total non-operating income and expenses	494	1	580	1	632	-	840	-
INCOME BEFORE INCOME TAX	12,548	23	12,900	23	23,629	22	24,693	22
INCOME TAX EXPENSE (BENEFIT)	(965)	(2)	(825)	(2)	1,593	1	2,114	2
NET INCOME	13,513	25	13,725	25	22,036	21	22,579	20
TOTAL OTHER COMPREHENSIVE INCOME (LOSS)								
Items that will not be reclassified to profit or loss:								
Unrealized gain or loss on investments in equity instruments at fair value through other comprehensive income	(453)	-	-	-	(687)	-	-	-
Gain or loss on hedging instruments subject to basis adjustment	-	-	-	-	1	-	-	-
Income tax benefit relating to items that will not be reclassified to profit or loss	-	-	-	-	207	-	-	-
Total	(453)	-	-	-	(479)	-	-	-
Items that may be reclassified subsequently to profit or loss:								
Exchange differences arising from the translation of the foreign operations	119	-	28	-	67	-	(186)	-
Unrealized loss on available-for-sale financial assets	-	-	(356)	(1)	-	-	(29)	-
Cash flow hedges	-	-	3	-	-	-	2	-

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CHUNGHWA TELECOM CO., LTD. AND SUBSIDIARIES

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

	Three Months Ended June 30				Six Months Ended June 30			
	2018		2017		2018		2017	
	Amount	%	Amount	%	Amount	%	Amount	%
Share of exchange differences arising from the translation of the foreign operations of associates and joint ventures	\$ 1	-	\$ -	-	\$ 2	-	\$ (3)	-
Income tax benefit relating to items that may be reclassified subsequently to profit or loss	<u>-</u>	<u>-</u>	<u>1</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2</u>	<u>-</u>
	<u>120</u>	<u>-</u>	<u>(324)</u>	<u>(1)</u>	<u>69</u>	<u>-</u>	<u>(214)</u>	<u>-</u>
Total other comprehensive loss, net of income tax	<u>(333)</u>	<u>(1)</u>	<u>(324)</u>	<u>(1)</u>	<u>(410)</u>	<u>-</u>	<u>(214)</u>	<u>-</u>
TOTAL COMPREHENSIVE INCOME	<u>13,180</u>	<u>24</u>	<u>13,401</u>	<u>24</u>	<u>21,626</u>	<u>21</u>	<u>22,365</u>	<u>20</u>
NET INCOME ATTRIBUTABLE TO								
Stockholders of the parent	\$ 13,204	25	\$ 13,305	24	\$ 21,471	20	\$ 21,932	20
Noncontrolling interests	<u>309</u>	<u>-</u>	<u>420</u>	<u>1</u>	<u>565</u>	<u>1</u>	<u>647</u>	<u>-</u>
	<u>\$ 13,513</u>	<u>25</u>	<u>\$ 13,725</u>	<u>25</u>	<u>\$ 22,036</u>	<u>21</u>	<u>\$ 22,579</u>	<u>20</u>
COMPREHENSIVE INCOME ATTRIBUTABLE TO								
Stockholders of the parent	\$ 12,867	24	\$ 12,975	23	\$ 21,049	20	\$ 21,740	20
Noncontrolling interests	<u>313</u>	<u>-</u>	<u>426</u>	<u>1</u>	<u>577</u>	<u>1</u>	<u>625</u>	<u>-</u>
	<u>\$ 13,180</u>	<u>24</u>	<u>\$ 13,401</u>	<u>24</u>	<u>\$ 21,626</u>	<u>21</u>	<u>\$ 22,365</u>	<u>20</u>
EARNINGS PER SHARE								
Basic	<u>\$ 1.70</u>		<u>\$ 1.72</u>		<u>\$ 2.77</u>		<u>\$ 2.83</u>	
Diluted	<u>\$ 1.70</u>		<u>\$ 1.71</u>		<u>\$ 2.76</u>		<u>\$ 2.82</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														
	Retained Earnings						Other Adjustments						Total Equity Attributable to Stockholders of the Parent	Noncontrolling Interests	Total Equity
	Common Stocks	Additional Paid-in Capital	Legal Reserve	Special Reserve	Unappropriated 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 or Loss on Hedging Instruments	Total Other Adjustments			
BALANCE, JANUARY 1, 2017	\$ 77,574	\$ 147,180	\$ 77,574	\$ 2,676	\$ 55,657	\$ 135,907	\$ 46	\$ (51)	\$ -	\$ -	\$ -	\$ (5)	\$ 360,656	\$ 6,272	\$ 366,928
Appropriation of 2016 earnings	-	-	-	5	(5)	-	-	-	-	-	-	-	-	-	-
Provision for special reserve	-	-	-	-	(38,336)	(38,336)	-	-	-	-	-	-	(38,336)	-	(38,336)
Cash dividends distributed by Chunghwa	-	-	-	-	-	-	-	-	-	-	-	-	-	(937)	(937)
Cash dividends distributed by subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	-	77	29
Partial disposal of interests in subsidiaries	-	77	-	-	-	-	-	-	-	-	-	-	77	29	106
Net income for the six months ended June 30, 2017	-	-	-	-	21,932	21,932	-	-	-	-	-	-	21,932	647	22,579
Other comprehensive income (loss) for the six months ended June 30, 2017	-	-	-	-	-	-	(168)	(26)	-	2	-	(192)	(192)	(22)	(214)
Total comprehensive income for the six months ended June 30, 2017	-	-	-	-	21,932	21,932	(168)	(26)	-	2	-	(192)	21,740	625	22,365
Share-based payment transactions of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	-	11	11
Net increase in noncontrolling interests	-	9	-	-	-	-	-	-	-	-	-	-	9	45	54
BALANCE, JUNE 30, 2017	<u>\$ 77,574</u>	<u>\$ 147,266</u>	<u>\$ 77,574</u>	<u>\$ 2,681</u>	<u>\$ 39,248</u>	<u>\$ 119,503</u>	<u>\$ (122)</u>	<u>\$ (77)</u>	<u>\$ -</u>	<u>\$ 2</u>	<u>\$ -</u>	<u>\$ (197)</u>	<u>\$ 344,146</u>	<u>\$ 6,045</u>	<u>\$ 350,191</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
Appropriation of 2017 earnings	-	-	-	(5)	5	-	-	-	-	-	-	-	-	-	-
Reversal of special reserve	-	-	-	-	(37,205)	(37,205)	-	-	-	-	-	-	(37,205)	-	(37,205)
Cash dividends distributed by Chunghwa	-	-	-	-	-	-	-	-	-	-	-	-	-	(958)	(958)
Cash dividends distributed by subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	-	521	206
Partial disposal of interests in subsidiaries	-	521	-	-	-	-	-	-	-	-	-	-	521	206	727
Change in additional paid-in capital for not participating in the capital increase of subsidiaries	-	777	-	-	-	-	-	-	-	-	-	-	777	700	1,477
Net income for the six months ended June 30, 2018	-	-	-	-	21,471	21,471	-	-	-	-	-	-	21,471	565	22,036
Other comprehensive income (loss) for the six months ended June 30, 2018	-	-	-	-	206	206	62	-	(691)	-	1	(628)	(422)	12	(410)
Total comprehensive income (loss) for the six months ended June 30, 2018	-	-	-	-	21,677	21,677	62	-	(691)	-	1	(628)	21,049	577	21,626
Share-based payment transactions of subsidiaries	-	12	-	-	-	-	-	-	-	-	-	-	12	38	50
Net increase in noncontrolling interests	-	54	-	-	-	-	-	-	-	-	-	-	54	278	332
BALANCE, JUNE 30, 2018	<u>\$ 77,574</u>	<u>\$ 149,455</u>	<u>\$ 77,574</u>	<u>\$ 2,676</u>	<u>\$ 51,503</u>	<u>\$ 131,753</u>	<u>\$ (112)</u>	<u>\$ -</u>	<u>\$ 192</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 80</u>	<u>\$ 358,862</u>	<u>\$ 9,311</u>	<u>\$ 368,173</u>

CHUNGHWA TELECOM CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Millions of New Taiwan Dollars)

(Unaudited)

	Six Months Ended June 30	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	\$ 23,629	\$ 24,693
Adjustments to reconcile income before income tax to net cash provided by operating activities:		
Depreciation	13,759	14,304
Amortization	2,175	1,800
Amortization of incremental costs of obtaining contracts	1,098	-
Expected credit loss	768	-
Provision for doubtful accounts	-	391
Interest expenses	9	11
Interest income	(98)	(107)
Dividend income	(231)	(312)
Compensation cost of share-based payment transactions	16	11
Share of profits of associates and joint ventures accounted for using equity method	(207)	(240)
Loss on disposal of property, plant and equipment	30	17
Gain on disposal of financial instruments	(6)	(3)
Loss on disposal of investments accounted for using equity method	-	-
Provision for inventory and obsolescence	36	18
Impairment loss on intangible assets	51	-
Valuation gain on financial assets and liabilities at fair value through profit or loss, net	-	(8)
Loss (gain) on foreign exchange, net	(3)	47
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	(219)	-
Contract assets	2,187	-
Trade notes and accounts receivable	1,978	1,140
Receivables from related parties	19	(10)
Inventories	(3,267)	(1,924)
Prepayments	(3,310)	(2,816)
Other current monetary assets	(244)	(178)
Other current assets	(1,362)	9
Incremental cost of obtaining contracts	(465)	-
Increase (decrease) in:		
Contract liabilities	1,465	-
Trade notes and accounts payable	(2,283)	(3,908)
Payables to related parties	(259)	(214)
Other payables	(2,578)	(3,194)
Provisions	6	8
Advance receipts	-	(465)

(Continued)

CHUNGHWA TELECOM CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Millions of New Taiwan Dollars)

(Unaudited)

	<u>Six Months Ended June 30</u>	
	<u>2018</u>	<u>2017</u>
Other operating liabilities	\$ 240	\$ (82)
Deferred revenue	-	3
Net defined benefit plans	<u>(1,838)</u>	<u>(145)</u>
Cash generated from operations	31,096	28,846
Interest paid	(9)	(11)
Income tax paid	<u>(6,639)</u>	<u>(2,267)</u>
Net cash provided by operating activities	<u>24,448</u>	<u>26,568</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of financial assets at fair value through other comprehensive income	(200)	-
Proceeds from disposal of available-for-sale financial assets	-	7
Proceeds from capital reduction of available-for-sale financial assets	-	1
Acquisition of time deposits and negotiable certificates of deposit with maturities of more than three months	(3,229)	(3,586)
Proceeds from disposal of time deposits and negotiable certificates of deposit with maturities of more than three months	2,750	2,463
Proceeds from disposal of held-to-maturity financial assets	-	1,240
Proceeds from disposal of investments accounted for using equity method	3	-
Proceeds from capital reduction of investments accounted for using equity method	19	-
Acquisition of property, plant and equipment	(11,214)	(9,690)
Proceeds from disposal of property, plant and equipment	24	1
Acquisition of intangible assets	(147)	(78)
Acquisition of investment properties	(5)	-
Decrease (increase) in other noncurrent assets	(28)	50
Interest received	93	112
Cash dividends received	<u>-</u>	<u>80</u>
Net cash used in investing activities	<u>(11,934)</u>	<u>(9,400)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from short-term loans	210	3,269
Repayment of short-term loans	(200)	(3,282)
Decrease in customers' deposits	(45)	(110)
Increase in other noncurrent liabilities	102	3
Partial disposal of interests in subsidiaries without losing control	594	106
Change in other noncontrolling interests	<u>1,842</u>	<u>54</u>
Net cash provided by financing activities	<u>2,503</u>	<u>40</u>

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CHUNGHWA TELECOM CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Millions of New Taiwan Dollars)

(Unaudited)

	<u>Six Months Ended June 30</u>	
	<u>2018</u>	<u>2017</u>
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	\$ <u>2</u>	\$ <u>2</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	15,019	17,210
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	<u>28,825</u>	<u>31,100</u>
CASH AND CASH EQUIVALENTS, END OF PERIOD	<u>\$ 43,844</u>	<u>\$ 48,310</u> (Concluded)

CHUNGHWA TELECOM CO., LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SIX MONTHS ENDED JUNE 30, 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 June 30, 2018 and 2017, the related consolidated statements of comprehensive income for the three months ended June 30, 2018 and 2017, and the related consolidated statements of comprehensive income, changes in equity and cash flows for the six months ended June 30, 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)

(Continued)

	Measurement category		Carrying amount		Note
	IAS 39	IFRS 9	IAS 39	IFRS 9	
	Available-for-sale	Fair value through other comprehensive income (FVOCI) - equity investments	5,697	7,539	2)
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)
Financial Liabilities					
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	FVTPL	1	1	
	Hedging derivative financial liabilities	Hedging financial liabilities	1	1	3)

(Concluded)

	IAS 39 Carrying Amount January 1, 2018	Reclassifi- cations	Remea- surements	IFRS 9 Carrying Amount January 1, 2018	Retained Earnings effect on January 1, 2018	Other adjustment effect on January 1, 2018	Noncontrolling interests effect on January 1, 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

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

	June 30, 2018
Contract assets - current	\$ 5,233
Trade notes and accounts receivable, net	(121)
Inventories	(82)
Prepayments - current	(10)
Other current assets	82
Contract assets - noncurrent	2,562
Incremental costs of obtaining contracts	<u>1,841</u>
Assets	<u>\$ 9,505</u>
Contract liabilities - current	\$ 9,735
Current tax liabilities	1,633
Provisions - current	(54)
Advance receipts	(10,388)
Other current liabilities	215
Contract liabilities - noncurrent	2,360
Deferred revenue	(3,376)
Other noncurrent liabilities	<u>1,057</u>
Liabilities	<u>\$ 1,182</u>
Equity (unappropriated earnings)	<u>\$ 8,323</u>

Impact on items of statement of comprehensive income for the periods

	Three months ended June 30, 2018	Six months ended June 30, 2018
Revenues	\$ (2,249)	\$ (2,507)
Operating costs	361	702
Operating expenses	<u>82</u>	<u>(67)</u>
Income from operations	(2,692)	(3,142)
Income tax expense	<u>(509)</u>	<u>(594)</u>
Net income	<u>\$ (2,183)</u>	<u>\$ (2,548)</u>
Decrease in net income attributable to:		
Stockholders of the parent	\$ (2,183)	\$ (2,548)
Noncontrolling interests	<u>-</u>	<u>-</u>
	<u>\$ (2,183)</u>	<u>\$ (2,548)</u>
Impact on earnings per share:		
Basic earnings per share	<u>\$ (0.28)</u>	<u>\$ (0.33)</u>
Diluted earnings per share	<u>\$ (0.28)</u>	<u>\$ (0.33)</u>