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# **Chunghwa Telecom Co., Ltd. 2017 Annual General Meeting Handbook**

Date: June 23, 2017

Venue: Chunghwa Telecom Training Institute  
No. 168, Minzu Road, Banchiao District,  
New Taipei City, Taiwan, R.O.C.

**Chunghwa Telecom Co., Ltd.**  
**2017 Annual General Meeting Handbook**

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# **Agenda**

**The Chairman Calls the Meeting to Order**

**Chairman's Address**

**Report Items**

- I. The Company's 2016 business report
- II. 2016 audit committee's audit report concerning the Company's financial statements
- III. Report on 2016 remuneration allocation for directors and employees

**Matters for Ratification**

- I. Ratification of 2016 business report and financial statements
- II. Ratification of 2016 profit allocation proposal

**Matters for Discussion**

- I. The amendment to the Procedures for Acquisition or Disposal of Assets

**Elections: Supplementary election of the Company's independent director of 8th board of directors**

**Other Matters: Release of restrictions on competitive activities on director**

**Extemporary Motions**

**Meeting Adjourned**

## Report Items

### I. The Company's 2016 business report

During 2016, Chunghwa Telecom continued its stable and sustainable performance across all business lines while advancing its future growth opportunities. The 4G mobile service market in Taiwan has entered into a mature growth stage, which naturally resulted in slower user acquisition growth and successive promotional plans with subdued pricing power in the industry. In Taiwan, we were the first operator to launch 3CA (Carrier Aggregation) service, raising the data transmission speeds to 300Mbps to enhance mobile service quality and retain customers. Our fixed broadband business experienced a slight decline in revenue due to the increasing competition from Taiwanese cable operators. However, by promoting integrated digital convergence services to cater to customers' needs, we have been able to successfully defend our market share. Additionally, we are delighted to see the continued solid growth in our broadening ICT businesses with the growth of IoT and cloud applications across different industries.

The launch of our cutting-edge cloud data center in Banqiao, New Taipei City marked a milestone for the development of the digital economy in Taiwan. This world-class, highest-rated cloud data center will be the cornerstone that drives the development of IoT, big data and cloud businesses and enable Taiwan to become the information aggregating center for the Asia-Pacific region.

#### Financial Results

The consolidated total revenue of Chunghwa Telecom for the full year of 2016 was NT\$230.0 billion, representing a decrease of 0.8% as compared with the prior year. In particular, revenue of mobile value-added services experienced healthy growth in 2016 driven by mobile internet user expansion and continuous 4G mobile development, which effectively contributed to our mobile value-added service revenue. Further, our enterprise ICT business continued to deliver strong performance and bring a new revenue stream to our overall business as well. However, mobile voice business revenue declined as VoIP substitution and market competition continued and mobile phone sales declined as a result of customers' diminished motivation to replace their devices.

Consolidated cost for the full year 2016 remained stable at NT\$181.4 billion as compared with the prior year. The cost for ICT projects increased, which was offset by the decreased network interconnection costs and cost of goods sold. Our CAPEX spending decreased significantly to NT\$23.5 billion as compared with the budgeted amount, which was mainly driven by our optimized review process and effective negotiations with vendors during the procurement. As a result of the successful execution of our business strategies and our effective cost control efforts, net income attributable to stockholders of the parent company was NT\$40.1 billion, or NT\$5.16 per share.

Our overall net reinvestment income was NT\$1.2 billion in 2016. We are pleased at the successful listing of Chunghwa Precision Test Tech. Co., Ltd., a subsidiary of Chunghwa

Telecom focusing on test services for semiconductor interface boards, on the Taipei Exchange in March 2016. Going forward, we will continue to encourage our strong invested companies to explore strategic capital market options, which we believe will ultimately enhance each company's competitive advantages and the overall performance of Chunghwa Telecom.

### **Continued Leadership in Mobile Broadband Market**

With the integration of the 2600 MHz frequency band which we acquired at the end of 2015 and the original 900 MHz and 1800 MHz bands, Chunghwa Telecom now owns the largest 130 MHz mobile broadband spectrum in the industry. In order to boost the data transfer speed in high traffic areas and further develop our high frequency capabilities, we put the 2600 MHz band to use in March 2016, which was proven to be a highly effective strategic move in enhancing our communications quality and customer experience.

As a step forward in moving to a tiered-pricing structure in the Taiwan market, we launched the Big 4G unlimited plan with higher threshold in April 2016. However, due to the fierce competition and continued decrease in pricing for unlimited data plans from peer companies, we experienced mobile customer loss. In response, we launched competitive plans and optimized channel marketing activities to strengthen our customer retention and enhance customer loyalty. As a result, we are pleased to have maintained our market leading position with 37.3% market share of mobile subscribers as of the end of 2016.

Revenues of our mobile value-added service, excluding mobile internet and SMS, increasing 11.1% year over year, primarily attributable to the consistent strong promotion of "Brilliant Hami Packages" that contain KKBOX, Hami Pass, Hami TV, Hami Games and Hami Bookstore at affordable prices. Furthermore, the strong growth momentum of mobile payment significantly drove up revenue of micropayment service, which increased by 55.6% as compared with 2015.

### **Digital Convergence Services Catered to Customer Demand**

In 2016, we further addressed the importance of product competitiveness in our broadband marketing activities. We launched bundled digital convergence packages, which integrated our services of broadband, Wi-Fi, MOD/OTT, as well as mobile and local fixed communications, to meet our customers' demand on video, audio content and home security. Additionally, we emphasize the wider-spectrum upstream bandwidth as our differentiated advantage over our peers. On the other hand, in order to further streamline our marketing activities and optimize network construction, we continued to leverage our capabilities in big data analysis and production-and-sales analysis to capture insights in our customers' behaviors, their evolving demands as well as market dynamics. Therefore, we managed to only experience a slight decrease in the number of subscribers though we faced fierce pricing competition from cable operators.

For our MOD service, we continued to promote the Subscription Video on Demand (SVOD) services in 2016. We offered seven content categories, such as movies, drama and cartoon, to meet our customers' demand for a variety of content and attract more subscribers. By the

end of 2016, we have successfully accumulated more than 700,000 SVOD subscribers, representing a 52.9% year-over-year increase. The number of overall MOD customers also increased to 1.33 million. Driven by the continuous improvement in our services and content quality, our household TV usage rate achieved a new record high at 70% in 2016. In addition, in August 2016, we cooperated with ELTA TV, the general agent of Rio Olympic Games in Taiwan, and obtained its exclusive new media broadcasting rights. We leveraged our multi-screen display technology to broadcast the games on 14 HD channels and our CHT OTT Video app, and received 6.79 million and 20.28 million views on the Olympic programs, respectively. These solid results brought in additional advertising revenues and reinforced our MOD performance.

### **Rapidly Developed ICT and Innovative Businesses**

ICT is the emerging businesses that Chunghwa Telecom has actively developed over the past several years. Our key progresses are reflected in information security, Internet of Things (IoT), cloud computing, etc.

The importance of information security has attracted tremendous attention in the digital era. To address this matter, Chunghwa Telecom built a highly experienced and dedicated team to serve our customers across different industries such as finance, manufacturing, and information and communications, providing them with protection, monitoring, investigation and post processing services. We have acquired over 300 enterprise customers, which contributed significantly to our strong top-line growth in this area.

Smart and innovative applications, including smart transportation, smart green energy, intelligent security, smart home and beyond, remain the core of our IoT development, which aims to build connected, smart cities. We participated in the “4G-based Smart City Subsidization and Promotion Project” initiated by the Taiwan Ministry of Economic Affairs, in which we cooperated with 15 city and county governments to apply 4G services to transportation, cultural and innovative activities, as well as tourism and entertainment. We aim to leverage our IoT technology to establish convenient and connected cities and LOHAS life style for the public.

Furthermore, Chunghwa Telecom continued to boost investments to further drive ICT growth in Taiwan. Our cloud data center in Banqiao is a good example of this effort. Chunghwa Telecom allocated NT\$13 billion and a significant amount of other resources toward constructing the data center in accordance with stringent international standards. The cloud data center in Banqiao is Taiwan’s first TIA-942 Rated 4 cloud data center. It became the first choice for ICT and internet businesses in Asia-Pacific with its ability to rapidly connect Taiwan’s network to international submarine cables. Given the world-class capability of this data center and Taiwan’s geographic advantage, we aim to expand our partnerships with cross-border ICT and internet operators, which we believe will enable Taiwan to become the information aggregating center for Asia-Pacific, and ultimately revitalize Taiwan’s digital economy development.

### **R&D Achievements**

In 2016, Chunghwa Telecom's research and development efforts covered key topics including convergence services, the IoT, information security, big data, cloud computing, and intelligent broadband networks. We made impressive progress in the following fields:

- 1) Convergence Services: value-add communications services, intelligent interactive technologies, location-based application technology, content convergence services, E-commerce, mobile lifestyle apps, video convergence services;
- 2) IoT: intelligent IoT service platform, driving behavioral analysis solutions, intelligent manufacturing solutions, health cloud services;
- 3) Information Security: identification solutions, enterprise APT defense solutions;
- 4) Big Data: big data operations, storage and analysis solutions;
- 5) Cloud Computing: virtual data center service solutions, integrated surveillance solutions of information and communications equipment;
- 6) Intelligent Broadband: LTE-WLAN aggregation solutions, site selection and resource allocation solutions for telecom cloud stations, multiband carrier aggregation technology, VoIP four-in-one loading process, intelligent data traffic forecast; and
- 7) Core Technologies: 204 patents filed and 219 granted.

### **High Standards of Corporate Social Responsibility**

Chunghwa Telecom is fully committed to corporate social responsibility. In order to realize our brand value of "leading the way for our customers" and in the spirit of "the responsibility lies where values are created," we consistently strive to improve our business operations and CSR programs in order to build a sustainable and prosperous community.

Our CSR footprint could be seen throughout Taiwan in 2016. When Typhoon Meranti and Typhoon Megi hit in September, which caused tremendous damage across all of Taiwan, we immediately sent more than 4,000 employees into the area for emergency repair. They moved equipment into the disaster area and restlessly worked to restore connections to ensure the people affected and the rescue staff can stay connected to the outside world. In addition, we developed an app, "help open a new horizon", for the visually impaired. The technology is able to convert images into voice, which helps those who are visually impaired to hear the information and see the world in a different way. Over the past ten years, the Chunghwa Telecom Foundation has built 76 "digital neighbors" for accessibility to telecommunication services. With our deep industry expertise, we will grow with our community through culture, education, industry development, and beyond.

Looking forward, we will continue safeguarding people's fundamental needs to communicate with one another by leveraging our advantage on the comprehensive broadband network and expanding the availability of telecommunication services, even in the remote areas of Taiwan. We will spare no effort in bridging the digital divide that exist between urban and rural communities and leveling the digital playing field, in order to create more digital opportunities for people across Taiwan.

## **Awards**

As a leading telecom operator, Chunghwa Telecom has always acted in accordance with the highest corporate governance standards. We remain focused on meeting our customers' demand and generating additional value for all of our stakeholders. We are honored to have received many domestic and international recognitions that endorsed our values and efforts.

In 2016, the World Branding Forum released its winners for the 2016 to 2017 World Branding Awards, and Chunghwa Telecom was bestowed with the Taiwan National Brand Award for the second time and was the only telecom winner from Taiwan. The award was a testament of our exemplary performance in financial strength, marketing, public relations and community engagement. Frost & Sullivan, a reputable international research organization, elected Chunghwa Telecom as the Taiwan LTE Provider of the Year at its 2016 Best Practice Awards. Chunghwa Telecom was also the only telecom service provider in Greater China that was included in the DJSI World and DJSI Emerging Markets Indexes for the fourth consecutive year. Further, we received the highest award among "Trusted Brands" in the telecom category from *Reader's Digest* for the 12<sup>th</sup> year in a row, which demonstrates customers' trust in our innovative and compassionate services. In addition, Chunghwa Telecom received the Platinum Corporate Award for the fourth consecutive year from a reputable magazine, *The Asset*, which reflects our achievements in earnings, management, governance, social and environmental responsibility, as well as investor relations.

The list goes on with many other awards that recognize our efforts in business development, customer service and social responsibility. We are encouraged by these endorsements of our achievements and will continue to perform and deliver for all of our stakeholders.

## **Future Outlook**

In 2017, we will continue our broadband network construction and strengthen our foundation for mobile broadband, fixed-line broadband, value-added and ICT services. Additionally, we will further cross-sell our high-quality and diversified digital convergence services to our customers, while launching promotional plans and closely monitoring our marketing efficiency to further enhance our customer contribution and overall profitability. Given the importance of digital content in convergence service offerings, we will reinforce our partnerships with content providers and channel operators, and proactively communicate with regulators to relax related restrictions to help establish a fair competitive environment for cross-platform services.

Moreover, we will pursue the government's new southbound development policy and explore opportunities to strengthen our cooperation with companies in ASEAN countries in order to promote our products and services of information security, smart homes, ICT and digital surveillance.

Finally, to capitalize on the tremendous opportunities in the digital era, Chunghwa Telecom will continue to invest in R&D, and further develop our team and recruit the best talent. By



integrating the abundant network and marketing resources, closely cooperating with strategic partners, and continuously offering innovative products that cater to our customers' demand, we are confident that we can continue to lead the market, develop innovative product and solutions, and become the engine of the digital economy. Rest assured, we remain committed to delivering additional value to our shareholders, customers, employees and society at large.

Yu Cheng, Chairman and CEO

Chi-Mao Sheih, President

Tse-Shen Tsai, Accounting Officer

March 7, 2017

## **II. 2016 audit committee's audit report concerning the Company's financial statements**

The Board of Directors compiled the Company's 2016 business report, financial statements (including consolidated and parent only financial statements), and proposal of earnings distribution. The independent auditors Hung Peng Lin and Ching Pin Shih of Deloitte & Touche have audited the financial statements and issued audit reports relating to the financial statements. The Audit Committee audited the aforementioned business report, financial statements, and proposal of earnings distribution and found no unconformities. As such, the Audit Committee issued this report in accordance with Article 14-4 of the Securities and Exchange Act and Article 219 of the Company Act. Please examine.

Chunghwa Telecom Co., Ltd.

Zse-hong Tsai

Chairman of the Audit Committee

March 7, 2017

### III. Report on 2016 remuneration allocation for directors and employees

1. The 2016 remuneration allocation for directors and employees was approved by the 5th meeting of the 8th Board of Directors on March 7, 2017.
2. The 2016 remuneration allocation for directors and employees:

Item		NT\$
2016 Net income		40,067,010,097
Profit	(A)	49,514,610,578
Ratio of profit of Directors' remuneration	(B)	0.085%
Directors' remuneration	(C)=(A)*(B)	42,087,419
Ratio of profit of Employees' remuneration	(D)	3.4377%
Employees' remuneration	(E)=(A)*(D)	1,702,163,768

## **Matters for Ratification**

### **I. Ratification of 2016 business report and financial statements**

Proposed by the Board of Directors

Explanation:

1. The Company's 2016 financial statements (including balance sheets, statements of comprehensive income, statements of changes in equity, and statements of cash flows, please refer to Pages 15-21 and Pages 26-31 of this Handbook) have been audited by Hung Peng Lin and Ching Pin Shih of Deloitte & Touche, who have issued unmodified opinions in their audit reports (please refer to Pages 11-14 and 22-25 of this Handbook). The financial statements and the business report (please refer to Page 2-7 of this Handbook) were provided to the Audit Committee for audit. The Audit Committee found no unconformities, and their audit report (please refer to Page 8 of this Handbook) is submitted for examination.
2. This proposal has been approved by the 5th meeting of the 8th Board of Directors on March 7, 2017.
3. The aforementioned statements and report are submitted to the annual general meeting for ratification.

Resolution:

## **INDEPENDENT AUDITORS' REPORT**

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

### **Opinion**

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

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2016 and 2015, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

### **Basis for Opinion**

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

### **Key Audit Matters**

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

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

#### Revenue Recognition on Mobile Services

Key audit matter:

As disclosed in Note 44 to the consolidated financial statements, mobile service revenue is the Company's one source of main revenues and is also an important indicator for the public to evaluate competitiveness and growth potential of telecommunications companies. The calculation of the Company's mobile services revenue highly relies on an automated computer environment in which the systems are complex due to combinations of the various mobile service price plans and process large volumes of data. Consequently, whether mobile services revenue is appropriately recognized is considered as one of the key audit matters.

Corresponding audit procedures:

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

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

#### Revenue Recognition on Project Business

Key audit matter:

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

Corresponding audit procedures:

We understood and tested the Company's design and operating effectiveness of the project revenue's internal controls, including, but not limited to, the authorized personnel's exercise of judgment on whether the Company is acting as a principal or an agent, and then recognize revenue gross or net accordingly.

Moreover, we performed the following audit procedures on a sample basis: (1) inspected project contracts; (2) reviewed evaluation forms prepared by authorized personnel on whether the Company is acting as a principal or an agent; (3) re-calculated the project revenue and checked that they agreed with the accounting records; (4) obtained confirmations; and (5) checked the source documents and tested the amounts received.

## **Other Matter**

We have also audited the parent company only financial statements of Chunghwa Telecom Co., Ltd. as of and for the years ended December 31, 2016 and 2015 on which we have issued an unmodified opinion.

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and IFRS, IAS, IFRIC, and SIC endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China, and for such internal control as management determines is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

## **Auditors' Responsibilities for the Audit of the Consolidated Financial Statements**

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

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

1. Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.

5. Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision, and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

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

Deloitte & Touche  
Taipei, Taiwan  
Republic of China  
March 7, 2017

#### Notice to Readers

*The accompanying consolidated financial statements are intended only to present the consolidated financial position, financial performance and cash flows in accordance with accounting principles and practices generally accepted in the Republic of China and not those of any other jurisdictions. The standards, procedures and practices to audit such consolidated financial statements are those generally applied in the Republic of China.*

*For the convenience of readers, the independent auditors' report and the accompanying consolidated financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language independent auditors' report and consolidated financial statements shall prevail.*



# CHUNGHWA TELECOM CO., LTD. AND SUBSIDIARIES

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

ASSETS	2016		2015	
	Amount	%	Amount	%
<b>CURRENT ASSETS</b>				
Cash and cash equivalents (Notes 3 and 6)	\$ 31,100,342	7	\$ 30,271,423	7
Financial assets at fair value through profit or loss (Notes 3 and 7)	217	-	163	-
Hedging derivative financial assets (Notes 3 and 21)	-	-	498	-
Held-to-maturity financial assets (Notes 3 and 9)	2,139,892	-	1,880,739	-
Trade notes and accounts receivable, net (Notes 3, 4 and 10)	31,022,488	7	26,926,050	6
Receivables from related parties (Note 39)	13,799	-	42,056	-
Inventories (Notes 3, 4, 11 and 40)	7,422,774	2	8,780,190	2
Prepayments (Notes 12 and 39)	2,978,462	1	2,669,021	1
Other current monetary assets (Notes 13 and 28)	4,820,424	1	3,300,783	1
Other current assets (Notes 20, 32 and 40)	2,121,777	-	2,335,921	-
Total current assets	81,620,175	18	76,206,844	17
<b>NONCURRENT ASSETS</b>				
Available-for-sale financial assets (Notes 3 and 8)	2,521,027	1	3,242,827	1
Held-to-maturity financial assets (Notes 3 and 9)	-	-	2,139,801	-
Financial assets carried at cost (Notes 3 and 14)	2,242,820	-	2,267,869	1
Investments accounted for using equity method (Notes 3 and 16)	2,602,859	1	3,145,004	1
Property, plant and equipment (Notes 3, 4, 17, 39 and 40)	291,169,760	65	296,399,146	65
Investment properties (Notes 3, 4 and 18)	8,114,533	2	7,902,405	2
Intangible assets (Notes 3, 4 and 19)	47,353,424	11	50,446,778	11
Deferred income tax assets (Notes 3 and 32)	2,322,226	-	2,061,577	-
Net defined benefit assets (Notes 3, 4 and 28)	918,636	-	10,677	-
Prepayments (Notes 12 and 39)	3,241,060	1	3,611,818	1
Other noncurrent assets (Notes 20 and 40)	5,025,985	1	5,586,346	1
Total noncurrent assets	365,512,330	82	376,814,248	83
<b>TOTAL</b>	<b>\$ 447,132,505</b>	<b>100</b>	<b>\$ 453,021,092</b>	<b>100</b>
<b>LIABILITIES AND EQUITY</b>				
<b>CURRENT LIABILITIES</b>				
Short-term loans (Notes 22 and 40)	\$ 138,000	-	\$ 110,000	-
Financial liabilities at fair value through profit or loss (Notes 3 and 7)	1,356	-	-	-
Hedging derivative financial liabilities (Notes 3 and 21)	586	-	-	-
Trade notes and accounts payable (Note 24)	18,809,664	5	16,300,993	4
Payables to related parties (Note 39)	762,073	-	611,100	-
Current tax liabilities (Notes 3 and 32)	2,467,551	1	4,751,181	1
Other payables (Note 25)	26,418,336	6	25,486,966	6
Provisions (Notes 3 and 26)	118,872	-	189,746	-
Advance receipts (Note 27)	10,059,321	2	9,567,140	2
Current portion of long-term loans (Notes 23 and 40)	-	-	7,692	-
Other current liabilities	1,329,836	-	1,501,269	-
Total current liabilities	60,105,595	14	58,526,087	13
<b>NONCURRENT LIABILITIES</b>				
Long-term loans (Notes 23 and 40)	1,600,000	-	1,742,308	-
Deferred income tax liabilities (Notes 3 and 32)	1,464,220	-	147,975	-
Provisions (Notes 3 and 26)	65,942	-	58,158	-
Customers' deposits (Note 39)	4,609,580	1	4,725,826	1
Net defined benefit liabilities (Notes 3, 4 and 28)	1,536,814	-	7,098,510	2
Deferred revenue (Note 3)	3,546,192	1	3,615,602	1
Other noncurrent liabilities	3,004,492	1	3,097,623	1
Total noncurrent liabilities	15,827,240	3	20,486,002	5
Total liabilities	75,932,835	17	79,012,089	18
<b>EQUITY ATTRIBUTABLE TO STOCKHOLDERS OF THE PARENT (Notes 15 and 29)</b>				
Common stocks	77,574,465	17	77,574,465	17
Additional paid-in capital	168,542,486	38	168,095,615	37
Retained earnings				
Legal reserve	77,574,465	17	77,574,465	17
Special reserve	2,675,419	1	2,675,419	1
Unappropriated earnings	38,342,317	9	42,551,245	9
Total retained earnings	118,592,201	27	122,801,129	27
Other adjustments	(5,404)	-	268,719	-
Total equity attributable to stockholders of the parent	364,703,748	82	368,739,928	81
<b>NONCONTROLLING INTERESTS (Notes 15 and 29)</b>	<b>6,495,922</b>	<b>1</b>	<b>5,269,075</b>	<b>1</b>
Total equity	371,199,670	83	374,009,003	82
<b>TOTAL</b>	<b>\$ 447,132,505</b>	<b>100</b>	<b>\$ 453,021,092</b>	<b>100</b>

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, 2016 AND 2015

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

	2016		2015	
	Amount	%	Amount	%
REVENUES (Notes 30, 39 and 44)	\$ 229,991,428	100	\$ 231,795,104	100
OPERATING COSTS (Notes 11, 28, 31 and 39)	<u>147,551,794</u>	<u>64</u>	<u>148,126,213</u>	<u>64</u>
GROSS PROFIT	<u>82,439,634</u>	<u>36</u>	<u>83,668,891</u>	<u>36</u>
OPERATING EXPENSES (Notes 28, 31 and 39)				
Marketing	25,515,844	11	25,071,317	11
General and administrative	4,536,958	2	4,514,352	2
Research and development	<u>3,784,905</u>	<u>2</u>	<u>3,616,778</u>	<u>1</u>
Total operating expenses	<u>33,837,707</u>	<u>15</u>	<u>33,202,447</u>	<u>14</u>
OTHER INCOME AND EXPENSES (Notes 17, 18 and 31)	<u>(496,649)</u>	<u>-</u>	<u>(105,106)</u>	<u>-</u>
INCOME FROM OPERATIONS	<u>48,105,278</u>	<u>21</u>	<u>50,361,338</u>	<u>22</u>
NON-OPERATING INCOME AND EXPENSES				
Interest income	188,851	-	306,167	-
Other income (Notes 31 and 39)	1,072,106	-	650,073	-
Other gains and losses (Notes 31 and 39)	(446,540)	-	(224,209)	-
Interest expenses	(19,808)	-	(33,144)	-
Share of profits of associates and joint ventures accounted for using equity method (Note 16)	<u>482,660</u>	<u>-</u>	<u>907,988</u>	<u>-</u>
Total non-operating income and expenses	<u>1,277,269</u>	<u>-</u>	<u>1,606,875</u>	<u>-</u>
INCOME BEFORE INCOME TAX	49,382,547	21	51,968,213	22
INCOME TAX EXPENSE (Notes 3 and 32)	<u>8,152,562</u>	<u>3</u>	<u>8,303,868</u>	<u>3</u>
NET INCOME	<u>41,229,985</u>	<u>18</u>	<u>43,664,345</u>	<u>19</u>
TOTAL OTHER COMPREHENSIVE INCOME (LOSS)				
Items that will not be reclassified to profit or loss:				
Remeasurements of defined benefit pension plans (Note 28)	(2,043,414)	(1)	(231,451)	-
Share of remeasurements of defined benefit pension plans of associates and joint ventures (Note 16)	(43,669)	-	(25,360)	-
Income tax benefit relating to items that will not be reclassified to profit or loss (Note 32)	<u>347,380</u>	<u>-</u>	<u>39,347</u>	<u>-</u>
	<u>(1,739,703)</u>	<u>(1)</u>	<u>(217,464)</u>	<u>-</u>

(Continued)

# CHUNGHWA TELECOM CO., LTD. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME YEARS ENDED DECEMBER 31, 2016 AND 2015

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

	2016		2015	
	Amount	%	Amount	%
Items that may be reclassified subsequently to profit or loss:				
Exchange differences arising from the translation of the foreign operations	\$ (169,917)	-	\$ 24,357	-
Unrealized loss on available-for-sale financial assets (Note 31)	(144,467)	-	(645,475)	-
Cash flow hedges (Notes 21 and 31)	(1,085)	-	781	-
Share of exchange differences arising from the translation of the foreign operations of associates and joint ventures (Note 16)	(2,737)	-	6,340	-
Income tax expense relating to items that may be reclassified subsequently (Note 32)	1,703	-	(2,309)	-
	<u>(316,503)</u>	<u>-</u>	<u>(616,306)</u>	<u>-</u>
Total other comprehensive loss, net of income tax	<u>(2,056,206)</u>	<u>(1)</u>	<u>(833,770)</u>	<u>-</u>
TOTAL COMPREHENSIVE INCOME	<u>\$ 39,173,779</u>	<u>17</u>	<u>\$ 42,830,575</u>	<u>19</u>
NET INCOME ATTRIBUTABLE TO				
Stockholders of the parent	\$ 40,067,010	17	\$ 42,805,728	19
Noncontrolling interests	<u>1,162,975</u>	<u>1</u>	<u>858,617</u>	<u>-</u>
	<u>\$ 41,229,985</u>	<u>18</u>	<u>\$ 43,664,345</u>	<u>19</u>
COMPREHENSIVE INCOME ATTRIBUTABLE TO				
TO				
Stockholders of the parent	\$ 38,068,095	17	\$ 41,973,659	19
Noncontrolling interests	<u>1,105,684</u>	<u>-</u>	<u>856,916</u>	<u>-</u>
	<u>\$ 39,173,779</u>	<u>17</u>	<u>\$ 42,830,575</u>	<u>19</u>
EARNINGS PER SHARE (Note 33)				
Basic	<u>\$ 5.16</u>		<u>\$ 5.52</u>	
Diluted	<u>\$ 5.16</u>		<u>\$ 5.50</u>	

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, 2016 AND 2015**  
(In Thousands of New Taiwan Dollars)

	Equity Attributable to Stockholders of the Parent (Notes 15, 21 and 29)										
	Common Stocks	Additional Paid-in Capital	Retained Earnings			Other Adjustments			Total	Noncontrolling Interests (Notes 15 and 29)	Total Equity
			Legal Reserve	Special Reserve	Unappropriated Earnings	Exchange Differences Arising from the Translation of the Foreign Operations	Unrealized Gain (Loss) on Available-for-sale Financial Assets	Cash Flow Hedges			
BALANCE, JANUARY 1, 2015	\$ 77,574,465	\$ 168,047,935	\$ 76,893,722	\$ 2,819,899	\$ 38,231,982	\$ 146,442	\$ 739,988	\$ (283)	\$ 364,454,150	\$ 5,085,185	\$ 369,539,335
Appropriation of 2014 earnings											
Legal reserve	-	-	680,743	-	(680,743)	-	-	-	-	-	-
Special reserve	-	-	-	(144,005)	144,005	-	-	-	-	-	-
Cash dividends distributed by Chunghwa	-	-	-	-	(37,673,263)	-	-	-	(37,673,263)	-	(37,673,263)
Cash dividends distributed by subsidiaries	-	-	-	-	-	-	-	-	-	(350,003)	(350,003)
Reversal of special reserve recognized from land disposal	-	-	-	(475)	475	-	-	-	-	-	-
Changes in additional paid-in capital from investments in associates and joint ventures accounted for using equity method	-	34,405	-	-	-	-	-	-	34,405	(2,688)	31,717
Partial disposal of interests in subsidiaries	-	26,644	-	-	-	-	-	-	26,644	18,484	45,128
Other changes in additional paid-in capital in subsidiaries	-	1,064	-	-	-	-	-	-	1,064	1,559	2,623
Change in additional paid-in capital from share subscription not based on original ownership of a subsidiary	-	(412)	-	-	-	-	-	-	(412)	412	-
Net income for the year ended December 31, 2015	-	-	-	-	42,805,728	-	-	-	42,805,728	858,617	43,664,345
Other comprehensive income (loss) for the year ended December 31, 2015	-	-	-	-	(214,641)	30,815	(649,024)	781	(832,069)	(1,701)	(833,770)
Total comprehensive income for the year ended December 31, 2015	-	-	-	-	42,591,087	30,815	(649,024)	781	41,973,659	856,916	42,830,575
Compensation cost of employee stock option of subsidiaries	-	-	-	-	-	-	-	-	-	36,326	36,326
Subsidiary purchased its treasury stock	-	(14,021)	-	-	(62,298)	-	-	-	(76,319)	(416,451)	(492,770)
Net increase in noncontrolling interests	-	-	-	-	-	-	-	-	-	39,335	39,335
BALANCE, DECEMBER 31, 2015	77,574,465	168,095,615	77,574,465	2,675,419	42,551,245	177,257	90,964	498	368,739,928	5,269,075	374,009,003
Appropriation of 2015 earnings											
Cash dividends distributed by Chunghwa	-	-	-	-	(42,551,146)	-	-	-	(42,551,146)	-	(42,551,146)
Cash dividends distributed by subsidiaries	-	-	-	-	-	-	-	-	-	(709,971)	(709,971)
Change in additional paid-in capital from investments in associates and joint ventures accounted for using equity method	-	(1,081)	-	-	-	-	-	-	(1,081)	(1,543)	(2,624)
Partial disposal of interests in subsidiaries	-	58,206	-	-	-	-	-	-	58,206	25,422	83,628
Change in additional paid-in capital for not participating in the capital increase of a subsidiary	-	389,740	-	-	-	-	-	-	389,740	785,769	1,175,509
Net income for the year ended December 31, 2016	-	-	-	-	40,067,010	-	-	-	40,067,010	1,162,975	41,229,985
Other comprehensive loss for the year ended December 31, 2016	-	-	-	-	(1,724,792)	(131,189)	(141,849)	(1,085)	(1,998,915)	(57,291)	(2,056,206)
Total comprehensive income for the year ended December 31, 2016	-	-	-	-	38,342,218	(131,189)	(141,849)	(1,085)	38,068,095	1,105,684	39,173,779
Share-based payment transactions of subsidiaries	-	6	-	-	-	-	-	-	6	17,189	17,195
Net increase in noncontrolling interests	-	-	-	-	-	-	-	-	-	4,297	4,297
BALANCE, DECEMBER 31, 2016	\$ 77,574,465	\$ 168,542,486	\$ 77,574,465	\$ 2,675,419	\$ 38,342,317	\$ 46,068	\$ (50,885)	\$ (587)	\$ 364,703,748	\$ 6,495,922	\$ 371,199,670

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, 2016 AND 2015 (In Thousands of New Taiwan Dollars)

	2016	2015
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Income before income tax	\$ 49,382,547	\$ 51,968,213
Adjustments to reconcile income before income tax to net cash provided by operating activities:		
Depreciation	29,106,148	30,368,178
Amortization	3,378,821	3,079,912
Provision for doubtful accounts	940,991	518,507
Interest expenses	19,808	33,144
Interest income	(188,851)	(306,167)
Dividend income	(390,856)	(218,232)
Compensation cost of share-based payment transactions	17,195	36,326
Share of profits of associates and joint ventures accounted for using equity method	(482,660)	(907,988)
Loss (gain) on disposal of investments accounted for using equity method	409	(8,058)
Impairment loss on available-for-sale financial assets	577,333	25,910
Impairment loss on financial assets carried at cost	-	81,269
Impairment loss on investments accounted for using equity method	-	8,213
Provision for inventory and obsolescence	191,846	198,312
Impairment loss on property, plant and equipment	595,828	138,093
Reversal of impairment loss on investment properties	(147,527)	(142,047)
Impairment loss on intangible assets	99	-
Loss (gain) on disposal of financial instruments	(490)	449
Loss on disposal of property, plant and equipment	48,249	109,040
Loss on disposal of intangible assets	-	20
Valuation loss (gain) on financial assets and liabilities at fair value through profit or loss, net	1,153	(163)
Loss (gain) on foreign exchange, net	(80,595)	53,870
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Financial assets held for trading	149	1,142
Trade notes and accounts receivable	(4,612,984)	(1,171,880)
Receivables from related parties	28,257	38,952
Inventories	1,165,570	(1,852,049)
Prepayments	61,317	(326,494)
Other current monetary assets	(241,590)	(357,402)
Other current assets	214,144	889,213
Increase (decrease) in:		
Trade notes and accounts payable	2,497,437	(2,223,264)
Payables to related parties	150,973	203,135
Other payables	(76,619)	1,643,582
Provisions	(63,090)	(24,130)
Advance receipts	503,531	1,134,218
Other current liabilities	6,784	(112,490)

(Continued)

# CHUNGHWA TELECOM CO., LTD. AND SUBSIDIARIES

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

	2016	2015
Deferred revenue	\$ (69,410)	\$ 217,515
Net defined benefit plans	<u>(8,538,838)</u>	<u>438,821</u>
Cash generated from operations	73,995,079	83,535,670
Interest paid	(19,905)	(33,179)
Income tax paid	<u>(9,023,263)</u>	<u>(7,177,502)</u>
Net cash provided by operating activities	<u>64,951,911</u>	<u>76,324,989</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisition of available-for-sale financial assets	(30,000)	-
Proceeds from disposal of available-for-sale financial assets	29,784	-
Acquisition of time deposits and negotiable certificate of deposit with maturities of more than three months	(4,119,307)	(11,493,807)
Proceeds from disposal of time deposits and negotiable certificate of deposit with maturities of more than three months	2,834,171	11,824,317
Acquisition of held-to-maturity financial assets	-	(1,002,167)
Proceeds from disposal of held-to-maturity financial assets	1,875,000	4,450,000
Acquisition of financial assets carried at cost	(22,980)	(29,077)
Proceeds from disposal of financial assets carried at cost	9,609	1,684
Proceeds from capital reduction of financial assets carried at cost	37,223	43,921
Acquisition of investments accounted for using equity method	(30,000)	(5,607)
Proceeds from disposal of investments accounted for using equity method	182,108	16,156
Net cash outflow on acquisition of subsidiaries	-	(113,983)
Acquisition of property, plant and equipment	(23,516,783)	(25,083,954)
Proceeds from disposal of property, plant and equipment	44,065	3,549
Acquisition of intangible assets	(282,809)	(10,380,167)
Acquisition of investment properties	(52)	-
Decrease in other noncurrent assets	63,915	72,133
Interest received	197,790	336,873
Cash dividends received	<u>1,065,520</u>	<u>906,697</u>
Net cash used in investing activities	<u>(21,662,746)</u>	<u>(30,453,432)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from short-term loans	1,415,000	2,750,000
Repayment of short-term loans	(1,387,000)	(3,258,111)
Repayment of long-term loans	(150,000)	(189,655)
Decrease in customers' deposits	(294,463)	(36,919)
Increase (decrease) in other noncurrent liabilities	(104,481)	12,240
Cash dividends	(42,551,146)	(37,673,263)
Partial disposal of interest in subsidiaries without losing control	83,628	45,128
Cash dividends distributed to noncontrolling interests	(709,971)	(350,003)
Change in other noncontrolling interests	<u>1,179,806</u>	<u>(485,048)</u>
Net cash used in financing activities	<u>(42,518,627)</u>	<u>(39,185,631)</u>

(Continued)

# CHUNGHWA TELECOM CO., LTD. AND SUBSIDIARIES

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

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	2016	2015
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	\$ <u>58,381</u>	\$ <u>25,894</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	828,919	6,711,820
CASH AND CASH EQUIVALENTS, BEGINNING OF THE YEAR	<u>30,271,423</u>	<u>23,559,603</u>
CASH AND CASH EQUIVALENTS, END OF THE YEAR	<u>\$ 31,100,342</u>	<u>\$ 30,271,423</u>

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

(Concluded)

## **INDEPENDENT AUDITORS' REPORT**

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

### **Opinion**

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

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

### **Basis for Opinion**

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

### **Key Audit Matters**

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

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

#### **Revenue Recognition on Mobile Service**

Key audit matter:

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



Corresponding audit procedures:

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

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

### Revenue Recognition on Project Business

Key audit matter:

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

Corresponding audit procedures:

We understood and tested the Company's design and operating effectiveness of the project revenue's internal controls, including, but not limited to, the authorized personnel's exercise of judgment on whether the Company is acting as a principal or an agent, and then recognize revenue gross or net accordingly.

Moreover, we performed the following audit procedures on a sample basis: (1) inspected project contracts; (2) reviewed evaluation forms prepared by authorized personnel on whether the Company is acting as a principal or an agent; (3) re-calculated the project revenue and checked that they agreed with the accounting records; (4) obtained confirmations; and (5) checked the source documents and tested the amounts received.

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

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

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

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

## **Auditors' Responsibilities for the Audit of the Financial Statements**

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

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

1. Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the financial statements. We are responsible for the direction, supervision, and performance of the audit. We remain solely responsible for our audit opinion.

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

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

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

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

Deloitte & Touche  
Taipei, Taiwan  
Republic of China  
March 7, 2017

Notice to Readers

*The accompanying financial statements are intended only to present the financial position, financial performance and cash flows in accordance with accounting principles and practices generally accepted in the Republic of China and not those of any other jurisdictions. The standards, procedures and practices to audit such financial statements are those generally applied in the Republic of China.*

*For the convenience of readers, the independent auditors' report and the accompanying financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language independent auditors' report and financial statements shall prevail.*

# CHUNGHWA TELECOM CO., LTD.

## BALANCE SHEETS

DECEMBER 31, 2016 AND 2015

(In Thousands of New Taiwan Dollars)

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

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

# CHUNGHWA TELECOM CO., LTD.

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

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

(Continued)

# CHUNGHWA TELECOM CO., LTD.

## STATEMENTS OF COMPREHENSIVE INCOME YEARS ENDED DECEMBER 31, 2016 AND 2015

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

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

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

(Concluded)

**CHUNGHWA TELECOM CO., LTD.**

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

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

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

# CHUNGHWA TELECOM CO., LTD.

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

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

(Continued)



# CHUNGHWA TELECOM CO., LTD.

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

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

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

(Concluded)

## II. Ratification of 2016 profit allocation proposal

Proposed by the Board of Directors

Explanation:

1. The Company's 2016 financial statements have been finalized, and earnings shall be distributed as stipulated in the 2016 Earnings Distribution Proposal on the following page. It is proposed that shareholders be issued cash dividends of NT\$38,336,525,081. Common stock shareholders will receive cash dividends of NT\$4.9419 per share based on their number of shares held as recorded on the ex-dividend base day (specified below). The aforementioned cash dividends will be distributed to shareholders from the 2016 earnings as a priority.
2. Each shareholder's cash dividend shall be issued to the rounded-down full NT dollar (fractional amount be ignored). After which, the Chairman shall be authorized to distribute or reallocate any remaining amount. The ex-dividend base date shall be July 29, 2017.
3. Should the Company's capital position change in the future, requiring adjustments in the cash distribution ratio, the Chairman shall be authorized to manage the change in the cash distribution ratio.
4. This proposal has been resolved in the 5th meeting of the 8th Board of Directors on March 7, 2017 and is hereby submitted to the shareholders at the Annual General Meeting for approval.

Resolution:

**Chunghwa Telecom Co., Ltd.**  
**2016 Earnings Distribution Proposal**

Units: NT\$

<b>Source items:</b>		
Unappropriated retained earnings of pervious years		98,725
Pension actuarial gains (losses) recognized in retained earnings	(1,673,597,890)	
Adjustment due to changes from long-term investments accounted for using equity method	(51,193,257)	
Net income of 2016	40,067,010,097	38,342,218,950
Appropriation of Legal reserve (note 1)		0
Appropriation of special reserves according to Securities and Exchange Act		(5,403,815)
<b>Distributable retained earnings for 2016</b>		<b>38,336,913,860</b>
<b>Distribution items:</b>		
Shareholders' cash dividends (total of 7,757,446,545 shares x NT\$4.9419 per share)		(38,336,525,081)
<b>Unappropriated retained earnings</b>		<b>388,779</b>
<b>Notes:</b>		
<ol style="list-style-type: none"> <li>1. The accumulated legal reserve that we had set aside in the past years has amounted to the aggregate par value of our outstanding share capital.</li> <li>2. The amount of "Unappropriated retained earnings of pervious years" is the same as the amount of "Unappropriated retained earnings" on the Earnings Distribution Proposal approved at the 2016 annual general meeting.</li> </ol>		

Yu Cheng, Chairman and CEO

Chi-Mao Sheih, President

Tse-Shen Tsai, Accounting Officer

## Matters for Discussion

### I. The amendment to the Procedures for Acquisition or Disposal of Assets

Proposed by the Board of Directors

Explanation:

1. The proposed revision is to be amended in accordance with the amendment of "Regulations Governing the Acquisition and Disposal of Assets by Public Companies (herein referred to as the "Regulations")" announced by the Financial Supervisory Commission (FSC) on February 9, 2017, "Business Mergers and Acquisitions Act"(hereinafter referred to as the "Act"), and "Taiwan Stock Exchange Corporation Procedures for Verification and Disclosure of Material Information of Companies with Listed Securities"(hereinafter referred to as the "Disclosure Procedures").
2. The main amendments are summarized as follows:
  - (1) Article 12 and 14 are amended:

to adjust only the "government agency" in Chinese version of the "Regulations" for clarification.
  - (2) Article 16 is amended:

to specify domestic money market funds as funds issued by domestic securities investment trust enterprises with the permission of the FSC.
  - (3) Article 31 is amended:
    - a. to amend the Company's procedures of merger or consolidation, split, acquisition, or assignment of shares.
    - b. to exempt the requirement of obtaining opinion on reasonableness issued by an expert in the case of a merger by the Company's subsidiary in which it directly or indirectly holds 100 percent, or in the case of a merger between subsidiaries in which the Company directly or indirectly holds 100 percent.
    - c. to remove duplicate paragraph.
  - (4) Article 33 is amended:

to specify the filing time limits for public disclosure when participating in a merger, split, acquisition, or assignment of shares.
  - (5) Article 39 is amended:
    - a. to specify the filing time limits for public disclosure when acquiring or disposing of assets.
    - b. to loosen up the public disclosure requirement on transaction amount of equipment for a public company with paid-in capital of NT\$10 billion or more.
  - (6) Article 40 is amended:

to specify the filing time limits for correction or supplementary information on public disclosure.
3. "The comparison Table of the Proposed Amendment to the Procedures for the Acquisition or Disposal of Assets of Chunghwa Telecom Co., Ltd. is attached hereto.
4. This proposal has been approved by resolution of the 5th meeting of the Company's 8th Board of Directors on March 7, 2017, and is hereby submitted for resolution by the Annual General Meeting of shareholders.

## The Comparison Table of the Proposed Amendment to the Procedures for the Acquisition or Disposal of Assets of Chunghwa Telecom Co., Ltd.

1. All 38 articles adopted by Annual General Meeting on June 25, 2004.
2. Articles 1, 3, 4, 5, 6, 7, 8, 11, 12, 18, 19, 20, 21, 22, 24, 30, 31, 33, 36, and 38 amended by Annual General Meeting on May 30, 2006.
3. Articles 1, 3, 6, 8, 11, 14, 17, 18, 22, 24, 31, 33, and 37 amended by Annual General Meeting on June 15, 2007.
4. Articles 7, 20, 23, 24, 25, 26, 27, 28, 29, 30, 31, 40, and 44 amended, and articles 9, 12, 21, 22, and 47 added by Annual General Meeting on June 19, 2008.
5. Articles 6, 7, 8, 9, 10, 11, 12, 13, 14, , 18, 22, 23, 25, 28, 29, 31, 32, 33, 37, 39, 40, 43, 44, and the heading of Chapter 3 amended, and Article 47 deleted by Annual General Meeting on June 19, 2009.
6. Articles 2, 8, 10, 11, 12, 13, 14, 15, 16, 31, 33, 39, 40, 41, 42, 43 and 44 and the titles of Chapter 4 and 5 amended by Annual General Meeting on June 22, 2012.
7. Articles 4, 7, 8, 16, 19, 23, 25, 26, 29, 31 and 44 amended by Annual General Meeting on June 25, 2013.
8. Articles 1, 3, 4, 11, 12, 13, 14, 16, 17, 22, 30, 39 and the heading of Chapter 3 amended by Annual General Meeting on June 24, 2014.
9. [Articles 12, 14, 16, 31, 33, 39 and 40 amended by Annual General Meeting on June 23, 2017.](#)

Amended Articles	Current Articles	Explanation
<p>Article 12</p> <p>When the transaction amount for the acquisition or disposal of real property or equipment reaches NT\$300 million or more, the Company, unless transacting with <u>a government agency</u>, engaging others to build on its own land, engaging others to build on leased land, or acquiring or disposing of equipment for operating use, shall obtain an appraisal report using the format requested by the Financial Supervisory Commission prior to the date of occurrence of the event , and shall further comply with the following provisions:</p> <ol style="list-style-type: none"> <li>1. In the event of special circumstances such as a limited price, specified price or a special price which must be given as a reference basis for the transaction price, such transaction shall be submitted in advance to the Board for approval. The same procedure shall be followed in the event of future changes to any transaction terms.</li> <li>2. Appraisals from two or more professional appraisers shall be obtained when the transaction amount is NT\$1 billion or more.</li> <li>3. When the professional appraiser's appraisal results in any one of the following circumstances, unless all the appraisal results for the assets to be acquired are higher than the transaction amount, or all the appraisal results for the assets to be</li> </ol>	<p>Article 12</p> <p>When the transaction amount for the acquisition or disposal of real property or equipment reaches NT\$300 million or more, the Company, unless transacting with <u>a government agency</u>, engaging others to build on its own land, engaging others to build on leased land, or acquiring or disposing of equipment for operating use, shall obtain an appraisal report using the format requested by the Financial Supervisory Commission prior to the date of occurrence of the event , and shall further comply with the following provisions:</p> <ol style="list-style-type: none"> <li>1. In the event of special circumstances such as a limited price, specified price or a special price which must be given as a reference basis for the transaction price, such transaction shall be submitted in advance to the Board for approval. The same procedure shall be followed in the event of future changes to any transaction terms.</li> <li>2. Appraisals from two or more professional appraisers shall be obtained when the transaction amount is NT\$1 billion or more.</li> <li>3. When the professional appraiser's appraisal results in any one of the following circumstances, unless all the appraisal results for the assets to be acquired are higher than the transaction amount, or all the appraisal results for the assets to be</li> </ol>	<p>Only the term "government agency" in Chinese version (Article 9 of "Regulations") was adjusted for clarification.</p>

Amended Articles	Current Articles	Explanation
<p>disposed of are lower than the transaction amount, a CPA shall be engaged to perform the appraisal in accordance with the provisions of Statements of Auditing Standards No. 20, published by the ARDF, and to provide an opinion regarding the reason for the discrepancy and appropriateness of the transaction price:</p> <p>(1) Where the discrepancy between the appraisal and the transaction amount is 20% or more of the transaction amount.</p> <p>(2) Where the discrepancy between the appraisals of two or more professional appraisers is 10% or more of the transaction amount.</p> <p>4. When an appraisal is conducted before a contract establishment date, no more than three months may pass between the date of the appraisal report and the contract establishment date. However, when the publicly announced current value for the same period is used and not more than six months have elapsed, an opinion may still be issued by the original professional appraiser.</p>	<p>disposed of are lower than the transaction amount, a CPA shall be engaged to perform the appraisal in accordance with the provisions of Statements of Auditing Standards No. 20, published by the ARDF, and to provide an opinion regarding the reason for the discrepancy and appropriateness of the transaction price:</p> <p>(1) Where the discrepancy between the appraisal and the transaction amount is 20% or more of the transaction amount.</p> <p>(2) Where the discrepancy between the appraisals of two or more professional appraisers is 10% or more of the transaction amount.</p> <p>4. When an appraisal is conducted before a contract establishment date, no more than three months may pass between the date of the appraisal report and the contract establishment date. However, when the publicly announced current value for the same period is used and not more than six months have elapsed, an opinion may still be issued by the original professional appraiser.</p>	
<p>Article 14</p> <p>When the Company acquires or disposes of memberships or intangible assets and the transaction amount reaches NT\$300 million or more, except in transactions of telecommunications licenses and spectrum with <u>a government agency</u>, the Company shall engage a CPA prior to the date of occurrence of the event to provide an opinion on the reasonableness of the transaction price, and the CPA shall comply with the provisions of Statement of General Auditing Procedures No. 20 published by the ARDF.</p> <p>The Company's acquisition or disposal of memberships or intangible assets shall be performed in accordance with the Company's relevant operating guidelines and the Powers and Duties Chart of BOD and the Management.</p>	<p>Article 14</p> <p>When the Company acquires or disposes of memberships or intangible assets and the transaction amount reaches NT\$300 million or more, except in transactions of telecommunications licenses and spectrum with <u>a government agency</u>, the Company shall engage a CPA prior to the date of occurrence of the event to provide an opinion on the reasonableness of the transaction price, and the CPA shall comply with the provisions of Statement of General Auditing Procedures No. 20 published by the ARDF.</p> <p>The Company's acquisition or disposal of memberships or intangible assets shall be performed in accordance with the Company's relevant operating guidelines and the Powers and Duties Chart of BOD and the Management.</p>	<p>Only the term "government agency" in Chinese version (Article 9 of "Regulations") was adjusted for clarification.</p>
<p>Article 16</p> <p>When acquiring or disposing real property from or to a related party, or when acquiring or disposing assets other</p>	<p>Article 16</p> <p>When acquiring or disposing real property from or to a related party, or when acquiring or disposing assets other</p>	<p>In accordance with Article 14 of amended "Regulations", domestic money market funds refer to the funds issued by</p>

Amended Articles	Current Articles	Explanation
<p>than real property from or to a related party and the transaction amount reaches NT\$300 million or more, except in trading of government bonds or bonds under repurchase and resale agreements, or subscription or <u>redemption of money market funds issued by domestic securities investment trust enterprises</u>, the Company may not proceed to enter into a transaction contract or make a payment until the following matters have been approved by the audit committee and the Board of Directors:</p> <ol style="list-style-type: none"> <li>1. The purpose, necessity, and anticipated benefit of the acquisition or disposal of assets;</li> <li>2. The reason for choosing the related party as a transaction counterpart;</li> <li>3. With respect to the acquisition of real property from a related party, information regarding assessment of the reasonableness of the anticipated transaction terms in accordance with the provisions of Articles 17 and 18;</li> <li>4. The date and price at which the related party originally acquired the real property, the original transaction counterpart, and that transaction counterpart's relationship to the Company and the related party;</li> <li>5. Monthly cash flow forecasts for the year commencing from the anticipated month of contract signing, and assessment of the necessity of the transaction and the reasonableness of the use of funds;</li> <li>6. An appraisal report from a professional appraiser or a CPA's opinion obtained in compliance with the Article 8, Article 12 and Article 14; and</li> <li>7. Restrictive conditions and other important stipulations associated with the transaction.</li> </ol> <p>If approval of more than half of all audit committee members as required in the preceding paragraph is not obtained, the transaction may be implemented if approved by more than two-thirds of all directors, and the resolution of the audit committee shall be recorded in the minutes of the Board of Directors meeting.</p> <p>The calculation of the transaction</p>	<p>than real property from or to a related party and the transaction amount reaches NT\$300 million or more, except in trading of government bonds or bonds under repurchase and resale agreements, or subscription or <u>redemption of domestic money market funds</u>, the Company may not proceed to enter into a transaction contract or make a payment until the following matters have been approved by the audit committee and the Board of Directors:</p> <ol style="list-style-type: none"> <li>1. The purpose, necessity, and anticipated benefit of the acquisition or disposal of assets;</li> <li>2. The reason for choosing the related party as a transaction counterpart;</li> <li>3. With respect to the acquisition of real property from a related party, information regarding assessment of the reasonableness of the anticipated transaction terms in accordance with the provisions of Articles 17 and 18;</li> <li>4. The date and price at which the related party originally acquired the real property, the original transaction counterpart, and that transaction counterpart's relationship to the Company and the related party;</li> <li>5. Monthly cash flow forecasts for the year commencing from the anticipated month of contract signing, and assessment of the necessity of the transaction and the reasonableness of the use of funds;</li> <li>6. An appraisal report from a professional appraiser or a CPA's opinion obtained in compliance with the Article 8, Article 12 and Article 14; and</li> <li>7. Restrictive conditions and other important stipulations associated with the transaction.</li> </ol> <p>If approval of more than half of all audit committee members as required in the preceding paragraph is not obtained, the transaction may be implemented if approved by more than two-thirds of all directors, and the resolution of the audit committee shall be recorded in the minutes of the Board of Directors meeting.</p>	<p>domestic securities investment trust enterprises with the permission of the FSC.</p>

Amended Articles	Current Articles	Explanation
<p>amounts referred to Paragraph 1 shall be made in accordance with Article 39, Paragraph 2 herein, and "within the preceding year" as used herein refers to the year preceding the date of occurrence of the current transaction. Items that have been approved by the Board of Directors and recognized by the supervisors need not be counted toward the transaction amount.</p> <p>With respect to the acquisition or disposal of business-use equipment between the Company and its subsidiaries, the Company's Board of Directors may pursuant to the Powers and Duties Chart of BOD and the Management delegate the Chairman to decide such matters when the transaction is within a certain amount and have the decisions subsequently submitted to and ratified by the next Board of Directors meeting.</p>	<p>The calculation of the transaction amounts referred to Paragraph 1 shall be made in accordance with Article 39, Paragraph 2 herein, and "within the preceding year" as used herein refers to the year preceding the date of occurrence of the current transaction. Items that have been approved by the Board of Directors and recognized by the supervisors need not be counted toward the transaction amount.</p> <p>With respect to the acquisition or disposal of business-use equipment between the Company and its subsidiaries, the Company's board of directors may pursuant to the Powers and Duties Chart of BOD and the Management delegate the Chairman to decide such matters when the transaction is within a certain amount and have the decisions subsequently submitted to and ratified by the next Board of Directors meeting.</p>	
<p>Article 31</p> <p>When the Company engages in mergers and consolidations, splits, acquisitions, and strategic investments, relevant operating procedures and authorized amount limits shall be determined on the basis of the Company's Inter-Company's Investment Operating Guidelines and the Powers and Duties Chart of BOD and the Management.</p> <p>When the Company engages in a merger or consolidation, split, acquisition, or assignment of shares, the responsible department shall, prior to <u>convening the Board of Directors to resolve</u> on the matter, engage a CPA, attorney, or securities underwriter to express an opinion on the reasonableness of the share exchange ratio, acquisition price, or distribution of cash or other property to shareholders, and <u>submit it to the Board of Directors</u> for discussion and approval. <u>However, the requirement of obtaining an aforesaid opinion on reasonableness issued by an expert may be exempted in the case of a merger by a public company of a subsidiary in which it directly or indirectly holds 100 percent of the issued shares or authorized capital, and in the case of a merger between subsidiaries in</u></p>	<p>Article 31</p> <p>When the Company engages in mergers and consolidations, splits, acquisitions, and strategic investments, relevant operating procedures and authorized amount limits shall be determined on the basis of the Company's Inter-Company's Investment Operating Guidelines and the Powers and Duties Chart of BOD and the Management.</p> <p>When the Company engages in a merger or consolidation, split, acquisition, or assignment of shares, the responsible department shall, prior to <u>meeting with the audit committee to deliberate</u> on the matter, engage a CPA, attorney, or securities underwriter to express an opinion on the reasonableness of the share exchange ratio, acquisition price, or distribution of cash or other property to shareholders, and <u>such opinion shall be submitted to the audit committee for approval firstly, and then submitted to the Board</u> for discussion and approval.</p> <p><u>If approval of more than half of all audit committee members as required in the preceding paragraph is not obtained, the transaction may be implemented if approved by more than two-thirds of all directors, and the</u></p>	<p>To comply with Article 22 of amended "Regulations" Article 6 of the "Act", and Article 7 of the Procedures, revise Paragraph 2 and add the proviso, and remove duplicate paragraph.</p>



Amended Articles	Current Articles	Explanation
<p><u>which the public company directly or indirectly holds 100 percent of the respective subsidiaries' issued shares or authorized capital.</u></p>	<p><u>resolution of the audit committee shall be recorded in the minutes of the Board of Directors meeting.</u></p>	
<p>Article 33</p> <p>When participating in a merger or consolidation, split, or acquisition, except when another law prescribes otherwise or special factors must be reported in advance to the Financial Supervisory Commission for approval, the Company shall conduct Board meetings and shareholders meetings on the same day as the company that participates in the merger or consolidation, split, or acquisition, and shall resolve matters concerning the merger or consolidation, split, or acquisition.</p> <p>When participating in an assignment of shares, the Company shall call a Board meeting the same day as the other company participating in the assignment of shares, except another law prescribes otherwise or special factors must be reported in advance to the Financial Supervisory Commission for approval.</p> <p>When the Company participates in a merger, split, acquisition, or assignment of shares, the following information in its entirety shall be recorded in writing, preserved for five years, and made available for inspection:</p> <ol style="list-style-type: none"> <li>1. Basic information on personnel: includes persons who, prior to public knowledge thereof, participated in plans to carry out mergers, splits, acquisition, or assignment of shares, or those persons implementing the plan. Details of each person should include occupation, full name, ID number (passport number in the case of a foreign national).</li> <li>2. Important dates: includes dates of signing of letters of intent and memorandums; commissioning of financial services or legal advisors; signing of contracts and Board of Directors meetings.</li> <li>3. Important documents and meeting minutes: includes plans regarding mergers, splits, acquisitions or assignment of shares; letters of intent or memorandums, important contracts, and Board of Directors</li> </ol>	<p>Article 33</p> <p>When participating in a merger or consolidation, split, or acquisition, except when another law prescribes otherwise or special factors must be reported in advance to the Financial Supervisory Commission for approval, the Company shall conduct Board meetings and shareholders meetings on the same day as the company that participates in the merger or consolidation, split, or acquisition, and shall resolve matters concerning the merger or consolidation, split, or acquisition.</p> <p>When participating in an assignment of shares, the Company shall call a Board meeting the same day as the other company participating in the assignment of shares, except another law prescribes otherwise or special factors must be reported in advance to the Financial Supervisory Commission for approval.</p> <p>When the Company participates in a merger, split, acquisition, or assignment of shares, the following information in its entirety shall be recorded in writing, preserved for five years, and made available for inspection:</p> <ol style="list-style-type: none"> <li>1. Basic information on personnel: includes persons who, prior to public knowledge thereof, participated in plans to carry out mergers, splits, acquisition, or assignment of shares, or those persons implementing the plan. Details of each person should include occupation, full name, ID number (passport number in the case of a foreign national).</li> <li>2. Important dates: includes dates of signing of letters of intent and memorandums; commissioning of financial services or legal advisors; signing of contracts and Board of Directors meetings.</li> <li>3. Important documents and meeting minutes: includes plans regarding mergers, splits, acquisitions or</li> </ol>	<p>To comply with the "Disclosure Procedures".</p>

Amended Articles	Current Articles	Explanation
<p>meeting minutes.</p> <p>When the Company participates in a merger, split, acquisition, or assignment of shares, it shall, <u>within the filing time limits of “Taiwan Stock Exchange Corporation Procedures for Verification and Disclosure of Material Information of Companies with Listed Securities”</u>, report and submit the information according to prescribed format from Subparagraphs 1 and 2 of the foregoing paragraph to the Financial Supervisory Commission for reference via an Internet data system.</p> <p>When the Company engages in a merger, split, acquisition, or assignment of shares with a company that is not listed on the stock exchange or whose stock is not sold at securities brokerages, the Company shall sign an agreement with the said company, and implement the transaction according to Paragraphs 3 and 4.</p>	<p>assignment of shares; letters of intent or memorandums, important contracts, and Board of Directors meeting minutes.</p> <p>When the Company participates in a merger, split, acquisition, or assignment of shares, it shall, <u>before the start of trading hours on the next business day after the Board passes the proposal</u>, report and submit the information according to prescribed format from Subparagraphs 1 and 2 of the foregoing paragraph to the Financial Supervisory Commission for reference via an Internet data system.</p> <p>When the Company engages in a merger, split, acquisition, or assignment of shares with a company that is not listed on the stock exchange or whose stock is not sold at securities brokerages, the Company shall sign an agreement with the said company, and implement the transaction according to Paragraphs 3 and 4.</p>	
<p>Article 39</p> <p>When acquiring or disposing of assets, the Company shall publicly announce and report relevant information in accordance with its type on the Financial Supervisory Commission's designated web site in the prescribed format <u>within the filing time limits of “Taiwan Stock Exchange Corporation Procedures for Verification and Disclosure of Material Information of Companies with Listed Securities”</u>:</p> <ol style="list-style-type: none"> <li>1. Acquisition or disposal of real property from a related party, or acquisition or disposal of assets other than real property from or to a related party where the transaction amount reaches NT\$300 million or more; provided, this shall not apply to trading of government bonds or bonds under repurchase and resale agreements, or subscription or <u>redemption of money market funds issued by domestic securities investment trust enterprises</u>.</li> <li>2. Merger or consolidation, split, acquisition, or assignment of shares.</li> <li>3. Losses from derivative trading exceeding the overall limit or individual contract limit specified in</li> </ol>	<p>Article 39</p> <p>When acquiring or disposing of assets, the Company shall publicly announce and report relevant information in accordance with its type on the Financial Supervisory Commission's designated web site in the prescribed format <u>before the start of trading hours on the next business day</u> after the event in any of the following circumstances:</p> <ol style="list-style-type: none"> <li>1. Acquisition or disposal of real property from a related party, or acquisition or disposal of assets other than real property from or to a related party where the transaction amount reaches NT\$300 million or more; provided, this shall not apply to trading of government bonds or bonds under repurchase and resale agreements, or subscription or <u>redemption of domestic money market funds</u>.</li> <li>2. Merger or consolidation, split, acquisition, or assignment of shares.</li> <li>3. Losses from derivative trading exceeding the overall limit or individual contract limit specified in these Procedures.</li> <li>4. Where an asset transaction other</li> </ol>	<ol style="list-style-type: none"> <li>1. To comply with the “Disclosure Procedures”.</li> <li>2. In accordance with Article 14 of amended “Regulations”, domestic money market funds refer to the funds issued by domestic securities investment trust enterprises with the permission of the FSC.</li> <li>3. In accordance with Article 30 of amended “Regulations”, the public disclosure requirement on transaction amount of equipment used for operating purposes for a public company with paid-in capital of NT\$10 billion or more was loosen up to meet operation needs.</li> </ol>

Amended Articles	Current Articles	Explanation
<p>these Procedures.</p> <p>4. <u>Where</u> the type of asset acquired or disposed is equipment used for operating purposes, the transaction counterparty is not a related party, and the transaction amount <u>reaches NT\$1 billion or more.</u></p> <p>5. Where real property is acquired under an arrangement on engaging others to build on the company's own land, engaging others to build on rented land, joint construction and allocation of housing units, joint construction and allocation of ownership percentages, or joint construction and separate sale, and the amount the company expects to invest in the transaction <u>reaches NT\$500 million or more.</u></p> <p>6. Where an asset transaction other than any of those referred to in the preceding three subparagraphs, or an investment in the mainland China area reaches NT\$300 million or more; provided, this shall not apply to the following circumstances:</p> <p>(1) Trading of government bonds.</p> <p>(2) Trading of bonds under repurchase/resale agreements, or subscription or <u>redemption of money market funds issued by domestic securities investment trust enterprises.</u></p> <p>The amounts of the transactions in the foregoing paragraph shall be calculated as follows:</p> <ol style="list-style-type: none"> <li>1. The amount of any individual transaction.</li> <li>2. The cumulative transaction amount of acquisitions and disposals of the same type of target with the same transaction counterparty within one year.</li> <li>3. The cumulative transaction amount of real property acquisitions and disposals (cumulative acquisitions and disposals, respectively) within the same development project during one year.</li> <li>4. The cumulative amount of acquisitions and disposals (cumulative acquisitions and disposals, respectively) of the same security during one year.</li> </ol>	<p>than any of those referred to in the preceding three subparagraphs, or an investment in the mainland China area reaches NT\$300 million or more; provided, this shall not apply to the following circumstances:</p> <p>(1) Trading of government bonds.</p> <p>(2) Trading of bonds under repurchase/resale agreements, or subscription or <u>redemption of domestic money market funds.</u></p> <p>(3) The type of asset acquired or disposed is equipment used for operating purposes, the transaction counterparty is not a related party, and the transaction amount <u>does not exceed NT\$500 million.</u></p> <p>(4) Where real property is acquired under an arrangement on engaging others to build on the company's own land, engaging others to build on rented land, joint construction and allocation of housing units, joint construction and allocation of ownership percentages, or joint construction and separate sale, and the amount the company expects to invest in the transaction <u>is less than NT\$500 million.</u></p> <p>The amounts of the transactions in the foregoing paragraph shall be calculated as follows:</p> <ol style="list-style-type: none"> <li>1. The amount of any individual transaction.</li> <li>2. The cumulative transaction amount of acquisitions and disposals of the same type of target with the same transaction counterparty within one year.</li> <li>3. The cumulative transaction amount of real property acquisitions and disposals (cumulative acquisitions and disposals, respectively) within the same development project during one year.</li> <li>4. The cumulative amount of acquisitions and disposals (cumulative acquisitions and disposals, respectively) of the same security during one year.</li> </ol> <p>As used in preceding paragraph, during one year refers to a period of one year after the date on which the</p>	

Amended Articles	Current Articles	Explanation
<p>As used in preceding paragraph, during one year refers to a period of one year after the date on which the transaction took place. Items announced in accordance with regulations need not be included.</p>	<p>transaction took place. Items announced in accordance with regulations need not be included.</p>	
<p>Article 40</p> <p>The Company shall compile monthly reports on the status of derivative trading engaged in up to the end of the preceding month by itself and any subsidiaries that are not domestic public companies, and shall enter the information in the prescribed format into the information reporting website designated by the Financial Supervisory Commission by the tenth day of each month.</p> <p>When the Company at the time of public announcement makes an error or omission concerning an item required by regulations to be publicly announced and so is required to correct it, all the items shall be again publicly announced and reported in their entirety.</p> <p>When any of the following circumstances occurs with respect to a transaction that the Company has already publicly announced and reported in accordance with the foregoing paragraph, a public report of relevant information shall be made on the information reporting website designated by the Financial Supervisory Commission <u>within the filing time limits of “Taiwan Stock Exchange Corporation Procedures for Verification and Disclosure of Material Information of Companies with Listed Securities”</u>:</p> <ol style="list-style-type: none"> <li>1. Change, termination, or dissolution of a contract signed in connection with the original transaction.</li> <li>2. The merger or consolidation, split, acquisition, or assignment of shares is not completed by the scheduled date set forth in the contract.</li> <li>3. Change to the originally publicly announced and filed information.</li> </ol>	<p>Article 40</p> <p>The Company shall compile monthly reports on the status of derivative trading engaged in up to the end of the preceding month by itself and any subsidiaries that are not domestic public companies, and shall enter the information in the prescribed format into the information reporting website designated by the Financial Supervisory Commission by the tenth day of each month.</p> <p>When the Company at the time of public announcement makes an error or omission concerning an item required by regulations to be publicly announced and so is required to correct it, all the items shall be again publicly announced and reported in their entirety.</p> <p>When any of the following circumstances occurs with respect to a transaction that the Company has already publicly announced and reported in accordance with the foregoing paragraph, a public report of relevant information shall be made on the information reporting website designated by the Financial Supervisory Commission <u>before the start of trading time on the following business day after the day</u> of occurrence of the fact:</p> <ol style="list-style-type: none"> <li>1. Change, termination, or dissolution of a contract signed in connection with the original transaction.</li> <li>2. The merger or consolidation, split, acquisition, or assignment of shares is not completed by the scheduled date set forth in the contract.</li> <li>3. Change to the originally publicly announced and filed information.</li> </ol>	<p>To comply with the “Disclosure Procedures”.</p>

Resolution:

## Elections: Supplementary election of the Company's independent director of 8th board of directors

Proposed by the Board of Directors

Explanation:

1. Thirteen directors (including five independent directors) were elected at the 2016 annual general meeting, among whom one independent director did not assume the position. It is proposed to hold a supplementary election for independent director of 8th board of directors at the 2017 AGM in accordance with the Company Act and the Articles of Incorporation, for a term beginning on June 23, 2017 and ending on June 23, 2019.
2. The Company adopts the candidate nomination system in the election of directors and conducts the nomination according to Article 192-1 of the Company Act. The matters regarding professional qualifications, restrictions on shareholding and on concurrent post, affirmation of independence, and other matters for compliance with respect to independent directors, the Company has executed in accordance with relevant regulations governed by the securities competent authorities. The list of independent director candidates has been reviewed and approved by the 6th meeting of the 8th board of directors on May 8, 2017 as follows:

Category	Name	Education	Selected Positions	Title	Shareholding (Unit: Share)
Independent Director	Yu-Fen Lin	National Taiwan University, the double degree of Bachelor of Arts in Political Science and Bachelor of Laws	Partner, Kao & Partners, Attorneys-at-Law	Managing Partner, Law & Honor, Attorneys-at-Law	0

3. For the Directors Election Regulations of Chunghwa Telecom Co., Ltd., please refer to page 82~84 of this handbook.
4. Please vote.

Election results:

## Other Matters: Release of restrictions on competitive activities on director

Proposed by the Board of Directors

Explanation:

1. According to Article 209 of the Company Act, a director who does anything for himself or on behalf of another person that is within the scope of the company's business, shall explain to the meeting of shareholders the essential contents of such an act and secure its approval.
2. Should the Company' directors concurrently act as directors or run business for the other companies which have the same or similar scope of business with Chunghwa, it is required by law to propose to the shareholders' meeting to release the restriction on competitive activities thereon.
3. It is proposed to release the restriction on competitive activities on Director Yih-Yu Lei with regard to the following duty of the companies:

Director	Duty at the competing company	Same or similar lines of business of the company
Yih-Yu Lei	Gogoro Taiwan Limited Director of Board	Power Equipment Installation and Maintenance, Energy Service, Radio-Frequency Equipment Import, Other Business Services
	Gogoro Taiwan Sales and Services Limited Director of Board	Power Equipment Installation and Maintenance, Energy Service, Leasing, Other Business Services
	Gogoro Europe B.V. Director of Board	Leasing, Management and Consulting Service, Other Business Services, Residential and Commercial Building Development, Rental and Sales, Development of Special District/Zone, Real Estate Rental, Engineering Consulting

4. This proposal has been resolved in the 6th meeting of the 8th Board of Directors on May 8, 2017 and is hereby submitted to the shareholders at the Annual General Meeting for approval.

Resolution:

**Extemporaneous Motions**

**Meeting Adjourned**

# The Company Rules

## I. Articles of Incorporation of Chunghwa Telecom Co., Ltd.

1. All of 26 articles adopted by Promoters Meeting on June 11, 1996.
2. Article 15 amended by the Annual General Meeting on December 26, 1997.
3. Articles 2 and 22 amended by the Annual General Meeting on November 25, 1998.
4. Paragraph 1 of Article 21 amended by the Extraordinary General Meeting on July 13, 1999.
5. Articles 2, 3, 6, 7, 10, 12, 13, 19, 21, and 22 amended, and Articles 6-1 and 7-1 added by the Annual General Meeting on June 4, 2001.
6. Articles 2, 7, 8, 9, 10, 19, 21, and 22 amended and Article 5 deleted by the Annual General Meeting on June 21, 2002.
7. Article 2 amended by the Annual General Meeting on June 17, 2003.
8. Articles 2 and 22 amended by the Annual General Meeting on June 25, 2004.
9. Articles 2, 3, 6, 10, 11, 12, 14, 17, 19, 20, 22, 23, and 25 amended, and Articles 12-1, 18-1, and 18-2 added by the Annual General Meeting on May 30, 2006.
10. Articles 2, 12-1, 14, 22, and 23 amended, and Article 18-1 deleted by the Annual General Meeting on June 15, 2007.
11. Articles 2, 6, and 14 amended by the Annual General Meeting on June 19, 2008.
12. Articles 2, 6, 12 and 13 amended, and Article 6-1 deleted by the Annual General Meeting on June 19, 2009.
13. Article 2 amended by the Annual General Meeting on June 18, 2010.
14. The title of Chapter IV and Articles 12, 12-1, 14, 19, 20, and 22 amended by the Annual General Meeting on June 22, 2012.
15. The title of Chapter IV, Articles 2, 12, 13, 18-2, 21 and 22 amended; Articles 17 and 18 deleted, and Article 13-1 added by the Annual General Meeting on June 25, 2013.
16. Articles 2 and 15 amended by the Annual General Meeting on June 24, 2014.
17. Articles 1, 2 and 7-1 amended by the Annual General Meeting on June 26, 2015.
18. Articles 2 and 22 amended, and Article 22-1 added by the Annual General Meeting on June 24, 2016.

### Chapter I - General Provisions

Article 1 - The Company is promoted by the Ministry of Transportation and Communications ("MOTC") and others and organized under the Telecommunication Law and the provisions of the Company Law pertaining to companies limited by shares and is named "Chunghwa Telecom Co., Ltd.".

The English name of the Company is "Chunghwa Telecom Co., Ltd.".

Article 2 - The scope of business of the Company shall be as follows:

- 1) Telecommunications Enterprise of Type 1 (G901011);
- 2) Telecommunications Enterprise of Type 2 (G902011);
- 3) Installation of the Computer Equipment Business (E605010);
- 4) Telecommunication Equipment Wholesale Business (F113070);
- 5) Telecommunication Equipment Retail Business (F213060);
- 6) Telecommunication Engineering Business (E701010);
- 7) Installation of the Radio-Frequency Equipment whose operation is controlled by the Telecommunication Business (E701030);
- 8) Information Software Service Business (I301010);
- 9) Rental Business (JE01010);
- 10) Other Wholesale Businesses 【telephone card and IC card】 (F199990);



- 11) Management and Consulting Service Business (I103060);
- 12) Other Corporation Service Businesses 【telephone card, IC card, the research and development of the telecommunication facilities and devices, accepting payment on behalf of businesses and institutions, telecommunication equipment inspection services, and agency sale of entry tickets and travel fares】 (I299990);
- 13) Other Retail Businesses 【telephone card and IC card】 (F299990);
- 14) Online Certification Service Businesses (I213010);
- 15) Supply of Electronic Information Service Businesses (I301030);
- 16) Information Process Service Business (I301020);
- 17) Telecommunication Account Application Agency Businesses (IE01010);
- 18) Residential and Commercial Building Development, Rental and Sales Businesses (H701010);
- 19) Development of Special District/Zone Businesses (H701040);
- 20) Real Estate Rental Businesses (H703100);
- 21) Community Common Cable Television Equipment Businesses (J502020);
- 22) Exhibition Service Businesses (JB01010);
- 23) Parking Lot Operation Businesses (G202010);
- 24) Environmental Assessment Service Businesses (J101050);
- 25) Computer and Accessories Manufacturing Service (CC01110);
- 26) Information Storage and Process Equipment Manufacturing Businesses (CC01120);
- 27) Other Electrical and Electronic Machinery & Equipment Manufacturing Businesses 【IC or Optical Card Scanners】 (CC01990);
- 28) Radio-Frequency Equipment Import Business (F401021);
- 29) General Hotel Business (J901020);
- 30) Computer and Administrative Device Wholesale Businesses (F113050);
- 31) Information Software Wholesale Businesses (F118010);
- 32) Computer and Administrative Device Retail Businesses (F213030);
- 33) Information Software Rental Businesses (F218010);
- 34) Energy Service Business (IG03010);
- 35) Engineering Consulting Business (I101061);
- 36) Refrigeration and Air-Conditioning Consulting Business (E602011);
- 37) Automatic Control Equipment Engineering Business (E603050);
- 38) Lighting Equipment Installation Business (E603090);
- 39) Non-store Retailer Business (F399040);
- 40) Power Equipment Installation and Maintenance Business (E601010) ;
- 41) Electrical Appliance Installation Business (E601020) ;
- 42) Instrument Installation Engineering Business (EZ05010) ;
- 43) Television Program Production Business (J503021) ;
- 44) Broadcasting and Television Program Launch Business (J503031) ;
- 45) Broadcasting and Television Advertising Business (J503041) ;
- 46) Production, Licensed Recording and Supply of Videotape Program Business (J503051) ;
- 47) The Third Party Payment Business (I301040);
- 48) Water Pipe Construction Business (E501011);
- 49) Machinery and Equipment Manufacturing" (CB01010);

50) Except the permitted business, the Company may engage in other businesses not prohibited or restricted by laws and regulations (ZZ99999).

The Company may handle endorsement and guaranty affairs in accordance with the Operation Procedures for the Endorsement and Guaranty of the Company if there is any business needs.

Article 3 - In the event that the Company invests in another business as a limited-liability shareholder, the total investment amount may not exceed the total paid-in capital of the Company. Investment not related to telecommunications may not exceed 20% of the total paid-in capital of the Company.

Article 4 - The head office of the Company is located in Taipei City and the Company may establish branch office(s) and liaison office(s) at appropriate locations within or outside the territory of the Republic of China.

Article 5 - (Deleted)

## **Chapter II - Shares**

Article 6 - The registered capital of the Company shall be One Hundred Twenty Billion New Taiwan Dollars (NT\$120,000,000,000), divided into Twelve Billion (12,000,000,000) common shares with a par value of Ten New Taiwan Dollars (NT\$10) per share. All the shares shall be issued in increments.

Two Hundred Million shares shall be set aside from the aforementioned common shares for the use as Stock Warrants, Preferred Shares with Warrants, and Bonds with Warrants.

For issuance of Stock Warrants where the price is less than the closing price of the Company shares on the date of issuance, or where the price of the treasury stocks to be transferred to the employees is less than the average price of the repurchased shares, shareholders representing the majority of the issued shares shall be present and approval by at least  $\frac{2}{3}$  of the presenting shareholders shall be required.

Article 6-1 - (Deleted)

Article 7 - The share certificates of the Company shall bear the shareholders' names, be signed or sealed by the Chairman and at least two other directors, be serially numbered, affixed with the corporate seal of the Company, and legalized by the Ministry of Economic Affairs ("MOEA") (hereinafter referred to as the "Competent Authority") or its certified issuance registration agency before they are issued in accordance with the relevant laws.

When issuing new shares, the Company may print a share certificate in respect of the full number of shares to be issued at that time, and shall arrange for the certificate to be kept by a centralized securities custodian institution, in which case the preceding requirement for serial numbering of share certificates shall not apply.

Shares issued by the Company may also be exempt from printing of share certificates, and the Company shall arrange for such shares to be recorded by a centralized securities custodian institution, in which case the preceding 2 paragraphs shall not apply.

Any affair with regard to the shares of the Company shall be handled in accordance with the Guidelines for Handling Stock Affairs by a Public Issuing Company.

Article 7-1 - The stocks issued by the Company, upon the request of the centralized securities custodian institution, may be merged in exchange for the security with large par value.

### **Chapter III - Shareholders' Meeting**

Article 8 - Shareholders' meetings shall be of two types: annual general meeting and extraordinary general meeting. Except as otherwise provided in the Company Law, shareholders' meetings shall be convened by the Board of Directors.

The annual general meeting shall be convened at least once every year and shall be convened within six (6) months after the close of each fiscal year except as otherwise approved by the Competent Authority for good cause shown.

The extraordinary general meeting shall be convened at such time as may be deemed necessary pursuant to relevant laws and regulations.

Article 9 - Where a shareholders' meeting is convened by the Board of Directors, the chairman of the Company shall act as the chairman of the shareholders' meeting. In the event that the chairman is to be on leave of absence or cannot attend the meeting for any cause whatsoever, the vice-chairman, or where the chairman and the vice-chairman are both to be on leave of absence or cannot attend the meeting for any cause whatsoever, one of the directors appointed by the chairman, or, where there is no appointment, a director elected among all the directors, may act on behalf of the chairman.

Where a shareholders' meeting is convened by a person with authority other than the Board of Directors, such convener shall act as the chairman of the shareholders' meeting. Where there are two (2) or more conveners, the chairman of the meeting shall be elected amongst such conveners.

Article 10 - Unless otherwise specified by the law, each shareholder of the Company shall be entitled to one vote for each share held.

Article 11 - (Deleted)

#### **Chapter IV – Directors and Audit Committee**

Article 12 - The Company shall have seven (7) to fifteen (15) directors to form the Board of Directors, one-fifth (1/5) of whom shall be expert representatives.

The Board of Directors shall have one (1) chairman elected by and from among the directors with the concurrence of a general majority of the directors present at a meeting attended by at least two-thirds (2/3) of the directors and shall have one (1) vice-chairman elected in the same way.

The Board of Directors may establish various functional committees according to the laws and regulations or business needs.

The Company shall establish an audit committee starting from the 7<sup>th</sup> Board of Directors. The provisions related to supervisors under the Company Act, Securities and Exchange Act and other laws shall apply mutatis mutandis to the audit committee.

Article 12-1 In accordance with Articles 181-2 and 183 of the Securities and Exchange Act, the Company shall, beginning in the fifth commencement, establish at least three (3) independent directors to be included in the number of directors designated in the preceding Article.

The elections for directors of the Company shall proceed with the candidate nomination system; the shareholders shall elect the directors from among the nominees listed in the roster of candidates.

Elections for independent and non-independent directors shall proceed concurrently, and the number of elected directors shall be calculated separately.

The professional qualifications, restrictions on shareholding and concurrent post, affirmation of independence, nomination and election processes, exercise of authority and other requirements of independent directors shall be determined and executed in accordance with the Securities and Exchange Law and related regulations.

Article 13- The tenure of office of the directors will be three (3) years and they will be eligible for re-election.

In the event that the representative of a government or corporate body is elected as the director, the government or corporate body may reappoint such representative at anytime to supplement the original tenure.

Article 13-1- The remuneration and compensation of the directors shall be determined by the Board of Directors based on the participation and the contribution of each director in the business operation of the Company and referencing the regular standards of other corporations in the similar industry.

Article 14 - The following items shall be decided by the Board of Directors:

- 1) Increase or reduction of capital of the Company.
- 2) Regulations with regard to the organization of the Company.
- 3) Establishment, amendment, and abolishment of the branch offices within or outside the territory of the Republic of China.
- 4) Examination of annual business budgets and final closing report.
- 5) Distribution of earnings or off-set of deficit.
- 6) The amount and term of domestic and foreign loan.
- 7) The amount of Investment.
- 8) Issuance of corporate bonds.
- 9) Policies regarding personnel matters, material purchase, accounting, and internal control.
- 10) Amendment and modifications of regulations of organization of the Board of Directors and the functional committee.
- 11) Amendment and modification of regulations with regard to the scope of duties of independent directors.
- 12) Appointment and removal of the president, executive vice presidents, presidents of branch offices, president of Telecommunication Laboratories, and president of Telecommunication Training Institute.
- 13) Appointment and removal of the chiefs of finance, accounting and internal audit.
- 14) The remuneration standard for employees.
- 15) Policies regarding recommendation of chairman and president to subsidiaries.
- 16) Other duties and powers granted by the law or by shareholders' meeting.

Article 15 - The Board of Directors' meeting shall be convened at least one time a quarter. The special Board of Directors' meeting shall be convened at such time as may be deemed necessary. Both meetings shall be convened by the chairman of the Company and such chairman shall act as the chairman of the meeting. In the event that the chairman cannot attend the meeting for any cause whatsoever, the vice-chairman, or where the chairman and the vice-chairman are both to be on leave of absence or cannot attend the meeting for any cause whatsoever, one of the directors appointed by the chairman, or, where there is no appointment, a director elected among all the directors, may act on behalf of the chairman.

Article 16 - All directors shall attend every Board of Directors' meeting; in case any of the directors cannot attend the meeting for any cause whatsoever, he/she may designate the other directors to act on his/her behalf and such agent shall present the proxy setting forth the vested power of the purpose of the meeting each time. However, each agent shall only accept one appointment from the directors.

Except as otherwise provided in the relevant laws or this Articles of Incorporation, any resolution of a Board of Directors' meeting shall be adopted at a meeting which at least general majority of the directors attend and at which meeting a general majority of the directors present vote in favor of such resolution.

Minutes of meetings shall be prepared for all resolutions adopted at a Board of Directors' meeting.

Article 17 - (deleted).

Article 18 - (deleted).

Article 18-1 (deleted).

Article 18-2 The Company may purchase liability insurance policies for directors during the term of their offices and within the scope of damages results from the performances of their official duties in order to reduce and disperse the risks for the Company and shareholders due to the fault, mistake, violation of duty, and inaccurate or misleading statements on part of the directors during the performance of their duties.

## **Chapter V - Managerial Officers**

Article 19 - The Company shall have one (1) chief executive officer, to be served as a concurrent post by the chairman or by the president, to lead the managers in proposing and making significant policy decisions regarding to the Company and all affiliates of the Company.

The Company shall have one (1) president, several executive vice presidents and presidents of branch offices, and one (1) president for each of Telecommunication Laboratories and Telecommunication Training Institute.

The president shall be a director with professional knowledge in telecommunication business.

Article 20 - The president shall, in accordance with the decision made by the Board of Directors and with instruction from the chief executive officer, take charge of the affairs of the Company, and shall have the authority to sign on behalf of the Company; the executive vice presidents, presidents of branch offices,

president of Telecommunication Laboratories, and president of Telecommunication Training Institute shall assist the president in all affairs, and shall have the power to sign on behalf of the Company within the scope set by rules decided by the president or authorized in writing by the president.

The division of powers and duties between the Board of Directors and the president shall be determined in accordance with the Powers and Duties Chart.

## **Chapter VI - Accounting**

Article 21 - The fiscal year of the Company shall be from January 1 to December 31 of each year.

At the end of each fiscal year, the Board of Directors shall prepare the following statements and reports, and shall submit the same to the annual general meeting for adoption according to the relevant legal procedures.

- 1) Report of Operations;
- 2) Financial statements;
- 3) Resolution governing the distribution of earnings or the making-up of losses.

Article 22 - In annual profit-making year, the Company should distribute 1.7% - 4.3% of profit as employees' compensation, and not more than 0.17% of profit should be distributed as Directors' compensation, however, that if the Company has any accumulated losses, an amount to offset should be reserved in advance.

The Company should by a resolution adopted by a majority vote at a meeting of the Board of Directors attended by two-thirds of the total number of directors, have the profit distributable as employees' compensation in the preceding paragraph distributed in the form of share or in cash; and report at the General Meeting of shareholders.

The provisions in the two preceding Paragraphs have retrospective effect and should apply to the determination of compensation to employees and Directors for the fiscal year of 2015.

Article 22-1- After the Company has paid all taxes due at the end of each fiscal year, the Company shall make up its accumulated losses and set aside ten percent (10 %) earning as a statutory revenue reserve before distribution of earnings, except when the accumulated amount of such legal reserve equals to the Company's total authorized capital. The Company may also set aside or reverse special reserve(s) according to the business needs or laws and regulations. A minimum of fifty percent (50%) of the total amount of the remaining amount, along with the accumulated retained earnings from the

previous year, shall be distributed to shareholders. Cash dividends shall not be less than fifty percent (50%) of the total dividends, but when the cash dividends fall below NT\$0.1 per share, dividends may be distributed in the form of shares.

The percentage of distribution stipulated in the preceding paragraph shall take actual profitability of the year, capital budgeting, and status of finance into consideration, and shall be executed following a resolution of shareholders' meeting.

Dividends and bonuses shall not be distributed where the Company has no earning.

Where the Company has no loss, it may distribute the capital reserve derived from the income of issuance of new shares at a premium, in whole or in part, by issuing new shares or by cash to shareholders in proportion to the number of their existing shares being held by each of them.

Article 23 - In the event that the Company issues new shares, excluding ad hoc ratification by the central competent authority, the Company shall reserve ten percent (10%) to fifteen percent (15%) of the total newly issued shares for preemptive subscription by employees of the Company.

#### **Chapter VII - Supplementary Provisions**

Article 24 - The regulations with regard to the organization of the Board of Directors and the Company shall be separately adopted.

Article 25 - Matters not specified herein shall be resolved in accordance with the Company Law.

Article 26 - This Articles of Incorporation was adopted on June 11, 1996.



## **II. Ordinance of Shareholders Meetings of Chunghwa Telecom Co., Ltd.**

1. All 20 articles adopted by Annual General Meeting on December 26<sup>th</sup>, 1997.
2. Articles 3, 4, 8, 11, 12, and 13 amended by Annual General Meeting on June 4, 2001.
3. Articles 4, 5, 9, 12, 13, and 15 amended by Annual General Meeting on June 21, 2002.
4. All 18 articles amended by Annual General Meeting on June 25, 2004.
5. Articles 2, 4, 10, 12, and 15 amended, and articles 2-1, 2-2, 13, 13-1, 13-2, and 19 added by Annual General Meeting on May 30, 2006.
6. Articles 2, 2-1, 2-2, 4, 5, 8, 12, 13, 13-1, 14, 15 and 19 amended by the 2012 Annual General Meeting on June 22, 2012.

### **Article 1 (Applicable principles)**

Except where prescribed by laws and regulations or Articles of Incorporation of Chunghwa Telecom Co., Ltd. (herein referred to as "the Company"), the rules of procedure at shareholders' meetings shall be as prescribed in this ordinance.

### **Article 2 (Convening a shareholders' meeting and notification)**

Except where prescribed by laws and regulations, the Board of Directors shall convene shareholders' meetings.

All shareholders shall be notified 30 days in advance of an annual general meeting. Those shareholders who hold less than 1,000 shares of registered stock may be notified 30 days in advance by means of posting a public announcement on the Market Observation Post System website. All shareholders shall be notified 15 days in advance when an extraordinary general meeting is convened. Those shareholders who hold less than 1,000 shares of registered stock may be notified 15 days in advance by means of posting a public announcement on the Market Observation Post System website.

The subject of the meeting shall be explicitly stated in notices and public announcements. When the relevant parties grant their consent, notification may be performed using electronics means.

The election or dismissal of directors, supervisors, amendment to the Articles of Incorporation, the dissolution, merger, split up of the Company, or anything as stated in Article 185, Paragraph 1 of the Company Act, Article 26-1 and Article 43-6 of the Securities and Exchange Act, or any other issues prohibited by law from being proposed as special motions in the shareholders meeting shall be stated as the causes of convention and shall not be proposed as special motions in the meeting.

### **Article 2-1 (Preparation and public announcement of the shareholders' meeting handbook)**

A handbook shall be prepared for the convention of shareholders meeting. This handbook and other materials for the meeting shall be publicly announced in compliance with the regulations of the competent authority.

The time and method of the public announcement mentioned in the foregoing paragraph, the main items stated in the meeting handbook, and other compliance requirements shall in all cases be as prescribed by the "Regulations

**Article 2-2 (Handling of proposals made before the shareholders' meeting)**

Shareholders holding at least 1% of the total number of issued shares may submit annual general meeting proposals to the Company in writing; such proposals shall be formally included among discussion proposals after approval by the Board of Directors.

The company shall publicly announce acceptance of shareholders' proposals, the place of acceptance, and the acceptance period before the book closure date prior to the annual general meeting. The acceptance period may be no shorter than 10 days.

Shareholders' proposals shall be included in the agenda and stated in the subject of the annual general meeting when, following review by the board, none of the following circumstances apply:

1. The proposal is not a matter that may be resolved at the annual general meeting.
2. The proposing shareholder holds less than 1% of issued shares at the time of book closure date prior to that annual general meeting.
3. The proposal was not submitted during the publicly announced acceptance period in the foregoing paragraph.
4. The proposing shareholder has submitted more than one proposal, the proposal exceeds 300 characters in length (including punctuation marks), or the proposal was not submitted in writing.

The Company shall notify those shareholders who submitted proposals of the results of process of the proposals prior to the notification of annual general meeting. With regard to any shareholder proposals not included in the meeting agenda, the Board shall include in the meeting handbook an explanation of why each proposal was not included; such proposals shall not be included in the agenda, and shall not be mentioned in the minutes.

If the shareholders' proposals to be included in the meeting agenda according to Paragraph 3 are of the same kind, they may be joined as a whole.

**Article 3 (Location and time of meeting)**

A shareholders' meeting shall be held at the Company's business premises or at another location convenient for shareholders' attendance and suitable for holding such a meeting. The meeting shall not start earlier than 9:00 a.m. or later than 3:00 p.m.

**Article 4 (The exercise of voting rights and attendance by proxy)**

When the Company calls for shareholders' meeting, shareholders may elect to exercise the voting right through electronic voting or on the site.

The aforementioned exercise of voting right through electronic voting by shareholders shall be made at the designated electronic voting platform of the Company in compliance with the Company Act, Securities and Exchange Act, and Regulations Governing the Administration of shareholders services of Public Companies (hereinafter, "Regulations Governing the Administration of shareholders

services”).

A shareholder who cannot attend a shareholders’ meeting in person may present a proxy letter issued by the Company, stating scope of authorization and designating a proxy.

One shareholder may present one proxy letter and appoint only one proxy. A proxy letter must be delivered to the Company at least five days before the shareholders’ meeting. The first proxy letter shall have precedence if repeated proxy letters are delivered. This restriction shall not apply, however, to those shareholders who declare to retract their prior appointment of a proxy.

If a shareholder wishes to attend the shareholders’ meeting in person after delivering a proxy letter to the Company, the shareholder shall, no later than 2 days before the shareholders’ meeting at the latest, notify the Company in writing to retract his or her proxy appointment. In the case a shareholder fails to make a retraction before the deadline, the vote cast by the proxy in the meeting under authorization shall stand.

Where specific shareholder exercises voting right through electronic voting and also appoints a proxy with proxy letter to attend the shareholders’ meeting, the vote cast by the proxy in the meeting under authorization shall stand.

#### **Article 5 (Registration of shareholders for attendance)**

Shareholders or their proxies shall be admitted to the shareholders’ meeting on the basis of attendance passes, attendance sign-in cards, or other attendance verification. Those persons soliciting proxy letters shall carry other personal identification to facilitate checking.

The Company shall set up a registration desk for the registration of the shareholders or proxies to the meeting by presenting the attendance sign-in cards.

Government or juristic shareholders may send more than one representative to a shareholders’ meeting. However, a juristic person attending a shareholders’ meeting as a proxy may send only one representative to attend.

#### **Article 6 (Chairman, personnel attending in a non-voting capacity)**

The Chairman shall serve as chairman of a shareholders’ meeting convened by the Board. If the Chairman has taken leave of absence or cannot attend for some reason, the Vice Chairman shall act in his stead. If the Chairman and Vice Chairman have both taken leave of absence or cannot attend for some reason, the Chairman shall designate one director to act in his stead. If the Chairman has not designated anyone to act as chairman, the directors shall jointly elect one from among themselves to serve as meeting chairman.

If a shareholders’ meeting has been convened by a person with convening powers other than the Board of Directors, the convener shall serve as the chairman. If there are two or more conveners, they shall jointly elect one from among themselves to serve as the chairman.

The company may designate commissioned lawyers, certified public accountants, or other relevant personnel to attend the shareholders’ meeting in a non-voting capacity.

#### **Article 7 (Audio or video recording of shareholders' meeting)**

The Company shall make an audio or video recording of the entire proceedings of the shareholders' meeting, and shall preserve the recording for at least one year. If, however, a shareholder initiates a lawsuit in accordance with Article 189 of the Company Act, such a recording shall be preserved until the conclusion of the lawsuit.

#### **Article 8 (Calculation of number of shares present, holding of meeting)**

The calculation of attendance to shareholders' meeting of the Company shall be based on the quantity of shares being represented. The number of shares present shall include the quantity of shares represented by the shareholders present as stated in the attendance sign-in cards and the quantity of shares represented through electronic voting. There shall be no double counting of the shares for shareholders present in the meeting but elect to exercise their voting rights through electronic voting.

When the designated time arrives, the chairman shall immediately call the meeting to order if shareholders representing a majority of the total number of issued shares are in attendance. The chairman may announce a delay in the start of the meeting, however, if the statutory number of shares is not present. The meeting may be delayed no more than twice, and the total delay may not exceed one hour.

If the number of shares present is still insufficient after two delays, but shareholders representing at least one-third of all issued shares are present, the meeting may make tentative resolutions with the consent of a majority of the voting rights in attendance. The Company shall then notify all shareholders of the tentative resolutions, and another shareholders' meeting shall be convened within one month.

If, after making a tentative resolution according to the procedures in the foregoing paragraph, shareholders representing a majority of issued shares become present at an in-progress meeting, the chairman may, in accordance with Article 174 of the Company Act, resubmit any tentative resolutions already made at the meeting for another vote.

#### **Article 9 (Discussion of proposals)**

The Board shall determine the agenda of a shareholders' meeting if it has convened that meeting. The meeting shall proceed in accordance with the agenda. The agenda may not be changed without a resolution of the shareholders' meeting.

If a shareholders' meeting has been convened by some person with convening powers other than the Board, the regulations of the foregoing paragraph shall still apply.

The chairman may not arbitrarily announce adjournment in the absence of a resolution to that effect before the conclusion of deliberation of items (including special motions) on the agenda determined as prescribed in the two foregoing paragraphs. If the chairman announces adjournment in violation of the rules of procedure, the attending shareholders may select a person to serve as chairman and continue the meeting with the consent of shareholders representing a

majority of voting rights present.

Apart from the circumstances in the foregoing paragraph, after a meeting has adjourned, shareholders may not further select a chairman and continue the meeting at the original site or some other location.

The chairman must provide opportunities for adequate explanations and discussion in connection with proposals, revised proposals and special motions submitted by shareholders. The chairman may announce an end of discussion and put the motion to a vote when he considers it has reached the extent for making a resolution.

#### **Article 10 (Speaking)**

Before speaking, an attending shareholder or proxy shall first fill out a speaking slip specifying therein the major points of his or her speech, his or her shareholder account number (or attendance pass number), and account name. The chairman shall determine speaking order.

An attending shareholder or proxy who only submits a speaking slip but fails to actually speak shall be deemed to have not spoken. If the content of a shareholder's speech is inconsistent with that stated on his or her speaking slip, the content actually spoken shall take precedence.

An attending shareholder or proxy may question about report items on the agenda only after the chairman or person designated by the chairman has read or reported all report items. Each speaker may speak no more than twice concerning each motion, and each instance may not exceed 5 minutes. Although a speaker may speak an additional five minutes with the chairman's approval, only one such extension may be given.

When an attending shareholder or proxy gives a speech with regard to the items for ratification and discussion listed on the agenda, and to the proposals made in the special motion session, the regulations in the foregoing paragraph governing speaking time and number of speaking opportunities shall apply.

When an attending shareholder or proxy gives a speech with regard to non-proposal issues during the special motion session, the regulations in Paragraph 3 governing speaking time and number of speaking opportunities shall apply.

The chairman may stop an attending shareholder or proxy if the person's speech goes past the prescribed time limit or exceeds the bounds of the issue at hand. The chairman may direct disciplinary personnel (or security personnel) to take necessary measures to maintain order in the meeting place or ensure the smooth progress of the meeting if a speaker still refuses to stop talking or other circumstances interfering with meeting procedures occur.

Other shareholders may not interfere with a speaking shareholder or proxy without obtaining the consent of the chairman and the speaking shareholder or proxy. The chairman shall stop anyone who violates this rule, and the regulations in the foregoing paragraph shall apply.

When a government or juristic shareholder sends two or more representatives to attend the shareholders' meeting, the shareholder may designate only one person to speak on each occasion.

The chairman may personally respond, or designate another relevant person to do so, after a shareholder has spoken.

#### **Article 11 (Calculation of number of voting shares, recusal system)**

Votes at shareholders' meetings shall be calculated on the basis of number of shares.

When votes are taken on resolutions, the number of shares held by shareholders without voting rights shall not be included in the total number of issued shares.

A shareholder may not vote on a matter, and may not appoint another shareholder to exercise his or her voting rights, if the shareholder's conflict of interest with regard the motion may be detrimental to the company's interests.

In the foregoing paragraph, the number of voting rights that may not be exercised shall not be calculated among the total voting rights of the shareholders in attendance.

With the exception of trust enterprises and agents of stock affairs approved by the competent authority in charge of securities, a single person acting as the proxy for two or more shareholders may exercise voting rights not exceeding 3% of the voting rights of total issued shares. Any excess voting rights shall not be counted.

#### **Article 12 (Voting on resolutions)**

A shareholder shall receive one voting right for each share. However, this rule shall not apply to those shareholders with restricted or no voting rights.

Although a government or juristic shareholder may appoint more than one person as a representative, the shareholder's voting rights are still calculated on the basis of the total number of shares held by that shareholder.

If, in the foregoing paragraph, a shareholder has sent two or more representatives, the representatives shall jointly exercise the shareholder's voting rights.

Proposals shall be resolved by voting by poll. Unless otherwise specified by the Company Act and the Articles of Incorporation of the Company, resolution in favor of the proposal may be made with a simple majority of the voting rights represented by the total votes of on-site voting and electronic voting.

If there shall be an amendment or alternative to one motion, the chairman may combine the amendment or alternative into the original motion, and determine their orders for resolution. If any one of the above shall be resolved, the others shall be considered as rejected, upon which no further resolution shall be required.

The chairman shall determine the order for discussion and vote for the proposals made during the special motion session. The chairman may also combine proposals that are of the same type.

#### **Article 13 (Monitoring the voting, counting, and retention of ballots)**

When a proposal is put to a vote on the scene of the shareholders meeting, the chairman of the meeting shall appoint two watchers for monitoring the voting and a number of counting officers to read and count the votes. Only shareholders may act as the watchers.

The votes on the proposals shall be counted in silence. The voting result on proposals, including votes cast on the site and through electronic voting, shall be announced on the site and kept as minutes on record. The watchers shall keep all

counted ballot cast on the site together with the document stating the result of electronic voting in a package, affix their signatures or seals to the package, and forward the package to the Company for retention.

The calculation of aforementioned voting result through electronic voting shall be verified by a functional unit which meets the requirements provided in Article 44 – 6 of Regulations Governing the Administration of Shareholder Services before the shareholders meeting.

#### **Article 13-1 (Determine the validity of the ballots cast on the site)**

If any of the following applies to a ballot cast for voting on the site of the shareholders meeting as determined by all watchers of voting, such ballot shall be deemed invalid:

1. The ballot is not prepared by the Company.
2. The ballot in the ballot box is left blank or not the one designated for voting on specific proposals.
3. The ballot is not being put in the ballot box.
4. The ballot is illegible due to damage or indistinct writing.
5. The ballot bears corrections or extraneous written text or symbols.
6. Both consent and oppose have been marked.

#### **Article 13-2 (Resolution of disputes)**

The chairman shall make a decision if a shareholder disputes any matters such as the voting process, the ballot counting method, or the validity of ballots. As requested by shareholders who dispute any points, the minutes shall state the shareholder's account number and the number of voting rights, and the subject of the dispute.

#### **Article 14 (Matters concerning elections)**

The proposal for the election of directors in the shareholders meeting shall be processed in compliance with the Directors Election Regulations of Chunghwa Telecom and the result of which shall be announced on the scene.

In the process of aforementioned proposal for election, watchers shall keep the ballots cast on the site together with the document stating the result of electronic voting in a package, affix their signatures or seals to the package, and forward the package to the Company for retention of at least one year, or as long as the conclusion of legal action instituted pursuant to Article 189 of the Company Act, where applicable.

#### **Article 15 (Meeting minutes and signing)**

The deliberation conducted at a shareholders' meeting shall be recorded in the meeting minutes. The chairman shall sign or affix his or her seal to the minutes. The minutes shall be issued to all shareholders within 20 days after the shareholders' meeting. The production and distribution of minutes may be performed using electronic means.

The release of the minutes of meeting on record as aforementioned may be announced by the Company through posting at Market Observation Post System.

The minutes shall record the year, month, day, and place of the meeting, the name of the chairman, the resolution method, a summary of deliberation, and the results of deliberation. The minutes of shareholders' meetings must be preserved for as long as the company is in existence.

#### **Article 16 (Public announcements)**

The company shall, on the day of the shareholders' meeting, compile a statistical table in prescribed format of the number of shares obtained by solicitors and by consigned agents on the day of the shareholders' meeting. This table shall be clearly displayed in the meeting venue.

#### **Article 17 (Maintenance of order)**

Personnel in charge of running a shareholders' meeting shall wear identification badges or armbands.

The chairman may ask disciplinary or security personnel to help maintain order at a meeting. Such personnel shall wear identification badges or armbands bearing the words "disciplinary personnel" when maintaining order at a meeting.

The meeting premises shall be equipped with loudspeaker equipment. The chairman may stop any shareholder speaking with loudspeaker equipment other than that arranged for by the Company.

The chairman may instruct disciplinary or security personnel to ask that any shareholder who violates the meeting rules of procedure and fails to heed a warning from the chairman, or impedes the progress of the meeting and fails to heed a call for restraint, to leave the premises.

#### **Article 18 (Intermission, resumption)**

The chairman may announce an intermission at an appropriate time during a shareholders' meeting. The chairman may also temporarily suspend a shareholders' meeting in the event of Force Majeure, and, if the circumstances permit, shall announce the time at which the meeting will resume.

If the meeting premises can no longer be used for the shareholders' meeting before the conclusion of deliberation of motions on the agenda (including special motions), the shareholders may make a resolution to seek another venue and continue the meeting.

In accordance with Article 182 of the Company Act, a shareholders' meeting may make a resolution to postpone the meeting until or resume the meeting at some other time within 5 days.

#### **Article 19 (Supplementary provisions)**

Except where explicitly prescribed in the laws and regulations and the Company's Articles of Incorporation, the chairman shall decide any matters not prescribed in these rules. Any matters still disputed by shareholders shall be handled in accordance with appropriate legal procedures, and shall not constitute a pretext for obstructing or disturbing deliberative procedures.

#### **Article 20 (Enforcement)**



These meeting rules of procedure shall take effect after being passed by the shareholders' meeting; likewise in the case of revisions.

### III. Procedures for Acquisition or Disposal of Assets of Chunghwa Telecom Co., Ltd.

1. All 38 articles adopted by Annual General Meeting on June 25, 2004.
2. Articles 1, 3, 4, 5, 6, 7, 8, 11, 12, 18, 19, 20, 21, 22, 24, 30, 31, 33, 36, and 38 amended by Annual General Meeting on May 30, 2006.
3. Articles 1, 3, 6, 8, 11, 14, 17, 18, 22, 24, 31, 33, and 37 amended by Annual General Meeting on June 15, 2007.
4. Articles 7, 20, 23, 24, 25, 26, 27, 28, 29, 30, 31, 40, and 44 amended, and articles 9, 12, 21, 22, and 47 added by Annual General Meeting on June 19, 2008.
5. Articles 6, 7, 8, 9, 10, 11, 12, 13, 14, , 18, 22, 23, 25, 28, 29, 31, 32, 33, 37, 39, 40, 43, 44, and the heading of Chapter 3 amended, and Article 47 deleted by Annual General Meeting on June 19, 2009.
6. Articles 2, 8, 10, 11, 12, 13, 14, 15, 16, 31, 33, 39, 40, 41, 42, 43 and 44 and the titles of Chapter 4 and 5 amended by Annual General Meeting on June 22, 2012.
7. Articles 4, 7, 8, 16, 19, 23, 25, 26, 29, 31 and 44 amended by Annual General Meeting on June 25, 2013.
8. Articles 1, 3, 4, 11, 12, 13, 14, 16, 17, 22, 30, 39 and the heading of Chapter 3 amended by Annual General Meeting on June 24, 2014.

#### Chapter 1 General Principles

##### Article 1

The Company has determined the Procedures for Acquisition or Disposal of Assets of Chunghwa Telecom Co., Ltd. (herein referred to as the "*Procedures*") in accordance with the Regulations Governing the Acquisition and Disposal of Assets by Public Companies (herein referred to as the "*Regulations*") of the Financial Supervisory Commission.

##### Article 2

Except when prescribed by other laws, regulations, or the Company's Articles of Incorporation, in which case, such Regulations shall take precedence, the acquisition or disposal of assets by the Company shall be conducted in accordance with these Procedures.

##### Article 3

The scope of applicability of the term "*assets*" as used in these Procedures shall be as follows:

1. Long-term and short-term investments including stocks, government bonds, corporate bonds, financial bonds, negotiable securities in funds, depositary receipts, call (put) warrants, beneficiary securities, asset-backed securities, and etc.;
2. Real property (including land, houses and buildings, investment property, and rights to use land) and other fixed assets;

3. Memberships;
4. Intangible assets including patents, copyrights, trademarks, concession rights, and etc.;
5. Derivatives;
6. Assets acquired or disposed through mergers or consolidations, splits, acquisitions, or assignment of shares in accordance with law; and
7. Other major assets.

#### Article 4

Terms used in these procedures are defined as follows:

1. Derivatives: Forward contracts, options contracts, futures contracts, leveraged guarantee contracts and swaps, and compound contracts combining the above products, whose value is derived from assets, interest rates, foreign exchange rates, indexes or other interests. The term "*forward contracts*" does not include insurance contracts, performance contracts, after-sales service contracts, long-term leasing contracts, or long-term purchase (sales) agreements.
2. Acquisitions or assignment of shares in accordance with law: Assets acquired or disposed through mergers, splits, or acquisitions conducted under the Business Mergers and Acquisitions Act, Financial Holding Company Act, Financial Institution Merger Act, or other laws, or the acquisition of shares of another company through issuance of new shares of its own as the consideration therefore (herein referred to as "*Assignment of shares*") under Article 156, Paragraph 8 of the Company Act.
3. Related party or subsidiary: As defined in the Regulations Governing the Preparation of Financial Reports by Securities Issuers.
4. Professional appraiser: A real property appraiser, intangible asset appraiser, or other persons authorized by law to engage in the value appraisal of real property, equipment or intangible assets.
5. Date of occurrence: The date of transaction contract signing, date of payment, date of consignment trade, date of transfer, dates of Board of Directors resolutions, or other date sufficient to confirm the counterpart and amount of the transaction, whichever date is earlier. However, for investment for which approval of the competent authority is required, the earlier of the above date or the date of receipt of approval from the competent authority shall apply.
6. Mainland area investment: Investments in China approved by the Investment Commission, Ministry of Economic Affairs or conducted in accordance with the provisions of the Regulations Governing Permission for Investment or Technical Cooperation in the Mainland Area.
7. Shareholder's equity: Means the balance sheet equity attributable to the owners of the parent company under the Regulations Governing the Preparation of Financial Reports by Securities Issuers.
8. All audit committee members: Should be counted as the actual number of persons currently holding those positions.
9. All directors: Should be counted as the actual number of persons currently holding those positions.

#### Article 5

When the Company obtains an appraisal report or a written opinion from a CPA, attorney, securities underwriter, or intangible asset appraisal organization, the professional appraiser and its appraisal personnel, or the CPA, attorney, securities underwriter, or intangible asset appraisal organization shall not be the related party of any transaction party.

#### Article 5-1

The calculation of the transaction amounts referred to in Article 8, Article 12 and Article 14 shall be done in accordance with Article 39, paragraph 2 herein, and "within the preceding year" as used herein refers to the year preceding the date of occurrence of the current transaction. Items for which an appraisal report from a professional appraiser or a CPA's opinion has been obtained need not be counted toward the transaction amount.

#### Article 6

When acquiring or disposing of assets through court auction procedures, the Company may employ verification documents provided by the court instead of an appraisal report or CPA's opinion.

#### Article 7

The Company's acquisition or disposal of assets shall be approved by the Board of Directors in accordance with these Procedures or other laws and Regulations. Before being submitted to the board, the transactions should be approved by more than half of all audit committee members.

If approval of more than half of all audit committee members as required in the preceding paragraph is not obtained, the transaction may be implemented if approved by more than two-thirds of all directors, and the resolution of the audit committee shall be recorded in the minutes of the board of directors meeting.

### **Chapter 2 Acquisition or Disposal of Securities**

#### Article 8

Appraisal procedures for the Company's acquisition or disposal of securities are as follows:

1. Before acquiring securities, the responsible department shall perform relevant financial analysis of the investment target, forecast returns that may be generated, and assess possible investment risk.
2. Method of determining prices when acquiring or disposing of securities and reference basis:
  - (1) When the Company acquires or disposes of securities that are already traded on the stock exchange or at securities brokers' business offices, transactions shall be determined on the basis of market prices.
  - (2) When the Company acquires or disposes of securities that are not traded on the stock exchange or at securities brokers' business

offices, the Company shall, prior to the date of occurrence of the event, refer to the target company's financial statement for the most recent period that has been audited or revised by a CPA. If the securities are bonds, the Company shall determine whether to perform the transaction after referring to the market price and interest rate at that time, and the debtor's credit.

- (3) When the value of a transaction in which the Company acquires or disposes of securities reaches NT\$300 million or more, prior to the date of occurrence of the event, the Company shall request a CPA to express an opinion concerning the reasonableness of the transaction price. If the CPA needs to use the report of an expert as evidence, the Company shall require the CPA to do so in accordance with the provisions of Statement of Auditing Standards No. 20 published by the ROC Accounting Research and Development Foundation (herein referred to as the "ARDF"). The case shall not be subject to this restriction, however, if the securities in question have quoted prices in active markets, or other regulations of the Financial Supervisory Commission apply.

When the Company engages in a discretionary investment, it shall be proceed in accordance with the Company's discretionary investment guidelines, and the regulations in the foregoing paragraph shall not apply.

#### Article 9

The total value of securities acquired by the Company may not exceed 50% of the shareholder's equity on the Company's financial statement for the most recent period.

The amount of any individual security acquired by the Company may not exceed 5% of the shareholder's equity on the Company's financial statement for the most recent period.

When the Company invests in other companies as a limited liability shareholder, the cumulative total of all investment may not exceed the Company's total paid-in capital, and cumulative total investment in non-telecommunications enterprises may not exceed 20% of the Company's total paid-in capital.

#### Article 10

The Company's operating procedures for the acquisition or disposal of securities shall be implemented in accordance with the Company's relevant operating guidelines and the Powers and Duties Chart of BOD and the Management.

### **Chapter 3 Acquisition or Disposal of Real Property and Equipment**

#### Article 11

When the Company acquires or disposes of real property or equipment, the responsible department shall be charged with prudently assessing the necessity and reasonableness of the transaction based on the Company's current state of

operations and finances and future development plans.

When acquiring or disposing of real property, the Company shall refer to the real property's publicly announced current value, appraised value, actual transaction prices of nearby real property, or appraisal report provided by a professional appraisal organization.

When acquiring or disposing of equipment, the Company shall proceed by means of price inquiries, price comparison, price negotiation, or request for bids.

The total value of real property acquired by the Company for non-operating use may not exceed 3% of shareholder's equity on the Company's most recent financial statement.

## Article 12

When the transaction amount for the acquisition or disposal of real property or equipment reaches NT\$300 million or more, the Company, unless transacting with a government agency, engaging others to build on its own land, engaging others to build on leased land, or acquiring or disposing of equipment for operating use, shall obtain an appraisal report using the format requested by the Financial Supervisory Commission prior to the date of occurrence of the event, and shall further comply with the following provisions:

1. In the event of special circumstances such as a limited price, specified price or a special price which must be given as a reference basis for the transaction price, such transaction shall be submitted in advance to the Board for approval. The same procedure shall be followed in the event of future changes to any transaction terms.
2. Appraisals from two or more professional appraisers shall be obtained when the transaction amount is NT\$1 billion or more.
3. When the professional appraiser's appraisal results in any one of the following circumstances, unless all the appraisal results for the assets to be acquired are higher than the transaction amount, or all the appraisal results for the assets to be disposed of are lower than the transaction amount, a CPA shall be engaged to perform the appraisal in accordance with the provisions of Statements of Auditing Standards No. 20, published by the ARDF, and to provide an opinion regarding the reason for the discrepancy and appropriateness of the transaction price:
  - (1) Where the discrepancy between the appraisal and the transaction amount is 20% or more of the transaction amount.
  - (2) Where the discrepancy between the appraisals of two or more professional appraisers is 10% or more of the transaction amount.
4. When an appraisal is conducted before a contract establishment date, no more than three months may pass between the date of the appraisal report and the contract establishment date. However, when the publicly announced current value for the same period is used and not more than six months have elapsed, an opinion may still be issued by the original professional appraiser.

## Article 13

The Company's acquisition or disposal of real property or equipment shall be performed in accordance with the Company's relevant operating guidelines and the Powers and Duties Chart of BOD and the Management.

## **Chapter 4 Acquisition or Disposal of Memberships and Intangible Assets**

### Article 14

When the Company acquires or disposes of memberships or intangible assets and the transaction amount reaches NT\$300 million or more, except in transactions of telecommunications licenses and spectrum with a government agency, the Company shall engage a CPA prior to the date of occurrence of the event to provide an opinion on the reasonableness of the transaction price, and the CPA shall comply with the provisions of Statement of General Auditing Procedures No. 20 published by the ARDF.

The Company's acquisition or disposal of memberships or intangible assets shall be performed in accordance with the Company's relevant operating guidelines and the Powers and Duties Chart of BOD and the Management.

## **Chapter 5 Related Party Transactions**

### Article 15

When acquiring or disposing assets from or to a related party, the Company shall perform relevant resolution procedures and assess the reasonableness of the transaction terms in accordance with Chapter 2, Chapter 3, Chapter 4 and this Chapter.

When determining whether a transaction counterpart is a related party, in addition to legal formalities, the substantive relationship shall also be considered.

### Article 16

When acquiring or disposing real property from or to a related party, or when acquiring or disposing assets other than real property from or to a related party and the transaction amount reaches NT\$300 million or more, except in trading of government bonds or bonds under repurchase and resale agreements, or subscription or redemption of domestic money market funds, the Company may not proceed to enter into a transaction contract or make a payment until the following matters have been approved by the audit committee and the board of directors:

1. The purpose, necessity, and anticipated benefit of the acquisition or disposal of assets;
2. The reason for choosing the related party as a transaction counterpart;
3. With respect to the acquisition of real property from a related party, information regarding assessment of the reasonableness of the anticipated transaction terms in accordance with the provisions of Articles 17 and 18;
4. The date and price at which the related party originally acquired the real property, the original transaction counterpart, and that transaction counterpart's relationship to the Company and the related party;
5. Monthly cash flow forecasts for the year commencing from the anticipated month of contract signing, and assessment of the necessity of the transaction and the reasonableness of the use of funds;
6. An appraisal report from a professional appraiser or a CPA's opinion obtained in compliance with the Article 8, Article 12 and Article 14; and

7. Restrictive conditions and other important stipulations associated with the transaction.

If approval of more than half of all audit committee members as required in the preceding paragraph is not obtained, the transaction may be implemented if approved by more than two-thirds of all directors, and the resolution of the audit committee shall be recorded in the minutes of the board of directors meeting.

The calculation of the transaction amounts referred to Paragraph 1 shall be made in accordance with Article 39, Paragraph 2 herein, and "within the preceding year" as used herein refers to the year preceding the date of occurrence of the current transaction. Items that have been approved by the board of directors and recognized by the supervisors need not be counted toward the transaction amount.

With respect to the acquisition or disposal of business-use equipment between the Company and its subsidiaries, the Company's board of directors may pursuant to the Powers and Duties Chart of BOD and the Management delegate the Chairman to decide such matters when the transaction is within a certain amount and have the decisions subsequently submitted to and ratified by the next board of directors meeting.

#### Article 17

When acquiring real property from a related party, the Company shall evaluate the reasonableness of the transaction costs by the following means:

1. Based upon the related party's transaction price plus necessary interest on funding and the costs to be duly borne by the buyer in accordance with law. "*Necessary interest on funding*" is taken as the weighted average interest rate on borrowing in the year the Company purchases the assets. However, it may not be higher than the maximum non-financial industry lending rate announced by the Ministry of Finance.
2. Total appraisal loan value from any financial institutions when the related party has previously created a mortgage on the target as security for a loan. However, the actual cumulative amount loaned by such financial institutions shall have been 70% or more of the financial institutions' appraised loan value of the property and the period of the loan shall have been one year or more. However, this shall not apply when such a financial institution is a related party of one of the transaction counterparts.

When land and structures thereupon are combined as a single property purchased in one transaction, the transaction costs for the land and the structures may be separately appraised in accordance with either of the means listed in the foregoing paragraph.

The Company shall also engage a CPA to check the appraisal and render a specific opinion when acquiring real property from a related party and appraising the real property cost in accordance with the two foregoing paragraphs.

When the Company acquires real property from a related party and one of the following circumstances exists, the acquisition shall be conducted in accordance with the provisions of the foregoing article and the preceding three paragraphs do not apply:

1. The related party acquired the real property through inheritance or as a gift.



2. More than five years have elapsed between the time the related party signed the contract to obtain the real property to the signing date for the current transaction.
3. The real property is acquired through signing of a joint development contract with the related party, or through engaging a related party to build real estate, either on the company's own land or on rented land.

#### Article 18

When the results of the Company's appraisal conducted in accordance with the provisions of Article 17, paragraphs 1 and 2 are uniformly lower than the transaction price, the matter shall be conducted in compliance with the provisions of Article 19. However, when the following circumstances exist, objective evidence has been submitted and specific opinions on reasonableness have been obtained from a professional real property appraiser and a CPA. This preceding restriction shall not apply to the following:

1. When the related party acquired undeveloped land or leased land for development, it may submit proof of compliance with one of the following conditions:
  - (1) When undeveloped land is appraised in accordance with the means in the foregoing article, and the related party's construction cost plus reasonable construction profit are valued in excess of the actual transaction price, the "*reasonable construction profit*" shall be deemed the average gross operating profit margin of the related party's construction department over the most recent three years or the gross profit margin for the construction industry for the most recent period as announced by the Ministry of Finance, whichever is lower.
  - (2) Completed transactions by other unrelated parties within the preceding year involving other floors of the same asset or neighboring land when the land area and transaction terms are similar after calculation of reasonable price discrepancies in floor or area land prices in accordance with standard asset market practices.
  - (3) Completed leasing transactions by unrelated parties for other floors of the same property within the preceding year when the transaction terms are estimated to be similar after calculation of reasonable price discrepancies among floors in accordance with standard asset leasing market practices.
2. When having acquired real property from a related party, the Company provides evidence that the transaction terms are similar to the terms of transactions completed for the acquisition of neighboring land of a similar size by unrelated parties within the preceding year.

Completed transactions for neighboring land in the preceding paragraph in principle refers to parcels on the same or an adjacent block and within a distance of no more than 500 meters or parcels close in publicly announced current value. Similarly sized parcels in principle refers to transactions completed by unrelated parties for parcels with a land area of no less than 50% of the property in the planned transaction. "*Within one year*" refers to one year from the date of acquisition of the real property.

## Article 19

When the Company acquires real property from a related party and the results of appraisals conducted in accordance with the provisions of Article 17 and Article 18 are uniformly lower than the transaction price, the following shall be done:

1. The difference between the real property transaction price and the appraised costs shall be allocated as special reserve in accordance with the provisions of Article 41, Paragraph 1 of the Securities and Exchange Act and may not be distributed or used for capital increase and issuance of bonus shares. If an invested company appraised by the Company using the equity method has the foregoing circumstances, the Company shall also list as special reserve under Article 41, paragraph 1 of the Securities and Exchange Act its share of the allocated portion in proportion to its shareholding.
2. Independent directors shall comply with the provisions of Article 218 of the Company Act.
3. The circumstances of handling under the foregoing two subparagraphs shall be reported at the shareholders meeting and the detailed content of the transaction shall be disclosed in the annual report and public prospectus.

After allocating a special reserve under the foregoing paragraph, the Company may not utilize such special reserve until it has recognized loss due to price decline for the assets it purchased at a premium, or such assets have been disposed of, or adequate compensation has been made, or the original condition has been restored, or there is other evidence confirming that it is not unreasonable to do so, and the Financial Supervisory Commission (FSC) has given its consent.

The Company shall also adhere to the provisions of the two foregoing paragraphs when acquiring real property from a related party if there is other evidence indicating that the transaction is in any way inconsistent with regular business practices.

## **Chapter 6 Derivatives Trading**

### Article 20

The derivative transaction, by trading attributes, can be classified into two types: the hedging-purpose transaction and the trading-purpose transaction. The purpose to engage in the hedging-purpose transaction is to avoid or smooth the price fluctuations incurred by exchange rate or interest rate on the Company's asset or liability. The purpose to engage in trading-purpose transaction is to make a profit through price gaps in products and, meanwhile, shoulder risks.

The derivative transaction the Company can engage in shall be confined to hedging-purpose transaction. The Company shall not engage in trading-purpose derivative transaction.

### Article 21

The Company may engage in derivative trading which are confined to only

such categories as defined under Article 4, Paragraph 1, Subparagraph 1.

#### Article 22

When the Company engages in the trading of derivatives for hedging purposes, the target of hedging shall be limited to foreign currency deposits, financial assets already held by the Company, liabilities that have already occurred, and the demand for foreign currency under business contracts.

The total notional amount of derivative contracts traded by the Company shall not exceed the sum of the Company's recognized foreign currency deposits, financial assets, liabilities, and the demand for foreign currency under business contracts.

#### Article 23

The maximum loss limits on each individual and total derivative contracts traded by the Company are as follows:

1. The maximum loss limit on each individual derivative contract is 15% of each individual contract's notional amount.
2. The maximum loss limit on total derivative contracts is 15% of total contracts' notional amount.

If either individual's or total contracts' maximum loss limit in the foregoing paragraph is reached, Senior Executive Vice President, Finance/CFO or a designee shall immediately convene relevant personnel at a meeting to discuss responses.

#### Article 24

The derivative trading contract and such documents shall be executed by the CEO or the designee thereof for and on behalf of the Company.

#### Article 25

When the Company engages in derivative transaction, each department's duties shall be as follows:

1. Finance Department:
  - (1) Regularly tracking the Company's overall demand position and relevant domestic and foreign information concerning traded products, trading within authorized limits at opportune moments, and tracking income from positions resulting from past transactions.
  - (2) Forwarding of receipts from derivative trading and income-related information to the Accounting Department for bookkeeping.
2. Accounting Department: Bookkeeping of receipts from derivative trading and income-related information forwarded by the Finance Department.
3. Audit Department:
  - (1) Conducting regular and irregular audits in accordance with internal audit operating regulations.
  - (2) Periodically making a determination of the suitability of internal controls on derivatives and conducting a monthly audit of how faithfully derivatives trading by the trading department adheres to the Procedures for engaging in Derivatives Trading, and preparing an audit report. If any material violation is discovered, the audit committee shall be notified in writing.

#### Article 26

The Company shall not engage in derivative trading until each and every case of trading is signed and approved in writing within the limit levels of authorization enumerated below:

<b>Managerial levels</b>	<b>Limit in amounts authorized for each case of trading</b>
Board of Directors	NT\$2 billion (exclusive) up
CEO	NT\$1.5 billion (exclusive) up, below NT\$2 billion
President	NT\$1 billion (exclusive) up, below NT\$1.5 billion
Senior Executive Vice President, Finance/CFO	NT\$500 million (exclusive) up, below NT\$1 billion
Vice President, Finance Department	Below NT\$500 million

Remarks: The amount of each trading case shall be calculated based on the maximum possible face amount that could be incurred by the derivatives, contract amount or nominal principal.

The amount limit and levels for derivatives which the Company consigns professional investment institutions to invest and operate shall be pursuant to the requirements set forth in "Power & Responsibility Classification table for the Board of Directors and Managerial Departments". The provision set forth in the preceding paragraph is not applicable to such trading.

#### Article 27

The management department is authorized to formulate the Standard Operation Procedure (SOP) for Handling Derivative Products separately.

#### Article 28

The performance of derivatives shall be assessed on the basis of the sum of the gains or losses of the derivative position and the gains or losses of the position being hedged.

#### Article 29

The Company shall adopt the following risk management measures when engaging in derivative trading:

1. Credit risk: Transaction counterparties shall, in principle, consist of organizations with excellent credit.
2. Market price risk: the Company shall constantly undertake to control the risk of changes in the market value of traded derivatives due to interest rate or exchange rate fluctuations or other factors.
3. Liquidity risk: Traded derivatives shall chiefly consist of derivatives with relatively high liquidity; The Company shall maintain sufficient funds and credit to meet the need for funds at time of settlement.
4. Cash flow risk: The Company shall constantly undertake to control the risk of changes in cash flow and gains/losses from the traded derivative at the time of settlement due to interest rate or exchange rate fluctuations or other factors.

5. Operating risk: Relevant departments and personnel shall strictly comply with derivative regulations in these Procedures.
6. Legal risk: All contracts shall be reviewed by legal affairs department before signing with counterparties.
7. Other:
  - (1) Personnel at the Finance Department authorized to perform derivative trading and trade confirmation shall be assigned by Senior Executive Vice President, Finance/ CFO.
  - (2) Personnel engaging in derivative trading should not serve concurrently in other operations such as confirmation and settlement.
  - (3) Personnel responsible for assessment, oversight, and control of derivative risk shall belong to a different department than the personnel in Item 2 of this subparagraph, and shall regularly report to senior management personnel.
  - (4) The derivative position held by the Company as a result of its hedging activities shall be assessed at least twice per month; assessment reports shall be submitted to senior management personnel.
  - (5) Senior management personnel shall constantly monitor and control derivative trading risk, regularly evaluate whether derivative trading performance complies with predetermined hedging strategy and whether the risk undertaken in within the Company's permitted scope of tolerance, and regularly assess whether the risk management measures currently in use are appropriate and are implemented in accordance with "the Regulations" and "the Procedures"; assessment results shall be submitted to the Board.
  - (6) Senior management personnel shall supervise trading and the state of gains or losses, and must adopt necessary response measures and immediately report to the Board if any abnormalities are discovered; independent directors shall be present at the resulting Board meeting and express their opinions.
  - (7) The senior management personnel mentioned in Items 3-6 shall refer to the same senior manager designated by the CEO under the Board's authorization, where that manager should not bear responsibility for derivative trading or position decision-making.

#### Article 30

The Company shall prepare a memorandum book for transactions of derivative financial products recording the type, amount, date of passage by the Board of Directors, and matters required to be carefully evaluated under Paragraph 1 Subparagraph 7 Item 4 and 5 of Article 29.

Where the Company's transactions of derivative products are authorized by the relevant personnel pursuant to the Procedures, the information relevant to the transactions, including the amounts, contractual period, counterparts, and important trading terms and conditions, shall be reported to the soonest meeting of the Board of Directors after the transactions.

### **Chapter 7 Mergers and Consolidations, Splits, Acquisitions, and Assignment of Shares**

#### Article 31

When the Company engages in mergers and consolidations, splits, acquisitions, and strategic investments, relevant operating procedures and authorized amount limits shall be determined on the basis of the Company's Inter-Company's Investment Operating Guidelines and the Powers and Duties Chart of BOD and the Management.

When the Company engages in a merger or consolidation, split, acquisition, or assignment of shares, the responsible department shall, prior to meeting with the audit committee to deliberate on the matter, engage a CPA, attorney, or securities underwriter to express an opinion on the reasonableness of the share exchange ratio, acquisition price, or distribution of cash or other property to shareholders, and such opinion shall be submitted to the audit committee for approval firstly, and then submitted to the Board for discussion and approval.

If approval of more than half of all audit committee members as required in the preceding paragraph is not obtained, the transaction may be implemented if approved by more than two-thirds of all directors, and the resolution of the audit committee shall be recorded in the minutes of the board of directors meeting.

#### Article 32

When participating in a merger or consolidation, split, or acquisition, the Company shall, prior to the shareholders' meeting, prepare a public report to shareholders detailing important contractual content and relevant matters concerning the merger or consolidation, split, or acquisition, and include it along with the expert opinion referred to in Paragraph 2 of the foregoing Article when sending shareholders notification of the shareholders meeting. These materials shall provide reference information when shareholders decide whether to approve the merger or consolidation, split, or acquisition. However, this restriction shall not apply when other laws or regulations exempt a company from convening a shareholders meeting to approve the merger or consolidation, split, or acquisition.

When the shareholders meeting of the Company or other company participating in a merger or consolidation, split, or acquisition fails to convene or to approve a resolution due to lack of a quorum, insufficient votes, or other legal restriction, or the proposal is rejected by the shareholders at the shareholders meeting, the Company shall immediately publicly explain the reason, subsequent handling measures, and the anticipated date of the next shareholders meeting.

#### Article 33

When participating in a merger or consolidation, split, or acquisition, except when another law prescribes otherwise or special factors must be reported in advance to the Financial Supervisory Commission for approval, the Company shall conduct Board meetings and shareholders meetings on the same day as the company that participates in the merger or consolidation, split, or acquisition, and shall resolve matters concerning the merger or consolidation, split, or acquisition.

When participating in an assignment of shares, the Company shall call a Board meeting the same day as the other company participating in the assignment of shares, except another law prescribes otherwise or special factors

must be reported in advance to the Financial Supervisory Commission for approval.

When the Company participates in a merger, split, acquisition, or assignment of shares, the following information in its entirety shall be recorded in writing, preserved for five years, and made available for inspection:

1. Basic information on personnel: includes persons who, prior to public knowledge thereof, participated in plans to carry out mergers, splits, acquisition, or assignment of shares, or those persons implementing the plan. Details of each person should include occupation, full name, ID number (passport number in the case of a foreign national).
2. Important dates: includes dates of signing of letters of intent and memorandums; commissioning of financial services or legal advisors; signing of contracts and Board of Directors meetings.
3. Important documents and meeting minutes: includes plans regarding mergers, splits, acquisitions or assignment of shares; letters of intent or memorandums, important contracts, and Board of Directors meeting minutes.

When the Company participates in a merger, split, acquisition, or assignment of shares, it shall, before the start of trading hours on the next business day after the Board passes the proposal, report and submit the information according to prescribed format from Subparagraphs 1 and 2 of the foregoing paragraph to the Financial Supervisory Commission for reference via an Internet data system.

When the Company engages in a merger, split, acquisition, or assignment of shares with a company that is not listed on the stock exchange or whose stock is not sold at securities brokerages, the Company shall sign an agreement with the said company, and implement the transaction according to Paragraphs 3 and 4.

#### Article 34

Every person of the Company who participates in or privy to a plan for merger or consolidation, split, acquisition, or assignment of shares shall complete a confidentiality agreement, may not disclose the content of the plan prior to public disclosure of the information, and may not trade, in their own name or under the name of another person, in any stock or other equity security of any company connected with the plan for merger or consolidation, split, acquisition, or assignment of shares.

#### Article 35

When the Company participates in a merger or consolidation, split, acquisition, or assignment of shares, the share exchange ratio or acquisition price may not be arbitrarily altered except under the following circumstances, and the merger or consolidation, split, acquisition, or assignment of shares contract shall specify circumstances permitting alteration:

1. Cash capital increase, issuance of convertible corporate bonds, issuance of bonus shares, issuance of corporate bonds with warrants, preferred shares with warrants, stock warrants, and other equity based securities.
2. Action, such as a disposal of major assets, that affects the Company's financial operations.
3. Event, such as a major disaster or major technological shift, that affects shareholder equity or share price.

4. An adjustment when any party participating in the merger or consolidation, split, acquisition, or assignment of shares buys back treasury stock.
5. An increase or decrease in the number of entities or companies participating in.
6. Other conditions that the contract specifies may be altered and that have been publicly disclosed.

#### Article 36

When the Company participants in a merger or consolidation, split, acquisition, or assignment of shares, the contract shall explicitly state the rights and obligations of all parties, and shall also state the following:

1. Handling of breaches.
2. Principles for the handling of equity-based securities previously issued or treasury stock previously bought back by any company that is extinguished in a merger or that is split off.
3. The amount of treasury stock that participating companies may buy back after the record date of calculation of share exchange ratio calculation, and relevant handling principles.
4. The method of handling increases or decreases in the number of participating entities or companies.
5. A plan implementation progress schedule, and anticipated completion date.
6. The scheduled date of the legally mandated shareholders meeting if the plan exceeds the deadline without completion, and relevant procedures.

#### Article 37

After public disclosure of the information, if the Company or any company participating in the merger or consolidation, split, acquisition, or share assignment intends further to carry out a merger or consolidation, split, acquisition, or share assignment with another company, procedures or legal actions that had been performed for the purpose of the original merger or consolidation, split, acquisition, or share assignment shall be re-implemented by all participating companies; except when the number of participating companies is decreased and a participating company's shareholders meeting has resolved and authorized the Board to change limits of authority, such company may be exempted from calling another shareholders meeting to resolve on the matter anew.

#### Article 38

When a company participating in a merger or consolidation, split, acquisition, or assignment of shares is not a public company, the Company shall sign an agreement with the non-public company, and shall comply with the provisions of Articles 33, 34, and 37.

### **Chapter 8 Public Disclosure of Information**

#### Article 39

When acquiring or disposing of assets, the Company shall publicly announce



and report relevant information in accordance with its type on the Financial Supervisory Commission's designated web site in the prescribed format before the start of trading hours on the next business day after the event in any of the following circumstances:

1. Acquisition or disposal of real property from a related party, or acquisition or disposal of assets other than real property from or to a related party where the transaction amount reaches NT\$300 million or more; provided, this shall not apply to trading of government bonds or bonds under repurchase and resale agreements, or subscription or redemption of domestic money market funds.
2. Merger or consolidation, split, acquisition, or assignment of shares.
3. Losses from derivative trading exceeding the overall limit or individual contract limit specified in these Procedures.
4. Where an asset transaction other than any of those referred to in the preceding three subparagraphs, or an investment in the mainland China area reaches NT\$300 million or more; provided, this shall not apply to the following circumstances:
  - (1) Trading of government bonds.
  - (2) Trading of bonds under repurchase/resale agreements, or subscription or redemption of domestic money market funds.
  - (3) The type of asset acquired or disposed is equipment used for operating purposes, the transaction counterparty is not a related party, and the transaction amount does not exceed NT\$500 million.
  - (4) Where real property is acquired under an arrangement on engaging others to build on the company's own land, engaging others to build on rented land, joint construction and allocation of housing units, joint construction and allocation of ownership percentages, or joint construction and separate sale, and the amount the company expects to invest in the transaction is less than NT\$500 million.

The amounts of the transactions in the foregoing paragraph shall be calculated as follows:

1. The amount of any individual transaction.
2. The cumulative transaction amount of acquisitions and disposals of the same type of target with the same transaction counterparty within one year.
3. The cumulative transaction amount of real property acquisitions and disposals (cumulative acquisitions and disposals, respectively) within the same development project during one year.
4. The cumulative amount of acquisitions and disposals (cumulative acquisitions and disposals, respectively) of the same security during one year.

As used in preceding paragraph, during one year refers to a period of one year after the date on which the transaction took place. Items announced in accordance with regulations need not be included.

#### Article 40

The Company shall compile monthly reports on the status of derivative trading engaged in up to the end of the preceding month by itself and any subsidiaries that are not domestic public companies, and shall enter the

information in the prescribed format into the information reporting website designated by the Financial Supervisory Commission by the tenth day of each month.

When the Company at the time of public announcement makes an error or omission concerning an item required by regulations to be publicly announced and so is required to correct it, all the items shall be again publicly announced and reported in their entirety.

When any of the following circumstances occurs with respect to a transaction that the Company has already publicly announced and reported in accordance with the foregoing paragraph, a public report of relevant information shall be made on the information reporting website designated by the Financial Supervisory Commission before the start of trading time on the following business day after the day of occurrence of the fact:

1. Change, termination, or dissolution of a contract signed in connection with the original transaction.
2. The merger or consolidation, split, acquisition, or assignment of shares is not completed by the scheduled date set forth in the contract.
3. Change to the originally publicly announced and filed information.

## **Chapter 9 Supplemental Provisions**

### **Article 41**

When the Company acquires or disposes of assets, it shall keep all relevant contracts, meeting minutes, memorandum books, appraisal reports, and CPA, attorney, securities underwriter, or intangible asset appraisal organization opinions at the Company headquarters, where they shall be preserved for at least five years except when other laws stipulate otherwise.

### **Article 42**

The acquisition or disposal of assets by a subsidiary of the Company shall be conducted in accordance with the following regulations:

1. A subsidiary shall determine its asset acquisition and disposal procedures on the basis of the "Regulations", and shall submit its procedures to the Company for future reference after approval by its board and shareholders' meeting; likewise in the case of revisions.
2. A subsidiary's acquisition or disposal of assets should be performed in accordance with the "Regulation" and its asset acquisition and disposal procedures, and the relevant matters to be carried out should be included in the self-inspection items under the annual internal control project. The Company's Audit Department shall check the self-inspection report submitted by each subsidiary.
3. Total amount of non-operating real property and securities, and limit amount on each individual security acquired by the subsidiary company shall be determined by each subsidiary itself.

4. When a subsidiary is not a domestic public company, the Company shall publicly announce the subsidiary's acquisition or disposal of assets requiring public announcement as prescribed in Chapter 8.

#### Article 43

If managers or relevant implementing personnel of the Company violate the Regulations or the Procedures while engaging in matters connected with the acquisition or disposal of assets, disciplinary action shall be taken in accordance with the Company's personnel regulations.

#### Article 44

After receiving approval of the Board of Directors, the Procedures shall be submitted to the shareholders meeting for approval. Any amendment hereof shall require the same process.

Starting from the 7th Board of Directors, the amendment of the Procedures should be approved by more than half of all audit committee members firstly before submitting to the Board. If the requirement above is not obtained, the Procedures may be implemented if approved by more than two-thirds of all directors, and the resolution of the audit committee shall be recorded in the minutes of the board of directors meeting.

## **IV. Directors Election Regulations of Chunghwa Telecom Co., Ltd.**

1. All 10 articles adopted by Annual General Meeting on June 4, 2001.
2. Articles 2, 3, 5, 6, 7, 8 and 9 amended by Annual General Meeting on June 21, 2002.
3. All 14 articles amended by Annual General Meeting on June 15, 2007.
4. All 13 articles and the title of the regulation amended by Annual General Meeting on June 22, 2012 (the previous title: Directors and Supervisors Regulations of Chunghwa Telecom)

### **Article 1 ( Principle of application )**

Except where prescribed by laws and regulations or the Articles of Incorporation of Chunghwa Telecom Co., Ltd. (herein referred to as "the Company"), the election of directors shall in all cases be conducted in accordance with these Regulations.

### **Article 2 ( The abilities of Directors )**

The election of this Company's directors shall take into consideration the overall composition of the board of directors. Board members shall possess the knowledge, skills, and qualifications required to perform their duties.

The board as a whole shall possess the following abilities:

1. Ability to judge business operations;
2. Accounting and financial analysis capability;
3. Administrative and management ability;
4. Crisis management ability;
5. Industry knowledge;
6. International market outlook;
7. Leadership skills; and
8. Decision-making ability.

### **Article 3 ( Qualification of Independent Directors )**

The qualifications and selection of the Company's independent directors shall comply with the "Regulations Governing Appointment of Independent Directors and Compliance Matters for Public Companies" and shall be implemented in accordance with Article 24 of the Company's "Code of Corporate Governance."

### **Article 4 ( Nomination System )**

Directors shall be elected employing the candidate nomination system and procedures prescribed in Article 192-1 of the Company Law.

### **Article 5 ( Election Method )**

The election of directors shall adopt a disclosed cumulative voting method. Each share represents a weighted number of voting rights equivalent to the number of directors to be elected; such voting rights may be exercised to collectively elect a single candidate or may be distributed among several candidates.

Shareholders may exercise their voting rights in the election of the directors through electronic voting or on-site voting.

The aforementioned voting through electronic voting by shareholders shall

be made at the designated electronic voting platform of the Company.

Article 6 ( Calculation of votes and being elected to office )

Independent directors and non-independent directors of the Company shall be elected at the same time and the votes shall be calculated separately. Directors shall be elected in accordance with the Articles of Incorporation of the Company and the resolution of the Board on the number of directors. Candidates who get more votes representing corresponding voting rights shall be elected directors in the order of number of ballots received. If two or more persons have received the same number of voting rights, and the number of persons would exceed the prescribed number of available seats, the persons with the same number of voting rights shall draw lots to decide election; the chairman shall draw lots on behalf of any selected persons who are not present.

The aforementioned number of votes cast in the election shall include the votes cast on-site in the shareholders' meeting and via electronic voting.

For the electronic votes referred to in the preceding paragraph, the shareholders' identity and the entitlement of votes and calculation validation shall be identified and completed by a functional unit which meets the requirements provided in Article 44 – 6 of Regulations Governing the Administration of Shareholder Services before the shareholders' meeting.

Article 7 ( Preparing the ballot )

The ballots for on-site voting in the shareholders' meeting shall be prepared by the Company, and the elector's attendance card number and the weighted number of voting rights shall be stated on the ballots bearing the Company's seal.

Article 8 ( The ballot box )

The Company shall prepare a ballot box for on-site voting in the shareholders' meeting. The chairman of the meeting shall appoint two watchers for monitoring the voting and a number of counting officers to read and count the votes. The watchers shall open the ballot box publicly to make sure it is empty.

The watchers shall be shareholders of the Company.

Article 9 ( Particulars for inscription in the ballot )

For on-site voting in the shareholders' meeting, when the persons to be elected are natural persons, the voters shall fill in the followings in the ballot and put it into the ballot box:

1. The name of the person to be elected.
2. The shareholder account number or ID card number of the person to be elected.

For on-site voting in the shareholders' meeting, when the persons to be elected are juristic persons, the voters shall fill in the followings in the ballot and put it into the ballot box:

1. The full name of the juristic person, or the full name of the juristic person and the name of its representative.
2. The shareholder account number or the uniform number of corporation of the person to be elected.

The persons to be elected shall have legal capacity.

Where the voters deem it necessary, they may distribute the voting rights in compliance with applicable laws and regulations and the Handling Guidelines of Stock Affairs of the Company.

#### Article 10 ( Invalid ballot )

If any of the followings applies to on-site voting in shareholders' meeting, the ballot shall be counted as invalid:

1. The ballot was not prepared as prescribed in Article 7 of these regulations.
2. The ballot was not placed into the ballot box.
3. The ballot was blank when placed into the ballot box.
4. The ballot is inscribed with the name of a candidate not nominated in accordance with Article 4 of this regulation, or the number of candidates nominated exceeds the mandatory number of seats for election.
5. There is incomplete information, writing error, correction, blurred wording that cannot be identified, inscription of other symbols, graphics, or wording in the ballot for the particulars required to fill in pursuant to Paragraphs 1 and 2 of Article 9.
6. The total number of voting rights exercised by the voters exceeds the total number of voting rights the voters entitled to.

#### Article 11 ( Announcement of the election result )

Following an election, the chairman shall announce the list of elected persons in the meeting.

#### Article 12 ( Sealing and retention of the ballots )

The watchers shall keep all counted ballot cast on-site together with the document stating the result of electronic voting in a package, and affix their signatures or seals to the package, and forward the package to the Company for retention of at least one year or as long as the conclusion of legal action instituted pursuant to Article 189 of the Company Act, where applicable.

#### Article 13 ( Implementation )

These regulations shall be effective upon approval of the shareholders meeting. Any amendment hereof shall require the same process.

## Appendix

### Shares Held by Directors

(as of book close date before this year's Annual General Meeting: April 25, 2017)

Title	Name	Date of election	Term length	Representative	Number of shares	Shareholding ratio
Chairman & CEO	MOTC	June 24, 2016	3 years	Yu Cheng	2,737,718,976	35.29%
Directors	MOTC	June 24, 2016	3 years	Chi-Mau Sheih		
				Shin-Yi Chang		
				Chih-Ku Fan		
				Yih-Yu Lei		
				Yi-Bing Lin		
				Shu-Juan Huang Chin-Tsai Pan		
Independent director	Zse-Hong Tsai	June 24, 2016	3 years		0	0%
Independent director	JenRan Chen	June 24, 2016			0	0%
Independent director	Lo-Yu Yen	June 24, 2016			0	0%
Independent director	Kuo-Long Wu	June 24, 2016			0	0%
Number of shares held by all directors					2,737,718,976	35.29%

#### Notes:

1. The shareholding ratios in this table are based on a total of 7,757,446,545 outstanding shares as of the book close date before this year's Annual General Meeting.
2. According to Article 26 of the Securities and Exchange Act and Article 2, Paragraph 1, Subparagraph 7 and Paragraph 2 of the Rules and Review Procedures for Director and Supervisor Share Ownership Ratios at Public Companies: the minimum number of shares that shall be held by all directors of the Company is 124,119,144.