Chunghwa Telecom Co., Ltd. and Subsidiaries

Consolidated Financial Statements as of December 31, 2015 and 2016 and for Each of the Three Years in the Period Ended December 31, 2016 and Report of Independent Registered Public Accounting Firm

Deloitte.

勤業眾信

勤業眾信聯合會計師事務所
10596 台北市民生東路三段156號12樓

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

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

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying consolidated balance sheets of Chunghwa Telecom Co., Ltd. and subsidiaries (the "Company") as of December 31, 2015 and 2016, and the related consolidated statements of comprehensive income, changes in equity, and cash flows for each of the three years in the period ended December 31, 2016 all expressed in New Taiwan dollars. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Chunghwa Telecom Co., Ltd. and subsidiaries as of December 31, 2015 and 2016, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2016, in conformity with International Financial Reporting Standards as issued by the International Accounting Standard Board.

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

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2016, based on the criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated April 25, 2017 expressed an unqualified opinion on the Company's internal control over financial reporting.

Deloitte & Touche

Deloitte & Touche
Taipei, Taiwan
Republic of China

April 25, 2017

CHUNGHWA TELECOM CO., LTD. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2015 and 2016
(In Millions of New Taiwan or U.S. Dollars)

ASSETS	Notes	2015 NT$	2016 NT$	2016 US$ (Note 6)
CURRENT ASSETS				
Cash and cash equivalents	3, 7	$ 30,271	$ 31,100	$ 960
Financial assets at fair value through profit or loss	3, 8	-	-	-
Hedging derivative financial assets	3, 21	1	-	-
Held-to-maturity financial assets	3, 10	1,881	2,140	66
Trade notes and accounts receivable, net	3, 4, 11	26,926	31,022	957
Receivables from related parties	40	42	14	-
Inventories	3, 4, 12, 41	8,780	7,423	229
Prepayments	13, 40	2,669	2,978	92
Other current monetary assets	14, 28	3,301	4,821	149
Other current assets	20, 32, 41	2,336	2,122	66
Total current assets		76,207	81,620	2,519
NONCURRENT ASSETS				
Available-for-sale financial assets	3, 9	5,511	4,764	147
Held-to-maturity financial assets	3, 10	2,140	-	-
Investments accounted for using equity method	3, 16	2,895	2,386	74
Property, plant and equipment	3, 4, 17, 40, 41	296,399	291,170	8,987
Investment properties	3, 4, 18	7,902	8,115	250
Intangible assets	3, 4, 19	50,447	47,353	1,462
Deferred income tax assets	3, 32	2,061	2,322	72
Net defined benefit assets	3, 4, 28	11	919	28
Prepayments	13, 40	3,612	3,241	100
Other noncurrent assets	20, 41	5,586	5,025	155
Total noncurrent assets		376,564	365,295	11,275
TOTAL		$ 452,771	$ 446,915	$ 13,794

LIABILITIES AND EQUITY	Notes	2015 NT$	2016 NT$	2016 US$ (Note 6)
CURRENT LIABILITIES				
Short-term loans	22, 41	$ 110	$ 138	$ 4
Financial liabilities at fair value through profit or loss	3, 8	-	1	-
Hedging derivative financial liabilities	3, 21	-	1	-
Trade notes and accounts payable	24	16,301	18,810	581
Payables to related parties	40	611	762	24
Current tax liabilities	3, 32	9,171	6,522	201
Other payables	25	25,487	26,418	815
Provisions	3, 26	190	119	4
Advance receipts	27	9,567	10,059	310
Current portion of long-term loans	23, 41	8	-	-
Other current liabilities		1,501	1,330	41
Total current liabilities		62,946	64,160	1,980
NONCURRENT LIABILITIES				
Long-term loans	23, 41	1,742	1,600	49
Deferred income tax liabilities	3, 32	148	1,464	45
Provisions	3, 26	58	66	2
Customers' deposits	40	4,726	4,610	142
Net defined benefit liabilities	3, 4, 28	7,099	1,537	48
Deferred revenue	3	3,616	3,546	110
Other noncurrent liabilities		3,097	3,004	93
Total noncurrent liabilities		20,486	15,827	489
Total liabilities		83,432	79,987	2,469
EQUITY ATTRIBUTABLE TO STOCKHOLDERS OF THE PARENT				
Common stocks		77,574	77,574	2,394
Additional paid-in capital		146,733	147,180	4,543
Retained earnings				
Legal reserve		77,574	77,574	2,394
Special reserve		2,676	2,676	83
Unappropriated earnings		59,448	55,657	1,718
Total retained earnings		139,698	135,907	4,195
Other adjustments		269	(5)	-
Total equity attributable to stockholders of the parent	15, 29	364,274	360,656	11,132
NONCONTROLLING INTERESTS	15, 29	5,065	6,272	193
Total equity		369,339	366,928	11,325
TOTAL		$ 452,771	$ 446,915	$ 13,794

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, 2014, 2015 and 2016
(In Millions of New Taiwan or U.S. Dollars, Except Earnings Per Share That Are in New Taiwan or U.S. Dollars)

		2014	2015	2016	
	Notes	NT$	NT$	NT$	US$ (Note 6)
REVENUES	4, 30, 40, 43	$ 226,609	$ 231,795	$ 229,991	$ 7,099
OPERATING COSTS	12, 28, 31, 40	148,380	148,126	147,552	4,554
GROSS PROFIT		78,229	83,669	82,439	2,545
OPERATING EXPENSES					
Marketing		26,145	25,071	25,516	788
General and administrative		4,414	4,515	4,537	140
Research and development		3,504	3,617	3,785	117
Total operating expenses	28, 31, 40	34,063	33,203	33,838	1,045
OTHER INCOME AND EXPENSES	17, 18, 31	631	(105)	(496)	(15)
INCOME FROM OPERATIONS		44,797	50,361	48,105	1,485
NON-OPERATING INCOME AND EXPENSES					
Interest income		288	306	189	6
Other income	31, 40	587	650	1,072	33
Other gains and losses	31, 40	124	(228)	(448)	(14)
Interest expenses		(46)	(33)	(20)	(1)
Share of the profits of associates and joint ventures accounted for using equity method	16	802	897	515	16
Total non-operating income and expenses		1,755	1,592	1,308	40
INCOME BEFORE INCOME TAX		46,552	51,953	49,413	1,525
INCOME TAX EXPENSE	3, 32	8,985	9,101	7,787	240
NET INCOME		37,567	42,852	41,626	1,285
TOTAL OTHER COMPREHENSIVE INCOME (LOSS)					
Items that will not be reclassified to profit or loss:					
Remeasurements of defined benefit pension plans	28	(492)	(231)	(2,043)	(63)
Share of remeasurements of defined benefit pension plans of associates and joint ventures	16	1	(25)	(44)	(2)
Income tax benefit relating to items that will not be reclassified to profit or loss	32	84	39	347	11
		(407)	(217)	(1,740)	(54)

(Continued)

CHUNGHWA TELECOM CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
YEARS ENDED DECEMBER 31, 2014, 2015 and 2016
(In Millions of New Taiwan or U.S. Dollars, Except Earnings Per Share That Are in New Taiwan or U.S. Dollars)

	Notes	2014 NT$	2015 NT$	2016 NT$	2016 US$ (Note 6)
Items that may be reclassified subsequently to profit or loss:					
Exchange differences arising from the translation of the foreign operations		$ 164	$ 24	$ (170)	$ (5)
Unrealized gain (loss) on available-for-sale financial assets	31	878	(645)	(144)	(5)
Cash flow hedges	21, 31	-	1	(1)	-
Share of exchange differences arising from the translation of the foreign operations of associates and joint ventures	16	4	6	(3)	-
Income tax benefit (expense) relating to items that may be reclassified subsequently	32	3	(2)	2	-
		1,049	(616)	(316)	(10)
Total other comprehensive income (loss), net of income tax		642	(833)	(2,056)	(64)
TOTAL COMPREHENSIVE INCOME		$ 38,209	$ 42,019	$ 39,570	$ 1,221
NET INCOME ATTRIBUTABLE TO					
Stockholders of the parent		$ 36,970	$ 42,039	$ 40,485	$ 1,250
Noncontrolling interests		597	813	1,141	35
		$ 37,567	$ 42,852	$ 41,626	$ 1,285
COMPREHENSIVE INCOME ATTRIBUTABLE TO					
Stockholders of the parent		$ 37,594	$ 41,207	$ 38,486	$ 1,188
Noncontrolling interests		615	812	1,084	33
		$ 38,209	$ 42,019	$ 39,570	$ 1,221
EARNINGS PER SHARE	33				
Basic		$4.77	$5.42	$5.22	$0.16
Diluted		$4.76	$5.41	$5.21	$0.16
EARNINGS PER EQUIVALENT ADS					
Basic		$47.66	$54.19	$52.19	$1.61
Diluted		$47.58	$54.06	$52.11	$1.61

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, 2014, 2015 and 2016
(In Millions of New Taiwan or U.S. Dollars)

	Equity Attributable to Stockholders of the Parent												
			Retained Earnings				Other Adjustments						
	Common Stocks	Additional Paid-in Capital	Legal Reserve	Special Reserve	Unappropriated Earnings	Total Retained Earnings	Exchange Differences Arising from the Translation of the Foreign Operations	Unrealized Gain (Loss) on Available-for-sale Financial Assets	Cash Flow Hedges	Total Other Adjustments	Total Equity Attributable to Stockholders of the Parent	Noncontrolling Interests	Total Equity
	NT$	NT$	NT$	NT$	NT$	NT$	NT$	NT$	NT$	NT$	NT$	NT$	NT$
BALANCE, JANUARY 1, 2014	$ 77,574	$ 163,294	$ 74,819	$ 2,676	$ 40,075	$ 117,570	$ 6	$ (150)	$ -	$ (144)	$ 358,294	$ 4,846	$ 363,140
Appropriation of 2013 earnings													
Legal reserve	-	-	2,074	-	(2,074)	-	-	-	-	-	-	-	-
Special reserve	-	-	-	144	(144)	-	-	-	-	-	-	-	-
Cash dividends paid by Chunghwa	-	-	-	-	(18,526)	(18,526)	-	-	-	-	(18,526)	-	(18,526)
Cash dividends distributed by subsidiaries	-	-	-	-	-	-	-	-	-	-	-	(797)	(797)
Cash distributed from additional paid-in capital	-	(16,577)	-	-	-	-	-	-	-	-	(16,577)	-	(16,577)
Change in additional paid-in capital from share subscription not based on original ownership of a subsidiary	-	3	-	-	-	-	-	-	-	-	3	-	3
Net income for the year ended December 31, 2014	-	-	-	-	36,970	36,970	-	-	-	-	36,970	597	37,567
Other comprehensive income for the year ended December 31, 2014	-	-	-	-	(406)	(406)	140	890	-	1,030	624	18	642
Total comprehensive income for the year ended December 31, 2014	-	-	-	-	36,564	36,564	140	890	-	1,030	37,594	615	38,209
Compensation cost of employee stock options of a subsidiary	-	-	-	-	-	-	-	-	-	-	-	93	93
Employee stock bonus issued by a subsidiary	-	-	-	-	-	-	-	-	-	-	-	5	5
Net increase in noncontrolling interests	-	-	-	-	-	-	-	-	-	-	-	162	162
BALANCE, DECEMBER 31, 2014	77,574	146,720	76,893	2,820	55,895	135,608	146	740	-	886	360,788	4,924	365,712
Appropriation of 2014 earnings													
Legal reserve	-	-	681	-	(681)	-	-	-	-	-	-	-	-
Special reserve	-	-	-	(144)	144	-	-	-	-	-	-	-	-
Cash dividends paid by Chunghwa	-	-	-	-	(37,673)	(37,673)	-	-	-	-	(37,673)	-	(37,673)
Cash dividends distributed by subsidiaries	-	-	-	-	-	-	-	-	-	-	-	(350)	(350)
Reversal of special reserve recognized from land disposal	-	-	-	-	-	-	-	-	-	-	-	-	-
Partial disposal of interests in subsidiaries	-	27	-	-	-	-	-	-	-	-	27	18	45
Other changes in additional paid-in capital in subsidiaries	-	1	-	-	-	-	-	-	-	-	1	2	3
Change in additional paid-in capital from share subscription not based on original ownership of a subsidiary	-	-	-	-	-	-	-	-	-	-	-	-	-
Net income for the year ended December 31, 2015	-	-	-	-	42,039	42,039	-	-	-	-	42,039	813	42,852
Other comprehensive income for the year ended December 31, 2015	-	-	-	-	(215)	(215)	31	(649)	1	(617)	(832)	(1)	(833)
Total comprehensive income for the year ended December 31, 2015	-	-	-	-	41,824	41,824	31	(649)	1	(617)	41,207	812	42,019
Compensation cost of employee stock options of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	36	36
Subsidiary purchased its treasury stock	-	(15)	-	-	(61)	(61)	-	-	-	-	(76)	(416)	(492)
Net increase in noncontrolling interests	-	-	-	-	-	-	-	-	-	-	-	39	39
BALANCE, DECEMBER 31, 2015	77,574	146,733	77,574	2,676	59,448	139,698	177	91	1	269	364,274	5,065	369,339
Appropriation of 2015 earnings													
Cash dividends paid by Chunghwa	-	-	-	-	(42,551)	(42,551)	-	-	-	-	(42,551)	-	(42,551)
Cash dividends distributed by subsidiaries	-	-	-	-	-	-	-	-	-	-	-	(710)	(710)
Partial disposal of interests in subsidiaries	-	58	-	-	-	-	-	-	-	-	58	25	83
Change in additional paid-in capital for not participating in the capital increase of a subsidiary	-	389	-	-	-	-	-	-	-	-	389	786	1,175
Net income for the year ended December 31, 2016	-	-	-	-	40,485	40,485	-	-	-	-	40,485	1,141	41,626
Other comprehensive loss for the year ended December 31, 2016	-	-	-	-	(1,725)	(1,725)	(131)	(142)	(1)	(274)	(1,999)	(57)	(2,056)
Total comprehensive income (loss) for the year ended December 31, 2016	-	-	-	-	38,760	38,760	(131)	(142)	(1)	(274)	38,486	1,084	39,570
Share-based payment transactions of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	17	17
Net increase in noncontrolling interests	-	-	-	-	-	-	-	-	-	-	-	5	5
BALANCE, DECEMBER 31, 2016	$ 77,574	$ 147,180	$ 77,574	$ 2,676	$ 55,657	$ 135,907	$ 46	$ (51)	$ -	$ (5)	$ 360,656	$ 6,272	$ 366,928
BALANCE, DECEMBER 31, 2016 (IN MILLIONS OF US$ - Note 6)	$ 2,394	$ 4,543	$ 2,394	$ 83	$ 1,718	$ 4,195	$ 1	$ (1)	$ -	$ -	$ 11,132	$ 193	$ 11,325

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, 2014, 2015 and 2016
(In Millions of New Taiwan or U.S. Dollars)

	2014	2015	2016	
	NT$	NT$	NT$	US$ (Note 6)
CASH FLOWS FROM OPERATING ACTIVITIES				
Income before income tax	$ 46,552	$ 51,953	$ 49,413	$ 1,525
Adjustments to reconcile income before income tax to net cash provided by operating activities:				
Depreciation	31,896	30,368	29,106	898
Amortization	2,218	3,080	3,379	104
Provision for doubtful accounts	326	519	941	29
Interest expenses	46	33	20	1
Interest income	(288)	(306)	(189)	(6)
Dividend income	(78)	(218)	(391)	(12)
Compensation cost of share-based payment transactions	93	36	17	1
Share of profits of associates and joint ventures accounted for using equity method	(802)	(897)	(515)	(16)
Loss (gain) on disposal of investments accounted for using equity method	7	(4)	2	-
Impairment loss on available-for-sale financial assets	23	107	577	18
Impairment loss on investments accounted for using equity method	-	8	-	-
Provision for inventory and obsolescence	288	198	192	6
Impairment loss on property, plant and equipment	-	138	596	18
Reversal of impairment loss on investment properties	-	(142)	(148)	(5)
Impairment loss on intangible assets	-	-	-	-
Gain on disposal of financial instruments	(46)	-	-	-
Loss (gain) on disposal of property, plant and equipment	(26)	109	48	1
Gain on disposal of investment properties	(605)	-	-	-
Loss on disposal of intangible assets	-	-	-	-
Valuation loss (gain) on financial assets and liabilities at fair value through profit or loss, net	(1)	-	1	-
Loss (gain) on foreign exchange, net	(164)	54	(80)	(2)
Changes in operating assets and liabilities:				
Decrease (increase) in:				
Financial assets held for trading	-	1	-	-
Trade notes and accounts receivable	(3,617)	(1,172)	(4,613)	(142)
Receivables from related parties	(12)	39	28	1
Inventories	463	(1,852)	1,166	36
Prepayments	(116)	(327)	62	2
Other current monetary assets	1,268	(357)	(242)	(7)
Other current assets	741	889	214	6
Increase (decrease) in:				
Trade notes and accounts payable	2,972	(2,223)	2,497	77
Payables to related parties	(149)	203	151	5
Other payables	(1,868)	1,644	(76)	(2)
Provisions	20	(24)	(63)	(2)
Advance receipts	449	1,134	504	16
Other current liabilities	13	(112)	7	-
Deferred revenue	(303)	218	(70)	(2)
Net defined benefit plans	494	439	(8,539)	(264)
Cash generated from operations	79,794	83,536	73,995	2,284
Interest paid	(43)	(33)	(20)	(1)
Income tax paid	(8,373)	(7,178)	(9,023)	(278)
Net cash provided by operating activities	71,378	76,325	64,952	2,005

(Continued)

CHUNGHWA TELECOM CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2014, 2015 and 2016
(In Millions of New Taiwan or U.S. Dollars)

	2014	2015	2016	
	NT$	NT$	NT$	US$ (Note 6)
CASH FLOWS FROM INVESTING ACTIVITIES				
Acquisition of available-for-sale financial assets	$ (59)	$ (29)	$ (53)	$ (2)
Proceeds from disposal of available-for-sale financial assets	85	2	39	1
Acquisition of time deposits and negotiable certificate of deposit with maturities of more than three months	(411)	(11,494)	(4,119)	(127)
Proceeds from disposal of time deposits and negotiable certificate of deposit with maturities of more than three months	471	11,824	2,834	88
Acquisition of held-to-maturity financial assets	-	(1,002)	-	-
Proceeds from disposal of held-to-maturity financial assets	4,258	4,450	1,875	58
Proceeds from capital reduction of available-for-sale financial assets	84	44	37	1
Acquisition of investments accounted for using equity method	(252)	(6)	(30)	(1)
Proceeds from disposal of investments accounted for using equity method	-	16	182	6
Net cash outflow on acquisition of subsidiaries	-	(114)	-	-
Acquisition of property, plant and equipment	(32,559)	(25,084)	(23,517)	(726)
Proceeds from disposal of property, plant and equipment	150	4	44	1
Proceeds from disposal of investment properties	1,215	-	-	-
Acquisition of intangible assets	(644)	(10,380)	(282)	(9)
Acquisition of investment properties	-	-	-	-
Decrease (increase) in other noncurrent assets	(719)	72	63	2
Interest received	340	337	198	6
Cash dividends received	667	907	1,066	33
Net cash used in investing activities	(27,374)	(30,453)	(21,663)	(669)
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from short-term loans	895	2,750	1,415	44
Repayment of short-term loans	(585)	(3,258)	(1,387)	(43)
Proceeds from long-term loans	348	-	-	-
Repayment of long-term loans	(148)	(190)	(150)	(5)
Increase in repurchase agreement collateralized by bonds	13,000	-	-	-
Decrease in repurchase agreement collateralized by bonds	(13,000)	-	-	-
Decrease in customers' deposits	(69)	(37)	(294)	(9)
Increase (decrease) in other noncurrent liabilities	181	12	(104)	(3)
Cash dividends and cash distributed from additional paid-in capital	(35,103)	(37,673)	(42,551)	(1,313)
Partial disposal of interests in subsidiaries without losing control	-	45	83	3
Cash dividends distributed to noncontrolling interests	(797)	(350)	(710)	(22)
Change in other noncontrolling interests	162	(485)	1,180	36
Net cash used in financing activities	(35,116)	(39,186)	(42,518)	(1,312)

(Continued)

CHUNGHWA TELECOM CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2014, 2015 and 2016
(In Millions of New Taiwan or U.S. Dollars)

	2014	2015	2016	
	NT$	NT$	NT$	US$ (Note 6)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	$ 87	$ 25	$ 58	$ 2
NET INCREASE IN CASH AND CASH EQUIVALENTS	8,975	6,711	829	26
CASH AND CASH EQUIVALENTS, BEGINNING OF THE YEAR	14,585	23,560	30,271	934
CASH AND CASH EQUIVALENTS, END OF THE YEAR	$ 23,560	$ 30,271	$ 31,100	$ 960

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

1. GENERAL

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

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

Effective August 12, 2005, the MOTC completed the process of privatizing Chunghwa by reducing the government ownership to below 50% in various stages. In July 2000, Chunghwa received approval from the Securities and Futures Commission (the "SFC") for a domestic initial public offering and its common stocks were listed and traded on the Taiwan Stock Exchange (the "TWSE") on October 27, 2000. Certain of Chunghwa's common stocks were sold, in connection with the foregoing privatization plan, in domestic public offerings at various dates from August 2000 to July 2003. Certain of Chunghwa's common stocks were also sold in an international offering of securities in the form of American Depository Shares ("ADS") on July 17, 2003 and were listed and traded on the New York Stock Exchange (the "NYSE"). The MOTC sold common stocks of Chunghwa by auction in the ROC on August 9, 2005 and completed the second international offering on August 10, 2005. Upon completion of the share transfers associated with these offerings on August 12, 2005, the MOTC owned less than 50% of the outstanding shares of Chunghwa and completed the privatization plan.

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

2. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements were authorized for issue by the management on April 17, 2017.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance

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

Basis of Preparation

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values.

Current and Noncurrent Assets and Liabilities

Current assets include:

a. Assets held primarily for the purpose of trading;

b. Assets expected to be realized within twelve months after the reporting period; and

c. Cash and cash equivalents unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

Current liabilities include:

a. Liabilities held primarily for the purpose of trading;

b. Liabilities due to be settled within twelve months after the reporting period; and

c. Liabilities for which the Company does not have an unconditional right to defer settlement for at least twelve months after the reporting period.

Assets and liabilities that are not classified as current are classified as noncurrent.

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

Basis of Consolidation

a. Principles for preparing consolidated financial statements

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

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

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

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

   Attribution of total comprehensive income to the noncontrolling interests

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

Changes in the Company's ownership interests in subsidiaries

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

b. The subsidiaries in the consolidated financial statements

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

Name of Investor	Name of Investee	Main Businesses and Products	Percentage of Ownership December 31 2015	2016	Note
Chunghwa Telecom Co., Ltd.	Senao International Co., Ltd. ("SENAO")	Handset and peripherals retailer; sales of CHT mobile phone plans as an agent	29	29	1)
	Light Era Development Co., Ltd. ("LED")	Planning and development of real estate and intelligent buildings, and property management	100	100	
	Donghwa Telecom Co., Ltd. ("DHT")	International private leased circuit, IP VPN service, and IP transit services	100	100	
	Chunghwa Telecom Singapore Pte., Ltd. ("CHTS")	International private leased circuit, IP VPN service, and IP transit services	100	100	
	Chunghwa System Integration Co., Ltd. ("CHSI")	Providing system integration services and telecommunications equipment	100	100	
	Chunghwa Investment Co., Ltd. ("CHI")	Investment	89	89	
	CHIEF Telecom Inc. ("CHIEF")	Network integration, internet data center ("IDC"), communications integration and cloud application services	69	69	
	Chunghwa International Yellow Pages Co., Ltd. ("CHYP")	Digital information supply services and advertisement services	100	100	
	Prime Asia Investments Group Ltd. (B.V.I.) ("Prime Asia")	Investment	100	100	
	Spring House Entertainment Tech. Inc. ("SHE")	Digital entertainment contents production, animated character licensing and endorsement, and mobile digital platform construction	56	56	
	Chunghwa Telecom Global, Inc. ("CHTG")	International private leased circuit, internet services, and transit services	100	100	
	Chunghwa Telecom Vietnam Co., Ltd. ("CHTV")	Intelligent energy saving solutions, international circuit, and information and communication technology ("ICT") services.	100	100	
	Smartfun Digital Co., Ltd. ("SFD")	Providing diversified family education digital services	65	65	
	Chunghwa Telecom Japan Co., Ltd. ("CHTJ")	International private leased circuit, IP VPN service, and IP transit services	100	100	
	Chunghwa Sochamp Technology Inc. ("CHST")	Design, development and production of Automatic License Plate Recognition software and hardware	51	51	
	Honghwa International Co., Ltd. ("HHI")	Telecommunication engineering, sales agent of mobile phone plan application and other business services	100	100	
	Chunghwa Leading Photonics Tech Co., Ltd. ("CLPT")	Production and sale of electronic components and finished products	-	75	2)
	New Prospect Investments Holdings Ltd. (B.V.I.) ("New Prospect")	Investment	100	100	13)

(Continued)

Name of Investor	Name of Investee	Main Businesses and Products	Percentage of Ownership December 31 2015	2016	Note
Senao International Co., Ltd.	Senao International (Samoa) Holding Ltd. ("SIS")	International investment	100	100	
	Youth Co., Ltd. ("Youth")	Sale of information and communication technologies products	89	89	3)
	Aval Technologies Co., Ltd. ("Aval")	Sale of information and communication technologies products	100	100	4)
Youth Co., Ltd.	ISPOT Co., Ltd. ("ISPOT")	Sale of information and communication technologies products	100	100	3)
	Youyi Co., Ltd. ("Youyi")	Maintenance of information and communication technologies products	100	100	3)
CHIEF Telecom Inc.	Unigate Telecom Inc. ("Unigate")	Telecommunications and internet service	100	100	
	Chief International Corp. ("CIC")	Telecommunications and internet service	100	100	
	Shanghai Chief Telecom Co., Ltd. ("SCT")	Telecommunications and internet service	49	49	5)
Chunghwa System Integration Co., Ltd.	Concord Technology Co., Ltd. ("Concord")	Investment	100	100	
Spring House Entertainment Tech. Inc.	Ceylon Innovation Co., Ltd. ("CEI")	E-book publishing and copyright negotiation of digital music	100	-	6)
Chunghwa Investment Co., Ltd.	Chunghwa Precision Test Tech. Co., Ltd. ("CHPT")	Production and sale of semiconductor testing components and printed circuit board	46	41	7)
	Chunghwa Investment Holding Co., Ltd. ("CIHC")	Investment	100	-	8)
Concord Technology Co., Ltd.	Glory Network System Service (Shanghai) Co., Ltd. ("GNSS (Shanghai)")	Design, development and production of computer and internet software, installment, maintenance and consulting services of information system integration, and sales of self-production products	100	100	9)
Chunghwa Precision Test Tech. Co., Ltd.	Chunghwa Precision Test Tech. USA Corporation ("CHPT (US)")	Design and after-sale services of semiconductor testing components and printed circuit board	100	100	
	CHPT Japan Co., Ltd. ("CHPT (JP)")	Related services of electronic parts, machinery processed products and printed circuit board	100	100	
	Chunghwa Precision Test Tech. International, Ltd. ("CHPT (International)")	Wholesale and retail of electronic materials, and investment	100	100	
Senao International (Samoa) Holding Ltd.	Senao International HK Limited ("SIHK")	International investment	100	100	
Chunghwa Investment Holding Co., Ltd.	CHI One Investment Co., Limited ("COI")	Investment	100	-	10)
Senao International HK Limited	Senao Trading (Fujian) Co., Ltd. ("STF")	Sale of information and communication technologies products	100	100	
	Senao International Trading (Shanghai) Co., Ltd. ("SITS")	Sale of information and communication technologies products	100	100	
	Senao International Trading (Shanghai) Co., Ltd. ("SEITS")	Maintenance of information and communication technologies products	100	100	14)
	Senao International Trading (Jiangsu) Co., Ltd. ("SITJ")	Sale of information and communication technologies products	100	100	

(Continued)

Name of Investor	Name of Investee	Main Businesses and Products	Percentage of Ownership December 31 2015	2016	Note
Prime Asia Investments Group Ltd. (B.V.I.)	Chunghwa Hsingta Co., Ltd. ("CHC")	Investment	100	100	
Chunghwa Hsingta Co., Ltd. ("CHC")	Chunghwa Telecom (China) Co., Ltd. ("CTC")	Integrated information and communication solution services for enterprise clients, and intelligent energy network service	100	100	
	Jiangsu Zhenhua Information Technology Company, LLC. ("JZIT")	Providing intelligent energy saving solution and intelligent buildings services	75	75	11)
	Hua-Xiong Information Technology Co., Ltd. ("HXIT")	Providing intelligent buildings and smart home services	51	-	12)
Chunghwa Precision Test Tech. International, Ltd.	Shanghai Taihua Electronic Technology Limited ("STET")	Design of printed circuit board and related consultation service	100	100	

(Concluded)

1) Chunghwa owns approximately 29% equity shares of SENAO and had originally four out of seven seats of the Board of Directors of SENAO through the support of large beneficial stockholders. In order to comply with the local regulations, SENAO increased two seats of independent directors in June 2016; therefore, total seats of its Board of Directors increased to nine and Chunghwa continues to hold four out of nine seats of the Board of Directors. As Chunghwa remains the control over SENAO's relevant activities, the accounts of SENAO are included in the consolidated financial statements. The Company's equity ownership of SENAO increased to 29.31% due to SENAO's purchase of its treasury stock in June and July 2015.

2) Chunghwa invested 75% equity shares of CLPT in July 2016. CLPT mainly engages in production and sale of electronic components and finished products.

3) SENAO acquired 70% equity shares of Youth in September 2015. SENAO participated in Youth's cash capital increase in December 2015; therefore, the ownership interests of Youth increased to 89.48%. Youyi and ISPOT are 100% owned subsidiaries of Youth.

4) SENAO established a 100% owned subsidiary of Aval in October 2015. Aval mainly engages in sale of information and communication technologies products.

5) CHIEF invested 49% equity shares of SCT in August 2015. Based on the written agreement between the stockholders, CHIEF has two out of three seats of the Board of Directors of SCT. Therefore, CHIEF has control over SCT and the accounts of SCT are included in the consolidated financial statements.

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

7) CHI disposed of some shares of CHPT in January 2015 and March 2016. Furthermore, CHI did not participate in the capital increase of CHPT in March 2016. Therefore, its ownership interest in CHPT decreased to 40.79%. However, considering the Company's absolute size, the relative size and the dispersion of shares owned by the other stockholders, the management concluded that the Company has a sufficiently dominant voting interest to direct the relevant activities; hence, CHPT is deemed as a subsidiary of the Company.

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

9) GNSS (Shanghai) was approved to end its business and dissolve. The liquidation of GNSS (Shanghai) is still in progress.

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

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

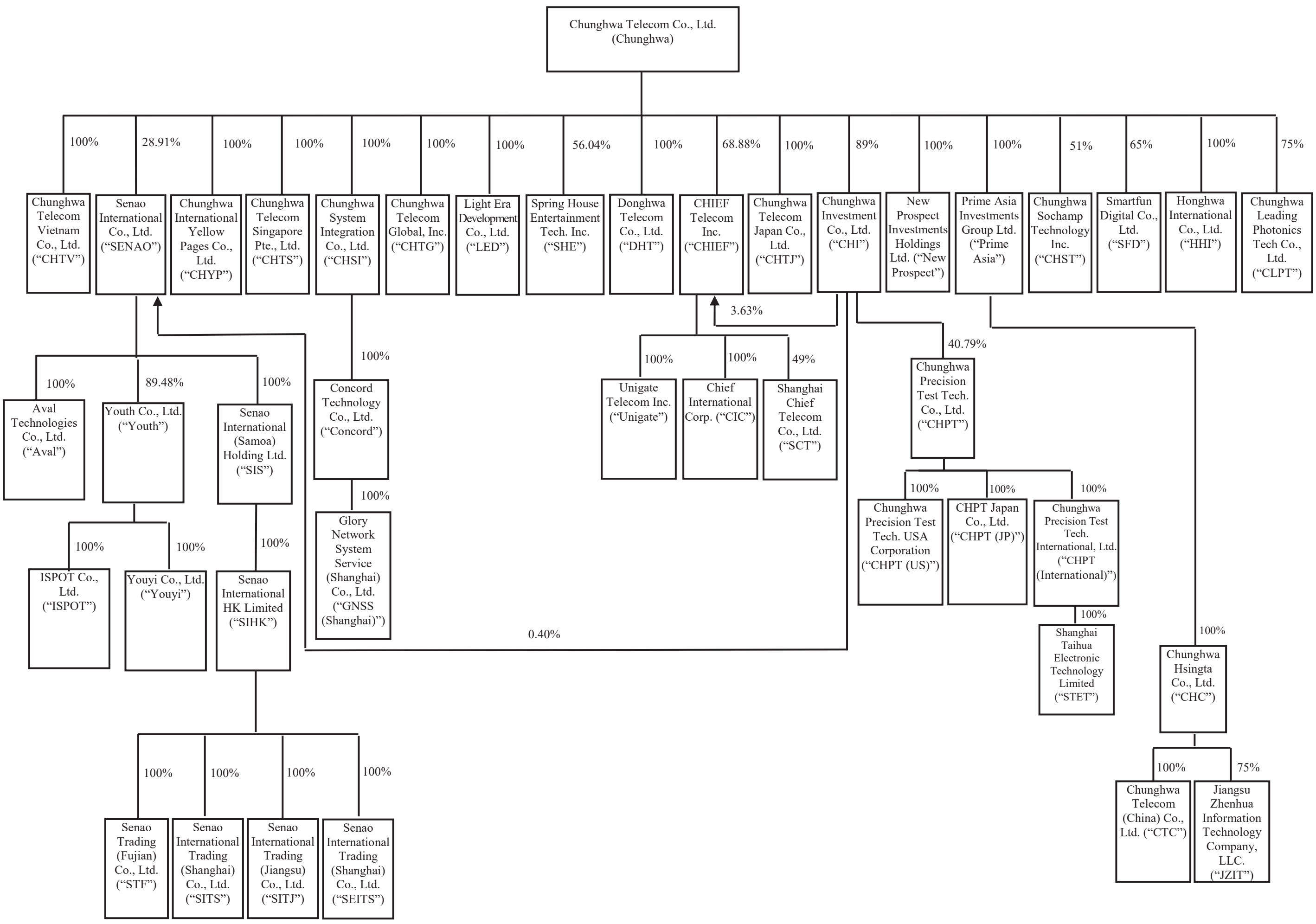
12) HXIT's dissolution was approved by local regulator in March 2016. HXIT completed its liquidation and annulled its company registration in May 2016. CHC received the proceeds from the liquidation.

13) New Prospect was approved to dissolve its business in April 2017. The liquidation of New Prospect is still in process.

14) SEITS was approved to end and dissolve its business in March 2017. The liquidation of SEITS is still in process.

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

The following diagram presents information regarding the relationship and ownership percentages between Chunghwa and its subsidiaries as of December 31, 2016:



Business Combination

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

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

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

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

Foreign Currencies

In preparing the financial statements of each individual entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions.

At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Exchange differences on monetary items arising from settlement or translation denominated in foreign currencies are recognized in profit or loss in the period in which they arise.

Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined and related exchange differences are recognized in profit or loss. Conversely, when the fair value changes were recognized in other comprehensive income, related exchange difference shall be recognized in other comprehensive income.

Non-monetary items that are measured at historical cost in a foreign currency are not retranslated.

Chunghwa use New Taiwan dollars (NT$) as the functional currency. For the purposes of presenting consolidated financial statements, the assets and liabilities of the Company's foreign operations (including of the subsidiaries and associates in other countries or currencies used different with Chunghwa) are translated into New Taiwan dollars using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are recognized in other comprehensive income and attributed to stockholders of the parent and noncontrolling interests as appropriate.

Cash Equivalents

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

Inventories

Inventories are stated at the lower of cost or net realizable value item by item, except for those that may be appropriate to group items of similar or related inventories. Net realizable value is the estimated selling price of inventories less all estimated costs of completion and costs necessary to make the sale. The calculation of the cost of inventory is derived using the weighted-average method.

Buildings and Land Consigned to Construction Contractors

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

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

Investments in Associates and Joint Ventures

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

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

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

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

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

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

Property, Plant and Equipment

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

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

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

Investment Properties

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

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

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

Goodwill

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

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

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

Intangible Assets Other Than Goodwill

Intangible assets with finite useful lives that are acquired separately are initially measured at cost and subsequently measured at cost less accumulated amortization and accumulated impairment loss. Amortization is recognized on a straight-line basis. The estimated useful life, residual value and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. The residual value of an intangible asset with a finite useful life shall be assumed to be zero unless the Company expects to dispose of the intangible asset before the end of its economic life. Intangible assets with indefinite useful lives that are acquired separately are measured at cost less accumulated impairment loss.

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

Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognized in profit or loss in the period in which the asset is derecognized.

Impairment of Tangible and Intangible Assets Other Than Goodwill

At the end of each reporting period, the Company reviews the carrying amounts of its tangible and intangible assets, excluding goodwill, to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. When it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

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

Recoverable amount is the higher of fair value less costs to sell and value in use. If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount, with the resulting impairment loss recognized in profit or loss.

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

Financial Instruments

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

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

a. Financial assets

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

   1) Measurement category

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

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

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

b) Held-to-maturity financial assets

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

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

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

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

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

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

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

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

d) Loans and receivables

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

2) Impairment of financial assets

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

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

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

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

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

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

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

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

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

3) Derecognition of financial assets

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

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

b. Financial liabilities

1) Subsequent measurement

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

2) Derecognition of financial liabilities

The Company derecognizes financial liabilities when, and only when, the Company's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss.

c. Derivative financial instruments

The Company enters into a variety of derivative financial instruments to manage its exposure to foreign exchange rate risks, including forward exchange contracts.

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

Hedge Accounting

The Company designates some derivatives instruments as cash flow hedges. Hedges of foreign exchange risk on firm commitments are accounted for as cash flow hedges.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in other comprehensive income. The gain or loss relating to the ineffective portion is recognized immediately in profit or loss.

The associated gains or losses that were recognized in other comprehensive income are reclassified from equity to profit or loss as a reclassification adjustment in the line item relating to the hedged item in the same period when the hedged item affects profit or loss. If a hedge of a forecast transaction subsequently results in the recognition of a non-financial asset or a non-financial liability, the associated gains and losses that were recognized in other comprehensive income are removed from equity and are included in the initial cost of the non-financial asset or non-financial liability.

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

Provisions

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

Revenue Recognition

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

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

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

c. The amount of revenue can be measured reliably;

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

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

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

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

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

Where the Company enters into transactions which involve both the provision of telecommunications service bundled with products such as handsets, total consideration received from products and telecommunications service in these arrangements are allocated and measured using units of accounting within the arrangement based on their relative fair values limited to the amount that is not contingent upon the delivery of products.

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

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

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

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

Leasing

a. The Company as lessor

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

b. The Company as lessee

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

Borrowing Costs

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

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

Employee Benefits

a. Short-term employee benefits

   Liabilities recognized in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related service.

b. Retirement benefits

   Payments to defined contribution retirement benefit plans are recognized as an expense when employees have rendered service entitling them to the contributions.

   Defined benefit costs (including service cost, net interest and remeasurement) under the defined benefit retirement benefit plans are determined using the projected unit credit method. Service cost (including current service cost and gains or losses on settlements) and net interest on the net defined benefit liability (asset) are recognized as employee benefits expense in the period they occur. Remeasurement, comprising (a) actuarial gains and losses; and (b) the return on plan assets, excluding amounts included in net interest on the net defined benefit liability (asset), is recognized in other comprehensive income in the period in which they occur. Remeasurement recognized in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss.

   Net defined benefit liability (asset) represents the actual deficit (surplus) in the Company's defined benefit plan. Any surplus resulting from this calculation is limited to the present value of any refunds from the plans or reductions in future contributions to the plans.

c. Other long-term employee benefits

Other long-term employee benefits are accounted for in the same way as the accounting required for defined benefit plan except that remeasurement is recognized in profit or loss.

Share-based Payment Arrangements - Employee Stock Options

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

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

Income Tax

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

a. Current tax

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

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

Adjustments of prior years' tax liabilities are added to or deducted from the current year's tax provision.

b. Deferred tax

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

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

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

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

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

c. Current and deferred tax for the year

Current and deferred tax are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income, in which case, the current and deferred tax are also recognized in other comprehensive income.

Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

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

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

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

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

a. Revenue recognition

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

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

b. Impairment of trade notes and accounts receivable

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

c. Provision for inventory valuation and obsolescence

Inventories are stated at the lower of cost or net realizable value. Estimates of net realizable value are based on the most reliable evidence available at the time the estimates are made at the end of reporting period. These estimates take into consideration fluctuations of price or cost directly relating to events occurring after the end of the period to the extent that such events confirm conditions existing at the end of the period. Inventory write-downs are determined on an item by item basis, except for those similar items which could be categorized into the same groups. The Company uses the inventory holding period and turnover as the evaluation basis for inventory obsolescence losses.

d. Impairment of tangible and intangible assets

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

e. Useful lives of property, plant and equipment

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

f. Recognition and measurement of defined benefit plans

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

g. Control over subsidiaries

As discussed in Note 3, some entities are subsidiaries of the Company although the Company only owns less than 50% ownership interests in these entities. After considering the Company's absolute size of holding in the entity and the relative size of and the dispersion of shares owned by the other stockholders, and the contractual arrangements between the Company and other investors, potential voting interests and the written agreement between stockholders, the management concluded that the Company has a sufficiently dominant voting interest to direct the relevant activities of the entity and therefore the Company has control over these entities.

5. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

The Company has applied the amendments to IFRSs included in the Annual Improvements to IFRSs 2012- 2014 Cycle, Amendments to IAS 1: Disclosure Initiative, and Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortization for the first time in 2016. The application of these amendments has had no impact on the disclosures or amounts recognized in the Company's consolidated financial statements.

New and Revised IFRSs in Issue But Not Yet Effective

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

New, Revised or Amended Standards and Interpretations		Effective Date Issued by IASB (Note 1)
Amendments to IFRSs	Annual Improvements to IFRSs 2014-2016 Cycle	Note 2
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions	January 1, 2018
IFRS 9	Financial Instruments	January 1, 2018
Amendments to IFRS 9 and IFRS 7	Mandatory Effective Date of IFRS 9 and Transition Disclosures	January 1, 2018
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined by IASB
IFRS 15	Revenue from Contracts with Customers	January 1, 2018
Amendments to IFRS 15	Clarifications to IFRS 15	January 1, 2018
IFRS 16	Leases	January 1, 2019
Amendments to IAS 7	Disclosure Initiative	January 1, 2017
Amendments to IAS 12	Deferred Tax: Recovery of Underlying Assets	January 1, 2017
Amendments to IAS 40	Transfers of investment property	January 1, 2018
IFRIC 22	Foreign Currency Transactions and Advance Consideration	January 1, 2018

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

Note 2: The amendment to IFRS 12 is retrospectively applied for annual periods beginning on or after January 1, 2017; the amendment to IAS 28 is retrospectively applied for annual periods beginning on or after January 1, 2018.

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

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

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

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

1) Identify the contract with the customer;

2) Identify the performance obligations in the contract;

3) Determine the transaction price;

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

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

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

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

Incremental costs of obtaining a contract will be recognized as an asset to the extent the Company expects to recover those costs. Such asset will be amortized on a basis that is consistent with the transfer to the customer of the goods or services to which the asset relates. This will lead to the later recognition of charges for certain customer-obtaining costs.

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

When IFRS 15 and its amendments become effective, entities may elect to apply this Standard and the related amendments either retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initially applying this Standard recognized at the date of initial application. The Company is currently evaluating these transition methods and the related impacts on the Company's consolidated financial statements.

b. IFRS 16 “Leases”

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

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

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

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

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

6. U.S. DOLLAR AMOUNTS

The Company maintains its accounts and expresses its consolidated financial statements in New Taiwan dollars. For readers’ convenience only, U.S. dollar amounts presented in the accompanying consolidated financial statements have been translated from New Taiwan dollars as set forth in the statistical release of the Federal Reserve Board of the United States as of December 30, 2016, which was NT$32.40 to US$1.00. The convenience translations should not be construed as representations that the New Taiwan dollar amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

7. CASH AND CASH EQUIVALENTS

	December 31	
	2015	2016
	NT$	NT$
	(In Millions)	
Cash		
Cash on hand	$ 333	$ 370
Bank deposits	7,616	7,240
	7,949	7,610

(Continued)

	December 31	
	2015	2016
	NT$	NT$
	(In Millions)	
Cash equivalents (investments with maturities of less than three months)		
Commercial paper	$ 11,914	$ 11,436
Negotiable certificate of deposit	7,600	10,800
Time deposits	2,808	1,254
	22,322	23,490
	$ 30,271	$ 31,100

(Concluded)

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

	December 31	
	2015	2016
Bank deposits	0.00%-1.10%	0.00%-0.42%
Commercial paper	0.35%-0.41%	0.32%-0.42%
Negotiable certificate of deposit	0.36%-0.45%	0.35%-0.50%
Time deposits	0.55%-3.80%	0.40%-3.30%

8. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	December 31	
	2015	2016
	NT$	NT$
	(In Millions)	
Financial assets held for trading		
Derivatives (not designated for hedge)		
Forward exchange contracts	$ -	$ -
Financial liabilities held for trading		
Derivatives (not designated for hedge)		
Forward exchange contracts	$ -	$ 1

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

	Currency	Maturity Period	Contract Amount (In Millions)
December 31, 2015			
Forward exchange contracts - buy	EUR/NT$	2016.03-06	EUR18/NT$659
Forward exchange contracts - buy	US$/NT$	2016.01	US$1/NT$26

(Continued)

	Currency	Maturity Period	Contract Amount (In Millions)
December 31, 2016			
Forward exchange contracts - buy	EUR/NT$	2017.03	EUR5/NT$167
Forward exchange contracts - buy	US$/NT$	2017.01	US$2/NT$55

(Concluded)

The Company entered into the above forward exchange contracts to manage its exposure to foreign currency risk due to fluctuations in exchange rates. However, the aforementioned derivatives did not meet the criteria for hedge accounting.

9. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	December 31	
	2015	2016
	NT$ (In Millions)	NT$
Equity securities		
Domestic listed stocks	$ 3,243	$ 2,521
Domestic non-listed stocks	1,990	1,949
Foreign non-listed stocks	278	294
	$ 5,511	$ 4,764
Current	$ -	$ -
Noncurrent	5,511	4,764
	$ 5,511	$ 4,764

CHI evaluated and concluded its listed available-for-sale financial assets were partially impaired and recorded an impairment loss of $26 million for the year ended December 31, 2015. Chunghwa evaluated and concluded its listed available-for-sale financial assets were impaired and recorded an impairment loss of $577 million for the year ended December 31, 2016.

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

The Company disposed non-listed available-for-sale financial assets with carrying amounts of $6 million, $2 million and $9 million for the years ended 2014, 2015 and 2016, respectively, and recognized the gains (losses) from the disposal of $1 million, $(0.4) million and $1 million for the years ended December 31, 2014, 2015 and 2016, respectively.

After the Company evaluated the financial positions and future operation results of non-listed available-for-sale financial assets, the Company concluded some of its investments that have ceased their operations were fully impaired, and recognized an impairment loss of $9 million, $77 million and nil for the years ended December 31, 2014, 2015 and 2016, respectively. In addition, some of its investments were encountering profit recession or deficit. The Company concluded the recoverable amount of such investments which represented present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset or based on the market approach using financial indicators such as PE ratios of the comparable listed companies was lower than the carrying amount. Therefore, the Company recognized impairment losses of $14 million, $4 million and nil for the years ended December 31, 2014, 2015 and 2016, respectively.

10. HELD-TO-MATURITY FINANCIAL ASSETS

	December 31	
	2015	2016
	NT$	NT$
	(In Millions)	
Corporate bonds	$ 3,871	$ 1,990
Bank debentures	150	150
	$ 4,021	$ 2,140
Current	$ 1,881	$ 2,140
Noncurrent	2,140	-
	$ 4,021	$ 2,140

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

	December 31	
	2015	2016
	NT$	NT$
	(In Millions)	
Corporate bonds		
Par value	$ 3,865	$ 1,990
Nominal interest rate	1.18%-2.49%	1.18%-1.35%
Effective interest rate	1.15%-1.54%	1.20%-1.35%
Average remaining maturity life	1.04 years	0.34 year
Bank debentures		
Par value	$ 150	$ 150
Nominal interest rate	1.25%	1.25%
Effective interest rate	1.25%	1.25%
Average remaining maturity life	1.41 years	0.41 year

11. TRADE NOTES AND ACCOUNTS RECEIVABLE, NET

	December 31	
	2015	2016
	NT$	NT$
	(In Millions)	
Trade notes and accounts receivable	$ 28,260	$ 32,795
Less: Allowance for doubtful accounts	(1,334)	(1,773)
	$ 26,926	$ 31,022

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

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

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

	December 31	
	2015	2016
	NT$	NT$
	(In Millions)	
Non-overdue	$ 25,708	$ 29,596
Less than 30 days	733	1,050
31-60 days	346	348
61-90 days	241	286
91-120 days	193	198
121-180 days	121	119
More than 181 days	918	1,198
	$ 28,260	$ 32,795

The above aging analysis was based on days overdue.

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

	December 31	
	2015	2016
	NT$	NT$
	(In Millions)	
Less than 30 days	$ 128	$ 256
31-60 days	16	47
61-90 days	95	9
91-120 days	58	74
121-180 days	2	1
More than 181 days	20	13
	$ 319	$ 400

The above aging analysis was based on days overdue.

Movements of the allowance for doubtful accounts were as follows:

	Individually Assessed for Impairment	Collectively Assessed for Impairment	Total
	NT$	NT$ (In Millions)	NT$
Balance on January 1, 2014	$ 221	$ 701	$ 922
Add: Provision for doubtful accounts	55	237	292
Deduct: Amounts written off	-	(165)	(165)
Balance on December 31, 2014	276	773	1,049
Add: Provision for doubtful accounts	88	392	480
Deduct: Amounts written off	-	(195)	(195)
Balance on December 31, 2015	364	970	1,334
Add: Provision for doubtful accounts	715	228	943
Deduct: Amounts written off	(274)	(230)	(504)
Balance on December 31, 2016	$ 805	$ 968	$ 1,773

12. INVENTORIES

	December 31	
	2015	2016
	NT$ (In Millions)	NT$
Merchandise	$ 5,849	$ 4,136
Project in process	697	961
Work in process	100	109
Raw materials	71	143
	6,717	5,349
Land held under development	1,999	1,999
Construction in progress	64	75
	$ 8,780	$ 7,423

The operating costs related to inventories were $51,341 million, $52,666 million and $54,183 million for the years ended December 31, 2014, 2015 and 2016, respectively.

For the years ended December 31, 2014, 2015 and 2016, the valuation loss on inventories recognized as operating costs included the amounts of $288 million, $198 million and $192 million, respectively.

As of December 31, 2015 and 2016, inventories of $2,063 million and $2,074 million, respectively, were expected to be recovered for a time period longer than twelve months. The aforementioned amount of inventories is related to property development owned by LED.

Land held under development and construction in progress on December 31, 2015 and 2016 was developed by LED for Qingshan Sec., Dayuan Dist., Taoyuan City project.

13. PREPAYMENTS

	December 31	
	2015	2016
	NT$	NT$
	(In Millions)	
Prepaid rents	$ 3,275	$ 2,934
Others	3,006	3,285
	$ 6,281	$ 6,219
Current		
Prepaid rents	$ 1,033	$ 899
Others	1,636	2,079
	$ 2,669	$ 2,978
Noncurrent		
Prepaid rents	$ 2,242	$ 2,035
Others	1,370	1,206
	$ 3,612	$ 3,241

14. OTHER CURRENT MONETARY ASSETS

	December 31	
	2015	2016
	NT$	NT$
	(In Millions)	
Time deposits and negotiable certificates of deposit with maturities of more than three months	$ 2,286	$ 3,568
Others	1,015	1,253
	$ 3,301	$ 4,821

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

	December 31	
	2015	2016
Time deposits and negotiable certificates of deposit with maturities of more than three months	0.11%-3.50%	0.11%-1.95%

15. SUBSIDIARIES

a. Information on significant noncontrolling interest subsidiary

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

Subsidiaries	Place of Incorporation and Principal Place of Business	Proportion of Ownership Interests and Voting Rights Held by Noncontrolling Interests December 31 2015	2016
SENAO	Taiwan	71%	71%

	Profit Allocated to Noncontrolling Interests Year Ended December 31			Accumulated Noncontrolling Interests December 31	
	2014	2015	2016	2015	2016
	NT$	NT$	NT$ (In Millions)	NT$	NT$
SENAO	$ 436	$ 551	$ 690	$ 3,942	$ 4,069
Individually immaterial subsidiaries with noncontrolling interests				1,123	2,203
				$ 5,065	$ 6,272

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

	December 31	
	2015	2016
	NT$ (In Millions)	NT$
Current assets	$ 7,423	$ 7,762
Noncurrent assets	$ 2,615	$ 2,535
Current liabilities	$ 4,398	$ 4,466
Noncurrent liabilities	$ 138	$ 155
Equity attributable to the parent	$ 1,560	$ 1,607
Noncontrolling interests	$ 3,942	$ 4,069

	Year Ended December 31		
	2014	2015	2016
	NT$	NT$ (In Millions)	NT$
Revenue	$ 41,753	$ 35,944	$ 34,453
Expenses	41,146	35,171	33,476
Profit for the year	$ 607	$ 773	$ 977
Profit attributable to the parent	$ 171	$ 222	$ 287
Profit attributable to the noncontrolling interests	436	551	690
Profit for the year	$ 607	$ 773	$ 977
Other comprehensive income attributable to the parent	$ 8	$ (1)	$ (21)
Other comprehensive income attributable to the noncontrolling interests	21	(2)	(53)
Other comprehensive income for the year	$ 29	$ (3)	$ (74)
Total comprehensive income attributable to the parent	$ 179	$ 222	$ 266
Total comprehensive income attributable to the noncontrolling interests	457	548	637
Total comprehensive income for the year	$ 636	$ 770	$ 903
Dividends paid to noncontrolling interests	$ 742	$ 274	$ 526
Net cash inflow from operating activities	$ 1,233	$ 1,739	$ 531
Net cash inflow (outflow) from investing activities	(115)	54	130
Net cash outflow from financing activities	(533)	(1,530)	(677)
Effect of exchange rate changes on cash and cash equivalents	9	11	(7)
Net cash inflow (outflow)	$ 594	$ 274	$ (23)

b. Equity transactions with noncontrolling interests

The Company's equity ownership of CHPT decreased from 50.62% as of January 1, 2014 to 47.65% as of December 31, 2014 due to CHI did not participate the CHPT's capital increase in August and September 2014. CHI disposed of some shares of CHPT in January 2015, and the ownership interest of CHPT decreased from 47.65% to 45.68%. The Company's equity ownership of CHPT decreased to 40.79% as of December 31, 2016 due to CHI disposed of some shares of CHPT and did not participate the CHPT'S capital increase in March 2016.

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

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

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

The detailed information of the equity transactions for the years ended December 31, 2014, 2015 and 2016 was as follows:

	Year Ended December 31					
	2014	2015			2016	
	CHI Did Not Participate in the Capital Increase of CHPT	CHI Disposed Some Shares of CHPT	SENAO Purchased Its Treasury Stock	SENAO Participated in Youth's Share Subscription	CHI Did Not Participate in the Capital Increase of CHPT	CHI Disposed Some Shares of CHPT
	NT$	NT$	NT$ (In Millions)	NT$	NT$	NT$
Cash consideration received from (paid to) Noncontrolling interests	$ 162	$ 45	$ (492)	$ -	$ 1,175	$ 83
The proportionate share of the carrying amount of the net assets of the subsidiary transferred (to) from noncontrolling interests	(159)	(18)	416	(0.4)	(786)	(25)
Differences arising from equity transactions	$ 3	$ 27	$ (76)	$ (0.4)	$ 389	$ 58
Line items for equity transaction adjustments						
Additional paid-in capital - difference between consideration received or paid and the carrying amount of the subsidiaries' net assets upon actual disposal or acquisition	$ -	$ 27	$ -	$ -	$ -	$ 58
Additional paid-in capital - arising from changes in equities of subsidiaries	$ 3	$ -	$ (15)	$ (0.4)	$ 389	$ -
Unappropriated earnings	$ -	$ -	$ (61)	$ -	$ -	$ -

c. Business combinations

1) Subsidiaries acquired

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

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

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

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

3) Goodwill arising on acquisition

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

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

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

SENAO performed impairment test of goodwill arising from the above acquisition and concluded that no impairment loss was required to recognize for the years ended December 31, 2015 and 2016.

4) Net cash outflow on acquisition of subsidiaries

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

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

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

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

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

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

16. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

	December 31	
	2015	2016
	NT$	NT$
	(In Millions)	
Investments in associates	$ 2,668	$ 2,383
Investments in joint ventures	227	3
	$ 2,895	$ 2,386

a. Investments in associates

Investments in associates were as follows:

	Carrying Amount December 31 2015 NT$ (In Millions)	Carrying Amount December 31 2016 NT$ (In Millions)
Listed		
Senao Networks, Inc. ("SNI")	$ 699	$ 680
Non-listed		
ST-2 Satellite Ventures Pte. Ltd. ("STS")	495	467
International Integrated System, Inc. ("IISI")	297	307
Viettel-CHT Co., Ltd. ("Viettel-CHT")	316	275
Taiwan International Standard Electronics Co., Ltd. ("TISE")	338	142
Skysoft Co., Ltd. ("SKYSOFT")	137	145
KingwayTek Technology Co., Ltd. ("KWT")	82	84
So-net Entertainment Taiwan Limited ("So-net")	106	111
Taiwan International Ports Logistics Corporation ("TIPL")	69	57
Click Force Co., Ltd. ("CF")	39	37
Alliance Digital Tech Co., Ltd. ("ADT")	14	32
Dian Zuan Integrating Marketing Co., Ltd. ("DZIM")	40	22
HopeTech Technologies Limited ("HopeTech")	36	24
MeWorks LIMITED (HK) ("MeWorks")	-	-
	$ 2,668	$ 2,383

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

	% of Ownership and Voting Rights December 31 2015	% of Ownership and Voting Rights December 31 2016
Senao Networks, Inc. ("SNI")	34	34
ST-2 Satellite Ventures Pte., Ltd. ("STS")	38	38
International Integrated System, Inc. ("IISI")	33	32
Viettel-CHT Co., Ltd. ("Viettel-CHT")	30	30
Taiwan International Standard Electronics Co., Ltd. ("TISE")	40	40
Skysoft Co., Ltd. ("SKYSOFT")	30	30
KingwayTek Technology Co., Ltd. ("KWT")	26	26
So-net Entertainment Taiwan Limited ("So-net")	30	30
Taiwan International Ports Logistics Corporation ("TIPL")	27	27
Click Force Co., Ltd. ("CF")	49	49
Alliance Digital Tech Co., Ltd. ("ADT")	13	14
Dian Zuan Integrating Marketing Co., Ltd. ("DZIM")	26	26
HopeTech Technologies Limited ("HopeTech")	45	45
MeWorks LIMITED (HK) ("MeWorks")	20	20

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

	Year Ended December 31		
	2014	2015	2016
	NT$	NT$ (In Millions)	NT$
The Company's share of profits	$ 823	$ 926	$ 557
The Company's share of other comprehensive income (loss)	5	(19)	(47)
The Company's share of total comprehensive income	$ 828	$ 907	$ 510

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

	December 31	
	2015	2016
	NT$ (In Millions)	NT$
SNI	$ 3,556	$ 2,537

Chunghwa did not participate in the capital increase of KWT in August 2014 and November 2014 and the ownership interest decreased to 27% after the capital increase of KWT. Chunghwa sold its partial ownership interest in KWT in January 2015. The gain on disposal of KWT was $7 million and the ownership interest decreased to 26% after the disposal.

Chunghwa and Taiwan International Ports Corporation, Ltd. established TIPL in October 2014. Chunghwa invested $80 million cash and held 27% ownership interest of TIPL. TIPL engages mainly in logistics service of increasing cargo movement efficiency.

DZIM increased its capital in April 2014 and June 2014. Chunghwa participated in the capital increase of DZIM by investing $49 million in April 2014. SENAO participated in the capital increase of DZIM by investing $24 million in April 2014. As of December 31, 2016, the Company held 26% ownership interest of DZIM. DZIM engages mainly in information technology service and general advertisement service.

CHYP participated in the capital increase of CF by investing $39 million and $6 million in November 2014 and April 2015, respectively. CHYP holds 49% ownership interest of CF. CF engages mainly in advertisement services.

Chunghwa did not participate in the capital increase of ADT in April 2014 and October 2014, and the ownership interest decreased to 13% after the capital increase of ADT. Chunghwa participated in the capital increase of ADT by investing $30 million in December 2016 at a percentage different from its original ownership interest and the ownership interest of ADT increased to 14%. Chunghwa still has one out of five seats in the Board of Directors of ADT after the capital increase. Therefore, Chunghwa remains significant influence over ADT. ADT engages mainly in the development of mobile payments and information processing service.

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

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

Prime Asia participated in the capital increase of MeWorks by investing $10 million and held 20% ownership in May 2014. Based on the share of capital commitments, Prime Asia has two seats out of five seats in the Board of Directors; therefore it has significant influence over MeWorks. As the operation of MeWorks ceased, the Company concluded that this investment was fully impaired. The Company recognized an impairment loss of $8 million for the year ended December 31, 2015. MeWorks engages mainly in investment business.

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

b. Investments in joint ventures

Investments in joint ventures were as follows:

	Carrying Amount		% of Ownership and Voting Rights	
	December 31		December 31	
	2015	2016	2015	2016
	NT$ (In Millions)	NT$		
Non-listed				
Huada Digital Corporation ("HDD")	$ 207	$ -	50	50
Chunghwa Benefit One Co., Ltd. ("CBO")	20	3	50	50
	$ 227	$ 3		

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

Chunghwa invested in CBO in February 2014 at $50 million cash to acquire 50% of its shares and the rest of 50% ownership interest was held by Benefit One Asia Pte. Ltd. ("BOA"), and each obtained half of director seats. Thus, neither Chunghwa nor BOA obtained control over CBO. CBO engages mainly in e-commerce business for employees of corporate members and personal customers. In December 2016, the stockholders of CBO approved that CBO should start its dissolution from December 31, 2016. The liquidation of CBO is still in process.

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

	Year Ended December 31		
	2014	2015	2016
	NT$	NT$ (In Millions)	NT$
The Company's share of loss	$ (21)	$ (29)	$ (42)
The Company's share of other comprehensive income	-	-	-
The Company's share of total comprehensive loss	$ (21)	$ (29)	$ (42)

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

17. PROPERTY, PLANT AND EQUIPMENT

	December 31	
	2015	2016
	NT$	NT$
	(In Millions)	
Carrying amount		
Land	$ 102,747	$ 103,872
Land improvements	372	333
Buildings	43,369	42,147
Computer equipment	3,281	2,713
Telecommunications equipment	123,167	119,195
Transportation equipment	1,065	629
Miscellaneous equipment	1,996	2,140
Construction in progress and advances related to acquisition of equipment	20,402	20,141
	$ 296,399	$ 291,170

	Land NT$	Land Improvements NT$	Buildings NT$	Computer Equipment NT$	Telecommuni-cations Equipment NT$ (In Millions)	Transportation Equipment NT$	Miscellaneous Equipment NT$	Construction in Progress and Advances Related to Acquisition of Equipment NT$	Total NT$
Cost									
Balance on January 1, 2014	$ 102,263	$ 1,547	$ 67,558	$ 15,996	$ 683,118	$ 3,745	$ 8,415	$ 22,853	$ 905,495
Additions	308	-	136	30	130	1	266	31,213	32,084
Disposal	(26)	(12)	(14)	(1,805)	(19,208)	(76)	(539)	-	(21,680)
Effect of foreign exchange differences	-	-	-	2	102	-	5	-	109
Others	229	23	(80)	1,095	30,934	154	496	(33,136)	(285)
Balance on December 31, 2014	$ 102,774	$ 1,558	$ 67,600	$ 15,318	$ 695,076	$ 3,824	$ 8,643	$ 20,930	$ 915,723
Accumulated depreciation and impairment									
Balance on January 1, 2014	$ -	$ (1,104)	$ (21,972)	$ (11,601)	$ (560,314)	$ (1,672)	$ (6,118)	$ -	$ (602,781)
Depreciation expenses	-	(53)	(1,252)	(1,473)	(27,704)	(599)	(799)	-	(31,880)
Disposal	-	12	13	1,800	19,194	76	461	-	21,556
Impairment losses	-	-	-	-	-	-	-	-	-
Effect of foreign exchange differences	-	-	-	(1)	(15)	-	(4)	-	(20)
Others	-	-	9	(33)	72	(13)	17	-	52
Balance on December 31, 2014	$ -	$ (1,145)	$ (23,202)	$ (11,308)	$ (568,767)	$ (2,208)	$ (6,443)	$ -	$ (613,073)
Cost									
Balance on January 1, 2015	$ 102,774	$ 1,558	$ 67,600	$ 15,318	$ 695,076	$ 3,824	$ 8,643	$ 20,930	$ 915,723
Additions	-	-	59	37	159	-	203	23,993	24,451
Disposal	-	-	(11)	(1,073)	(13,047)	(69)	(511)	-	(14,711)
Effect of foreign exchange differences	-	-	-	-	69	-	-	-	69
Acquisitions through business combinations	19	-	7	-	-	-	39	-	65
Others	(46)	17	135	714	23,115	60	363	(24,521)	(163)
Balance on December 31, 2015	$ 102,747	$ 1,575	$ 67,790	$ 14,996	$ 705,372	$ 3,815	$ 8,737	$ 20,402	$ 925,434

(Continued)

	Land	Land Improvements	Buildings	Computer Equipment	Telecommuni-cations Equipment	Transportation Equipment	Miscellaneous Equipment	Construction in Progress and Advances Related to Acquisition of Equipment	Total
	NT$	NT$	NT$	NT$	NT$ (In Millions)	NT$	NT$	NT$	NT$
Accumulated depreciation and impairment									
Balance on January 1, 2015	$ -	$ (1,145)	$ (23,202)	$ (11,308)	$ (568,767)	$ (2,208)	$ (6,443)	$ -	$ (613,073)
Depreciation expenses	-	(53)	(1,269)	(1,467)	(26,291)	(599)	(671)	-	(30,350)
Disposal	-	-	10	1,061	13,033	69	425	-	14,598
Impairment losses	-	-	-	-	(138)	-	-	-	(138)
Effect of foreign exchange differences	-	-	-	-	(14)	-	-	-	(14)
Acquisitions through business combinations	-	-	(1)	-	-	-	(28)	-	(29)
Others	-	(5)	41	(1)	(28)	(12)	(24)	-	(29)
Balance on December 31, 2015	$ -	$ (1,203)	$ (24,421)	$ (11,715)	$ (582,205)	$ (2,750)	$ (6,741)	$ -	$ (629,035)
Cost									
Balance on January 1, 2016	$ 102,747	$ 1,575	$ 67,790	$ 14,996	$ 705,372	$ 3,815	$ 8,737	$ 20,402	$ 925,434
Additions	791	-	36	42	171	1	255	23,295	24,591
Disposal	(2)	(6)	(35)	(1,546)	(11,542)	(54)	(625)	-	(13,810)
Effect of foreign exchange differences	-	-	-	(3)	(35)	-	(4)	-	(42)
Others	336	12	(53)	806	21,726	104	580	(23,556)	(45)
Balance on December 31, 2016	$ 103,872	$ 1,581	$ 67,738	$ 14,295	$ 715,692	$ 3,866	$ 8,943	$ 20,141	$ 936,128
Accumulated depreciation and impairment									
Balance on January 1, 2016	$ -	$ (1,203)	$ (24,421)	$ (11,715)	$ (582,205)	$ (2,750)	$ (6,741)	$ -	$ (629,035)
Depreciation expenses	-	(51)	(1,269)	(1,332)	(25,280)	(529)	(626)	-	(29,087)
Disposal	-	6	34	1,529	11,512	54	583	-	13,718
Impairment losses	-	-	-	-	(596)	-	-	-	(596)
Effect of foreign exchange differences	-	-	-	1	7	-	4	-	12
Others	-	-	65	(65)	65	(12)	(23)	-	30
Balance on December 31, 2016	$ -	$ (1,248)	$ (25,591)	$ (11,582)	$ (596,497)	$ (3,237)	$ (6,803)	$ -	$ (644,958)

(Concluded)

Due to technology upgrade, some telecommunications equipment became obsolete in 2014 and 2015. The Company determined that some telecommunications equipment was impaired in 2016 due to the expiration of 2G license in June 2017 which will lead to the termination of the related service. The Company evaluated and concluded the recoverable amount determined on the basis of value in use of aforementioned telecommunications equipment was lower than the carrying value, and recognized impairment losses of $0.064 million, $138 million and $596 million for the years ended December 31, 2014, 2015 and 2016, respectively. In addition, the Company evaluated and concluded the recoverable amount of partial computer and miscellaneous equipment was nil and recognized impairment losses of $0.4 million for the year ended December 31, 2016. The impairment loss was included in other income and expenses in the statements of comprehensive income.

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

Land improvements	8-30 years
Buildings	
Main buildings	35-60 years
Other building facilities	3-20 years
Computer equipment	2-8 years
Telecommunications equipment	
Telecommunication circuits	2-30 years
Telecommunication machinery and antennas equipment	2-30 years
Transportation equipment	3-10 years

(Continued)

Miscellaneous equipment	
Leasehold improvements	1-6 years
Mechanical and air conditioner equipment	3-16 years
Others	1-10 years
	(Concluded)

18. INVESTMENT PROPERTIES

	December 31	
	2015	2016
	NT$	NT$
	(In Millions)	
Carrying amount		
Investment properties	$ 7,902	$ 8,115

	Investment Properties
	NT$ (In Millions)
Cost	
Balance on January 1, 2014	$ 9,260
Disposal	(623)
Reclassification	246
Balance on December 31, 2014	$ 8,883
Accumulated depreciation and impairment	
Balance on January 1, 2014	$ (1,242)
Depreciation expense	(16)
Disposal	13
Reclassification	(17)
Balance on December 31, 2014	$ (1,262)
Cost	
Balance on January 1, 2015	$ 8,883
Disposal	-
Reclassification	175
Balance on December 31, 2015	$ 9,058
	(Continued)

	Investment Properties
	NT$ (In Millions)
Accumulated depreciation and impairment	
Balance on January 1, 2015	$ (1,262)
Depreciation expense	(18)
Disposal	-
Reclassification	(18)
Reversal of impairment loss	142
Balance on December 31, 2015	$ (1,156)
Cost	
Balance on January 1, 2016	$ 9,058
Additions	-
Reclassification	137
Balance on December 31, 2016	$ 9,195
Accumulated depreciation and impairment	
Balance on January 1, 2016	$ (1,156)
Depreciation expense	(19)
Reclassification	(53)
Reversal of impairment loss	148
Balance on December 31, 2016	$ (1,080)

(Concluded)

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

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

After the evaluation of land and buildings, the Company concluded the recoverable amount which represented the fair value less costs to sell of some land and buildings was higher than the carrying amount in 2015 and 2016. Therefore, the Company recognized reversals of impairment loss of $142 million and $148 million for the years ended December 31, 2015 and 2016, respectively, and the amounts were recognized only to the extent of impairment losses that had been recognized in prior years. The reversal of impairment loss was included in other income and expenses in the statements of comprehensive income.

LED disposed its investment property in October 2014. The disposal price is $1,230 million, related cost is $625 million (including carrying value of $610 million and related disposal expense of $15 million), and the disposal gain was $605 million.

The fair values of the Company's investment properties as of December 31, 2015 and 2016 were determined by Level 3 fair value measurements inputs based on the appraisal reports conducted by independent appraisers. Those appraisal reports are based on the comparison approach, income approach or cost approach. Key assumptions and the fair values were as follows:

	December 31	
	2015	2016
	NT$	NT$
	(In Millions)	
Fair value	$ 17,694	$ 17,778
Overall capital interest rate	1.49%-2.28%	1.46%-2.20%
Profit margin ratio	10%-20%	10%-20%
Discount rate	1.21%-1.28%	1.04%
Capitalization rate	0.44%-1.73%	0.43%-1.78%

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

19. INTANGIBLE ASSETS

	December 31	
	2015	2016
	NT$	NT$
	(In Millions)	
Carrying amount		
3G and 4G concession	$ 48,601	$ 45,796
Computer software	1,266	995
Goodwill	218	218
Others	362	344
	$ 50,447	$ 47,353

	3G and 4G Concession	Computer Software	Goodwill	Others	Total
	NT$	NT$	NT$ (In Millions)	NT$	NT$
Cost					
Balance on January 1, 2014	$ 49,254	$ 2,637	$ 181	$ 118	$ 52,190
Additions-acquired separately	-	611	-	33	644
Disposal	-	(56)	-	-	(56)
Effect of foreign exchange difference	-	-	-	-	-
Balance on December 31, 2014	$ 49,254	$ 3,192	$ 181	$ 151	$ 52,778
Accumulated amortization and impairment					
Balance on January 1, 2014	$ (6,436)	$ (1,306)	$ (18)	$ (31)	$ (7,791)
Amortization expenses	(1,668)	(543)	-	(7)	(2,218)
Disposal	-	56	-	-	56
Effect of foreign exchange difference	-	-	-	-	-
Balance on December 31, 2014	$ (8,104)	$ (1,793)	$ (18)	$ (38)	$ (9,953)

(Continued)

	3G and 4G Concession NT$	Computer Software NT$	Goodwill NT$ (In Millions)	Others NT$	Total NT$
Cost					
Balance on January 1, 2015	$ 49,254	$ 3,192	$ 181	$ 151	$ 52,778
Additions-acquired separately	9,955	424	-	1	10,380
Disposal	-	(375)	-	(2)	(377)
Effect of foreign exchange difference	-	-	-	-	-
Acquisitions through business combinations	-	-	55	259	314
Others	-	8	-	-	8
Balance on December 31, 2015	$ 59,209	$ 3,249	$ 236	$ 409	$ 63,103
Accumulated amortization and impairment					
Balance on January 1, 2015	$ (8,104)	$ (1,793)	$ (18)	$ (38)	$ (9,953)
Amortization expenses	(2,504)	(565)	-	(11)	(3,080)
Disposal	-	375	-	2	377
Effect of foreign exchange difference	-	-	-	-	-
Others	-	-	-	-	-
Balance on December 31, 2015	$ (10,608)	$ (1,983)	$ (18)	$ (47)	$ (12,656)
Cost					
Balance on January 1, 2016	$ 59,209	$ 3,249	$ 236	$ 409	$ 63,103
Additions-acquired separately	-	277	-	5	282
Disposal	-	(121)	-	-	(121)
Effect of foreign exchange difference	-	-	-	-	-
Others	-	3	-	-	3
Balance on December 31, 2016	$ 59,209	$ 3,408	$ 236	$ 414	$ 63,267
Accumulated amortization and impairment					
Balance on January 1, 2016	$ (10,608)	$ (1,983)	$ (18)	$ (47)	$ (12,656)
Amortization expenses	(2,805)	(551)	-	(23)	(3,379)
Disposal	-	121	-	-	121
Impairment losses	-	-	-	-	-
Effect of foreign exchange difference	-	-	-	-	-
Balance on December 31, 2016	$ (13,413)	$ (2,413)	$ (18)	$ (70)	$ (15,914)

(Concluded)

For long-term business development, Chunghwa participated in mobile broadband license (4G license) in 2.5 and 2.6 GHz bands bidding process announced by NCC and obtained certain spectrums. Chunghwa paid the 4G concession fees amounting to $9,955 million in December 2015.

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

The computer software is amortized using the straight-line method over the estimated useful lives of 1 to 10 years. Other intangible assets are amortized using the straight-line method over the estimated useful lives of 3 to 20 years. Goodwill is not amortized.

20. OTHER ASSETS

	December 31	
	2015	2016
	NT$	NT$
	(In Millions)	
Spare parts	$ 1,876	$ 1,776
Refundable deposits	2,198	2,083
Other financial assets	1,000	1,000
Others	2,848	2,288
	$ 7,922	$ 7,147
Current		
Spare parts	$ 1,876	$ 1,776
Others	460	346
	$ 2,336	$ 2,122
Noncurrent		
Refundable deposits	$ 2,198	$ 2,083
Other financial assets	1,000	1,000
Others	2,388	1,942
	$ 5,586	$ 5,025

Other financial assets - noncurrent was Piping Fund. As part of the government's effort to upgrade the existing telecommunications infrastructure, Chunghwa and other public utility companies were required by the ROC government to contribute to a Piping Fund administered by the Taipei City Government. This fund was used to finance various telecommunications infrastructure projects. Net assets of this fund will be returned proportionately after the project is completed.

21. HEDGING DERIVATIVE FINANCIAL INSTRUMENTS

	December 31	
	2015	2016
	NT$	NT$
	(In Millions)	
Hedging derivative financial assets		
Cash flow hedge - forward exchange contracts	$ 1	$ -
Hedging derivative financial liabilities		
Cash flow hedge - forward exchange contracts	$ -	$ 1

Chunghwa's hedge strategy is to enter forward exchange contracts - buy to avoid its foreign currency exposure to certain foreign currency denominated payments in the following six months. In addition, Chunghwa's management considers the market condition to determine the hedge ratio, and enters into forward exchange contracts with the banks to avoid the foreign currency risk.

Chunghwa signed equipment purchase contracts with suppliers, and entered into forward exchange contracts to avoid foreign currency risk exposure to Euro-denominated purchase commitments. Those forward exchange contracts were designated as cash flow hedges. For the years ended December 31, 2014, 2015 and 2016, gain (loss) arising from changes in fair value of the hedged items recognized in other comprehensive income was loss of 0.3 million, gain of $1 million and loss of $1 million, respectively. Upon the completion of the purchase transaction, the amount deferred and recognized in equity initially will be reclassified into equipment as its carrying value.

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

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

	Currency	**Maturity Period**	**Contract Amount (Millions)**
December 31, 2015			
Forward exchange contracts - buy	EUR/NT$	2016.03-06	EUR9/NT$306
December 31, 2016			
Forward exchange contracts - buy	EUR/NT$	2017.03	EUR3/NT$102

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

	Year Ended December 31		
	2014	**2015**	**2016**
	NT$	**NT$ (In Millions)**	**NT$**
Construction in progress and advances related to acquisition of equipment	$ 18	$ (18)	$ (15)

22. SHORT-TERM LOANS

	December 31	
	2015	**2016**
	NT$ (In Millions)	**NT$**
Secured loans (Note 41)	$ -	$ 20
Unsecured loans	110	118
	$ 110	$ 138

The annual interest rates of loans were as follows:

	December 31	
	2015	**2016**
Secured loans	-	1.98%
Unsecured loans	1.29%-2.40%	1.95%-2.25%

23. LONG-TERM LOANS (INCLUDING LONG-TERM LOANS - CURRENT PORTION)

	December 31	
	2015	2016
	NT$	NT$
	(In Millions)	
Secured loans (Note 41)	$ 1,750	$ 1,600
Less: Current portion of long-term loans	(8)	-
	$ 1,742	$ 1,600

The annual interest rates of loans were as follows:

	December 31	
	2015	2016
Secured loans	1.11%-1.36%	0.91%

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

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

24. TRADE NOTES AND ACCOUNTS PAYABLE

	December 31	
	2015	2016
	NT$	NT$
	(In Millions)	
Trade notes and accounts payable	$ 16,301	$ 18,810

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

25. OTHER PAYABLES

	December 31	
	2015	2016
	NT$	NT$
	(In Millions)	
Accrued salary and compensation	$ 10,430	$ 9,770
Payables to contractors	1,452	2,396
Accrued compensation to employees and remuneration to directors and supervisors	2,190	2,015
Payables to equipment suppliers	1,541	1,623
Amounts collected for others	1,406	1,407
Accrued franchise fees	1,401	1,326
Accrued maintenance costs	998	1,062
Others	6,069	6,819
	$ 25,487	$ 26,418

26. PROVISIONS

	December 31	
	2015	2016
	NT$	NT$
	(In Millions)	
Warranties	$ 213	$ 111
Employee benefits	30	38
Trade-in right	-	31
Others	5	5
	$ 248	$ 185
Current	$ 190	$ 119
Noncurrent	58	66
	$ 248	$ 185

	Warranties	Employee Benefits	Trade-in rights	Others	Total
	NT$	NT$	NT$	NT$	NT$
			(In Millions)		
Balance on January 1, 2014	$ 201	$ 47	$ -	$ 4	$ 252
Additional provisions recognized	192	8	-	1	201
Used during the year	(174)	-	-	-	(174)
Reversed during the year	(7)	-	-	-	(7)
Balance on December 31, 2014	$ 212	$ 55	$ -	$ 5	$ 272

(Continued)

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

(Concluded)

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

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

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

27. ADVANCE RECEIPTS

Advance receipts are mainly from advance telecommunication charges. In accordance with NCC's regulation named "Mandatory and Prohibitory Provisions To Be Included In Standard Contracts for Telecommunication Goods (Services) Coupons", the Company entered into a contract with Bank of Taiwan to provide a performance guarantee for advance receipts from selling prepaid cards amounting to $779 million as of December 31, 2016.

28. RETIREMENT BENEFIT PLANS

a. Defined contribution plans

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

b. Defined benefit plans

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

Chunghwa and its subsidiaries SENAO, CHIEF, CHSI, and SHE with the pension mechanism under the Labor Standards Law are considered as defined benefit plans. These pension plans provide benefits based on an employee's length of service and average six-month salary prior to retirement. Chunghwa and its subsidiaries contribute an amount no more than 15% of salaries paid each month to their respective pension funds (the Funds), which are administered by the Labor Pension Fund Supervisory Committee (the Committee) and deposited in the names of the Committees in the Bank of Taiwan. The plan assets are held in a commingled fund which is operated and managed by the government's designated authorities; as such, the Company does not have any right to intervene in the investments of the funds. According to the Article 56 of the Labor Standards Law of the ROC revised in February 2015, entities are required to contribute the difference in one appropriation to the Funds before the end of next March when the balance of the Funds is insufficient to pay employees who will meet the retirement eligibility criteria within next year.

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

	December 31	
	2015	2016
	NT$	NT$
	(In Millions)	
Present value of funded defined benefit obligation	$ 30,882	$ 34,572
Fair value of plan assets	(23,794)	(33,954)
Funded status - deficit	$ 7,088	$ 618
Net defined benefit liabilities	$ 7,099	$ 1,537
Net defined benefit assets	(11)	(919)
	$ 7,088	$ 618

Movements in the defined benefit obligation and the fair value of plan assets were as follows:

	Present Value of Funded Defined Benefit Obligation NT$	Fair Value of Plan Assets NT$ (In Millions)	Net Defined Benefit Liabilities (Assets) NT$
Balance on January 1, 2014	$ 25,457	$ 19,982	$ 5,475
Service cost			
Current service cost	2,920	-	2,920
Loss on settlements	76	-	76
Interest expense/interest income	509	415	94
Amounts recognized in profit or loss	3,505	415	3,090
Remeasurement on the net defined benefit liability			
Return on plan assets (excluding amounts included in net interest)	-	52	(52)
Actuarial losses recognized from changes in demographic assumptions	4	-	4
Actuarial gains recognized from changes in financial assumptions	(5)	-	(5)
Actuarial losses recognized from experience adjustments	545	-	545
Amounts recognized in other comprehensive income	544	52	492
Contributions from employer	-	2,486	(2,486)
Benefits paid	(454)	(454)	-
Settlements	(993)	(985)	(8)
Benefits paid directly by the Company	(101)	-	(101)
Balance on December 31, 2014	27,958	21,496	6,462
Current service cost	2,884	-	2,884
Interest expense/interest income	546	444	102
Amounts recognized in profit or loss	3,430	444	2,986
Remeasurement on the net defined benefit liability			
Return on plan assets (excluding amounts included in net interest)	-	136	(136)
Actuarial losses recognized from changes in demographic assumptions	11	-	11
Actuarial gains recognized from changes in financial assumptions	(1)	-	(1)
Actuarial losses recognized from experience adjustments	357	-	357
Amounts recognized in other comprehensive income	367	136	231
Contributions from employer	-	2,435	(2,435)
Benefits paid	(717)	(717)	-
Benefits paid directly by the Company	(156)	-	(156)
Balance on December 31, 2015	30,882	23,794	7,088

(Continued)

	Present Value of Funded Defined Benefit Obligation	Fair Value of Plan Assets	Net Defined Benefit Liabilities (Assets)
	NT$	NT$ (In Millions)	NT$
Current service cost	$ 2,866	$ -	$ 2,866
Interest expense/interest income	600	573	27
Amounts recognized in profit or loss	3,466	573	2,893
Remeasurement on the net defined benefit liability			
Return on plan assets (excluding amounts included in net interest)	-	(352)	352
Actuarial gains recognized from changes in demographic assumptions	(124)	-	(124)
Actuarial losses recognized from changes in financial assumptions	1,715	-	1,715
Actuarial losses recognized from experience adjustments	100	-	100
Amounts recognized in other comprehensive income	1,691	(352)	2,043
Contributions from employer	-	11,235	(11,235)
Benefits paid	(1,296)	(1,296)	-
Benefits paid directly by the Company	(171)	-	(171)
Balance on December 31, 2016	$ 34,572	$ 33,954	$ 618

(Concluded)

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

	Year Ended December 31		
	2014	2015	2016
	NT$	NT$ (In Millions)	NT$
Operating costs	$ 1,849	$ 1,794	$ 1,732
Marketing expenses	888	856	838
General and administrative expenses	169	162	155
Research and development expenses	106	102	97
	$ 3,012	$ 2,914	$ 2,822

The Company is exposed to following risks for the defined benefits plans under the Labor Standards Law:

a. Investment risk

Under the Labor Standards Law, the rate of return on assets shall not be lower than the average interest rate on a two-year time deposit published by the local banks and the government is responsible for any shortfall in the event that the rate of return is less than the required rate of return. The plan assets are held in a commingled fund mainly invested in foreign and domestic equity and debt securities and bank deposits which is operated and managed by the government’s designated authorities; as such, the Company does not have any right to intervene in the investments of the funds.

b. Interest rate risk

The decline in government bond interest rate will increase the present value of the obligation on the defined benefit plan, while the return on plan assets will increase. The net effect on the present value of the obligation on defined benefit plan is partially offset by the return on plan assets.

c. Salary risk

The calculation of the present value of defined benefit obligation is referred to the plan participants' future salary. Hence, the increase in plan participants' salary will increase the present value of the defined benefit obligation.

The most recent actuarial valuation of plan assets and the present value of the defined benefit obligation were carried out by the independent actuary.

The principal assumptions used for the purpose of the actuarial valuations were as follows:

	Measurement Date	
	December 31	
	2015	2016
Discount rates	2.00%	1.50%
Expected rates of salary increase	1.00%-2.00%	1.20%-2.00%

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

	December 31	
	2015	2016
	NT$ (In Millions)	NT$
Discount rates		
0.5% increase	$ (977)	$ (1,219)
0.5% decrease	$ 1,261	$ 1,298
Expected rates of salary increase		
0.5% increase	$ 1,332	$ 1,379
0.5% decrease	$ (1,052)	$ (1,306)

The sensitivity analysis presented above may not be representative of the actual change in the present value of the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

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

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

	December 31	
	2015	2016
	NT$	NT$
	(In Millions)	
The expected contributions to the plan for the next year	$ 11,302	$ 2,724
The average duration of the defined benefit obligation	6-15 years	7-14 years

The Company's maturity analysis of the undiscounted benefit payments as of December 31, 2016 was as follows:

Year	Amount
	NT$
	(In Millions)
2017	$ 1,677
2018	3,617
2019	6,228
2020	8,605
2021 and thereafter	46,986
	$ 67,113

29. EQUITY

a. Share capital

1) Common stocks

	December 31	
	2015	2016
	NT$	NT$
	(In Millions)	
Number of authorized shares	12,000	12,000
Authorized shares	$ 120,000	$ 120,000
Number of issued and paid shares	7,757	7,757
Issued and outstanding shares	$ 77,574	$ 77,574

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

2) Global depositary receipts

The MOTC and some stockholders sold some common stocks of Chunghwa in an international offering of securities in the form of American Depositary Shares ("ADS") (one ADS represents 10 common stocks) in July 2003, August 2005, and September 2006. The ADSs were traded on the New York Stock Exchange since July 17, 2003. As of December 31, 2016, the outstanding ADSs were 351 million common stocks, which equaled 35 million units and represented 4.52% of Chunghwa's total outstanding common stocks.

The ADS holders generally have the same rights and obligations as other common stockholders, subject to the provision of relevant laws. The exercise of such rights and obligations shall comply with the related regulations and deposit agreement, which stipulate, among other things, that ADS holders are entitled to, through deposit agents:

a) Exercise their voting rights,

b) Sell their ADSs, and

c) Receive dividends declared and subscribe to the issuance of new shares.

b. Additional paid-in capital

The adjustments of additional paid-in capital for the years ended December 31, 2014, 2015 and 2016 were as follows:

	Share Premium	Movements of Additional Paid-in Capital Arising from Changes in Equities of Subsidiaries	Difference between Consideration Received and Carrying Amount of the Subsidiaries' Net Assets upon Disposal	Donated Capital	Stockholders' Contribution Due to Privatization	Total
	NT$	NT$	NT$	NT$	NT$	NT$
			(In Millions)			
Balance on January 1, 2014	$ 142,622	$ 11	$ -	$ 13	$ 20,648	$ 163,294
Cash distributed from additional paid-in capital	(16,577)	-	-	-	-	(16,577)
Change in additional paid-in capital from share subscription not based on original ownership of a subsidiary	-	3	-	-	-	3
Employee stock bonus issued by a subsidiary	-	-	-	-	-	-
Balance on December 31, 2014	$ 126,045	$ 14	$ -	$ 13	$ 20,648	$ 146,720
Balance on January 1, 2015	$ 126,045	$ 14	$ -	$ 13	$ 20,648	$ 146,720
Partial disposal of interests in subsidiaries	-	-	27	-	-	27
Other changes in additional paid-in capital in subsidiaries	-	1	-	-	-	1
Subsidiary purchased its treasury stock	-	(15)	-	-	-	(15)
Balance on December 31, 2015	$ 126,045	$ -	$ 27	$ 13	$ 20,648	$ 146,733
Balance on January 1, 2016	$ 126,045	$ -	$ 27	$ 13	$ 20,648	$ 146,733
Partial disposal of interests in subsidiaries	-	-	58	-	-	58
Change in additional paid-in capital for not participating in the capital increase of a subsidiary	-	389	-	-	-	389
Share-based payment transactions of subsidiaries	-	-	-	-	-	-
Balance on December 31, 2016	$ 126,045	$ 389	$ 85	$ 13	$ 20,648	$ 147,180

Additional paid-in capital from share premium, donated capital and the difference between consideration received and the carrying amount of the subsidiaries' net assets upon disposal may be utilized to offset deficits; furthermore, when Chunghwa has no deficit, it may be distributed in cash or capitalized, which however is limited to a certain percentage of Chunghwa's paid-in capital.

The additional paid-in capital from movements of paid-in capital arising from changes in equities of subsidiaries may only be utilized to offset deficits. Additional paid-in capital from movements of investments in associates and joint ventures accounted for using equity method may not be used for any purpose.

c. Retained earnings and dividends policy

In accordance with the amendments to the Company Act of the ROC in May 2015, the recipients of dividends and bonuses are limited to stockholders and do not include employees. To comply with the above amendments to the Company Act of the ROC, amendments to the policy on dividend distribution and the addition of the policy on distribution of employees' and directors' compensation in Chunghwa's Articles of Incorporation were approved by the stockholders in their meeting on June 24, 2016.

In accordance with the Chunghwa's amended Articles of Incorporation, Chunghwa must pay all outstanding taxes, offset deficits in prior years and set aside a legal reserve equal to 10% of its net income before distributing a dividend or making any other distribution to stockholders, except when the accumulated amount of such legal reserve equals to Chunghwa's total issued capital, and depending on its business needs or requirements, may also set aside or reverse special reserves. No less than 50% of the remaining earnings comprising remaining balance of net income, if any, plus cumulative undistributed earnings shall be distributed as stockholders' dividends, of which cash dividends to be distributed shall not be less than 50% of the total amount of dividends to be distributed. If cash dividend to be distributed is less than $0.10 per share, such cash dividend shall be distributed in the form of common stocks.

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

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

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

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

The appropriations of the 2014 and 2015 earnings of Chunghwa approved by the stockholders in their meetings on June 26, 2015 and June 24, 2016 were as follows:

	Appropriation of Earnings		**Dividends Per Share**	
	For Fiscal Year 2014	**For Fiscal Year 2015**	**For Fiscal Year 2014**	**For Fiscal Year 2015**
	NT$ (In Millions)	**NT$ (In Millions)**	**NT$**	**NT$**
Legal reserve	$ 681	$ -		
Special reserve	(144)	-		
Cash dividends	37,673	42,551	$4.86	$5.49

The appropriations of earnings for 2016 had been proposed by Chunghwa's Board of Directors on March 7, 2017. The appropriations and dividends per share were as follows:

	For Fiscal Year 2016	
	Appropriation of Earnings	Dividends Per Share
	NT$ (In Millions)	NT$
Special reserve	$ 5	
Cash dividends	38,337	$4.94

The appropriations of earnings for 2016 are subject to the resolution of the stockholders' meeting planned to be held on June 23, 2017.

d. Other equity items

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

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

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

	Year Ended December 31		
	2014	2015	2016
	NT$	NT$ (In Millions)	NT$
Beginning balance	$ (150)	$ 740	$ 91
Unrealized gain (loss) on available-for-sale financial assets	926	(670)	(721)
Income tax relating to unrealized gain or loss on available-for-sale financial assets	3	(2)	2
Amount reclassified from equity to profit or loss on disposal of available-for-sale financial assets	(39)	-	-
Amount reclassified from equity to profit or loss on impairment of available-for-sale financial assets	-	23	577
Ending balance	$ 740	$ 91	$ (51)

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

e. Noncontrolling interests

	Year Ended December 31		
	2014	2015	2016
	NT$	NT$ (In Millions)	NT$
Beginning balance	$ 4,846	$ 4,924	$ 5,065
Attributable to noncontrolling interests			
Net income of the year	597	813	1,141
Exchange differences arising from the translation of the foreign operations	24	(3)	(41)
Unrealized gain (loss) on available-for-sale financial assets	(9)	2	-
Income tax relating to unrealized loss on available-for-sale financial assets	-	-	-
Remeasurements of defined benefit pension plans	(3)	(3)	(18)
Income tax relating to remeasurements of defined benefit pension plans	1	1	3
Share of other comprehensive income of associates accounted for using equity method	5	2	(1)
Cash dividends distributed by subsidiaries	(797)	(350)	(710)
Change in additional paid-in capital for not participating in the capital increase of a subsidiary	-	-	786
Partial disposal of interests in subsidiaries	-	18	25
Other changes in additional paid-in capital in subsidiaries	-	2	-
Employee stock bonus issued by a subsidiary	5	-	-
Share-based payment transactions of subsidiaries	93	36	17
Subsidiary purchased its treasury stock	-	(416)	-
Net increase in noncontrolling interests	162	39	5
Ending balance	$ 4,924	$ 5,065	$ 6,272

30. REVENUE

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

31. NET INCOME AND OTHER COMPREHENSIVE INCOME (LOSS)

a. Other income and expenses

	Year Ended December 31		
	2014	2015	2016
	NT$	NT$ (In Millions)	NT$
Impairment loss on property, plant and equipment	$ -	$ (138)	$ (596)
Gain (loss) on disposal of property, plant and equipment	26	(109)	(48)
Reversal of impairment loss on investment properties	-	142	148
Impairment loss on intangible assets	-	-	-
Loss on disposal of intangible assets	-	-	-
Gain on disposal of investment properties	605	-	-
	$ 631	$ (105)	$ (496)

b. Other income

	Year Ended December 31		
	2014	2015	2016
	NT$	NT$ (In Millions)	NT$
Dividend income	$ 78	$ 218	$ 391
Income from Piping Fund	200	202	202
Rental income	45	38	41
Others	264	192	438
	$ 587	$ 650	$ 1,072

c. Other gains and losses

	Year Ended December 31		
	2014	2015	2016
	NT$	NT$ (In Millions)	NT$
Net foreign currency exchange gains	$ 201	$ 63	$ 181
Gain (loss) on disposal of financial instruments	46	-	-
Gain (loss) on disposal of investments accounted for using equity method	(7)	4	(2)
Valuation gain (loss) on financial assets and liabilities at fair value through profit or loss, net	1	-	(1)
Impairment loss on investments accounted for using equity method	-	(8)	-

(Continued)

	Year Ended December 31		
	2014	2015	2016
	NT$	NT$ (In Millions)	NT$
Impairment loss on available-for-sale financial assets	$ (23)	$ (107)	$ (577)
Others	(94)	(180)	(49)
	$ 124	$ (228)	$ (448)

(Concluded)

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

	Year Ended December 31		
	2014	2015	2016
	NT$	NT$ (In Millions)	NT$
Notes and accounts receivable	$ 292	$ 480	$ 943
Other receivables	$ 34	$ 39	$ (2)
Available-for-sale financial assets	$ 23	$ 107	$ 577

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

	Year Ended December 31		
	2014	2015	2016
	NT$	NT$ (In Millions)	NT$
Inventories	$ 288	$ 198	$ 192
Property, plant and equipment	$ -	$ 138	$ 596
Investments accounted for using equity method	$ -	$ 8	$ -
Investment properties	$ -	$ (142)	$ (148)
Intangible assets	$ -	$ -	$ -

f. Depreciation and amortization expenses

	Year Ended December 31		
	2014	2015	2016
	NT$	NT$ (In Millions)	NT$
Property, plant and equipment	$ 31,880	$ 30,350	$ 29,087
Investment properties	16	18	19
Intangible assets	2,218	3,080	3,379
Total depreciation and amortization expenses	$ 34,114	$ 33,448	$ 32,485

(Continued)

	Year Ended December 31		
	2014	2015	2016
	NT$	NT$ (In Millions)	NT$
Depreciation expenses summarized by functions			
Operating costs	$ 29,682	$ 28,292	$ 27,214
Operating expenses	2,214	2,076	1,892
	$ 31,896	$ 30,368	$ 29,106
Amortization expenses summarized by functions			
Operating costs	$ 1,915	$ 2,742	$ 3,042
Marketing expenses	161	178	173
General and administrative expenses	97	116	126
Research and development expenses	45	44	38
	$ 2,218	$ 3,080	$ 3,379

(Concluded)

g. Employee benefit expenses

	Year Ended December 31		
	2014	2015	2016
	NT$	NT$ (In Millions)	NT$
Post-employment benefit			
Defined contribution plans	$ 441	$ 489	$ 544
Defined benefit plans	3,012	2,914	2,822
	3,453	3,403	3,366
Share-based payment			
Equity-settled share-based payment	93	36	17
Other employee benefit			
Salaries	24,857	25,526	25,985
Insurance	2,565	2,643	2,652
Others	15,659	15,717	15,730
	43,081	43,886	44,367
Total employee benefit expenses	$ 46,627	$ 47,325	$ 47,750
Summary by functions			
Operating costs	$ 26,362	$ 25,320	$ 25,190
Operating expenses	20,265	22,005	22,560
	$ 46,627	$ 47,325	$ 47,750

The bonus to employees and the remuneration to directors as of December 31, 2014 were accrued based on past experiences and the probable amount to be paid in accordance with Chunghwa's Articles of Incorporation and Implementation Guidance for the Employee's Bonus Distribution of Chunghwa Telecom Co., Ltd. According to the Company Act as amended in May 2015 and the amendments to the Chunghwa's Articles of Incorporation approved by the Chunghwa's stockholders in their meeting on June 24, 2016, Chunghwa distributes employees' compensation at the rates from

1.7% to 4.3% and remuneration to directors not higher than 0.17%, respectively, of pre-tax income. Chunghwa accrued employees' compensation and remuneration to directors according to the aforementioned policy for the years ended December 31, 2015 and 2016. As of December 31, 2016, the payables of the employees' compensation and of the remuneration to directors were $1,702 million and $42 million, respectively. Such amounts have been approved by the Chunghwa's Board of Directors on March 7, 2017 and will be reported to the stockholders in their meeting planned to be held on June 23, 2017.

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

The appropriations of the 2014 bonuses to employees and remuneration to directors of Chunghwa were approved by the stockholders in their meeting on June 26, 2015. The appropriations of the 2015 employees' compensation and remuneration to directors of Chunghwa were approved by the Board of Directors on March 11, 2016 and reported to the stockholders in their meeting after the amendments to Chunghwa's Articles of Incorporation was approved by the Chunghwa's stockholders in their meeting on June 24, 2016. The related information was as follows:

	2014	2015
	Cash	Cash
	NT$	NT$
	(In Millions)	
Bonus or compensation distributed to the employees	$ 1,510	$ 1,928
Remuneration paid to the directors	39	45

There was no difference between the initial accrual amounts and the amounts paid of the aforementioned compensation or bonus to employees and the remuneration to directors.

h. Components of others comprehensive income - unrealized gain (loss)

	Year Ended December 31		
	2014	2015	2016
	NT$	NT$	NT$
		(In Millions)	
Unrealized gain (loss) on available-for-sale financial assets			
Arising during the year	$ 925	$ (671)	$ (721)
Reclassification adjustments			
Upon disposal	(47)	-	-
Upon impairment	-	26	577
	$ 878	$ (645)	$ (144)
Cash flow hedges			
Gain (loss) arising during the year	$ (18)	$ 18	$ 15
Reclassification adjustments included in profit or loss	-	1	(1)
Adjusted against the carrying amount of hedged items	18	(18)	(15)
	$ -	$ 1	$ (1)

32. INCOME TAX

a. Income tax recognized in profit or loss

The major components of income tax expense were as follows:

	Year Ended December 31		
	2014	2015	2016
	NT$	NT$ (In Millions)	NT$
Current tax			
Current tax expenses recognized for the year	$ 7,516	$ 8,570	$ 6,736
Tax on unappropriated earnings	1,626	821	(346)
Income tax adjustments on prior years	4	(83)	(22)
Others	41	15	15
	9,187	9,323	6,383
Deferred tax			
Deferred tax expense recognized for the year	(202)	(222)	1,404
Income tax recognized in profit or loss	$ 8,985	$ 9,101	$ 7,787

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

	Year Ended December 31		
	2014	2015	2016
	NT$	NT$ (In Millions)	NT$
Income before income tax	$ 46,552	$ 51,953	$ 49,413
Income tax expense calculated at the statutory rate (17%)	$ 7,914	$ 8,832	$ 8,400
Nondeductible revenues and expenses in determining taxable income	47	28	5
Imputed income on tax	1	-	-
Unrecognized deductible temporary differences	(66)	11	(9)
Unrecognized loss carryforwards	161	83	12
Tax-exempt income	(399)	(183)	(25)
Income tax on unappropriated earnings	1,626	821	(346)
Investment credits	(314)	(329)	(234)
Effect of different tax rates of group entities operating in other jurisdictions	(25)	(94)	(8)
Adjustments of tax expense on prior years	4	(83)	(22)
Others	36	15	14
Income tax expense recognized in profit or loss	$ 8,985	$ 9,101	$ 7,787

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

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

	Year Ended December 31		
	2014	2015	2016
	NT$	NT$ (In Millions)	NT$
Deferred tax expense (benefit)			
Unrealized gain or loss on available-for-sale financial assets	$ (3)	$ 2	$ (2)
Remeasurement on defined benefit plan	(84)	(39)	(347)
Total income tax benefit recognized in other comprehensive income	$ (87)	$ (37)	$ (349)

c. Current tax assets and liabilities

	December 31	
	2015	2016
	NT$ (In Millions)	NT$
Current tax assets		
Tax refund receivable (included in other current assets - other)	$ 8	$ 5
Current tax liabilities		
Income tax payable	$ 9,171	$ 6,522

d. Deferred income tax assets and liabilities

The movements of deferred income tax assets and liabilities were as follows:

For the year ended December 31, 2014

Deferred Income Tax Assets	December 31, 2013	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	December 31, 2014
	NT$	NT$ (In Millions)	NT$	NT$
Temporary differences				
Defined benefit obligation	$ 928	$ 84	$ 84	$ 1,096
Share of profit of associates and joint ventures accounted for using equity method	175	102	-	277
Allowance for doubtful receivables over quota	2	112	-	114

(Continued)

Deferred Income Tax Assets	December 31, 2013	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	December 31, 2014
	NT$	NT$	NT$	NT$
		(In Millions)		
Impairment loss on property, plant and equipment	$ 59	$ (27)	$ -	$ 32
Deferred revenue	187	(31)	-	156
Valuation loss on inventory	56	(15)	-	41
Accrued award credits liabilities	21	7	-	28
Estimated warranty liabilities	24	(5)	-	19
Unrealized foreign exchange loss, net	11	(11)	-	-
Others	16	18	-	34
	1,479	234	84	1,797
Loss carryforwards	27	2	-	29
	$ 1,506	$ 236	$ 84	$ 1,826

(Concluded)

Deferred Income Tax Liabilities	December 31, 2013	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	December 31, 2014
	NT$	NT$	NT$	NT$
		(In Millions)		
Temporary differences				
Land value incremental tax	$ (95)	$ -	$ -	$ (95)
Deferred revenue for award credits	-	(5)	-	(5)
Unrealized foreign exchange gain, net	-	(29)	-	(29)
Valuation gain or loss on financial instruments, net	(6)	-	3	(3)
Others	-	-	-	-
	$ (101)	$ (34)	$ 3	$ (132)

For the year ended December 31, 2015

Deferred Income Tax Assets	December 31, 2014	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	From Business Combination	December 31, 2015
	NT$	NT$	NT$ (In Millions)	NT$	NT$
Temporary differences					
Defined benefit obligation	$ 1,096	$ 71	$ 39	$ -	$ 1,206
Share of the profit of associates and joint ventures accounted for using equity method	277	48	-	-	325
Allowance for doubtful receivables over quota	114	55	-	-	169
Impairment loss on property, plant and equipment	32	12	-	-	44
Deferred revenue	156	(20)	-	-	136
Valuation loss on inventory	41	(8)	-	-	33
Accrued award credits liabilities	28	(6)	-	-	22
Estimated warranty liabilities	19	(1)	-	-	18
Property, plant and equipment	-	-	-	2	2
Unrealized foreign exchange loss, net	-	18	-	-	18
Others	34	6	-	-	40
	1,797	175	39	2	2,013
Loss carryforwards	29	17	-	2	48
	$ 1,826	$ 192	$ 39	$ 4	$ 2,061

Deferred Income Tax Liabilities	December 31, 2014	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	From Business Combination	December 31, 2015
	NT$	NT$	NT$ (In Millions)	NT$	NT$
Temporary differences					
Defined benefit obligation	$ -	$ (1)	$ -	$ -	$ (1)
Land value incremental tax	(95)	-	-	-	(95)
Deferred revenue for award credits	(5)	3	-	-	(2)
Intangible assets	-	1	-	(44)	(43)
Unrealized foreign exchange gain, net	(29)	28	-	-	(1)
Valuation gain or loss on financial instruments, net	(3)	-	(2)	-	(5)
Others	-	(1)	-	-	(1)
	$ (132)	$ 30	$ (2)	$ (44)	$ (148)

For the year ended December 31, 2016

Deferred Income Tax Assets	December 31, 2015	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	December 31, 2016
	NT$	NT$	NT$	NT$
		(In Millions)		
Temporary differences				
Defined benefit obligation	$ 1,206	$ (179)	$ 347	$ 1,374
Share of profits of associates and joint ventures accounted for using equity method	325	5	-	330
Allowance for doubtful receivables over quota	169	61	-	230
Impairment loss on property, plant and equipment	44	78	-	122
Deferred revenue	136	(19)	-	117
Valuation loss on inventory	33	(13)	-	20
Accrued award credits liabilities	22	(2)	-	20
Estimated warranty liabilities	18	1	-	19
Property, plant and equipment	2	-	-	2
Unrealized foreign exchange loss, net	18	(18)	-	-
Others	40	(6)	-	34
	2,013	(92)	347	2,268
Loss carryforwards	48	6	-	54
	$ 2,061	$ (86)	$ 347	$ 2,322

Deferred Income Tax Liabilities	December 31, 2015	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	December 31, 2016
	NT$	NT$	NT$	NT$
		(In Millions)		
Temporary differences				
Defined benefit obligation	$ (1)	$ (1,268)	$ -	$ (1,269)
Land value incremental tax	(95)	-	-	(95)
Deferred revenue for award credits	(2)	(44)	-	(46)
Intangible assets	(43)	3	-	(40)
Unrealized foreign exchange gain, net	(1)	(9)	-	(10)
Valuation gain or loss on financial instruments, net	(5)	-	2	(3)
Others	(1)	-	-	(1)
	$ (148)	$ (1,318)	$ 2	$ (1,464)

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

	December 31	
	2015	2016
	NT$	NT$
	(In Millions)	
Loss carryforwards		
Expire in 2017	$ 67	$ 67
Expire in 2018	126	126
Expire in 2019	156	138
Expire in 2020	80	42
Expire in 2021	-	13
Expire in 2022	2	1
Expire in 2023	1	1
Expire in 2024	-	-
Expire in 2025	15	14
Expire in 2026	-	-
	$ 447	$ 402
Deductible temporary differences	$ 12	$ 3

f. Information about unused loss carryforwards

As of December 31, 2016, unused loss carryforwards was as follows:

Remaining Creditable Amount NT$ (In Millions)	Expiry Year
$ 67	2017
126	2018
138	2019
50	2020
23	2021
2	2022
3	2023
4	2024
32	2025
11	2026
$ 456	

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

Undistributed earnings information

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

Imputation credit account

	December 31	
	2015	2016
	NT$	NT$
	(In Millions)	
Balance of Imputation Credit Account ("ICA")	$ 7,516	$ 7,691

The creditable ratios for distribution of earnings of 2015 and 2016 were 20.48% and 20.48% (estimated ratio), respectively. Effective from January 1, 2015, the creditable ratio for individual stockholders residing in the Republic of China is half of the original creditable ratio according to the revised Article 66-6 of the Income Tax Act of the ROC.

The actual imputation credits allocated to stockholders of the Chunghwa was based on the balance of the Imputation Credit Accounts (ICA) as of the date of dividend distribution. Therefore, the estimated creditable ratio for the 2016 earnings may differ from the actual creditable ratio to be used in allocating imputation credits to the stockholders.

h. Income tax examinations

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

33. EARNINGS PER SHARE

Net income and weighted average number of common stocks used in the calculation of earnings per share were as follows:

Net Income

	Year Ended December 31		
	2014	2015	2016
	NT$	NT$ (In Millions)	NT$
Net income used to compute the basic earnings per share			
Net income attributable to the parent	$ 36,970	$ 42,039	$ 40,485
Assumed conversion of all dilutive potential common stocks			
Employee stock options, employee bonus and compensation of subsidiaries	-	(1)	(1)
Net income used to compute the diluted earnings per share	$ 36,970	$ 42,038	$ 40,484

Weighted Average Number of Common Stocks

(Millions Shares)

	Year Ended December 31		
	2014	2015	2016
Weighted average number of common stocks used to compute the basic earnings per share	7,757	7,757	7,757
Assumed conversion of all dilutive potential common stocks			
Employee bonus or employee compensation	13	19	12
Weighted average number of common stocks used to compute the diluted earnings per share	7,770	7,776	7,769

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

34. SHARE-BASED PAYMENT ARRANGEMENT

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

Effective Date	Grant Date	Stock Options Units (In Thousands)	Exercise Price NT$
2012.05.28	2013.05.07	10,000	$76.10 (Original price $93.00)

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

Stock options granted on May 7, 2013 applied IFRS 2. The recognized compensation costs were $93 million, $35 million and $13 million for the years ended December 31, 2014, 2015 and 2016, respectively.

SENAO modified the plan terms of the outstanding stock options in July 2014, the exercise price changed from $89.40 to $84.30 per share. The modification did not cause any incremental fair value granted.

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

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

Information about SENAO's outstanding stock options for the years ended December 31, 2014, 2015 and 2016 was as follows:

	Year Ended December 31, 2014	
	Granted on May 7, 2013	
	Number of Options (In Thousands)	Weighted-average Exercise Price NT$
Employee stock options		
Options outstanding at beginning of the year	9,872	$ 89.40
Options exercised	-	-
Options forfeited	(845)	-
Options outstanding at end of the year	9,027	84.30
Options exercisable at end of the year	-	-

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

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

As of December 31, 2015 information about employee stock options outstanding was as follows:

Options Outstanding				Options Exercisable	
Range of Exercise Price NT$	Number of Options (In Thousands)	Weighted-average Remaining Contractual Life (Years)	Weighted-average Exercise Price NT$	Number of Options (In Thousands)	Weighted-average Exercise Price NT$
$81.40	7,787	3.35	$81.40	4,049	$ 81.40

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

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

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

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

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

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

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

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

Stock options granted on October 22, 2015 applied IFRS 2. The recognized compensation cost were $1 million and $4 million for the years ended December 31, 2015 and 2016, respectively.

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

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

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

As of December 31, 2015, information about employee stock options outstanding was as follows:

Options Outstanding				Options Exercisable	
Range of Exercise Price	Number of Options	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
NT$		(Years)	NT$		NT$
$ 43.00	2,000	4.81	$ 43.00	-	$ -

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

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

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

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

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

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

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

The aforementioned options granted to employees are accounted for and measured at fair value in accordance with IFRS 2. The recognized compensation cost was $0.016 million for the year ended December 31, 2016.

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

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

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

35. NON-CASH TRANSACTIONS

For the years ended December 31, 2014, 2015 and 2016, the Company entered into the following non-cash investing activities:

	Year Ended December 31		
	2014	2015	2016
	NT$	NT$ (In Millions)	NT$
Increase in property, plant and equipment	$ 32,084	$ 24,451	$ 24,591
Other payables	475	633	(1,074)
	$ 32,559	$ 25,084	$ 23,517

36. OPERATING LEASE ARRANGEMENTS

a. The Company as lessee

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

	December 31 (In Millions)	
	2015 NT$	2016 NT$
Within one year	$ 3,173	$ 2,811
Longer than one year but within five years	5,614	5,450
Longer than five years	1,186	960
	$ 9,973	$ 9,221

b. The Company as lessor

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

	December 31 (In Millions)	
	2015 NT$	2016 NT$
Within one year	$ 399	$ 427
Longer than one year but within five years	527	600
Longer than five years	374	321
	$ 1,300	$ 1,348

37. CAPITAL MANAGEMENT

The Company manages its capital to ensure that entities in the Company will be able to continue as going concerns while maximizing the return to stakeholders through the optimization of the debt and equity balance.

The capital structure of the Company consists of debt of the Company and the equity attributable to the parent.

Some consolidated entities are required to maintain minimum paid-in capital amount as prescribed by the applicable laws.

The management reviews the capital structure of the Company as needed. As part of this review, the management considers the cost of capital and the risks associated with each class of capital.

According to the management's suggestion, the Company maintains a balanced capital structure through paying cash dividends, increasing its share capital, purchasing treasury stock, and proceeds from new debt or repayment of debt.

38. FINANCIAL INSTRUMENTS

Categories of Financial Instruments

	December 31	
	2015	**2016**
	NT$	**NT$**
	(In Millions)	
Financial assets		
Measured at FVTPL		
Held for trading	$ -	$ -
Hedging derivative financial assets	1	-
Held-to-maturity financial assets	4,021	2,140
Loans and receivables (Note a)	63,738	70,040
Available-for-sale financial assets	5,511	4,764
Financial liabilities		
Measured at FVTPL		
Held for trading	-	1
Hedging derivative financial liabilities	-	1
Measured at amortized cost (Note b)	36,365	40,553

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

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

Financial Risk Management Objectives

The main financial instruments of the Company include equity and debt investments, accounts receivable, accounts payable and loans. The Company's Finance Department provides services to its business units, co-ordinates access to domestic and international capital markets, monitors and manages the financial risks relating to the operations of the Company through internal risk reports which analyze exposures by degree and magnitude of risks. These risks include market risk (including foreign currency risk, interest rate risk and other price risk), credit risk, and liquidity risk.

The Company seeks to minimize the effects of these risks by using derivative financial instruments to hedge risk exposures. The use of financial derivatives is governed by the Company's policies approved by the Board of Directors. Those derivatives are used to hedge the risks of exchange rate fluctuation arising from operating or investment activities. Compliance with policies and risk exposure limits is reviewed by the Company's Finance Department on a continuous basis. The Company does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

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

a. Market risk

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

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

1) Foreign currency risk

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

	December 31	
	2015	2016
	NT$	NT$
	(In Millions)	
Assets		
USD	$ 4,596	$ 5,327
EUR	47	14
SGD	110	106
RMB	41	30
JPY	245	13
Liabilities		
USD	4,172	4,238
EUR	1,293	968
SGD	3	1
RMB	-	-
JPY	14	10

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

	December 31	
	2015	2016
	NT$	NT$
	(In Millions)	
Assets		
USD	$ -	$ -
EUR	1	-
Liabilities		
USD	-	-
EUR	-	2

Foreign currency sensitivity analysis

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

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

	Year Ended December 31		
	2014	2015	2016
	NT$	NT$	NT$
		(In Millions)	
Profit or loss			
Monetary assets and liabilities (a)			
USD	$ (3)	$ 21	$ 54
EUR	(38)	(62)	(48)
SGD	4	5	5
RMB	6	2	1
JPY	-	12	-
Derivatives (b)			
USD	11	1	3
EUR	-	33	8
Equity			
Derivatives (c)			
EUR	(5)	15	5

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

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

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

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

2) Interest rate risk

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

	December 31	
	2015	2016
	NT$	NT$
	(In Millions)	
Fair value interest rate risk		
Financial assets	$ 26,238	$ 28,303
Financial liabilities	110	-
Cash flow interest rate risk		
Financial assets	6,461	6,582
Financial liabilities	1,750	1,738

Interest rate sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for non-derivative instruments at the end of the reporting period. A 25 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 25 basis points higher/lower and all other variables were held constant, the Company's pre-tax income would increase/decrease by $6 million, $12 million and $12 million for the years ended December 31, 2014, 2015 and 2016, respectively. This is mainly attributable to the Company's exposure to floating interest rates on its financial assets and short-term and long-term loan.

3) Other price risk

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

Equity price sensitivity analysis

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

If equity prices of listed equity securities had been 5% higher/lower, other comprehensive income would have increased/decreased by $196 million, $162 million and $126 million as a result of the changes in fair value of available-for-sale assets for the years ended December 31, 2014, 2015 and 2016, respectively.

b. Credit risk

Credit risk refers to the risk that a counterparty would default on its contractual obligations resulting in financial loss to the Company. The maximum credit exposure of the aforementioned financial instruments is equal to their carrying amounts recognized in consolidated balance sheet as of the balance sheet date.

The Company has large trade receivables outstanding with its customers. A substantial majority of the Company's outstanding trade receivables are not covered by collateral or credit insurance. The Company has implemented ongoing measures including enhancing credit assessments and strengthening overall risk management to reduce its credit risk. While the Company has procedures to monitor and limit exposure to credit risk on trade receivables, there can be no assurance such procedures will effectively limit its credit risk and avoid losses. This risk is heightened during periods when economic conditions worsen.

As the Company serves a large number of unrelated consumers, the concentration of credit risk was limited.

c. Liquidity risk

The Company manages and maintains sufficient cash and cash equivalent position to support the operations and reduce the impact on fluctuation of cash flow.

1) Liquidity and interest risk tables

The following tables detailed the Company's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods. The tables had been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Company is required to pay.

	Weighted Average Effective Interest Rate (%)	Less Than 1 Month NT$	1-3 Months NT$	3 Months to 1 Year NT$	1-5 Years NT$	More than 5 Year NT$	Total NT$
				(In Millions)			
December 31, 2015							
Non-derivative financial liabilities							
Non-interest bearing	-	$ 40,209	$ -	$ 2,190	$ 4,726	$ -	$ 47,125
Floating interest rate instruments	1.13	-	-	8	1,646	96	1,750
Fixed interest rate instruments	1.82	50	-	60	-	-	110
		$ 40,259	$ -	$ 2,258	$ 6,372	$ 96	$ 48,985
December 31, 2016							
Non-derivative financial liabilities							
Non-interest bearing	-	$ 43,975	$ -	$ 2,015	$ 4,610	$ -	$ 50,600
Floating interest rate instruments	1.00	-	38	100	1,600	-	1,738
		$ 43,975	$ 38	$ 2,115	$ 6,210	$ -	$ 52,338

The following table detailed the Company's liquidity analysis for its derivative financial instruments. The table had been drawn up based on the undiscounted gross inflows and outflows on those derivatives that require gross settlement.

	Less Than 1 Month NT$	1-3 Months NT$	3 Months to 1 Year NT$ (In Millions)	1-5 Years NT$	Total NT$
December 31, 2015					
Gross settled					
Forward exchange contracts					
Inflows	$ 26	$ 474	$ 492	$ -	$ 992
Outflows	26	476	489	-	991
	$ -	$ (2)	$ 3	$ -	$ 1
December 31, 2016					
Gross settled					
Forward exchange contracts					
Inflows	$ 55	$ 267	$ -	$ -	$ 322
Outflows	55	269	-	-	324
	$ -	$ (2)	$ -	$ -	$ (2)

2) Financing facilities

	December 31	
	2015 NT$	2016 NT$
	(In Millions)	
Unsecured bank loan facility		
Amount used	$ 110	$ 118
Amount unused	41,278	46,219
	$ 41,388	$ 46,337
Secured bank loan facility		
Amount used	$ 1,750	$ 1,620
Amount unused	200	200
	$ 1,950	$ 1,820

39. FAIR VALUE INFORMATION

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

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

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

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

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

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

December 31, 2015

	Carrying Amount	Fair Value Level 1	Fair Value Level 2	Fair Value Level 3
Held-to-maturity financial assets				
Corporate bonds	$ 3,871	$ -	$ 3,891	$ -
Bank debentures	150	-	150	-
	$ 4,021	$ -	$ 4,041	$ -

December 31, 2016

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

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

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

December 31, 2015

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Derivatives	$ -	$ -	$ -	$ -
Hedging derivative financial assets	$ -	$ 1	$ -	$ 1
Available-for-sale financial assets				
Listed securities				
Equity investments	$ 3,243	$ -	$ -	$ 3,243

December 31, 2016

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

There were no transfers between Levels 1 and 2 for the years ended December 31, 2015 and 2016. There were no Level 3 investments measured at fair value on a recurring basis.

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

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

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

40. RELATED PARTIES TRANSACTIONS

The ROC Government, one of Chunghwa's customers has significant equity interest in Chunghwa. Chunghwa provides fixed-line services, wireless services, internet and data and other services to the various departments and institutions of the ROC Government in the normal course of business and at arm's-length prices. The transactions with the ROC government bodies have not been provided because the transactions are not individually or collectively significant. However, the related revenues and operating costs have been appropriately recorded.

a. The Company engages in business transactions with the following related parties:

Company	Relationship
Taiwan International Standard Electronics Co., Ltd.	Associate
So-net Entertainment Taiwan Limited	Associate
Skysoft Co., Ltd.	Associate
KingwayTek Technology Co., Ltd.	Associate
Dian Zuan Integrating Marketing Co., Ltd.	Associate
Taiwan International Ports Logistics Corporation	Associate
Huada Digital Corporation	Joint venture
Chunghwa Benefit One Co., Ltd.	Joint venture
International Integrated System, Inc.	Associate
Senao Networks, Inc.	Associate
HopeTech Technologies Limited	Associate
EnGenius Tech. Co., Ltd.	Associate
ST-2 Satellite Ventures Pte., Ltd.	Associate
Viettel-CHT Co., Ltd.	Associate
Xiamen Sertec Business Technology Co., Ltd.	Associate
Click Force Co., Ltd.	Associate
Other related parties	
Chunghwa Telecom Foundation	A nonprofit organization of which the funds donated by Chunghwa exceeds one third of its total funds
Senao Technical and Cultural Foundation	A nonprofit organization of which the funds donated by SENAO exceeds one third of its total funds
Sochamp Technology Co., Ltd.	Investor of significant influence over CHST
E-Life Mall Co., Ltd.	One of the directors of E-Life Mall and a director of SENAO are members of an immediate family
Engenius Technologies Co., Ltd.	Chairman of Engenius Technologies Co., Ltd. is a member of SENAO's management
United Daily News Co., Ltd.	Investor of significant influence over SFD
Shenzhen Century Communication Co., Ltd.	Investor of significant influence over SCT

b. Balances and transactions between Chunghwa and its subsidiaries, which are related parties of Chunghwa, have been eliminated on consolidation and are not disclosed in this note. Terms of the foregoing transactions with related parties were not significantly different from transactions with non-related parties. When no similar transactions with non-related parties can be referenced, terms were determined in accordance with mutual agreements. Details of transactions between the Company and other related parties are disclosed below:

1) Operating transactions

	Revenues		
	Year Ended December 31		
	2014	2015	2016
	NT$	NT$ (In Millions)	NT$
Associates	$ 329	$ 333	$ 292
Joint ventures	7	9	7
Others	97	81	49
	$ 433	$ 423	$ 348

	Operating Costs and Expenses		
	Year Ended December 31		
	2014	2015	2016
	NT$	NT$ (In Millions)	NT$
Associates	$ 1,663	$ 1,451	$ 1,405
Joint ventures	34	17	17
Others	69	62	74
	$ 1,766	$ 1,530	$ 1,496

2) Non-operating transactions

	Non-operating Income and Expenses		
	Year Ended December 31		
	2014	2015	2016
	NT$	NT$ (In Millions)	NT$
Associates	$ 34	$ 36	$ 37
Others	-	-	-
	$ 34	$ 36	$ 37

3) Receivables

	December 31	
	2015	2016
	NT$	NT$
	(In Millions)	
Associates	$ 29	$ 9
Joint ventures	1	-
Others	12	5
	$ 42	$ 14

4) Payables

	December 31	
	2015	2016
	NT$	NT$
	(In Millions)	
Associates	$ 602	$ 757
Joint ventures	5	1
Others	4	4
	$ 611	$ 762

5) Customers' deposits

	December 31	
	2015	2016
	NT$	NT$
	(In Millions)	
Associates	$ 11	$ 10
Joint ventures	-	1
	$ 11	$ 11

6) Acquisition of property, plant and equipment

	Year Ended December 31		
	2014	2015	2016
	NT$	NT$	NT$
		(In Millions)	
Associates	$ 521	$ 314	$ 313
Joint ventures	-	11	7
	$ 521	$ 325	$ 320

7) Prepayments

Chunghwa entered into a contract with ST-2 Satellite Ventures Pte., Ltd. on March 12, 2010 to lease capacity on the ST-2 satellite. This lease is for 15 years which should start from the official operation of ST-2 satellite and the total contract value is approximately $6,000 million (SG$261 million), including a prepayment of $3,068 million, and the rest of amount should be paid annually when ST-2 satellite starts its official operation. ST-2 satellite was launched in May 2011, and began its official operation in August 2011. The total rental expense for the year ended December 31, 2014 was $416 million, which consisted of an offsetting credit of the prepayment of $199 million and an additional accrual of $217 million. The total rental expense for the year ended December 31, 2015 was $404 million, which consisted of an offsetting credit of the prepayment of $204 million and an additional accrual of $200 million. The total rental expense for the year ended December 31, 2016 was $394 million, which consisted of an offsetting credit of the prepayment of $204 million and an additional accrual of $190 million. The prepaid rents (classified as prepayments) as of December 31, 2015 and 2016, were as follows:

	December 31	
	2015	2016
	NT$	NT$
	(In Millions)	
Prepaid rents - current	$ 204	$ 204
Prepaid rents - noncurrent	1,959	1,755
	$ 2,163	$ 1,959

c. Compensation of key management personnel

The compensation of directors and other key management personnel for the years ended December 31, 2014, 2015 and 2016 were as follows:

	Year Ended December 31		
	2014	2015	2016
	NT$	NT$	NT$
		(In Millions)	
Short-term employee benefits	$ 222	$ 212	$ 251
Share-based payment	10	3	2
Post-employment benefits	8	9	8
	$ 240	$ 224	$ 261

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

41. PLEDGED ASSETS

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

	December 31	
	2015	2016
	NT$	NT$
	(In Millions)	
Property, plant and equipment	$ 3,101	$ 2,580
Land held under development (included in inventories)	1,999	1,999
Restricted assets (included in other assets - others)	2	21
	$ 5,102	$ 4,600

42. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED COMMITMENTS

The Company's remaining commitments under non-cancelable contracts with various parties, excluding those disclosed in other notes, were as follows:

a. Acquisitions of land and buildings of $873 million as of December 31, 2016.

b. Acquisitions of telecommunications equipment of $12,293 million as of December 31, 2016.

c. Unused letters of credit amounting to $50 million as of December 31, 2016.

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

43. SEGMENT INFORMATION

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

a. Domestic fixed communications business - the provision of local telephone services, domestic long distance telephone services, broadband access, and related services;

b. Mobile communications business - the provision of mobile services, sales of mobile handsets and data cards, and related services;

c. Internet business - the provision of HiNet services and related services;

d. International fixed communications business - the provision of international long distance telephone services and related services;

e. Others - the provision of non-telecom services and the corporate related items not allocated to reportable segments.

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

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

a. Segment information

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

	Domestic Fixed Communi-cations Business	Mobile Communi-cations Business	Internet Business	International Fixed Communi-cations Business	Others	Total
	NT$	NT$	NT$ (In Millions)	NT$	NT$	NT$
Year ended December 31, 2014						
Revenues						
From external customers	$ 72,062	$ 110,665	$ 25,997	$ 15,314	$ 2,571	$ 226,609
Intersegment revenues	19,728	5,324	4,705	2,256	2,422	34,435
Segment revenues	$ 91,790	$ 115,989	$ 30,702	$ 17,570	$ 4,993	261,044
Intersegment elimination						(34,435)
Consolidated revenues						$ 226,609
Segment income before income tax	$ 19,535	$ 19,322	$ 9,547	$ 191	$ (2,043)	$ 46,552
Year ended December 31, 2015						
Revenues						
From external customers	$ 72,535	$ 114,877	$ 25,777	$ 15,460	$ 3,146	$ 231,795
Intersegment revenues	21,401	3,475	4,701	2,120	3,214	34,911
Segment revenues	$ 93,936	$ 118,352	$ 30,478	$ 17,580	$ 6,360	266,706
Intersegment elimination						(34,911)
Consolidated revenues						$ 231,795
Segment income before income tax	$ 23,231	$ 19,394	$ 9,918	$ 1,120	$ (1,710)	$ 51,953
Year ended December 31, 2016						
Revenues						
From external customers	$ 72,784	$ 110,801	$ 28,100	$ 14,434	$ 3,872	$ 229,991
Intersegment revenues	22,669	2,530	4,734	2,680	4,122	36,735
Segment revenues	$ 95,453	$ 113,331	$ 32,834	$ 17,114	$ 7,994	266,726
Intersegment elimination						(36,735)
Consolidated revenues						$ 229,991
Segment income before income tax	$ 25,658	$ 13,926	$ 10,729	$ 1,098	$ (1,998)	$ 49,413

b. Other segment information

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

For the year ended December 31, 2014

	Domestic Fixed Communi-cations Business	Mobile Communi-cations Business	Internet Business	International Fixed Communi-cations Business	Others	Total
	NT$	NT$	NT$	NT$	NT$	NT$
				(In Millions)		
Share of the profit of associates and joint ventures accounted for using equity method	$ -	$ -	$ -	$ -	$ 802	$ 802
Interest income	$ 24	$ 12	$ 10	$ 2	$ 240	$ 288
Interest expenses	$ -	$ 13	$ 1	$ -	$ 32	$ 46
Operating costs and expenses	$ 66,465	$ 81,400	$ 11,975	$ 14,500	$ 8,103	$ 182,443
Depreciation and amortization	$ 18,540	$ 9,909	$ 3,422	$ 1,819	$ 424	$ 34,114
Capital expenditure	$ 16,165	$ 9,619	$ 4,425	$ 1,458	$ 892	$ 32,559
Impairment loss on property, plant and equipment	$ -	$ -	$ 0.1	$ -	$ -	$ 0.1

For the year ended December 31, 2015

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

For the year ended December 31, 2016

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

c. Main products and service revenues

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

	Year Ended December 31		
	2014	2015	2016
	NT$	NT$ (In Millions)	NT$
Mobile services revenue	$ 77,469	$ 80,867	$ 78,788
Local telephone and domestic long distance telephone services revenue	38,905	36,690	34,531
Sales of product	34,795	36,509	35,377
Broadband access and domestic leased line services revenue	23,681	23,711	23,315
Internet services revenue	17,241	17,455	20,906
International network and leased telephone services revenue	11,951	11,319	10,634
Others	22,567	25,244	26,440
	$ 226,609	$ 231,795	$ 229,991

d. Geographic information

The users of the Company's services are mainly from Taiwan, ROC. The revenues it derived outside Taiwan are mainly revenues from international long distance telephone and leased line services. The geographic information for revenues was as follows:

	Year Ended December 31		
	2014	2015	2016
	NT$	NT$ (In Millions)	NT$
Taiwan, ROC	$ 216,173	$ 220,917	$ 218,933
Overseas	10,436	10,878	11,058
	$ 226,609	$ 231,795	$ 229,991

The Company has long-lived assets in U.S., Singapore, Hong Kong, China, Vietnam, and Japan and except for $4,041 million and $3,947 million as of December 31, 2015 and 2016, respectively, in the aforementioned areas, the other long-lived assets are located in Taiwan, ROC.

e. Major customers

For the years ended December 31, 2014, 2015 and 2016, the Company did not have any single customer whose revenue exceeded 10% of the total revenues.