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Taiwan Mobile

2016 Annual Report

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Anniversary

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Disclaimer

Please note that this English annual report is not a word-for-word translation of the Chinese version.

In the event of any variance, the Chinese text shall prevail.

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Letter to Shareholders

Dear Shareholders,

In 2016, thanks to an all-out effort by employees, Taiwan Mobile (“TWM” or “the Company”) saw its 4G business grow, with consolidated sales hitting a new record, while EBIT, EBITDA and free cash flow rose to their highest levels since the service’s launch in 2014. This can be attributed to the Company’s: 1) superior 4G network quality, which was recognized and affirmed by consumers, 2) an improving operating leverage due to expanding economies of scale, and 3) cost-effective investments in 4G spectrum and infrastructure. All these achievements demonstrate TWM’s commitment to maximizing shareholders’ interests.

Taiwan Mobile reported a 2016 consolidated revenue of NT\$116.6bn. Its EBITDA of NT\$33.9bn and EBIT of NT\$20bn rose 5% and 7% YoY, respectively. Net income and EPS came in at NT\$15.3bn and NT\$5.63, respectively, both surpassing the Company’s guidance by 9%. Earnings grew briskly on the back of a better-than-expected performance from its 4G operations and steady profit contribution from its e-commerce business. As a result, the Company again outperformed its peers in delivering the highest EPS in 2016 for the fifth consecutive year.

As the Company steadily expanded its core business, it continued to gain recognition for its commitment to enhancing corporate value, which included:

1. World-class corporate governance

Taiwan Mobile is committed to maintaining integrity as its core value and promoting corporate governance. The Company’s compliance with global standards has won not only the trust of investors, but also numerous awards and recognitions from domestic and international rating institutions. Last year, for the second year in a row, TWM ranked among the top 5% listed companies on the Taiwan Stock Exchange and the Taipei Exchange’s “Corporate Governance Assessment.” TWM was also selected for the fifth time as a member of the Emerging Markets Index of the Dow Jones Sustainability Indices (the world’s first and most widely used global sustainability benchmarks). In addition, TWM won three awards in the 2016 Asian Excellence Awards — for “Best Investor Relations,” “Best Corporate Social Responsibility” and “Best CFO” in Taiwan. It was the only telecom operator in Taiwan to receive those recognitions from *Corporate Governance Asia*.

2. A role model for corporate social responsibility

TWM’s efforts to employ its corporate and financial resources to assist non-profit organizations in promoting social welfare and environmental protection have gained wide recognition. Last year, it received its 10th “Corporate Social Responsibility” award from *Global Views Monthly* and its ninth “Excellence in Corporate Social Responsibility” award from *CommonWealth magazine*. It was also honored for the third year in a row by the Taiwan Institute for Sustainable Energy Research as one of “Taiwan’s Top 10 Role Model Companies for Sustainability,” in addition to receiving five other awards, namely, the “Integrity and Transparency Award,” the “Growth through Innovation Award,” the “Role Model Award for Community Service and Outreach,” the “Climate Leadership Award” and “Taiwan’s Top 50 Corporate Sustainability Report Award – Gold Award in ICT Sector.” Furthermore, TWM’s Corporate Social Responsibility report,

following the International Integrated Reporting Council guidelines, was in 2016 the first in the industry to receive independent verification and assurance from KPMG. Lastly, TWM was awarded the ISO 14001 environmental management system certification, the first in Taiwan's telecom industry.

3. Premium services and customer satisfaction

With customer care as its core value, TWM offers premium customer services, which earned the following achievements: its fifth Qualicert certification from the Swiss firm SGS for its direct store channels and customer service system, and the "Trusted Brand Gold Award" from *Reader's Digest* for the 13th consecutive year.

This year marks TWM's 20th anniversary. With its solid foundation in 4G, TWM will endeavor to further cultivate the Internet of Things (IoT) industry and deploy its "6C" core strategies: Coverage, Convergence, Content, Channel, Cloud and Corporate Social Responsibility to continue making history.

A handwritten signature in black ink, appearing to read 'Daniel M. Tsai', with a long horizontal flourish extending to the right.

Daniel M. Tsai
Chairman

Macro Environment

Consumer spending on communication and broadcasting related services is largely influenced by macroeconomic factors. According to the Directorate-General of Budget, Accounting and Statistics (DGBAS), private consumption rose in 2016, bolstered by an increase in outbound tourism, short-term economic stimulus measures and a lower commodity tax. However, the pace of increase moderated to 2.14% due to rising prices and slower growth in employment and salary levels. For 2017, despite a forecast turnaround in the US economy, private consumption growth is expected to expand by a milder 1.75% due to inflationary pressures.

Overall Operating Results

The Company's consolidated revenue in 2016 was flat compared with a year ago. Telecom revenue declined as handset sales slid because of a higher sales mix of mid-to-low end phones, but growth in momo's e-commerce business made up for the slack and lent support to overall revenue. Telecom EBITDA increased as a result of the change in bundled handset sales mix, which drove down marketing expenses for phone subsidies and commissions. Non-telecom EBITDA likewise grew, mainly due to strong profit contributions from e-commerce. Overall, the Company's consolidated EBITDA and EBIT rose by 5% and 7% YoY, respectively, both of which were the highest among its peers. Despite a higher net income base in 2015 due to non-operating gains and one-off adjustments, 2016 EPS still came in at NT\$5.63, which not only surpassed the Company's guidance by 9%, but was also the highest in the industry for the fifth year in a row.

Operating Results Review

Telecom Business

4G service take-up rate reached 64% of the Company's postpaid installed base as of the end of 2016, up from 43% a year ago. Given 4G postpaid's higher ARPU compared with 2G/3G, the increase in 4G subscribers boosted TWM's mobile postpaid ARPU by 2% YoY in 2016. Telecom EBITDA grew 5% YoY as a result of expanding 4G economies of scale and improved operating leverage.

Cable Business

In 2016, pricing competition from new entrants in TWM's cable TV service areas affected the revenue and profit of its basic TV subscription business. However, the Company's successful bundling strategy continued to boost its digital TV penetration rate and cable broadband service adoption rate. In addition, incremental content agency revenue collected from new entrants contributed to stable CATV revenue growth compared with a year earlier.

Retail Business

The main growth driver came from the continuous expansion of momo's B2C e-commerce business, leading to a 10% YoY increase in revenue in 2016. EBITDA rose 15% YoY, aided by the business recovery in TV home shopping in China.

Major research and development achievements

Project name	Description
5G green communication technologies	<ul style="list-style-type: none"> • Energy harvesting and low-power transmission technologies to extend the battery life of wireless IoT devices. • Cloud-radio access network (C-RAN) to minimize network delays, optimize power consumption, and reduce deployment costs. • Cell zooming, which adaptively adjusts cell size according to traffic load to save energy.
4G LTE customer experience management	Collect customer experience records from network probes to support better customer service, network optimization and user behavior analyses.
Call center PBX system – SS7 equipment upgrade	In line with the government policy to terminate 2G services, TWM upgraded its call center PBX and phased in voice gateway products and technology to build an IP-based service platform.
M+ Messenger	Provided video conference, video/audio/photo upload and answering machine functions to improve communication efficiency and productivity.
TAMedia mobile advertisement platform	Developed a new interactive ad – floating ad, and improved advertising performance by enriching video tracking mechanism.
myVideo	Renewed user interface and experience; enriched big screen interactive video playback; and provided multi-language video playback.
Mobile payment	Integrated a variety of transport payment cards and parking fee payment services for Taipei/New Taipei City.
myBook	Developed an end-to-end mechanism to enhance the experience of reading magazines on mobile devices. Provided a new mobile reading app to support interactive multimedia e-books. In addition, provided a one click button to allow users to switch between text and graphics modes while reading magazines.

Regulatory changes and developments

1. Revision of digital convergence regulations

In response to the development of digital convergence services, the NCC is planning to amend the Digital Communication Broadcasting Act and the Telecommunication Administration Act. The commission has been soliciting public opinions on digital convergence development since January 4, 2017. The proposed amendments reference digital convergence models adopted by developed countries, and take into account the evolution and development of the local telecommunications industry, to establish a new regulatory framework for the industry.

2. Upcoming auction of 2.1GHz frequency

3G licenses in the 2.1GHz frequency band are set to expire at the end of 2018, the MoTC and the NCC are planning to auction the spectrum for 4G licenses. Related policy planning, management regulations and auction rules are under way and are expected to be finalized in June 2017.

3. 2G user rights protection plan

With 2G licenses set to expire on June 30, 2017, the NCC on December 7, 2016 unveiled its 2G user rights protection plan to ensure “zero impact” and “zero dispute” as 2G users migrate to 3G/4G services.

4. NCC drafting bill on preventing monopolies and promoting diversity in media

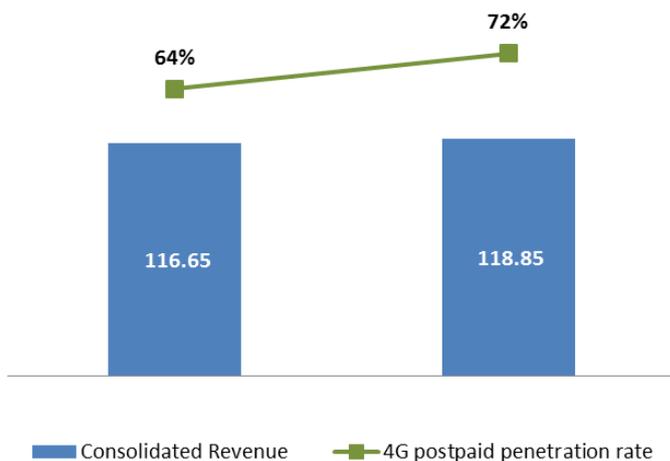
Driven by public opposition to Far EastOne Telecommunications Co., Ltd's bid to acquire China Network Systems Co., Ltd. (CNS), the NCC is drafting a bill to prevent media monopolization and promote diversity. In April 2016, the New

Power Party released its draft version of the bill. The NCC has also stepped up its drafting of a proposal after new commission members took office in August of the same year. It plans to release a proposal to regulate horizontal and vertical integration in the broadcasting industry and cross-industry integration of print and broadcasting businesses.

2017 Operations Outlook

In 2017, Taiwan Mobile expects that total revenue will grow 2% YoY and reach NT\$118.8bn, with an EBITDA of NT\$32.4bn and EPS of NT\$5.28. In terms of the telecom segment, 4G postpaid penetration rate will continue to rise to 72% by end of this year, from 64% a year ago. Additionally, value-added services are estimated to grow by 13% and make up 8% of mobile service revenue in 2017. 4G rate plans and handset subsidy rationalization in an aim to raise 4G investment return will be the focus in 2017. The combined non-telecom EBITDA from the CATV, momo and other businesses will increase by 1% YoY in 2017, contributing profit to the Group.

Unit: NT\$bn



Chapter 1 Company Highlights

Vision

20 Years of Glory, Innovation beyond Imagination

The year 2017 represents a new milestone in Taiwan Mobile's history as the Company marks its 20th anniversary by commemorating "20 Years of Glory, Innovation Beyond Imagination" and continues its mission to blaze new trails with unprecedented innovations. As a pioneer of digital convergence in Taiwan, TWM is not only a telecommunications operator, but also an internet company. Facing the challenges of a rising digital economy, TWM is focusing its efforts on four big industries – Telecom, Internet, Media and Entertainment (TIME) – to retain its lead in the field of digital convergence, providing customers with brand new experiences in the digital era, while fulfilling its corporate social responsibility (CSR).

Core Competency

Taiwan Mobile's new "6C" – Coverage/Convergence/Content/Channel/Cloud/CSR – strategy is designed to enhance its competitiveness as a leader in digital convergence and corporate social responsibility. The Company aims to provide the best services with the fastest download speed and the widest coverage; lead the market with creative "my" apps and Internet of Things (IoT) services; create the best user experience through in-depth research and development of 5G technology and applications to provide world-class information security; and promote corporate governance, environmental sustainability and social collaboration to create the best value for its shareholders, employees and the public.

Brand Image

The past two decades have witnessed Taiwan Mobile's transformation from a pure telecom operator into an internet company focusing on digital convergence. The Company is actively integrating its core competencies and resources to achieve its aim of becoming a sustainable enterprise. It is committed to advancing the 17 Sustainable Development Goals of the United Nations by promoting ethical governance, environmentally friendly practices and social engagement to establish TWM's brand image based on a sustainable value chain where it can exert a positive influence.

Aside from higher bandwidths and faster download speeds, digital convergence and cloud-based applications and services are the keys to creating a mobile lifestyle in the 4G era.

With the firm belief that technology can make life richer and more convenient, Taiwan Mobile has never stopped its quest to provide new services and technologies that are ahead of the curve. In 2016, TWM launched Wali the smart wallet, a mobile app that can be used as an MRT EasyCard or iPASS card. Wali leads the mobile payment market with the highest number of users. TWM's myVideo and myBook are also the leaders in their markets.

To meet consumers' needs and demands, TWM has turned complex technologies into simple, practical and user-friendly services. The Company is committed to pursuing the highest standards in providing services to our customers.

Mobility is the way to a better life. “Change 4 the better with Taiwan Mobile.”

Date of Incorporation

The Company was founded on February 25, 1997.

Milestones

October	2016	Daniel M. Tsai and Richard M. Tsai were elected as Chairman and Vice Chairman, respectively, at the 13 th meeting of the seventh Board of Directors.
July	2016	Signed a memorandum of understanding with Nokia on 5G cooperation and partnership.
March	2016	Joined the Global e-Sustainability Initiative, making TWM the first from Taiwan and the third from Asia to become a member.
February	2016	First Taiwanese telecom operator to showcase its SIM Management Platform and Global eSIM application at the Mobile World Congress.
January	2016	Launched mobile payment service Wali.
January	2016	Launched VoLTE service, making TWM the first telecom operator to provide seamless high-quality internet voice service between 3G and 4G networks.
November	2015	Supported the government's “4G Smart City Plan” to build a smart city with intelligent video services and microbusiness applications.
May	2015	Awarded another license for 5MHz x 2 spectrum in the 1800MHz band by the National Communications Commission (NCC), boosting TWM's total bandwidth for 4G use to 30MHz x 2 and placing it ahead of its peers in terms of spectrum assets and download speed.
March	2015	Acquired an additional license for 5MHz x 2 spectrum in the 700MHz band, making TWM the sole operator providing contiguous 20MHz LTE services in Taiwan.
August	2014	Awarded an 1800MHz license and became the first to adopt carrier aggregation in the 700/1800 frequency bands for LTE services.
June	2014	Launched 4G services in the 700MHz band.
June	2014	Richard M. Tsai and Daniel M. Tsai were re-elected Chairman and Vice Chairman, respectively, at the 1 st meeting of the seventh Board of Directors.
January	2014	James Jeng was appointed President at the 16 th meeting of the sixth Board of Directors.
November	2013	TWM's internet data center (IDC), which received an Uptime Institute Tier III certification for design and construction, began operations.

October	2013	Won two 15MHz x 2 blocks in the 4G auction, one in the 700MHz (spectrum A4) band and another in the 1800MHz (spectrum C1) band.
November	2012	Launched mobile video service myVideo.
May	2012	Launched instant messaging service M+ messenger.
August	2011	Company's capital reduction of NT\$3.8bn.
June	2011	Richard M. Tsai and Daniel M. Tsai were re-elected Chairman and Vice Chairman, respectively, at the 1 st meeting of the sixth Board of Directors.
April	2011	The Board of Directors approved the acquisition of a 51% stake in Fubon Multimedia Technology (also known as momo) for NT\$8.35bn through TWM's 100%-owned subsidiary Wealth Media Technology.
October	2010	Cliff Lai and Vivien Hsu were appointed Co-Presidents at the 17 th meeting of the fifth Board of Directors, effective January 1, 2011.
May	2010	TFN Media Co., Ltd. (TFNM), a TWM affiliate, acquired a 45% stake in Taiwan Kuro Times Co., Ltd. TFNM raised its stake to 100% in August 2011.
January	2009	Founded Taipei New Horizon Co., Ltd. (a 49.9% holding) with Fubon Land Development Co., Ltd. to develop a cultural park at the site of the old Songshan tobacco plant under a 50-year BOT contract with the Taipei City Government.
June	2008	Richard M. Tsai and Daniel M. Tsai were re-elected Chairman and Vice Chairman, respectively, at the 1 st meeting of the fifth Board of Directors.
February	2008	Introduced three new brands – Taiwan Mobile, TWM Broadband and TWM Solution – to provide consumers, households and enterprises with integrated telecommunication services, including wireless communication, cable TV and fixed-line services.
December	2007	Company's capital dropped to NT\$38bn after a capital reduction of NT\$12bn.
August	2007	Acquired a 45% stake in Taiwan Telecommunication Network Services Co., Ltd. (TTN). TWM raised its stake to 100% in August 2008 and merged TTN into Taiwan Fixed Network Co., Ltd. (TFN).
April	2007	Acquired an 84% stake in TFN. TWM acquired full ownership of TFN in December 2007.
January	2007	Launched 3.5G (HSDPA) services.
August	2006	Richard M. Tsai and Daniel M. Tsai were re-elected Chairman and Vice Chairman, respectively, at the 10 th meeting of the fourth Board of Directors.
June	2005	Daniel M. Tsai and Richard M. Tsai were re-elected Chairman and Vice Chairman, respectively, at the 1 st meeting of the fourth Board of Managing Directors.
May	2005	First in Taiwan to launch 3G (WCDMA) services.
November	2004	Joined the Bridge Mobile Alliance, the largest mobile alliance in Asia.

August	2004	Acquired a 67% stake in Mobitai, increasing its subscriber base to 8.2 million. TWM acquired full ownership of Mobitai In January 2006 and merged it into TransAsia Telecommunications in December 2007.
July	2003	Harvey Chang was appointed President and CEO at the 15 th meeting of the third Board of Directors.
July	2003	Daniel M. Tsai and Richard M. Tsai were elected Chairman and Vice Chairman, respectively, at the 2 nd meeting of the third Board of Managing Directors.
August	2002	Listed on the Taiwan Stock Exchange.
May	2002	C. S. Chen was appointed President at the 2 nd meeting of the third Board of Directors.
April	2002	Jack T. Sun and Joseph Lee were re-elected Chairman and Vice Chairman, respectively, at the 1 st meeting of the third Board of Directors.
February	2002	Granted a 3G license.
July	2001	Acquired a 95.62% stake in TransAsia Telecommunications (TAT), boosting its subscriber base to 6.42 million. TWM acquired full ownership of TAT in June 2006 and merged it into TWM in September 2008.
November	2000	Ray-Ying Fan was appointed President at the 8 th meeting of the second Board of Directors.
September	2000	First private telecom operator to trade on Taiwan's OTC market.
June	1999	Jack T. Sun and Joseph Lee were re-elected Chairman and Vice Chairman, respectively, at the 1 st meeting of the second Board of Directors.
January	1998	Started commercial operations.
December	1997	First nationwide private operator to obtain a GSM 1800 network operating license.
February	1997	Company was incorporated.
January	1997	Jack T. Sun and Joseph Lee were elected Chairman and Vice Chairman, respectively, while Lai-Ting Zou was appointed President at the 1 st meeting of the 1 st Board of Directors.
May	1996	Prepared for the Company's incorporation.

Awards and recognitions from 2016 up to the publication date in 2017

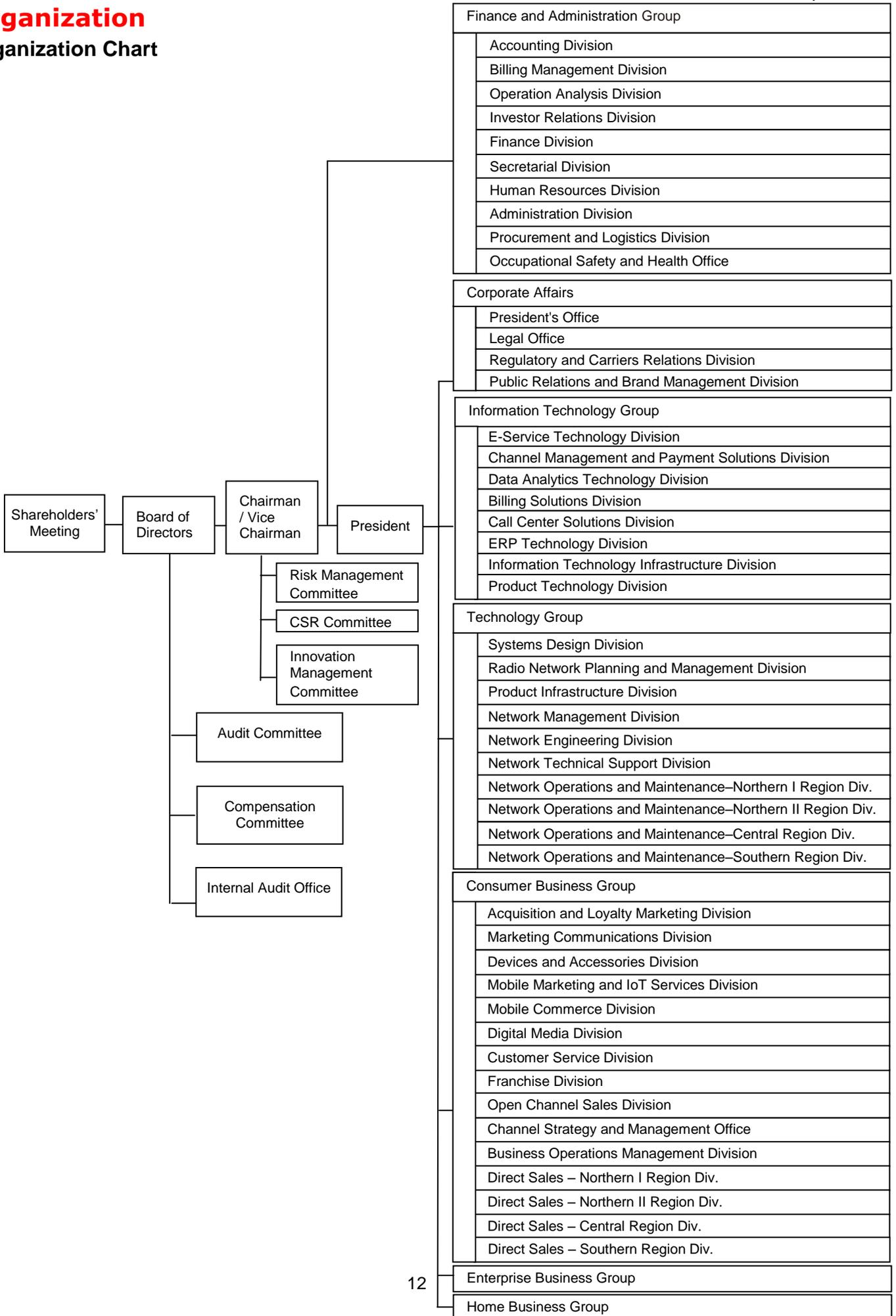
January	2017	Received an “Industry Mover Sustainability Award” from sustainability investment specialist RobecoSAM’s in its 2017 yearbook.
December	2016	Received internationally renowned Swiss firm SGS’ Qualicert certification for its direct stores channel, myfone and customer services for the fifth time in a row.
December	2016	Received a “Visionary Enterprise” award from the Bureau of Energy, Ministry of Economic Affairs, for purchasing over one MWh of green energy.
November	2016	Received the following commendations from the Taiwan Institute for Sustainable Energy Research: Most Sustainable Corporate Award, Transparency and Integrity Award, Growth through Innovation Award, Social Inclusion Award, Climate Leadership Award and Top 50 Corporate Sustainability Report Award – Gold Award in ICT Sector.
October	2016	Received an A- on CDP’s 2016 Climate Score, ranking it first among telecom companies in Taiwan.
September	2016	Selected as a member of the Dow Jones Sustainability Indices’ Emerging Markets Index for the fifth year in a row.
August	2016	Received an “Excellence in Corporate Social Responsibility” award from <i>CommonWealth</i> magazine for the ninth time.
June	2016	Received the following commendations at the 2016 Asian Excellence Award – Best CSR, Best Investor Relations Company and Best CFO – from <i>Corporate Governance Asia</i> magazine.
June	2016	Ranked among the top 5% of listed companies in a “Corporate Governance Evaluation” conducted by the Taiwan Stock Exchange and Taipei Exchange.
June	2016	Received the “Trusted Brand Gold Award” for the 13 th consecutive year from <i>Reader’s Digest</i> .
May	2016	Received ISO 14001:2015 certification from the world’s leading environmental management system.
May	2016	Received the 2016 CSR award in the “Annual CSR Survey – Service Sector” from <i>Global Views Monthly</i> .

March	2016	Received honors in the categories of Taiwan's Best Managed Public Companies, Best Corporate Governance and Best Investor Relations in <i>FinanceAsia</i> magazine's 2016 survey of Asia's Best Companies.
February	2016	Won the "2015 Taiwan's Fastest Mobile Network" and "2015 Taiwan's Fastest 4G LTE" award from Ookla Speedtest, the world-renowned speed test platform.
January	2016	Awarded Tier III Gold Certification for Operational Sustainability for its cloud internet data center.

Chapter 2 Organization and Corporate Governance

February 27, 2017

Organization Organization Chart



Divisional Scope of Responsibilities

Division	Scope of responsibilities
Internal Audit Office	Audit of the Company and its subsidiaries Handle employee and supplier complaints Implementation of information security policy and control measures
President's Office	Corporate strategy and project management Develop new businesses and strategic alliances Enhance corporate management mechanism and cross-department project management Carry out information security management system planning and deployment, as well as monitor improvements
Legal Office	Legal counsel, company litigation and legal document review
Regulatory and Carriers Relations Division	Regulatory matters, government relations and inter-carrier relations
Public Relations and Brand Management Division	Corporate image promotion and management Media communication and sponsorship marketing Corporate social responsibility strategy planning and execution Website maintenance for the Company and TWM Foundation
Accounting Division	Accounting information management Tax planning and compliance Preparation of financial reports
Billing Management Division	Billing, receivables collection and settlement Credit check and risk management
Operation Analysis Division	Operating performance analysis, capex/opex cost and benefit analysis, and financial forecasts/annual budget review
Investor Relations Division	Timely disclosure of the Company's operating and financial status, management strategy, and business plans and developments to investors Communication between the Company and investors
Finance Division	Treasury management Monitor investments and subsidiaries' business activities Finance-related project evaluation, planning and execution
Secretarial Division	Corporate governance affairs, board and shareholders' meetings and corporate registration affairs Corporate share registrar management Company seal custodian and receipt/transmission of corporate documents
Human Resources Division	Human resources planning and management Staffing, compensation/benefits and employee relations Employee training and development
Administration Division	Office machinery and equipment management General and administrative affairs coordination Base station administration affairs
Procurement and Logistics Division	Procurement policy and system planning Procurement-related activities, contract negotiations and signing Supplier evaluation and management
Occupational Safety and Health Office	Occupational safety and health management Environmental protection and site area safety management Workplace health promotion

Information Technology Group	E-Service Technology Division	Corporate website, e-service systems (e-store/myfone shopping) and fixed-network application systems Service-oriented architecture and enterprise service bus (SOA/ESB) IT governance, enterprise architecture, software development process, and basic architecture software/tools development and management
	Channel Management and Payment Solutions Division	Sales, channel services and commission system solutions Enterprise management information system solutions Members' center and payment service solutions
	Data Analytics Technology Division	Data analytics system solutions, including data warehouse, big data and business intelligence solutions System solutions for management of network assets, warehousing, maintenance and repair, and customer experience
	Billing Solutions Division	Billing systems operation and development
	Call Center Solutions Division	Call center infrastructure and operational management solutions Taiwan Fixed Network IT server operation and management
	ERP Technology Division	Customer care application systems Enterprise resource planning (ERP) and human resources solutions Front-end customer management, sales management, and order and provision solutions for fixed-line business
	Information Technology Infrastructure Division	Data center, systems and network infrastructure construction and operations management Implementation of information security policy
	Product Technology Division	Technical consultation and solution analysis for VAS products and customer premises equipment (CPE) technologies Solutions design, systems development and delivery for VAS products and marketing promotions
Technology Group	Systems Design Division	Plan and design core, IP and transmission network systems for mobile and fixed networks Verification testing of network elements
	Radio Network Planning and Management	Radio network strategy development and planning Site planning and performance management Radio network quality management
	Product Infrastructure Division	Design, build, operate and manage: <ul style="list-style-type: none"> - Cloud internet data center (IDC) - Infrastructure as a service (IaaS) - Value-added services and innovative products
	Network Management Division	24-hour supervision of mobile/fixed network management Technical support for customers with network issues Network security management
	Network Engineering Division	Mobile telecom and fixed-network business' infrastructure budget, and engineering and construction project outsourcing Applications for base station co-location, technical approvals and cable/conduit management for government agencies Fixed-network service management, project evaluation and coordination
	Network Technical Support Division	Mobile-network technical support Fixed-network technical support IP-based network technical support
	Network Operations and Maintenance – Northern I, Northern II, Central and Southern Regions	3G/4G and fixed-network construction, expansion, operation, maintenance and optimization, including core, transmission and radio networks Network construction management and technical support

Consumer Business Group	Acquisition and Loyalty Marketing Division	Develop and execute strategies to acquire new customers, increase customer loyalty and lower churn rates for postpaid users Manage mobile broadband and mobile internet users and related revenue Strategy development for prepaid business
	Marketing Communications Division	Manage TWM Group brand identity, strategy development, marketing communication and advertising campaigns Store signage/interior design and customer retention activities Integrate and operate company website, including e-marketing, online sales and customer service
	Devices and Accessories Division	Devices planning and management Accessories and revenue sources development Handset sales and distribution
	Mobile Marketing and IoT Services Division	Provide mobile advertising solutions based on big data analysis Monitor and analyze IoT industry developments to define TWM's position and formulate strategies
	Mobile Commerce Division	Develop and manage mobile commerce and mobile payment businesses Conduct non-handset device merchandise, manage supplier/partner and sales platforms Manage Wali mobile app and myfone e-commerce businesses
	Digital Media Division	Product planning, development, management, quality assurance and strategy setting for online music, online bookstore, cloud video, mobile gaming and legacy value-added services (VAS)
	Customer Service Division	Customer service and call center management Telemarketing sales and customer retention
	Franchise Division	Supervision of franchisees' product promotion, distribution and customer service
	Open Channel Sales Division	Open channel development, distribution and management of postpaid/prepaid products
	Channel Strategy and Management Office	Channel strategy development and performance management Channel sales support, store display design, and in-store activities planning and execution Sales training program planning and service quality management
	Business Operations Management Division	Store operating system optimization and standards formulation Channel operation quality assurance to minimize corporate business risk Sale channel resources management and commission/awards calculation
	Direct Sales Division – Northern I, Northern II, Central and Southern Regions	Product sales, customer service and project execution at company stores
Enterprise Business Group	Strategy development and business analysis Direct sales and channel development, and customer relationship management Inter-carrier relations and international business (including international roaming) planning and implementation	
Home Business Group	Implementation of integrated technology solutions to develop new products and VAS so as to increase video and broadband internet access penetration rates and overall revenue Expansion of two-way optical network to broaden coverage and ensure better internet access quality and stable cable signals	

Board of Directors and Executive Management

Board of Directors

The board of directors, acting on behalf of the Company's shareholders, is charged with the task of supervising the management team. Composed of nine experienced directors, the board includes four independent directors who are well-known in the legal, accounting, finance and telecommunications fields. This more than fulfills current regulations requiring public companies to have at least two independent directors. The Audit Committee, composed entirely of independent directors, replaced board supervisors. Information on the Company's Seventh Board of Directors is detailed below:

As of February 27, 2017

Title	Name	Gender	Date elected	Term expires	Shareholding when elected		Current shareholding		Spouse/minor's shareholdings		Education and experience	Current position(s) in the Company and other companies	Officer or director is a spouse or consanguineous within two degrees		
					Shares	%	Shares	%	Shares	%			Title	Name	Relationship
Chairman	Fu Chi Investment Co., Ltd. Representative: Daniel M. Tsai (Note 1)	Male	2014.06.12	2017.06.11	5,748,763	0.168	5,748,763 *95,162,715	0.168 *2.782	4,580,070	0.134	LLM, Georgetown University LLB, National Taiwan University Chairman, Fubon Financial Holding Co., Ltd. Chairman, Taipei Fubon Commercial Bank Co., Ltd. Chairman, Fubon Insurance Co., Ltd.	Vice Chairman, Fubon Financial Holding Co., Ltd. Managing Director, Taipei Fubon Commercial Bank Co., Ltd. Chairman, Fubon Bank (Hong Kong) Ltd. Director, Fubon Bank (China) Co., Ltd. Director, Fubon Financial Holding Venture Capital Corp. Chairman, Fubon Sports & Entertainment Co., Ltd. Chairman, Ming Dong Co., Ltd. Chairman, Dao Ying Co., Ltd. Chairman, Tien Chien Co., Ltd. Chairman, Ti Kun Co., Ltd. Chairman, Hsi Po Lai Co., Ltd. Chairman, Yi Fu So Co., Ltd. Chairman, Chung Shing Development Co., Ltd. Chairman, Fubon Realtors Co., Ltd. Director, Fubon Construction Co., Ltd. Chairman, Kuo Chi Investment Co., Ltd. Chairman, Taiwan Cellular Co., Ltd. Chairman, Wealth Media Technology Co., Ltd. Chairman, Taipei New Horizon Co., Ltd. Chairman, Taiwan Fixed Network Co., Ltd. Director, Taiwan Teleservices & Technologies Co., Ltd. Chairman, TCC Investment Co., Ltd. Director, Taiwan Digital Communications Co., Ltd. Director, Taiwan Digital Service Co., Ltd. Chairman, TFN Media Co., Ltd. Director, Win TV Broadcasting Co., Ltd. Chairman, TFN Union Investment Co., Ltd. Chairman, TCCI Investment and Development Co., Ltd. Chairman, Taiwan Mobile Foundation Chairman, Taipei New Horizon Foundation Director, Director, Taiwan Academy of Banking and Finance Director, Centre for Asian Philanthropy and Society Limited Director, University of Southern California Director, The Bankers Association of The Republic of China (BAROC) Supervisor, The Bankers Association of Taipei Director, Asia Business Council Chairman, Taipei Fubon Bank Charity Foundation Director, Taipei Chien Kuo High School Alumni Foundation for Culture and Education Director, NTU Law Foundation Director, Youth Development Foundation Director, Dah-Der Hospice & Palliative Care Foundation Director, Straits Exchange Foundation Vice Chairman, Taipei Chien-Kuo High School Alumni	Vice Chairman	Richard M. Tsai	Brother

Title	Name	Gender	Date elected	Term expires	Shareholding when elected		Current shareholding		Spouse/minor's shareholdings		Education and experience	Current position(s) in the Company and other companies	Officer or director is a spouse or consanguineous within two degrees		
					Shares	%	Shares	%	Shares	%			Title	Name	Relationship
												Association Director, NTU Law Alumni Vice Chairman, Taiwan Telecommunication Industry Development Association Director, Cross-Strait CEO Summit			
Vice Chairman	Fu Chi Investment Co., Ltd. Representative: Richard M. Tsai (Note 1)	Male	2014.06.12	2017.06.11	5,748,763	0.168	5,748,763 *93,310,663	0.168 *2.728	5,986,496	0.175	MBA, Stern School of Business, New York University BBA, National Taiwan University Vice Chairman, Fubon Financial Holding Co., Ltd. Chairman, Fubon Securities Co., Ltd. Vice Chairman, Taipei Fubon Commercial Bank Co., Ltd.	Chairman	Daniel M. Tsai	Brother	

Title	Name	Gender	Date elected	Term expires	Shareholding when elected		Current shareholding		Spouse/minor's shareholdings		Education and experience	Current position(s) in the Company and other companies	Officer or director is a spouse or consanguineous within two degrees		
					Shares	%	Shares	%	Shares	%			Title	Name	Relationship
Director	Fu Chi Investment Co., Ltd. Representative: San-Cheng Chang (Note 2)	Male	2014.06.12	2017.06.11	5,748,763	0.168	5,748,763	0.168	—	—	PhD Civil and Environmental Engineering, Cornell University, USA MS, Civil and Environmental Engineering, Stanford University, USA BA, Department of Civil and Engineering, National Taiwan University, Taiwan	Chairman, Taiwan Mobile Foundation Chairman, beingNet Alliance Chairman, Institute for Biotechnology and Medicine Industry Dean Emeritus, Tang Song-Chang Chair Professor, School of Big Data Management Dean, Hacker college of National Chiao Tung University Visiting Chair Professor, Department of Technology Management & Computer Science and Information Engineering, Chung Hua University	—	—	—
Director	TCC Investment Co., Ltd. Representative: Howard Lin (Note 3)	Male	2014.06.12	2017.06.11	200,496,761	5.861	200,496,761	5.861	—	—	PhD in Chemical Engineering, National Taiwan University Senior Vice President, Fubon Financial Holding Co., Ltd. President, Fubon Asset Management Co., Ltd. Manager, Technical & Development Dept., Grand Pacific Petrochemical Corp.	Chief Investment Officer, Fubon Financial Holdings Co., Ltd. Vice Chairman, Fubon Life Insurance Co., Ltd. Chairman, Fubon Financial Holding Venture Capital Corp. Chairman, momo.com Inc. Director, Fu Sheng Travel Service Co., Ltd. Director, Hong Kong Fubon Multimedia Technology Co., Ltd. Director, Fubon Asset Management Co., Ltd. Director, Fubon Health Management corporation Director, Fu Yi Health Management Corp. Ltd. Director, the Alumni Association of Department of Chemistry, National Cheng Kung University Managing Director, Foundation of Department of Chemical Engineering, Cheng Kung University	—	—	—
Director	TCC Investment Co., Ltd. Representative: James Jeng	Male	2014.06.12	2017.06.11	200,496,761	5.861	200,496,761	5.861	—	—	PhD and MS in Electrical and Computer Engineering, State University of New York BS in Electrical Engineering, National Cheng Kung University Chairman and CEO, Kbro Co., Ltd. Chief Technology Officer and Chief Operating Officer of Home Business Group, Taiwan Mobile Co., Ltd. President, Asia Pacific Online CEO, Asia Pacific Broadband Telecom Co., Ltd. CEO, Asia Pacific Broadband and Wireless Communications Inc. CEO, Asia Pacific Telecom Group Executive Vice President, United Fiber Optic Communication Inc. Member of Technical Staff, AT&T Bell Labs, USA	President, Taiwan Mobile Co., Ltd. Director and President, Taiwan Cellular Co., Ltd. Director and President, Wealth Media Technology Co., Ltd. Director, Taipei New Horizon Co., Ltd. Director and President, Taiwan Fixed Network Co., Ltd. Chairman, Taiwan Teleservices & Technologies Co., Ltd. Director, TWM Holding Co. Ltd. Director and President, TCC Investment Co., Ltd. Chairman and President, Taiwan Digital Communications Co., Ltd. Chairman, Taiwan Digital Service Co., Ltd. Director and President, TFN Media Co., Ltd. Chairman and President, Global Forest Media Technology Co., Ltd. Chairman and President, Global Wealth Media Technology Co., Ltd. Chairman, Win TV Broadcasting Co., Ltd. Director, momo.com Inc. Director and President, TFN Union Investment Co., Ltd. Director, TFN HK Ltd. Chairman and President, TWM Communications (Beijing) Co., Ltd. Director and President, TCCI Investment and Development Co., Ltd. Chairman, Taiwan Kuro Times Co., Ltd. Chairman, Yeong Jia Leh Cable TV Co., Ltd. Chairman, Phoenix Cable TV Co., Ltd. Chairman, Union Cable TV Co., Ltd. Chairman, Globalview Cable TV Co., Ltd.	—	—	—

Title	Name	Gender	Date elected	Term expires	Shareholding when elected		Current shareholding		Spouse/minor's shareholdings		Education and experience	Current position(s) in the Company and other companies	Officer or director is a spouse or consanguineous within two degrees		
					Shares	%	Shares	%	Shares	%			Title	Name	Relationship
												Director, Taiwan Mobile Foundation Director, Taipei New Horizon Foundation			
Independent Director	Jack J.T. Huang	Male	2014.06.12	2017.06.11	—	—	—	—	—	—	SJD., Harvard University LLM, Northwestern University LLB, National Taiwan University Partner-in-charge, JONES DAY	Chairman of Remuneration Committee and Member of Audit Committee, Taiwan Mobile Co., Ltd. Partner, JONES DAY Chairman, Taiwan M&A and Private Equity Council Independent Director, WPG Holdings Independent Director, Systex Corp. Independent Director, CTCL Corp.	—	—	—
Independent Director	Tsung-Ming Chung	Male	2014.06.12	2017.06.11	—	—	—	—	—	—	MBA, National Chengchi University BBA, National Taiwan University CPA, ROC CPA, Connecticut, USA Instructor, Department of Accounting, National Taiwan University Lecturer, Department of Accounting, National Chengchi University Partner, T.N. Soong & Co.	Chairman of Audit Committee and Member of Remuneration Committee, Taiwan Mobile Co., Ltd. Chairman, Dynapack Technology Corp. Independent Director, Chroma ATE Inc. Director, Far Eastern International Commercial Bank Director, Unity Opto Technology Co., Ltd. Independent Director and Chairman of Audit Committee, Silicon Motion Technology Corp.	—	—	—
Independent Director	Hsueh-Jen Sung	Male	2014.06.12	2017.06.11	—	—	—	—	—	—	MBA, Harvard University MBA, National Chengchi University Bachelor of Science, National Chiao Tung University Vice Chairman and member of Global Partnership Committee and Asian Management Committee, Goldman Sachs (Asia) Ltd. President and CEO, Grand Cathay Securities Corp. Country Manager, Westpac Banking Corp.	Member of Audit Committee and Remuneration Committee, Taiwan Mobile Co., Ltd. Chairman, Vaucluse Capital Management Ltd. Chairman, Shin Chiuon Capital Management Ltd. Director, Hon Hai Precision Industry Co., Ltd.	—	—	—
Independent Director	Guu-Chang Yang	Male	2014.06.12	2017.06.11	—	—	—	—	—	—	PhD in Electrical Engineering, University of Maryland at College Park Distinguished Professor, Department of Electrical Engineering / Institute of Communications Engineering, National Chung Hsing University Chairman, Department of Electrical Engineering, National Chung Hsing University Professor, Department of Electrical Engineering, National Chung Hsing University	Member of Audit Committee and Remuneration Committee, Taiwan Mobile Co., Ltd. Chair Professor, Department of Electrical Engineering / Graduate Institute of Communications Engineering, National Chung Hsing University	—	—	—

* Personal shareholdings

Note 1: Messrs. Richard M. Tsai and Daniel M. Tsai resigned as Chairman and Vice Chairman, respectively, on Oct. 12, 2016. Messrs. Daniel M. Tsai and Richard M. Tsai were elected as Chairman and Vice Chairman, respectively, by the board of directors on the same day.

Note 2: Fu Chi Investment Co., Ltd. appointed San-Cheng Chang as its representative, taking over Vivien Hsu's duties on October 11, 2016.

Note 3: Howard Lin served as a representative of an institutional director of TWM from June 13, 2008 to September 18, 2009.

Note 4: Shareholdings of less than 0.001% are denoted as "0.000" and zero shareholdings are denoted as "—".

1. Major shareholders of TWM's institutional investors

As of February 27, 2017

Institutional investor	Major shareholders
Fu-Chi Investment Co., Ltd.	Richard M. Tsai (50.20%), Mei-Hui Ueng Tsai (49.75%)
TCC Investment Co., Ltd.	Taiwan Cellular Co., Ltd. (100%)

2. Major shareholders of companies mentioned on the right hand side of the table above

As of February 27, 2017

Company	Major shareholders
Taiwan Cellular Co., Ltd.	Taiwan Mobile Co., Ltd. (100%)

3. Qualifications and independence criteria of directors

As of February 27, 2017

Name	Over five years of experience in business, finance, legal and/or other areas related to the Company's business	Independence criteria (Notes)										No. of public companies in which he or she also serves as an independent director
		1	2	3	4	5	6	7	8	9	10	
Daniel M. Tsai	V	V					V	V		V		0
Richard M. Tsai	V	V					V	V		V		0
San-Cheng Chang	V	V	V	V	V	V	V	V	V	V		0
Howard Lin	V	V		V	V		V	V	V	V		0
James Jeng	V			V	V		V	V	V	V		0
Jack J.T. Huang	V	V	V	V	V	V	V	V	V	V	V	3
Tsung-Ming Chung	V	V	V	V	V	V	V	V	V	V	V	1
Hsueh-Jen Sung	V	V	V	V	V	V	V	V	V	V	V	0
Guu-Chang Yang	V	V	V	V	V	V	V	V	V	V	V	0

"V" denotes meeting the conditions specified above

Criterion 1: Not an employee of the Company or its affiliated companies

Criterion 2: Not a director or supervisor of the Company's affiliated companies (unless the person is an independent director of the Company, the Company's parent company or any subsidiary of the Company)

Criterion 3: Not a shareholder whose total holdings, including those of his/her spouse and minor children, or shares held under others' names reach or exceed 1 percent of the total outstanding shares of the Company or rank among the top 10 individual shareholders

Criterion 4: Not a spouse or relative within second degree by affinity, or within three degrees by consanguinity to any person specified in criteria 1 to 3

Criterion 5: Neither a director, supervisor, or employee of an entity that directly and/or indirectly holds more than 5% of the Company's shares, nor one of the Company's top five shareholders

Criterion 6: Not a director, supervisor, manager, or shareholder owning more than 5% of the outstanding shares of any company that has financial or business relations with the Company

Criterion 7: Not an owner, partner, director, supervisor, manager, or spouse of any of the aforementioned, of any sole proprietorship, partnership, company, or institution that provides commercial, legal, financial or accounting services or consultations to the Company or its affiliates. However, members of the Compensation Committee are not covered by this restriction per Article 7 of the Regulations Governing the Appointment and Exercise of Powers by the Remuneration Committee of a Company Whose Stock is Listed on the Stock Exchange or Traded Over the Counter

Criterion 8: Not a spouse or relative within second degree by affinity to other directors

Criterion 9: Not in contravention of Article 30 of the Company Act

Criterion 10: Not an institutional shareholder or its representative pursuant to Article 27 of the Company Act

4. Diversified board of directors

- TWM's "Corporate Governance Best Practice Principles" call for the creation of a diversified board of directors.
- The board of directors bears a responsibility toward the shareholders. The corporate governance system ensures that the board, in exercising its authority, complies with the law, the articles of incorporation and shareholder meetings' resolutions.
- The structure of the board of directors shall be determined by choosing an appropriate number of board members, no less than five, in consideration of the company's business scale, the shareholdings of its major shareholders, and practical operational needs.
- The composition of the board of directors shall be determined by taking diversity into consideration based on the company's business operations, operating dynamics and development needs, and shall be formulated and include, without being limited to, the following two guidelines:
 1. Basic requirements: Gender, age, nationality and culture
 2. Professional knowledge and skills: A professional background (e.g., law, accounting, industry, finance, marketing and technology), professional skills and industry experience
- All members of the board shall have the knowledge, skills and experience necessary to perform their duties. To achieve the ideal goal of corporate governance, board directors shall possess the following:
 1. Ability to make operational judgments
 2. Ability to perform accounting and financial analysis
 3. Ability to conduct management administration
 4. Ability to conduct crisis management
 5. Industry knowledge
 6. A global market perspective
 7. Ability to lead
 8. Ability to make policy decisions

Board members	Telecom industry experience (Years)	Top five core competencies										
		Accounting	Finance	Law	Business	Technology	Investment and M&A	FinTech	Information Technology	Risk Management	CEO/Senior management	E-commerce/Marketing
Daniel M. Tsai	18			V	V			V		V	V	
Richard M. Tsai	18		V		V		V	V			V	
San-Cheng Chang	10				V	V			V		V	V
Howard Lin	4		V		V		V			V	V	
James Jeng	29				V	V			V	V	V	
Jack J.T. Huang	14			V	V		V			V	V	
Tsung-Ming Chung	14	V	V		V					V	V	
Hsueh-Jen Sung	3		V		V		V	V			V	
Guu-Chang Yang	29					V			V	V	V	V

Management Team

As of March 30, 2016

Title / Division	Name	Effective date	Shareholding / %	Spouse's/ minor's shareholding / %	Education and experience	Current position(s) in other companies	Manager is a spouse or consanguineous within two degrees		
							Title	Name	Relationship
President	James Jeng	2014.01.06	-	-	PhD and MS in Electrical and Computer Engineering, New York State University BS in Electrical Engineering, National Cheng Kung University Chairman and CEO, Kbro Co., Ltd. Chief Technology Officer and Chief Operating Officer of Home Business Group, Taiwan Mobile Co., Ltd. President, Asia Pacific Online CEO, Asia Pacific Broadband Telecom Co., Ltd. CEO, Asia Pacific Broadband and Wireless Communications Inc. CEO, Asia Pacific Telecom Group Executive Vice President, United Fiber Optic Communication Inc. Member of Technical Staff, AT&T Bell Labs, USA	Director and President, Taiwan Cellular Co., Ltd. Director and President, Wealth Media Technology Co., Ltd. Director, Taipei New Horizon Co., Ltd. Director and President, Taiwan Fixed Network Co., Ltd. Chairman, Taiwan Teleservices & Technologies Co., Ltd. Director, TWM Holding Co. Ltd. Director and President, TCC Investment Co., Ltd. Chairman and President, Taiwan Digital Communications Co., Ltd. Chairman, Taiwan Digital Service Co., Ltd. Director and President, TFN Media Co., Ltd. Chairman and President, Global Forest Media Technology Co., Ltd. Chairman and President, Global Wealth Media Technology Co., Ltd. Chairman, Win TV Broadcasting Co., Ltd. Director, momo.com Inc. Director and President, TFN Union Investment Co., Ltd. Director, TFN HK Ltd. Chairman and President, TWM Communications (Beijing) Co., Ltd. Director and President, TCCI Investment and Development Co., Ltd. Chairman, Taiwan Kuro Times Co., Ltd. Chairman, Yeong Jia Leh Cable TV Co., Ltd. Chairman, Phoenix Cable TV Co., Ltd. Chairman, Union Cable TV Co., Ltd. Chairman, Globalview Cable TV Co., Ltd. Director, Taiwan Mobile Foundation Director, Taipei New Horizon Foundation	-	-	-

Title / Division	Name	Effective date	Shareholding / %	Spouse's/ minor's shareholding / %	Education and experience	Current position(s) in other companies	Manager is a spouse or consanguineous within two degrees		
							Title	Name	Relationship
Executive Vice President and Chief Financial Officer / Finance and Administration	Rosie Yu	2014.04.29	-	-	BA, National Taiwan University Senior Vice President and Chief Financial Officer, Taiwan Mobile Co., Ltd. Chairman, Global Investment Advisory (HK) Ltd. President, Global Investment Holdings Co., Ltd. General Manager, Credit Lyonnais Securities (Asia) Ltd., Taipei Branch General Manager, Citicorp International Securities Ltd., Taipei Branch Executive Vice President, China Securities Co., Ltd.	Director, TFN HK Ltd. Director, Taiwan Kuro Times Co., Ltd. Director, Yeong Jia Leh Cable TV Co., Ltd. Director, Phoenix Cable TV Co., Ltd. Director, Union Cable TV Co., Ltd. Director, Globalview Cable TV Co., Ltd. Director, Taiwan Mobile Foundation Director, Taiwan Pelican Express Co., Ltd. Supervisor, Taiwan Cellular Co., Ltd. Supervisor, Wealth Media Technology Co., Ltd. Supervisor, Taiwan Fixed Network Co., Ltd. Supervisor, Taiwan Teleservices & Technologies Co., Ltd. Supervisor, TCC Investment Co., Ltd. Supervisor, Taiwan Digital Communications Co., Ltd. Supervisor, Taiwan Digital Service Co., Ltd. Supervisor, TFN Media Co. Ltd. Supervisor, Global Forest Media Technology Co., Ltd. Supervisor, Global Wealth Media Technology Co., Ltd. Supervisor, Win TV Broadcasting Co., Ltd. Supervisor, TFN Union Investment Co., Ltd. Supervisor, TWM Communications (Beijing) Co., Ltd. Supervisor, TCCI Investment and Development Co., Ltd.	-	-	-

Title / Division	Name	Effective date	Shareholding / %	Spouse's/ minor's shareholding / %	Education and experience	Current position(s) in other companies	Manager is a spouse or consanguineous within two degrees		
							Title	Name	Relationship
Vice President / Finance and Administration	Jay Hong	2004.05.06	–	–	EMBA, National Sun Yat-sen University President, Taiwan Teleservices & Technologies Co., Ltd. Vice President, Direct Store Division, Taiwan Mobile Co., Ltd. Vice President, Customer Service Division, TransAsia Telecommunications Inc. Director, Procurement Division, TransAsia Telecommunications Inc.	Supervisor, Yeong Jia Leh Cable TV Co., Ltd. Supervisor, Phoenix Cable TV Co., Ltd. Supervisor, Union Cable TV Co., Ltd. Supervisor, Globalview Cable TV Co., Ltd.	–	–	–
Vice President and General Counsel / Corporate Affairs	Ariel Hwang	2016.04.28	–	–	EMBA, National Taiwan University LLM, National Chung Hsing University LLB, National Taiwan University Judge, Taiwan High Court Judge, Taipei District Court Judge, New Taipei District Court Judge, Taoyuan District Court	Supervisor, Taipei New Horizon Co., Ltd. Supervisor, Yeong Jia Leh Cable TV Co., Ltd. Supervisor, Phoenix Cable TV Co., Ltd. Supervisor, Union Cable TV Co., Ltd. Supervisor, Globalview Cable TV Co., Ltd. Legal Consultant, Fubon Financial Holding Co., Ltd. Independent Director, The Ambassador Hotel Co., Ltd.	–	–	–
Vice President / Corporate Affairs	Iris Liu	2014.07.14	–	–	EMBA, National Chengchi University BA in Information Communication, Tamkang University Vice President, Taiwan Television Enterprise Ltd. Chairman, TTV Cultural Enterprise Ltd.	Vice President, Taipei New Horizon Co., Ltd.	–	–	–

Title / Division	Name	Effective date	Shareholding / %	Spouse's/ minor's shareholding / %	Education and experience	Current position(s) in other companies	Manager is a spouse or consanguineous within two degrees		
							Title	Name	Relationship
Vice President / Corporate Affairs	Naomi Lee	2015.08.03	-	-	LLB, National Taiwan University General Counsel, Kbro Co., Ltd. Attorney, InfoShare Tech Law Office Legal Director and Vice President, Taiwan Broadband Communications Senior Legal Manager, Lucent Technologies Attorney, Lee and Li Attorneys-at-Law Attorney, Russin & Vecchi International Legal Counselors	None	-	-	-
Vice President / Corporate Affairs	C.H. Wu	2016.09.26	-	-	MS in Electrical and Computer Engineering, University of Rochester BS in Electrical Engineering, National Taiwan University Vice President, Applied Computing Group, Advantech Co., Ltd. General Manager, Taiwan, Symantec Corp. General Manager, Taiwan, Cisco Systems, Inc. System Engineer/Sales Manager, IBM Corp.	Chief Operating Officer, Taiwan Fixed Network Co., Ltd. Officer-in-charge, System Integration Branch Office, Taiwan Mobile Co., Ltd.	-	-	-
Vice President and Chief Information Officer / Information Technology Group	James Chang	2017.01.25	163,084/0.005	-	MS in Computer Science, University of Illinois at Chicago Director, AT&T Laboratories Senior Director, TBCommerce Network Corp. Senior Delivery Manager, IBM Global Services District Manager, AT&T Laboratories	None	-	-	-

Title / Division	Name	Effective date	Shareholding / %	Spouse's/ minor's shareholding / %	Education and experience	Current position(s) in other companies	Manager is a spouse or consanguineous within two degrees		
							Title	Name	Relationship
Senior Vice President and Chief Technology Officer / Technology Group	C.H. Jih	2014.04.29	-	-	Electronics Engineering, National Taipei Industry of Technology Institute Chief Technology Officer, Kbro Co., Ltd. Vice President, TFN Media Co., Ltd. Vice President, Taiwan Fixed Network Co., Ltd. Engineering Vice President, Taiwan Cellular Corp. Vice President, Suretone Telecom Inc. Project Manager, Siemens Telecom, Taiwan	Director, Global Forest Media Technology Co., Ltd. Director, Global Wealth Media Technology Co., Ltd. Director, TWM Communications (Beijing) Co., Ltd. Director, Yeong Jia Leh Cable TV Co., Ltd. Director, Phoenix Cable TV Co., Ltd. Director, Union Cable TV Co., Ltd. Director, Globalview Cable TV Co., Ltd. Independent Director, ACTi Corp. Supervisor, Taiwan Kuro Times Co., Ltd.	-	-	-
Vice President / Technology Group	Egon Chen	2004.02.16	5,158/0.000	-	EMBA, National Taiwan University BS in Electrical Engineering, Tamkang University Vice President, Howin Technologies Corp. Senior Director, Taiwan Fixed Network Co., Ltd. Director, Suretone Telecom Inc.	None	-	-	-
Vice President / Technology Group	Chien Chen	2004.02.16	-	-	EMBA, National Taiwan University Vice President, Howin Technologies Corp. Vice President, Taiwan Fixed Network Co., Ltd. Director, Suretone Telecom Inc. Manager, Siemens Telecom Systems Ltd.	None	-	-	-

Title / Division	Name	Effective date	Shareholding / %	Spouse's/ minor's shareholding / %	Education and experience	Current position(s) in other companies	Manager is a spouse or consanguineous within two degrees		
							Title	Name	Relationship
Vice President / Technology Group	Tom Koh	2011.10.17	–	–	PhD in Electrical and Computer Engineering, Johns Hopkins University Senior Director, Qualcomm Senior Technical Marketing Engineer, Cisco-Linksys Senior Sales Engineer, Ensemble Communications Senior Technologist, Motorola Member of Tech Staff, Bellcore	None	–	–	–
Senior Vice President and Chief Business Officer / Consumer Business Group	Jeff Ku	2017.01.25	2,243/0.000	–	EMBA, National Taiwan University MBA, University of Wollongong, Australia Vice President, Taiwan High Speed Rail Corp. Director, Far EasTone Telecommunications Co., Ltd.	Director, Global Forest Media Technology Co., Ltd. Director, Global Wealth Media Technology Co., Ltd. Director, TWM Communications (Beijing) Co., Ltd. Director, Yeong Jia Leh Cable TV Co., Ltd. Director, Phoenix Cable TV Co., Ltd. Director, Union Cable TV Co., Ltd. Director, Globalview Cable TV Co., Ltd. Director, Taiwan Mobile Foundation Director, Alliance Digital Technology Co., Ltd.	–	–	–

Title / Division	Name	Effective date	Shareholding / %	Spouse's/ minor's shareholding / %	Education and experience	Current position(s) in other companies	Manager is a spouse or consanguineous within two degrees		
							Title	Name	Relationship
Vice President / Consumer Business Group	Steve Chou	2011.04.25	-	-	MBA, Southern Methodist University, Texas Senior Vice President, Customer Service, HSBC Bank (Taiwan) Ltd. General Manager, Secured Lending, Standard Chartered Bank, Taiwan Vice President, Customer Service, Sparq Telecom Vice President, Customer Service, TransAsia Telecommunications Inc. Assistant Vice President, Credit Card, Citibank, N.A., Taiwan	Director and President, Taiwan Teleservices & Technologies Co., Ltd. Director, TT&T Holdings Co., Ltd.	-	-	-
Vice President / Consumer Business Group	Daphne Lee	2014.07.07	-	-	MBA, National Chengchi University Director, Alibaba Group Director, Yahoo! Taiwan Vice President, Citibank Taiwan	Director and President, Taiwan Kuro Times Co., Ltd.	-	-	-
Vice President / Consumer Business Group	David Lin	2016.05.03	-	-	MS in Communication Convergence and Innovative Management, Shih Hsin University General Manager, YMS/CPT/HTP/DWS CATV, Kbro Co., Ltd. Vice President, Business & Operation and Special Assistant to Chairman, Kbro Co., Ltd. Special Assistant to Chairman, Vibo Telecom Vice President, Asia Pacific Telecom	None	-	-	-

Title / Division	Name	Effective date	Shareholding / %	Spouse's/ minor's shareholding / %	Education and experience	Current position(s) in other companies	Manager is a spouse or consanguineous within two degrees		
							Title	Name	Relationship
Vice President / Consumer Business Group	Michael Teng	2017.01.03	-	-	BS in Industrial Engineering, Chung Yuan Christian University Senior Director, Taiwan Mobile Co., Ltd. Vice President, Taiwan Tele-Shop Co., Ltd. Director, Taiwan Tele-Shop Co., Ltd. Sales Manager, Taiwan Mobile Co., Ltd.	President, Taiwan Digital Service Co., Ltd.	-	-	-
Vice President / Consumer Business Group	Eddie Chan	2017.01.03	-	-	MBA, The Anderson School of Management, UCLA BS in Mechanical Engineering, National Taiwan University Senior Director, Taiwan Mobile Co., Ltd. Executive Director, Aplix Corp. General Manager, Wireless Business Unit, Quanta Computer Engagement Manager, McKinsey & Company	None	-	-	-

Note: Shareholdings of less than 0.001% are denoted as "0.000" and zero shareholdings are denoted as "-".

Compensation to Directors and Management Executives

1. Compensation to directors

Unit: NT\$

Title		Chairman	Vice Chairman	Director	Director	Director	Independent Directors				
Name		Fu-Chi Investment Co., Ltd.	Fu-Chi Investment Co., Ltd.	Fu-Chi Investment Co., Ltd.	TCC Investment Co., Ltd.	TCC Investment Co., Ltd.	Jack J.T. Huang	Tsung-Ming Chung	Hsueh-Jen Sung	Guu-Chang Yang	
Representative		Richard M. Tsai (1)	Daniel M. Tsai (1)	San-Cheng Chang (2)	Howard Lin	James Jeng					
Director's compensation	Cash compensation (A)	Stand-alone					48,099,858				
		Consolidated					53,227,738				
	Pension (B)	Stand-alone					-				
		Consolidated					-				
	Director's remuneration (C)	Stand-alone					46,806,324				
		Consolidated					46,806,324				
	Professional fee (D)	Stand-alone					2,090,000				
		Consolidated					2,978,000				
A+B+C+D as a % of net profit		Stand-alone					0.6331%				
		Consolidated					0.6724%				
Compensation as an employee	Performance-based salary (E)	Stand-alone					16,142,808				
		Consolidated					16,142,808				
	Retirement pay of employees (F)	Stand-alone					108,000				
		Consolidated					108,000				
	Earnings paid as bonus to employees (G)	Stand-alone	Cash bonus					6,492,428			
			Stock bonus					-			
		Consolidated	Cash bonus					6,492,428			
			Stock bonus					-			
A+B+C+D+E+F+G as a % of net profit		Stand-alone					0.7816%				
		Consolidated					0.8208%				
Compensation from investees other than subsidiaries											

1: Messrs. Richard M. Tsai and Daniel M. Tsai resigned as Chairman and Vice Chairman, respectively, on Oct. 12, 2016. Messrs. Daniel M. Tsai and Richard M. Tsai were elected as Chairman and Vice Chairman, respectively, by the board on the same day.

2: Fu Chi Investment Co., Ltd. appointed San-Cheng Chang as its representative, taking over Vivien Hsu's duties on October 11, 2016. The stated professional fee covers payment to Chang and Hsu.

3: Figures do not include the compensation paid to Company drivers which totaled NT\$1,067,338.

4: Remuneration paid to directors for their services to all consolidated entities totaled NT\$7,500,008.

2. Range of compensation to directors

Range of compensation to directors	Name of directors			
	Director's compensation		Director's compensation + Compensation as an employee	
	On a stand-alone basis	On a consolidated basis	On a stand-alone basis	On a consolidated basis
NT\$0~NT\$1,999,999	San-Cheng Chang, Howard Lin, James Jeng, Vivien Hsu	San-Cheng Chang, James Jeng, Vivien Hsu	San-Cheng Chang, Howard Lin, Vivien Hsu	San-Cheng Chang, Vivien Hsu
NT\$2,000,000~NT\$4,999,999	—	—	—	—
NT\$5,000,000~NT\$9,999,999	TCC Investment Co., Ltd., Jack J.T. Huang, Tsung-Ming Chung, Hsueh-Jen Sung, Guu-Chang Yang	TCC Investment Co., Ltd., Jack J.T. Huang, Tsung-Ming Chung, Hsueh-Jen Sung, Guu-Chang Yang, Howard Lin	TCC Investment Co., Ltd., Jack J.T. Huang, Tsung-Ming Chung, Hsueh-Jen Sung, Guu-Chang Yang	TCC Investment Co., Ltd., Jack J.T. Huang, Tsung-Ming Chung, Hsueh-Jen Sung, Guu-Chang Yang, Howard Lin
NT\$10,000,000~NT\$14,999,999	—	—	—	—
NT\$15,000,000~NT\$29,999,999	Fu-Chi Investment Co., Ltd., Daniel M. Tsai, Richard M. Tsai	Fu-Chi Investment Co., Ltd., Daniel M. Tsai, Richard M. Tsai	Fu-Chi Investment Co., Ltd., Daniel M. Tsai, Richard M. Tsai, James Jeng	Fu-Chi Investment Co., Ltd., Daniel M. Tsai, Richard M. Tsai, James Jeng
NT\$30,000,000~NT\$49,999,999	—	—	—	—
NT\$50,000,000~NT\$99,999,999	—	—	—	—
NT\$100,000,000 and above	—	—	—	—
Total	12	12	12	12

3. Compensation to management executives

Unit: NT\$

Title and name	President, James Jeng; Executive Vice President and Chief Financial Officer, Rosie Yu; Senior Vice President and Chief Technology Officer, C.H. Jih; Senior Vice President and Chief Business Officer, Jeff Ku; Vice President and General Counsel, Ariel Hwang; Vice President and Chief Information Officer, James Chang; Vice President, Jay Hong; Vice President, Iris Liu; Vice President, Naomi Lee; President, C.H. Wu; Vice President, Egon Chen; Vice President, Chien Chen; Vice President, Tom Koh; Vice President, Steve Chou ; Vice President, Daphne Lee; Vice President, David Lin <u>Resigned managers:</u> Vice President, Sean Hsieh; Vice President, Paul Huang	Total	
Salary (A)	Stand-alone	74,871,701	
	Consolidated	75,231,701	
Pension (B) *	Stand-alone	1,620,900	
	Consolidated	1,620,900	
Performance-based salary (C)	Stand-alone	39,279,967	
	Consolidated	39,279,967	
Earnings paid as bonus to employees (D)	Stand-alone	Cash	38,546,506
		Stock	—
	Consolidated	Cash	38,546,506
		Stock	—
A+B+C+D as a % of net profit	Stand-alone	1.0073%	
	Consolidated	1.0096%	
Compensation from investees other than subsidiaries		25,000	

* The Company's contribution to employee's pension account, not actual amount paid.

Note: Figures do not include the compensation paid to Company drivers which totaled NT\$3,252,596.

4. Range of compensation to management executives

Range of compensation to management executives	Name of management executives	
	On a stand-alone basis	On a consolidated basis
NT\$0~NT\$1,999,999	Sean Hsieh, Paul Huang	Sean Hsieh, Paul Huang
NT\$2,000,000~NT\$4,999,999	C.H. Wu, David Lin	C.H. Wu, David Lin
NT\$5,000,000~NT\$9,999,999	Ariel Hwang, Jay Hong, Iris Liu, Naomi Lee, Egon Chen, Chien Chen, Tom Koh, Steve Chou, Daphne Lee	Ariel Hwang, Jay Hong, Iris Liu, Naomi Lee, Egon Chen, Chien Chen, Tom Koh, Steve Chou, Daphne Lee
NT\$10,000,000~NT\$14,999,999	C.H. Jih, Jeff Ku, James Chang	C.H. Jih, Jeff Ku, James Chang
NT\$15,000,000~NT\$29,999,999	James Jeng, Rosie Yu	James Jeng, Rosie Yu
NT\$30,000,000~NT\$49,999,999	—	—
NT\$50,000,000~NT\$99,999,999	—	—
NT\$100,000,000 and above	—	—
Total	18	18

Note: Compensation paid to managers in the above table was based on tenure. Compensation paid to managers who also served as directors is detailed in the "Compensation to directors" table.

5. Compensation mix of management executives

Title and name of managers	Salary and pension	Performance-based salary	Earnings paid as bonus to employees
President, James Jeng	44.8%	26.6%	28.6%
Executive Vice President and Chief Financial Officer, Rosie Yu	46.2%	25.6%	28.2%
Senior Vice President and Chief Technology Officer, C.H. Jih	46.2%	27.0%	26.8%
Senior Vice President and Chief Business Officer, Jeff Ku	46.9%	25.8%	27.3%
Vice President and General Counsel, Ariel Hwang	48.8%	25.1%	26.1%
Vice President and Chief Information Officer, James Chang	47.1%	27.9%	25.0%
Vice President, Jay Hong	50.3%	23.1%	26.6%
Vice President, Iris Liu	46.9%	28.3%	24.8%
Vice President, Naomi Lee	49.9%	25.6%	24.5%
Vice President, C.H. Wu	51.4%	29.3%	19.3%
Vice President, Egon Chen	53.9%	26.0%	20.1%
Vice President, Chien Chen	54.7%	24.7%	20.6%
Vice President, Tom Koh	49.7%	23.9%	26.4%
Vice President, Steve Chou	49.3%	24.3%	26.4%
Vice President, Daphne Lee	53.9%	27.4%	18.7%
Vice President, David Lin	47.4%	29.6%	23.0%
Vice President, Sean Hsieh*	99.9%	0.1%	0.0%
Vice President, Paul Huang*	99.9%	0.1%	0.0%

* Resigned manager

6. Managers and employee bonuses

Unit: NT\$
As of February 27, 2017

Title and name of managers	Stock bonus	Cash bonus	Total	As a % of net profit
President, James Jeng Executive Vice President and Chief Financial Officer, Rosie Yu Senior Vice President and Chief Technology Officer, C.H. Jih Senior Vice President and Chief Business Officer, Jeff Ku Vice President and General Counsel, Ariel Hwang Vice President and Chief Information Officer, James Chang Vice President, Jay Hong Vice President, Iris Liu Vice President, Naomi Lee Vice President, C.H. Wu Vice President, Egon Chen Vice President, Chien Chen Vice President, Tom Koh Vice President, Steve Chou Vice President, Daphne Lee Vice President, David Lin Vice President, Michael Teng Vice President, Eddie Chan	—	41,797,802	41,797,802	0.2728%

Compensation to directors and management executives as a percentage of net income over the past two years and guiding principles

1. Compensation to directors

Unit: NT\$

Type	Year	Compensation to directors	Net income	As a % of net income
On a stand-alone basis	2015	112,419,418	15,686,186,313	0.7167%
	2016	119,739,418	15,320,187,297	0.7816%
On a consolidated basis	2015	124,742,268	15,686,186,313	0.7952%
	2016	125,755,298	15,320,187,297	0.8208%

Guiding principles for compensation to directors

Remuneration policies, standards and package

- (1) Directors' (including independent directors') remuneration and compensation are paid according to the Company's Articles of Incorporation and "Rules for Setting Director's Remuneration" as approved by the board. Remuneration or other equivalent allowance for directors is based on their involvement in the Company's operations, contribution to the Company, and industry norms. Compensation for directors is pursuant to the ratio specified in the Company's Articles of Incorporation, when the company makes a profit.
- (2) Transportation allowances are paid based on attendance in board meetings and for services rendered as the chairman of or a member of the Audit Committee or Compensation Committee.

Procedure for setting remuneration

- (1) In accordance with the Company's Articles of Incorporation, compensation for directors shall not exceed 0.3% of the Company's annual profit after deducting losses from previous years.
- (2) Directors' remuneration and transportation allowances are determined in accordance with the "Rules for Setting Director's Remuneration."

Performance factor

According to the Company's Articles of Incorporation, remuneration to directors shall be based on the Company's operating profit. Remuneration to each director is assessed based on his/her contribution to the operations of the Company and the board. The Compensation Committee reviews the compensation mechanism periodically, taking future operating risks, environmental conservation and corporate social responsibility into consideration.

2. Compensation to management executives

Unit: NT\$

Type	Year	Compensation to management executives	Net profit	As a % of net profit
On a stand-alone basis	2015	152,467,747	15,686,186,313	0.9720%
	2016	154,319,074	15,320,187,297	1.0073%
On a consolidated basis	2015	152,900,747	15,686,186,313	0.9747%
	2016	154,704,074	15,320,187,297	1.0098%

Guiding principles for compensation to management executives

Remuneration policies, standards and package

- (1) Compensation to the president and vice presidents comprises a fixed monthly salary and performance bonus.
- (2) Performance bonuses are determined based on the president's or the vice president's contribution to the Company and the results of an annual performance appraisal. The above-mentioned bonuses have been proposed by the Compensation Committee for approval at the board meeting.

Procedure for setting performance bonus

- (1) In accordance with the Company's Articles of Incorporation, employee profit sharing shall come from the pool of 1% to 3% of the Company's annual net income after deducting losses from previous years.
- (2) Year-end bonuses are set based on the Company's performance and the annual budget approved by the board and the chairman.

Performance factor

- (1) Variable compensations in the form of employee profit sharing and performance-based bonuses account for approximately 50% of the remuneration and are determined based on the president's or vice president's contribution to the Company's operations. The Company shall review the compensation mechanism periodically, taking future operating risks, environmental conservation and corporate social responsibility into consideration.
- (2) The Human Resources Division is tasked with preparing the annual compensation for the president and vice presidents, and submitting a report to the Compensation Committee.

Corporate Governance

Board of Directors attendance

1. The Board of Directors convened six meetings in 2016

Title	Name	Attendance in person	By proxy	Attendance ratio	Remarks
Chairman	Fu Chi Investment Co., Ltd. Representative: Daniel M. Tsai	6	0	100%	Messrs. Richard M. Tsai and Daniel M. Tsai resigned as Chairman and Vice Chairman, respectively, on Oct. 12, 2016. Messrs. Daniel M. Tsai and Richard M. Tsai were elected Chairman and Vice Chairman, respectively, by the board on the same day.
Vice Chairman	Fu Chi Investment Co., Ltd. Representative: Richard M. Tsai	6	0	100%	
Director	Fu Chi Investment Co., Ltd. Representative: San-Cheng Chang	2	0	100%	Fu Chi Investment Co., Ltd. appointed San-Cheng Chang as its representative, taking over Vivien Hsu's duties on October 11, 2016.
	Fu Chi Investment Co., Ltd. Representative: Vivien Hsu	4	0	100%	
Director	TCC Investment Co., Ltd. Representative: Howard Lin	6	0	100%	None
Director	TCC Investment Co., Ltd. Representative: James Jeng	6	0	100%	None
Independent Director	Jack J.T. Huang	5	1	83%	None
Independent Director	Tsung-Ming Chung	6	0	100%	None
Independent Director	Hsueh-Jen Sung	5	0	83%	None
Independent Director	Guu-Chang Yang	6	0	100%	None

2. Any objections or issues raised by the independent directors against resolutions passed by the Board of Directors

(1) Pursuant to Article 14-3 of the Securities and Exchange Act:

Date	Board session	Proposals and issues	Independent directors' opinions	Company's response
2016.1.29	9th meeting of the seventh BOD	Distribution of 2015 profit-sharing bonuses to employees and compensation to directors	Approved as proposed	Not applicable
		The 2015 Business report		
		The 2015 Financial statements		
		The 2016 Budget, consolidated financial forecasts and donation to TWM Foundation		
		Procurement contract with Nokia Siemens Taiwan Co., Ltd. capped at NT\$3.768bn		
		Letter of commitment once again for the extension of Taipei New Horizon Co., Ltd.'s NT\$3.565bn syndicated loan		
		Revisions to the Rules for Setting Director's Remuneration		
		Convening the 2017 Annual General Shareholders' Meeting		
2016.4.28	10th meeting of the seventh BOD	Distribution of the 2015 retained earnings	Approved as proposed	Not applicable
		Appointment of CPAs		
		Revisions to the Rules and Procedures for Lending and Making Endorsements/Guarantees		
2016.8.18	12th meeting of the seventh BOD	3rd unsecured convertible bond issue	Approved as proposed	Not applicable
2016.10.28	14th meeting of the seventh BOD	Authorize the Chairman to handle all matters relating to the Company's endorsement/guarantee of up to NT\$21.5bn for Taiwan Fixed Network Co., Ltd., and contract signing	Approved as proposed	Not applicable
		Authorize the Chairman to handle all matters relating to the Company's endorsement/guarantee of up to NT\$50mn for Taiwan Kuro Times Co., Ltd., and contract signing		

(2) Other items not covered in the preceding table: None

3. Any conflict of interest among directors: None

4. Other BOD objectives:

- (1) Training programs for directors: Aside from encouraging directors to attend outside seminars, the Company holds annual in-house seminars to facilitate interactions between lecturers and directors. Total training hours reached 61 hours in 2016, which included programs such as "Corporate governance structure and BOD operations" and "The future of finance – blockchain development trends and implementation."
- (2) Information transparency: Committed to upholding operational transparency and protecting shareholders' interests, the Company regularly discloses resolutions by the Board of Directors in a timely and consistent manner. In addition, the Company holds institutional investor' conferences on a quarterly basis and has set up Chinese/English sections of Investors Relations, Corporate Social Responsibility and Corporate Governance on its official website.
- (3) Liability insurance: The Company purchases annual liability insurance for its directors and managers to cover risks as they carry out their duties, and reviews the insurance coverage on an annual basis to make sure the amount and scope are sufficient to the need.
- (4) The Chairman and Vice Chairman of the Board of Directors are not members of the Company's management team to maintain a system of checks and balances.
- (5) The Audit Committee and the Remuneration Committee, composed entirely of independent directors, assist the Board of Directors in carrying out supervisory tasks. The chairperson of each committee reports on their committee's operations to the board on a regular basis.

Audit Committee attendance

1. The third term of the Audit Committee with tenure from June 12, 2014 to June 11, 2017 convened seven times in 2016.

Title	Name	Attendance in person	By proxy	Attendance ratio	Remarks
Independent Director	Tsung-Ming Chung	7	0	100%	Appointed committee chairman
Independent Director	Jack J.T. Huang	6	1	86%	None
Independent Director	Hsueh-Jen Sung	7	0	100%	None
Independent Director	Guu-Chang Yang	7	0	100%	None

5. Any objections or issues raised by the Audit Committee against resolutions passed by the Board of Directors

(1) Pursuant to Article 14-5 of the Securities and Exchange Act:

Date	BOD	Proposals and issues	Audit Committee's decision	Company response
2016.01.29	9th meeting of the seventh BOD	4Q15 Internal Audit Report	Approved as proposed	Not applicable
		2015 Internal Control Statement		
		2015 business report		
		2015 financial statements		
		2016 capital expenditure plan and donation to TWM Foundation		
		Procurement contract with Nokia Siemens Taiwan Co., Ltd. capped at NT\$3.768bn		
2016.04.28	10th meeting of the seventh BOD	1Q16 financial statements	Approved as proposed	Not applicable
		1Q16 Internal Audit Report		
		2015 earnings distribution		
		Appointment of CPA		
2016.07.27	11th meeting of the seventh BOD	2Q16 financial statements	Approved as proposed	Not applicable
		2Q16 Internal Audit Report		
2016.08.18	12th meeting of the seventh BOD	3rd unsecured convertible bond issue	Approved as proposed	Not applicable
2016.10.28	14th meeting of the seventh BOD	3Q16 financial statements	Approved as proposed	Not applicable
		3Q16 Internal Audit Report		
		Internal Audit Plan for 2017		
		Authorize the Chairman to handle all matters relating to the Company providing endorsement/guarantee of up to NT\$21.5bn for Taiwan Fixed Network Co., Ltd., and contract signing		
		Authorize the Chairman to handle all matters relating to the Company providing endorsement/guarantee of up to NT\$50mn for Taiwan Kuro Times Co., Ltd., and contract signing		

- (2) Other items not covered in the preceding table: None.

2. Any conflict of interest among independent directors: None

3. Communication between independent directors and the Internal Audit Chief Officer and CPAs:

- (1) The Internal Audit Chief Officer and CPAs communicated directly with the independent directors when needed.
- (2) In addition to presenting monthly reports to the independent directors, the Internal Audit Chief Officer and CPAs met with the independent directors at the quarterly Audit Committee meetings, bringing communication into full play.
- (3) Regular communication between independent directors and internal audit officers/CPAs:

Date	Internal Audit Officers		CPAs	
	Matters Communicated	Results	Matters Communicated	Results
2016.01.28 10th meeting of the third Audit Committee	1. 4Q15 Internal Audit Report 2. 2015 Internal Control Statement	1. Acknowledged 2. Reviewed and submitted to BOD for approval	1. 2015 financial statements and amendments of regulations governing special committees of public companies set for M&A 2. CPAs discussed inquiries raised by attendees.	Acknowledged
2016.04.27 11th meeting of the third Audit Committee	1Q16 Internal Audit Report	Acknowledged	1. 1Q16 financial statements and impact of the issuance of Statements of Auditing Standards No. 58 2. CPAs discussed inquiries raised by attendees	Acknowledged
2016.07.25 13th meeting of the third Audit Committee	2Q16 Internal Audit Report	Acknowledged	1. 2Q16 financial statements and impact of amendments to the Satellite Broadcasting Act. 2. CPAs discussed questions raised by attendees over media reports on risk control issues	Acknowledged
2016.10.27 15th meeting of the third Audit Committee	1. 3Q16 Internal Audit Report 2. Internal Audit Plan for 2017	1. Acknowledged 2. Reviewed and submitted to BOD for approval	1. 3Q16 financial statements and key audit matters in the new Independent Auditor's Report 2. CPAs discussed inquiries raised by attendees.	Acknowledged

Corporate governance practices

Item	Current practice	
Has the Company established principles based on the “Corporate Governance Best Practice Principles for TWSE/GTSM Listed Companies”?	The Company has established said “Corporate Governance Best Practice Principles” and published them on the Company’s official website and market observation post system (MOPS).	
Shareholding structure and shareholders’ interests	Handling of shareholders’ suggestions and disputes	The “Corporate Governance Best Practice Principles” includes a chapter on upholding shareholders’ interests. The spokesperson or Secretarial Division handles all non-legal issues; the legal division handles all legal issues.
	Identification of major shareholders and investors with controlling interests	The Secretarial Division submits a monthly report listing the shareholdings of directors, managers and major shareholders (over 10% shareholding) to the authorities.
	Risk control mechanisms and firewalls between the Company and its subsidiaries	The Company’s internal control system set up the “Rules and Procedures on Conducting Transactions between Group Companies and Related Parties” and the “Rules and Procedures on Monitoring Subsidiaries” as risk control mechanisms.
	Prohibitions on insider trading	The Company has established “Rules and Procedures on Handling Internal Material Information.”
Board of directors and its responsibilities	Board diversity and execution	Board appointments and member qualifications are stipulated in the Company’s “Rules for Election of Directors.”
	Establishing a Compensation Committee and an Audit Committee in accordance with the law and voluntarily setting up other functional committees	The Company has also established a Risk Management Committee, CSR Committee and Innovation Management Committee to enhance various functions.
	Board performance evaluation	The Company passed the “Rules and Procedures on Evaluating Board of Directors’ Performance” to enhance efficiency, under which the Compensation Committee evaluates the board’s performance and submits a report on proposed improvements to the board. (All members participated in a self-evaluation of individual performances for 2016 during the board meeting on January 25, 2017.)
	Periodical review of CPA’s independence	<p>The Audit Committee is authorized to evaluate the independence of the CPAs according to the “Bulletin of Norm of Professional Ethics for Certified Public Accountants of the Republic of China” and “Corporate Governance Best Practice Principles for TWSE/GTSM Listed Companies” on an annual basis based on the following criteria and procedures:</p> <ol style="list-style-type: none"> 1. The CPA’s resumes. 2. The CPAs neither serve as a director/supervisor/ manager nor hold a position with major influence in the Company or its subsidiaries. They have no interests that conflict with the Company’s.

Item		Current practice
		<p>3. The CPAs haven't provided the audit services to the Company for seven consecutive years.</p> <p>4. The CPAs should provide the Company with a Declaration of Independence on a quarterly basis.</p> <p>5. The CPAs are not involved in any significant lawsuit or litigation and have never been censured by any regulatory body.</p> <p>6. Scale and reputation of the CPA firm.</p> <p>7. Effective interaction with management and internal audit officer.</p> <p>8. Quality and efficiency of the audit, taxes and other professional services.</p> <p>The supervisors in the finance/accounting divisions of TWM and its subsidiaries have evaluated the independence of CPAs and reported the result to the Audit Committee on January 28, 2016.</p>
	Has the company set up a full/part time unit or personnel in charge of handling corporate governance-related matters – including but not limited to providing information for board directors to carry out their duties, prepare board of directors' and shareholders' meetings, handle company registration and any changes therein, and prepare BOD and shareholders' meeting minutes?	The secretarial division, reporting to the EVP and CFO, is in charge of corporate governance-related matters, as well as the board of directors' and shareholders' meetings.
	Has the Company established communication channels with stakeholders (including but not limited to shareholders, employees, customers and suppliers) and set up a stakeholders' section on the Company's website to respond to critical corporate social responsibility issues?	Sections on investor relations, procurement and CSR have been set up on the Company's official website and integrated into one comprehensive stakeholders' section in 2015.
	Has the Company outsourced its AGM management?	The Company has engaged the Transfer Agency and Registry Department of Fubon Securities Co., Ltd. to manage its annual general meeting.
Information disclosure	Disclosure of information on financial status, operations and corporate governance	Disclosure of financial-related and corporate governance information is posted periodically on the Company's website.
	Other ways of disclosing information	Aside from having a spokesperson, the Company has a dedicated department, the Investor Relations Division, to handle information disclosure. It also has an English website and a team working on gathering and releasing relevant Company information.

Additional information

1. Employee rights

The Company's human resources policies comply with provisions prescribed under the law, such as the Labor Standards Act, in safeguarding employee rights.

2. Employee care

The Company provides different communication channels to facilitate communication within the firm. These include holding regular employee and managerial meetings to accommodate suggestions for improvement and conducting surveys to gather employees' views and opinions.

3. Investor relations

The Company posts financial, operational and material information on its official website and MOPS in a timely manner to keep investors abreast of Company developments and strategies and, thus, maximize shareholders' interests.

4. Supplier relations

The Company holds procurement bids based on the "Procedures Governing Procurement" and suppliers deliver products in accordance with the contract.

5. Stakeholders' rights

To protect the interests of stakeholders, the Company has established various free and open communication channels to promote trust and corporate social responsibility.

6. Training programs for directors in 2016

Training program	Organization	Date	Hours	Director Participated
2016 corporate governance conference—insider trading and corporate social responsibility	Securities and Futures Institute	2016.04.01	3	Guu-Chang Yang
Corporate governance trends—2016 BOD six major issues	Corporate Governance Association	2016.05.06	3	Jack J.T. Huang
Tax trends	Corporate Governance Association	2016.07.06	3	Tsung-Ming Chung
The future of finance – blockchain development trends and implementation	Corporate Governance Association	2016.08.19	3	Daniel M. Tsai, Richard M. Tsai, James Jeng, Hsueh-Jen Sung
A game for transforming Taiwan companies	Corporate Governance Association	2016.08.30	3	Howard Lin
A game for transforming Taiwan companies	Corporate Governance Association	2016.08.30	1	Jack J.T. Huang (attending as a speaker)
Corporate governance structure and BOD operations	Corporate Governance Association	2016.10.29	3	Daniel M. Tsai, Richard M. Tsai, Howard Lin, James Jeng, Jack J.T. Huang, Tsung-Ming Chung, Hsueh-Jen Sung, Guu-Chang Yang
Case analysis of commercial bribery prevention and practices	Securities and Futures Institute	2016.11.07	3	San-Cheng Chang
Legal implications of financial statement fraud on directors and supervisors	Securities and Futures Institute	2016.11.15	3	San-Cheng Chang
Corporate financial crisis – Analysis of types and early warning signals	Securities and Futures Institute	2016.11.17	3	San-Cheng Chang

Strategy and key performance indicators	Securities and Futures Institute	2016.11.24	3	San-Cheng Chang
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Note: The training hour requirements listed above have been fulfilled.

7. Corporate governance related training programs for management in 2016

Training program	Organizer	Date	Hours	Participants
Corporate governance and sustainability	National Taiwan University, EMBA	2016.01.23	2	Egon Chen
The legal liability of managers	In-house training	2016.03.25	1.5	C.H. Jih, Jeff Ku, James Chang, Jay Hong, Iris Liu, Naomi Lee, Egon Chen, Chien Chen, Daphne Lee, Michael Teng, Eddie Chan
Information security (Part I): <i>Preventing information hacking</i>	In-house training	2016.05.03	1	James Jeng, Rosie Yu, C.H. Jih, Jeff Ku, James Chang, Jay Hong, Iris Liu, David Lin, Naomi Lee, Egon Chen, Chien Chen, Tom Koh, Steve Chou, Daphne Lee, Michael Teng, Eddie Chan
Political environment and corporate governance in India	Taiwan Corporate Governance Association	2016.05.19	2	Rosie Yu
Change Taiwan by innovation	In-house training	2016.07.15	2	C.H. Jih, Jeff Ku, James Chang, Jay Hong, Egon Chen, Chien Chen, Steve Chou, Daphne Lee
Takeover bids / defense tactics: An unavoidable legal warfare	Taiwan Corporate Governance Association	2016.07.28	3	Rosie Yu
Information security (Part II): <i>Preventing information leaks</i>	In-house training	2016.08.01	1	James Jeng, Rosie Yu, C.H. Jih, Jeff Ku, James Chang, Jay Hong, David Lin, Naomi Lee, Egon Chen, Chien Chen, Tom Koh, Steve Chou, Daphne Lee, Michael Teng, Eddie Chan
Code of ethics	In-house training	2016.08.15	0.3	C.H. Jih, Jeff Ku, Ariel Hwang, James Chang, Jay Hong, Iris Liu, Egon Chen, Chien Chen, Tom Koh, Steve Chou, Daphne Lee, Michael Teng, Eddie Chan
Best guide to corporate governance: principles/practices/ trends	Taiwan Corporate Governance Association	2016.11.10	3	Naomi Lee
Information security (Part III): <i>Dissemination of the personal information protection act</i>	In-house training	2016.11.23	1	James Jeng, Rosie Yu, C.H. Jih, Jeff Ku, Ariel Hwang, James Chang, C.H. Wu, Jay Hong, Iris Liu, David Lin, Naomi Lee, Egon Chen, Chien Chen, Tom Koh, Steve Chou, Daphne Lee, Michael Teng, Eddie Chan
Code of ethics	In-house training	2016.11.29	0.3	C.H. Wu

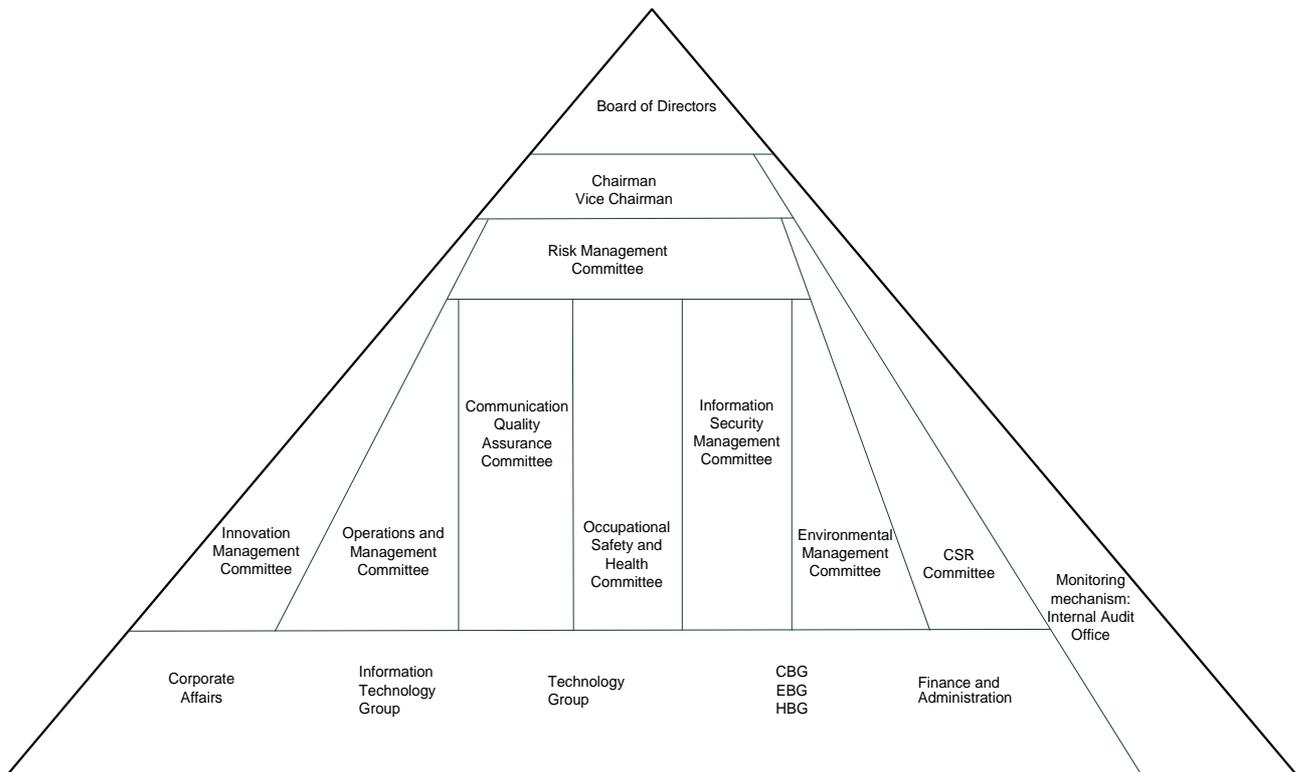
Corporate social responsibility	In-house training	2016.12.15	0.6	James Jeng, Iris Liu, Tom Koh
Blockchain application and prospects	In-house training	2016.12.16	2	James Jeng, Rosie Yu, C.H. Jih, Jeff Ku, James Chang, C.H. Wu, Jay Hong, Naomi Lee, Egon Chen, Tom Koh, Steve Chou, Michael Teng, Eddie Chan

8. Risk management

Risk management policies

- (1) Promote a risk management-based business model
- (2) Establish a risk management mechanism that can effectively cite, evaluate, supervise and control risks
- (3) Create a company-wide risk management structure that can limit risks to an acceptable or controllable level
- (4) Introduce best risk management practices and continue to seek improvements

Risk management structure



The Company's risk management structure is made up of three levels of control mechanism, and a monitoring mechanism:

	Responsible unit	Function
Ground	Corporate Affairs, Information Technology Group, Technology Group, Consumer Business Group, Enterprise Business Group, Home Business Group, Finance and Administration	<p>Risk factors are analyzed and assigned to responsible units to monitor and ensure timely and effective detection.</p> <p>Each unit shall ensure, on a daily basis, that risks are kept under acceptable levels. Should there be any changes in condition or other factors, the responsible unit shall report these to the Company for an appropriate course of action.</p>
Middle	Risk Management Committee (Note)	<p>Integrate the Company's risk management framework and internal control mechanism.</p> <p>Execute risk management strategies and conduct a review of the efficiency of the overall risk management mechanism.</p> <p>Exercise control over the five following committees:</p>
	Operations and Management Committee	Conduct periodic reviews of each business group's operating target and performance to meet the Company's guidance and budget.
	Information Security Management Committee	Control potential threats to important information assets in order to reduce operational risks.
	Occupational Safety and Health Committee	Supervise and minimize potential risks to workers' safety and health.
	Communication Quality Assurance Committee	Ensure and manage network communication quality.
	Environmental Management Committee	Develop and manage the Company's policies and objectives for environmental and energy management.
	Corporate Social Responsibility Committee	Promote corporate social responsibility and implement sustainable management within the Company.
Top	Board of Directors	Responsible for assessing material risks, designating actions to control these risks and keeping track of their execution.
	Internal Audit Office	<p>Regularly monitor and assess potential and varying levels of risks that the Company may face and use this information as a reference for drafting an annual audit plan.</p> <p>Report any discrepancy to the concerned unit chief and ensure that remediation efforts are completed.</p>

Note: The Risk Management Committee exercises control over five units/systems: Operations and Management Committee, Information Security Management Committee, Occupational Safety and Health Committee, Communication Quality Assurance Committee and Environment Management Committee. Should any material event or situation arise, the responsible unit shall report it to the Operations and Management Committee or other committee(s) to undertake any necessary measures.

Risk factors and underlying mechanisms

	Important risk factors	Responsible unit	Examining committee	Decisionmaking and supervision
1	Operating risk	Technology Group / IT Group	Operations and Management Committee	The highest decisionmaking body: Board of Directors Monitoring mechanism: Internal Audit Office
2	Market risk A. Competition B. New products C. Channel management D. Inventory management	CBG, EBG and HBG		
3	Credit and collection risks	Business Operations Management Division and Billing Management Division		
4	Government policies and regulatory compliance	Regulatory and Carrier Relations Division		
5	M&A and investments	President's Office		
6	Volatility of interest rates, exchange rates and financial risks	Finance Division		
7	Financing and endorsements / guarantees provided to others, derivatives transaction and working capital management	Finance Division		
8	Financial report disclosure and tax risk management	Accounting Division		
9	Litigious and non-litigious matters	Legal Office		
10	Changes in shareholding of directors and major shareholders	Secretarial Division		
11	Board meeting facilitation	Secretarial Division		
12	Employee behavior, code and ethics	Human Resources Division		
13	Corporate social responsibility risks and other emerging risks	Public Relations and Brand Management Division	CSR Committee	
14	Employee safety	Occupational Safety and Health Office and Administration Division	Occupational Safety and Health Committee	
15	Risks related to information security	President's Office	Information Security Management Committee	
16	Technology and maintenance risks	President's Office – Communication Quality Assurance Department	Communication Quality Assurance Committee	
17	Environmental and energy risks	Network Engineering Division	Environmental Management Committee	
18	Innovation risk	CBG, EBG, HBG, Technology Group, IT Group, Public Relations and Brand Management Division	Innovation Management Committee	

9. Implementation of customer policy

With the mission of “creating the best user experience,” the Company is continuously striving to improve its products, services and operations to win clients’ trust and raise the quality of customer care.

10. Liability insurance purchased for the Company’s board directors

The Company purchases annual liability insurance for its directors and reports the insurance coverage, the amount and the scope to the BOD on a regular basis.

11. Employee certifications relating to information transparency

(1) Certified Internal Auditor (CIA): five employees in the Internal Audit Office; one in the Finance Division; one in the Accounting Division; and one in the President’s Office

- (2) Certification in Control Self-Assessment (CCSA): one employee in the Internal Audit Office
- (3) Certification in Risk Management Assurance (CRMA): one in the Internal Audit Office
- (4) Certified Information Systems Auditor (CISA): two in the Internal Audit Office; and one in the President's Office
- (5) First-level examiner of internal controls (Securities and Futures Institute): three employees in the Secretarial Division
- (6) Certified Public Accountant (CPA): two in the Finance Division; three in the Accounting Division; four in the Operation Analysis Division; and one in the Procurement and Logistics Division

12. Any internal evaluation or third party assessment reports on corporate governance. If yes, specify results, major flaws or recommendations for improvements:

The Company participated in the "Corporate Governance Evaluation" conducted by the Taiwan Stock Exchange and Taipei Exchange, ranking among the top 5% of listed companies for two consecutive years. The Board of Directors convened six meetings in 2016, which met the requirements of the aforementioned evaluation.

Compensation Committee operations

The Compensation Committee, composed entirely of independent directors, is bound by the Compensation Committee Charter. The committee is responsible for evaluating the following matters:

- (1) Establish a policy, system, standard and structure for directors' and managers' compensation and review them periodically.
- (2) Decide compensation for directors and managers and carry out periodic evaluations.

Qualifications and independence criteria of members of the Compensation Committee

Identity (Note 1)	Name	Over five years of experience in business, finance, legal and/or other areas related to the Company's business	Independence criteria (Note 2)								No. of public companies in which he or she also serves as a member of the Compensation Committee
			1	2	3	4	5	6	7	8	
Independent Director	Jack J.T. Huang	V	V	V	V	V	V	V	V	V	3
Independent Director	Tsung-Ming Chung	V	V	V	V	V	V	V	V	V	1
Independent Director	Hsueh-Jen Sung	V	V	V	V	V	V	V	V	V	0
Independent Director	Guu-Chang Yang	V	V	V	V	V	V	V	V	V	0

Note 1: The identities of the members of the Compensation Committee all meet the requirements stipulated in Item 5, Article 6 of the "Regulations Governing the Appointment and Exercise of Powers by the Remuneration Committee of a Company Whose Stock is Listed on the Stock Exchange or Traded Over the Counter."

Note 2: "V" denotes meeting the conditions specified below during their tenure or two years before assuming their posts:

- Criterion 1: Not an employee of the Company or its affiliated companies
- Criterion 2: Not a director or supervisor of the Company or the Company's affiliated companies (unless the person is an independent director of the Company, the Company's parent company or any subsidiary of the Company)
- Criterion 3: Not a shareholder whose total holdings, including those of his/her spouse and minor children, or shares held under others' names reach or exceed 1 percent of the total outstanding shares of the Company or rank among the top 10 individual shareholders
- Criterion 4: Not a spouse or a relative within second degree of affinity, or within three degrees of consanguinity to any person specified in criteria 1 to 3
- Criterion 5: Neither a director, supervisor, or employee of an entity that directly or indirectly holds more than 5% of the Company's shares, nor one of the Company's top five shareholders
- Criterion 6: Not a director, supervisor, manager, or shareholder owning more than 5% of the outstanding shares of any company that has financial or business relations with the Company
- Criterion 7: Not an owner, partner, director, supervisor, manager, or spouse of any of the aforementioned, of any sole proprietorship, partnership, company, or institution that provides commercial, legal, financial or accounting services or consultations to the Company or its affiliates
- Criterion 8: Not in contravention of Article 30 of the Company Act

Compensation Committee attendance

(1) The Compensation Committee consists of four members.

(2) Tenure of the Second Compensation Committee: June 12, 2014 to June 11, 2017. The committee convened four times in 2016:

Title	Name	Attendance in person	By proxy	Attendance ratio	Remarks
Independent Director	Jack J.T. Huang	4	0	100%	Appointed committee chairman
Independent Director	Tsung-Ming Chung	4	0	100%	None
Independent Director	Hsueh-Jen Sung	4	0	100%	None
Independent Director	Guu-Chang Yang	4	0	100%	None

1. **Any suggestion made by the Compensation Committee that was not accepted or revised by the Board of Directors:** None
2. **Any written objections or issues raised by a member of the Compensation Committee against resolutions passed by the committee:** None

Corporate social responsibility (CSR)

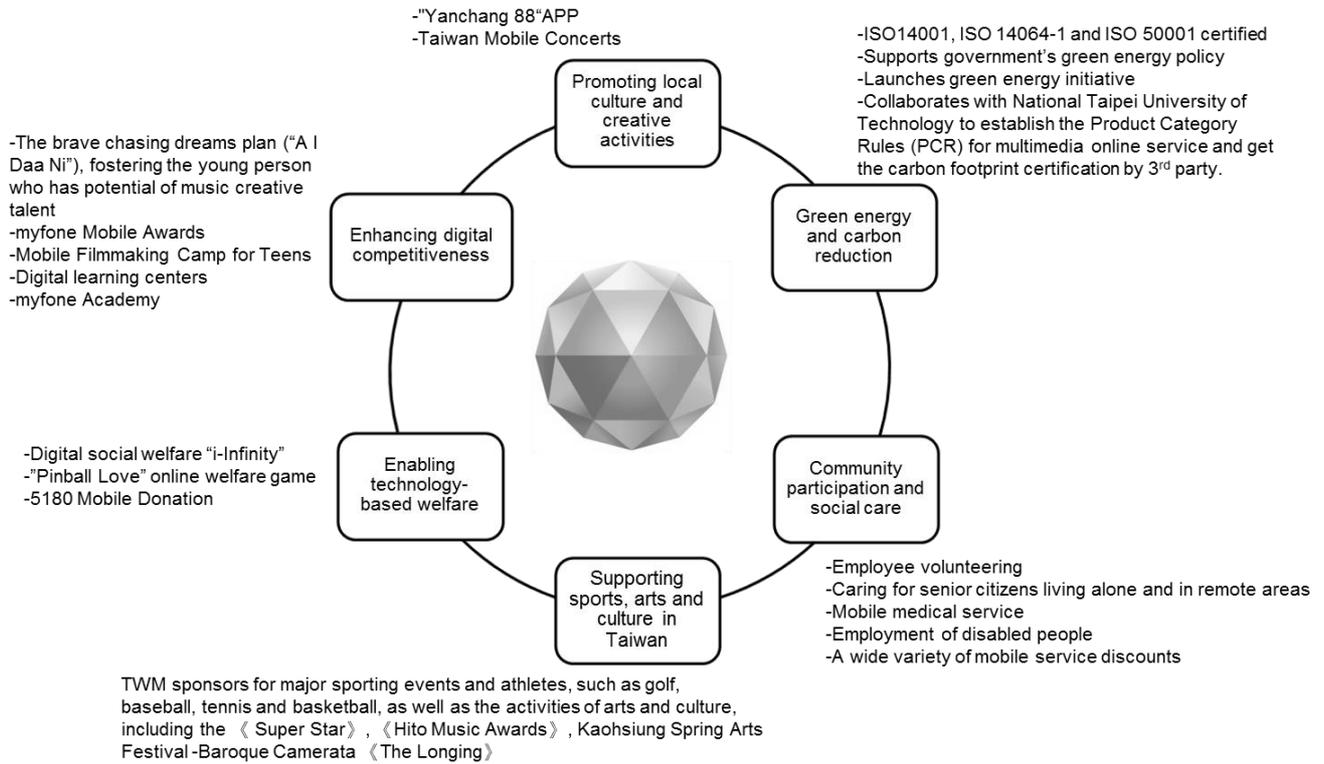
Item	Current Practices
<p>Corporate governance</p> <ol style="list-style-type: none"> 1. Establishing a CSR policy or system and review mechanism 2. CSR course training 3. Setting up a unit to carry out this policy or system 4. Establishing a reward-and-punishment system as part of the Company's employee performance evaluation system and CSR policy 	<ol style="list-style-type: none"> 1. The Company set up the "Corporate Social Responsibility Policy" in 2011 to ensure effective execution of corporate social responsibility, and the "Corporate Social Responsibility Best Practice Principles" in 2015. TWM has also developed a sustainability strategy blueprint that serves as the foundation for the CSR Vision 2020 Project. The Corporate Social Responsibility Committee reviews and tracks the execution of CSR related projects on a quarterly basis. A year-end review showed that all projects' targets were achieved in 2016. To bring more synergy in 2017, the Company will focus on integrating and optimizing resources to maximize efficiency. 2. CSR course training is held periodically. 3. In 2007, TWM established a Social Responsibility Department under the Public Relations and Brand Management Division to draft and carry out CSR initiatives. With designated personnel and a separate budget, the department provides planning, execution and coordination across different divisions. The Corporate Social Responsibility Committee was established in 2014, with the Company chairman and president serving as committee chairman and vice chairman, respectively. The committee reports to the board on a quarterly basis. 4. The Company's compensation policy is to reward employees commensurate with their performance. Evaluation meetings are held at the end of the year for supervisors and staff to discuss their performance over the past year and set objectives for the following year, including core functions and corporate social responsibility. Performance is graded based on employees' fulfillment of the annual objectives and accordingly rewarded with bonuses and/or salary increases.
<p>Environmental sustainability</p> <ol style="list-style-type: none"> 1. Promoting advanced and efficient use of renewable resources to reduce their impact on the environment 2. Establishing an environmental management system in line with the nature of the Company's business operations 3. Monitoring the impact of climate change on operating activities and adopting measures to reduce GHG emissions and minimize their impact on the environment 	<ol style="list-style-type: none"> 1. The Company has continuously worked to improve the efficient use of resources, including paper, water and electricity, as well as to promote recycling of cables and battery modules. 2. In 2016, the Environmental Management Committee was set up to take charge of developing environmental policies and objectives, in addition to integrating four major tasks: environmental management, greenhouse gas (GHG) inventories, energy management and smart energy conservation. The committee is also tasked with incorporating the Company's environmental management rules and sustainable management roadmap into its CSR policy. 3. TWM's operating management practices, including communications technology deployment, are designed to reduce energy consumption and GHG emissions. These measures include: <ul style="list-style-type: none"> ● Smart energy conservation ● Green energy infrastructure ● Energy-saving program for data centers ● Base station equipment upgrading ● Energy management program for TWM's office buildings and direct stores ● Telepresence service ● Green value-added services ● e-service and mobile services ● Carbon inventory on employee commuting, business travel and internal logistics

Item	Current Practices												
	<p style="text-align: right;">Unit: tCO₂e</p> <table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th></th> <th>2015</th> <th>2016*</th> </tr> </thead> <tbody> <tr> <td>Direct emissions</td> <td>7,263</td> <td>5,871</td> </tr> <tr> <td>Indirect emissions</td> <td>236,960</td> <td>245,578</td> </tr> <tr> <td>Total GHG emissions</td> <td>244,223</td> <td>251,449</td> </tr> </tbody> </table> <p>* The increase in emissions was due to the updated electricity emission factor, expansion of TWM's internet data center business and 4G services.</p>		2015	2016*	Direct emissions	7,263	5,871	Indirect emissions	236,960	245,578	Total GHG emissions	244,223	251,449
	2015	2016*											
Direct emissions	7,263	5,871											
Indirect emissions	236,960	245,578											
Total GHG emissions	244,223	251,449											
<p>Commitment to corporate social responsibility</p> <ol style="list-style-type: none"> 1. Complying with domestic and international labor laws to safeguard and uphold the rights of workers, following a non-discriminatory hiring policy and establishing appropriate management practices, procedures and execution 2. Setting up an employee appeals process 3. Providing employees with a safe and healthy working environment, as well as regular training on safety and health education 4. Building a regular communication mechanism and notifying employees about potential operational changes that may have a significant impact on them 5. Developing individual training plans for career development 6. Developing consumer rights 	<ol style="list-style-type: none"> 1. Pursuant to related national regulations, including the Labor Standards Act, Employment Services Act and Gender Equality in Employment Act, the Company has never employed child workers, discriminated against any employee or ethnic group, or forced its employees to work. 2. The Company has set up an "Employee Appeals Process" and designated the Internal Audit Office to handle employee petitions and complaints through an exclusive e-mail or fax hotline. The complainant's name and identity are kept confidential and proper action shall be taken subject to verification of the case. 3. The Company aims to provide a safe and healthy working environment for employees and has implemented related measures to promote employee health and mental well-being. It also conducts periodic evaluations of the working environment and programs on promoting workers' safety and health education. Related information on employee safety and health is posted on the Company's intranet. 4. The Company has set up multiple channels to communicate with employees on a regular basis about its operational decisions. <ol style="list-style-type: none"> (1) Dialogue between employees and management: Managerial meetings are held every quarter to reinforce the Company's vision, convey recent critical developments to all employees, and respond to employee concerns and opinions. (2) Labor-management meetings are held quarterly to enhance communication between employees and management for consensus building and to promote cooperation. (3) A forum is held twice a year for newcomers to familiarize them with Company policies and practices and help them adapt to the new environment. (4) A President's Mailbox has been set up for employees to submit recommendations to the Company. (5) Employee opinion surveys: A survey is conducted every three years to gauge job satisfaction rates and employees' views about the workplace and management practices. Additional surveys are conducted after company activities, such as the year-end party and medical checkups, to gather employee opinions. (6) Information disclosure: All information is posted on the Company's intranet, where employees can view the company's press releases, product information and management measures. 5. Based on individual career interests, strengths and weaknesses, supervisors help their staff draw up individual training plans during the annual performance review to give them systematic guidance on enhancing their skills and abilities for career development. 6. TWM provides various convenient service channels and offers high-quality and consistent services based on the principles of innovation, sincerity, 												

Item	Current Practices
<p>protection policies and appeals procedures related to R&D, procurement, production, operations and service processes</p> <p>7. Complying with relevant regulations and international standards on marketing and labeling of products and services</p> <p>8. Evaluating prospective suppliers' track record on environmental and social issues</p> <p>9. Right to terminate a contract if supplier violates its social responsibility, causing a significant impact on the environment and society</p>	<p>enthusiasm and empathy. The Company has been awarded SGS Qualicert service certification for five years in a row. To protect personal data security, a committee was established to guide the Company through the formulation of its information security policy and supervise its implementation of the "ISO/IEC 27001 information security management system," which aims to protect every aspect of customer information linkage by adopting a professional management system and promoting personal awareness. Information on customers' rights and how personal information is collected, processed and utilized are available on the Company's website, service contracts, customer hotlines and stores. Customers can also provide feedback or file complaints through these channels or a special mobile app.</p> <p>7. TWM's mobile base stations were constructed in accordance with relevant laws and regulations, and passed base station electromagnetic checks by the National Communications Commission (NCC), having fully complied with the International Commission on Non-Ionizing Radiation Protection (ICNIRP) standards.</p> <p>8. Before entering into a contract with a supplier, TWM requires that the supplier comply with rules and regulations on protecting workers and the environment to avoid any incidents deemed harmful to society or the environment.</p> <p>9. TWM believes that ethics serves as the moral foundation of a well-managed enterprise. To promote a fair and just system, the Company set up an open procurement system to select suppliers and required that all suppliers comply with the "Environmental and Occupational Health and Safety Policy for Contractors" and "Guidelines on Corporate Social Responsibility for Suppliers." Should a supplier break its social responsibility and adversely impact the environment and society, the Company has the right to suspend its account. Furthermore, TWM provides first bargaining rights to green-product and conflict-free product suppliers to encourage others to likewise produce environmentally friendly products.</p> <p>(1) TWM does not use any product from conflict material/product suppliers.</p> <p>(2) TWM requests its suppliers investigate their supply chains to ensure that no products are from conflict areas.</p>
<p>Information disclosure</p> <p>Disclosing relevant and reliable information on corporate social responsibility</p>	<p>CSR-related information is updated on the Company's website in a timely manner. All information and data contained in the CSR reports are compiled internally and verified by an external party to ensure their reliability and accuracy. All information (subject and content) is deemed to be materially important and designed to meet shareholders' expectations.</p>
<p>The Company's CSR policy and practices fully comply with the "Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies."</p> <p>The concept of corporate social responsibility is embedded in the strategic decisions and daily operations of all departments. TWM's Board of Directors passed the "Taiwan Mobile CSR Policy" in January 2011 to serve as a long-term guideline for promoting corporate social responsibility and the "Taiwan Mobile CSR Guidelines" in January 2015 to ensure effective execution of the Company's commitment to society.</p> <p>With its underlying corporate philosophy and core values serving as the foundation, the Company emphasizes corporate governance, stakeholders' interests and full disclosure, and leverages off the Company's core competencies and services to promote environmental conservation and public welfare.</p>	

Additional information on CSR-related matters:

TWM leverages its core competencies in telecommunications, network and digital convergence to generate wider benefits for society and the environment.



Has the Company issued CSR reports that have been verified by an independent third-party assurance organization?

Since 2009, TWM's CSR reports have been verified by an independent third-party organization, the British Standards Institute, in accordance with its AA1000 assurance standards and GRI guidelines. In 2014, Taiwan Mobile was proud to be the first Taiwanese telecom company to pass the International Standard on Assurance Engagements (ISAE) 3000, demonstrating the Company's commitment to management integrity. In 2016, Taiwan Mobile published its 2015 CSR report based on the limited assurance engagement conducted by KPMG in accordance with ISAE3000, with the information disclosed complying with the latest GRI G4 framework in accordance with the comprehensive option.

Ethical corporate management

Item	Current Practice
<p>1. Establishing a policy on ethical corporate management:</p> <p>(1) Specifying the Company's policy on ethical corporate management in its official charter and material documents, including the board and management's commitment to its implementation</p> <p>(2) Setting up a system, including operational guidelines, reporting system and punishment for violations, to prevent dishonest behavior</p> <p>(3) Adopting measures to prevent high-risk unethical conduct as specified in Article 7 Paragraph 2 of "Ethical Corporate Management for TWSE/GTSM Listed Companies"</p>	<p>(1) The Company has promulgated its Ethical Corporate Management Best Practice Principles and reinforces them on an annual basis to ensure that employees, management and the board comply with the principles. Moreover, the principles have been incorporated into the Company's internal control system.</p> <p>(2) The Company's Ethical Corporate Management Best Practice Principles details preventive measures against the following:</p> <ul style="list-style-type: none"> a. offering and accepting bribes b. illegal political donations c. improper charitable donations or sponsorship d. offering or accepting unreasonable gifts or hospitality, or other inappropriate benefits <p>The aforementioned principles and related regulations have been announced and disseminated to board directors, managers, employees and appointees to enhance integrity and self-discipline.</p> <p>Employees and suppliers are required to sign a "Declaration of Integrity" or "Declaration of Integrity in Business Conduct" to ensure that they fully understand the Company's determination to enforce ethical management and the consequences of behaving in a dishonest manner.</p> <p>(3) The Company has set up an accounting system and internal control system for business activities that are at a higher risk of dishonest behavior. The aforementioned systems are reviewed periodically to ensure that they are working and measures are implemented.</p> <p>The Company avoids contact with dubious traders. Its business contracts specify that suppliers or vendors must observe ethical corporate management, and failing that, the Company reserves the right to terminate or cancel the contract.</p>
<p>2. Implementation of ethical corporate management</p> <p>(1) Avoiding transactions with parties that have a record of dishonest behavior, stipulating in all contracts what constitute unacceptable behavior</p> <p>(2) Establishing a full-time or part-time unit to promote the Ethical Corporate Management Best Practice Principles under the supervision of the Board of Directors</p> <p>(3) Setting up policies to prevent conflict of interest and providing channels to report such conflict</p>	<p>(1) The Company provides "Guidelines on Social Responsibility for Suppliers" and requires all suppliers to sign a "Declaration of Ethical Corporate Management," which states that suppliers must not engage in bribery; otherwise, the Company has the right to suspend their accounts and terminate or rescind their contracts at any time.</p> <p>(2) The Audit Committee, Compensation Committee and Internal Audit Office were established under the Board of Directors to supervise and audit the practice and implementation of the Company's integrity management. In addition, the Legal Office, which reports to the President directly, is responsible for executing the Company's integrity management policy, setting up guidelines to prevent dishonest behavior and reporting to the Board of Directors at least once a year to ensure the implementation of the highest guiding principles for integrity management.</p> <p>(3) The Company has promulgated policies to prevent conflict of interest. Should there be a conflict of interest, directors should recuse themselves from discussing or voting on the issue. Any board director, manager, employee or appointee must not use his or her position or influence in the Company to obtain improper benefits.</p> <p>Any breach of ethical corporate management practices can be reported via email or fax hotline to the Company.</p>

Item	Current Practice
<p>(4) Building an effective accounting system and internal control system to carry out ethical corporate management, with internal/external auditors auditing the process</p> <p>(5) Conducting regular internal and external training courses on ethical corporate management</p>	<p>(4) The Company has established an effective accounting system and internal control system. In addition, internal auditors schedule regular audits according to the level of risk and report the findings to the board on a periodic basis.</p> <p>The Company periodically delegates independent accountants to audit its financial statements and to verify the effectiveness of the internal control system.</p> <p>(5) The Company promotes the importance of Ethical Corporate Management Best Practice Principles to directors, managers, employees and appointees on an annual basis to help them fully understand the need to comply with ethical corporate management practices. The Company also conducts related training courses upon request. From January 1, 2016 to January 31, 2017, a total of 2,098 training hours were held, with 1,275 participants.</p>
<p>3. Reporting ethical violations</p> <p>(1) Establishing a reporting and incentive system to facilitate the processing of complaints and assigning a person or unit to deal with the cases</p> <p>(2) Setting up investigation and confidentiality procedures</p> <p>(3) Protecting whistleblower from harm</p>	<p>(1) The Company has established procedures for dealing with complaints about employees or suppliers, with the Internal Audit Office tasked with dealing with the cases.</p> <p>a) Supplier complaints can be filed with the Internal Audit Office in written form or via fax to (02) 66361600.</p> <p>b) Employee complaints can be sent to a designated internal email account.</p> <p>(2) The Internal Audit Office must immediately launch an investigation upon receipt of the complaint and ensure that the name and identity of the complainant are kept confidential.</p> <p>(3) The Internal Audit Office must be objective and fair in its investigation. It must report the results of its investigation directly to a higher supervisor and ensure that the whistleblower is not harmed.</p>
<p>4. Strengthening information disclosure</p> <p>Disclosing related information on ethical corporate management on the Company's website</p>	<p>The Company has posted its Ethical Corporate Management Best Practice Principles on its company website and MOPS. Its annual report and corporate social responsibility report further shed light on its execution and enhance corporate transparency.</p>
<p>5. Has the company promulgated its own ethical corporate management principles in accordance with the "Ethical Corporate Management for TWSE/GTSM Listed Companies"? If yes, describe the differences between the principles and current practices: No difference.</p>	
<p>6. Other important information to facilitate understanding of the Company's implementation of ethical corporate management practices:</p> <p>(1) The Company's electronic procurement system mandatorily requires suppliers to sign a "Declaration of Integrity in Business Conduct" every year; otherwise, they are not allowed to participate in the bidding process.</p> <p>(2) The Company regularly monitors developments in domestic and international ethical corporate management standards and reviews its performance to ensure compliance. The Board of Directors approved amendments to the "Ethical Corporate Management Best Practice Principles" on July 27, 2016.</p>	

Corporate governance rules and procedures

The Company has implemented a number of rules and procedures to enhance its corporate governance practices: Corporate Governance Best Practice Principles, Audit Committee Charter, Compensation Committee Charter, Rules and Procedures Governing Board of Directors' Meetings, Rules and Procedures Governing Shareholders' Meetings, Regulations Governing Internal Material Information, Procedures Governing Applications to Suspend or Resume Trading, Code of Ethics, Ethical Corporate Management Best Practice Principles, Corporate Social Responsibility Policy, Corporate Social Responsibility Best Practice Principles, and Rules and Procedures on Conducting Transactions between Group Companies and Related Parties. With these efforts, not only does the Company's corporate governance mechanism

comply with Taiwan's Securities and Exchange Act, but it also adheres to the highest international standards. The aforementioned charters and rules are available on the Company's website: www.taiwanmobile.com.

Additional information on corporate governance operations:

Corporate governance principles

- Timely disclosure of material information
- Checks and balances between the board and management
- Fair representation of independent board members
- Audit Committee was established to ensure fair and independent financial oversight.
- Compensation Committee was established to strengthen corporate governance practices and promote a sound compensation system.
- Adoption of a high cash dividend payout policy
- Shareholders' rights are guaranteed with the right to vote on all proposals at the annual general shareholders' meeting or through an electronic voting system.
- Strict compliance with the Code of Ethics and Ethical Corporate Management Best Practice Principles and establishment of an internal audit mechanism

To ensure that employees, managers and directors promote information transparency and timely disclosure, the Company disseminates its "Regulations Governing Internal Material Information" (approved by the Board of Directors on January 22, 2009) on an annual basis and has incorporated them into its internal control system to avoid the risk of insider trading.

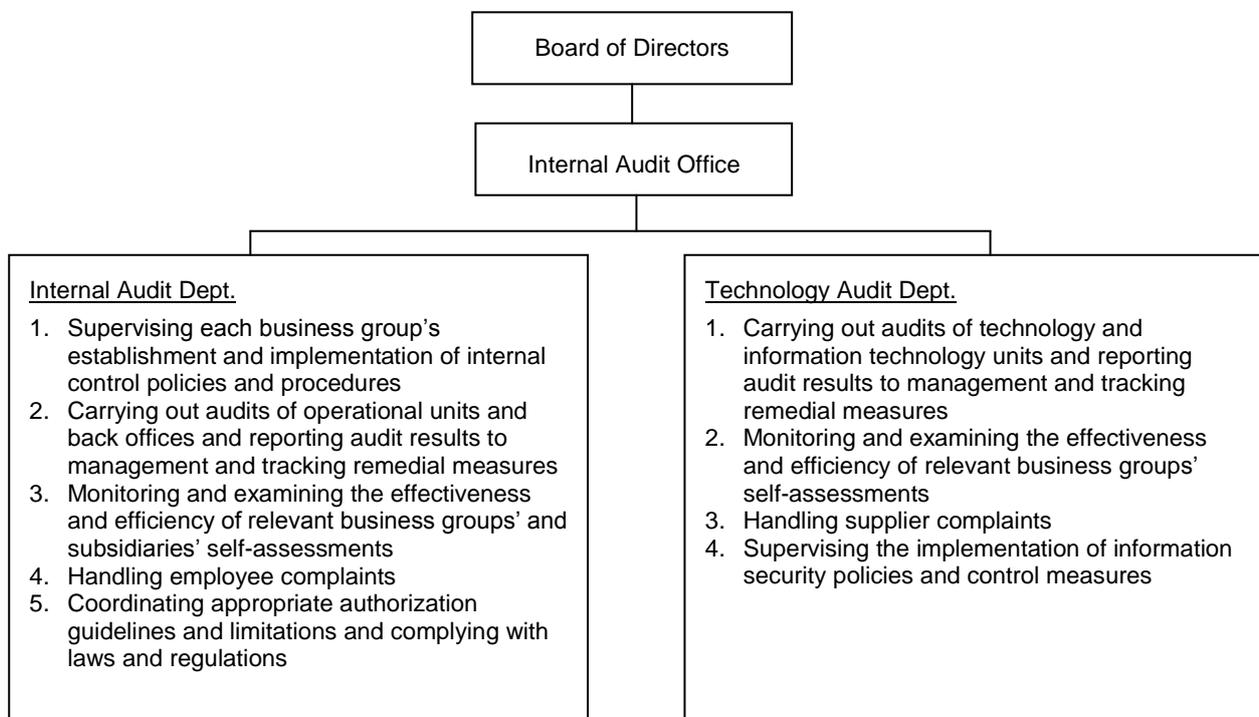
Internal control system

1. Internal control mechanism

The Internal Audit Office is an independent unit with designated personnel who report directly to the Board of Directors.

- It is responsible for the examination and assessment of the internal controls of the Company's financial, sales, operations and management departments. All departments, including those of the subsidiaries, are subject to its audit.
- Regular internal audits are executed according to an annual audit plan. Special audit projects are implemented as needed. These audits enhance internal control and provide timely recommendations for future improvements.
- In accordance with corporate governance, audit reports are submitted on a regular basis and reviewed by the Chairman, as well as presented to the Audit Committee and the Board of Directors by the Chief Internal Auditor.
- The Internal Audit Office also examines the mechanisms and results of self-evaluations by departments and subsidiaries to ensure strict implementation. In addition, it generates and consolidates related inspection reports for the President and the Board of Directors to evaluate the overall efficiency of existing internal control systems before generating an internal control system statement.

There are 11 dedicated internal audit staff members, including one supervisor in charge of the Internal Audit Office, whose responsibilities are detailed below:



2. Has the Company delegated CPAs to review its internal audit system and issued an audit report?

No.

3. Internal control statement

Taiwan Mobile Co., Ltd.
Internal Control Statement

Date: January 25, 2017

Taiwan Mobile (TWM) states the following with regard to its internal control system for the year 2016:

1. TWM is fully aware that establishing, operating and maintaining an internal control system are the responsibilities of its Board of Directors and management. TWM has established such a system to provide reasonable assurance in achieving objectives related to the effectiveness and efficiency of operations (including profits, performance and safeguarding of assets), reliability of financial reporting, and compliance with applicable laws and regulations.
2. An internal control system has inherent limitations. An effective internal control system, no matter how perfectly designed, can provide only a reasonable assurance in the accomplishment of the three goals mentioned above. Furthermore, the effectiveness of an internal control system may change along with changes in the environment or circumstances. The internal control system of the Company contains self-monitoring mechanisms and the Company takes corrective actions as soon as a deficiency is identified.
3. TWM evaluates the design and operating effectiveness of its internal control system based on the criteria provided in the "Regulations Governing the Establishment of Internal Control Systems" by public companies promulgated by the Securities and Futures Bureau, the Financial Supervisory Commission and the Executive Yuan (herein referred to as the "Regulations"). The internal control system evaluation criteria stated in the Regulations classify internal control into five key elements based on the process of management control: (1) Control environment, (2) Risk assessment and response, (3) Control activities, (4) Information and communications, and (5) Monitoring. Please refer to the Regulations for details on these five key elements.
4. TWM has evaluated the design and operating effectiveness of its internal control system according to the aforesaid criteria.
5. Based on the findings of the evaluation mentioned in the third paragraph, TWM believes that as of Dec. 31, 2016, its internal control system (including its supervision of subsidiaries), which encompasses internal controls to achieve effective and efficient operations, reliable financial reporting, and compliance with applicable laws and regulations, was effectively designed and operating, and is reasonably assured of achieving the above-stated objectives.
6. This statement will form a major part of the Company's Annual Report and Prospectus and will be made public. Any falsehood, concealment, or other illegality in the content made public will entail legal liability under Articles 20, 32, 171 and 174 of the Securities and Exchange Act.
7. This statement has been passed by the TWM Board of Directors' Meeting on January 25, 2017, where all of the nine attending directors did not express any dissenting opinion and affirmed the content of the same.

Taiwan Mobile Co., Ltd.



Daniel M. Tsai
Chairman



James Jeng
President

Violation of regulations and internal policies: None

Major resolutions at the shareholders' meeting and board meetings

1. Major resolutions at the 2016 shareholders' meeting

Issues approved and subsequent execution:

- (1) Revisions to the Company's "Articles of Incorporation"

Execution: Already approved by the Ministry of Economic Affairs on July 5, 2016 and the revised rules were posted on the Company's website.

- (2) 2015 business report and financial statements

- (3) Distribution of 2015 earnings

Execution: Set record date of ex-dividend on July 6, 2016 and cash payment of NT\$5.6 per share on July 21, 2016.

- (4) Revisions to the Rules and Procedures of Lending and Making Endorsements/Guarantees

Execution: The revised rules were published on the Company's website and MOPS on June 17, 2016 and implemented accordingly.

2. Major resolutions by the board (from 2016 up to publication date in 2017)

1. 9th meeting of the seventh BOD on January 29, 2016

- (1) Approved the 2015 business report and financial statements
- (2) Approved the 2016 consolidated financial forecasts and donation to TWM Foundation
- (3) Approved the 2016 capital expenditure plan
- (4) Approved the procurement of mobile broadband equipment from Nokia Siemens Networks Taiwan Co., Ltd.
- (5) Approved the schedule for the 2016 general shareholders' meeting

2. 10th meeting of the seventh BOD on April 28, 2016

- (1) Approved the 2015 earnings distribution proposal
- (2) Approved the appointment of General Counsel

3. 12th meeting of the seventh BOD on August 18, 2016

- (1) Approved the issuance of the 3rd domestic unsecured convertible bond

4. 13th meeting of the seventh BOD on October 12, 2016

- (1) Messrs. Daniel M. Tsai and Richard M. Tsai were elected as Chairman and Vice Chairman, respectively

5. 14th meeting of the seventh BOD on January 25, 2017

- (1) Approved the 2016 business report and financial statements
- (2) Approved the 2017 consolidated financial forecasts and donation to TWM Foundation
- (3) Approved the 2017 capital expenditure plan
- (4) Approved the appointments of the Chief Business Officer and the Chief Information Officer
- (5) Approved the procurement of mobile broadband equipment from Nokia Siemens Networks Taiwan Co., Ltd.
- (6) Approved the schedule for the 2017 general shareholders' meeting

The above information is posted on MOPS: <http://mops.twse.com.tw>.

Major dissenting comments among directors over board meeting resolutions from 2016 up to publication date in 2017: None

Resigned/discharged chairman, president, chief accounting officer, chief financial officer, chief internal audit officer and chief research officer:

As of February 27, 2017

Title	Name	Date of taking office	Date of resignation	Reason for resignation/discharge
Chairman	Mr. Richard M. Tsai	2014.06.12	2016.10.12	Messrs. Richard M. Tsai and Daniel M. Tsai resigned as Chairman and Vice Chairman, respectively, on Oct. 12, 2016. Messrs. Daniel M. Tsai and Richard M. Tsai were elected as Chairman and Vice Chairman, respectively, at the board meeting on the same date.

Certified Public Accountant (CPA) Information

1. CPA service fees

Accounting firm	Name of CPA	Period covered by CPA's audit	Remarks
Deloitte & Touche	Li-Wen Kuo Kwan-Chung Lai	2016.01.01~2016.12.31	None

Range of CPA service fee	Audit fee	Non-audit fee	Total
NT\$0~NT\$1,999,999	-	-	-
NT\$2,000,000~NT\$3,999,999	-	✓	-
NT\$4,000,000~NT\$5,999,999	-	-	-
NT\$6,000,000~NT\$7,999,999	-	-	-
NT\$8,000,000~NT\$9,999,999	✓	-	-
NT\$10,000,000 and above	-	-	✓

2. Other information

- (1) If non-audit fees paid to CPAs, their accounting firm and its affiliates are more than one-fourth of audit fees, specify the amount of audit and non-audit fees, as well as the scope of non-audit services:

Unit: NT\$'000

Accounting firm	Name of CPA	Audit fee	Non-audit fee					Period covered by CPA's audit	Remarks
			System design	Company registration	Human resources	Others	Total		
Deloitte & Touche	Li-Wen Kuo Kwan-Chung Lai	8,146	-	-	-	2,528	2,528	2016.01.01~ 2016.12.31	Fees for other non-audit services were mainly for tax-related consultation and attestation services.

- (2) For CPA changes, if the audit fee in the first year is lower than that of the prior year, specify the audit fee before and after the change and the reasons: Not applicable

(3) If audit fees dropped by more than 15%, specify the amount and percentage of decline and reasons: Not applicable

3. Information on CPA changes:

(1) Former CPA

Date of change	April 30, 2015		
Reason for change	To meet the company's operational requirements		
Specify whether services/engagement were terminated/refused	Party	CPA	Company
	Conditions		
	Termination		V
	Refusal of new mandate		
Has any audit opinion, other than an unqualified opinion, been issued in the past two years? If yes, cite reasons.	A modified unqualified opinion was issued in 2013 to add a paragraph explaining a change in the accounting policy regarding bundle sales from residual method to relative fair value method.		
Disagreement with securities issuer	Yes		Accounting principles and practices
			Disclosure of financial statements
			Audit scope or procedures
			Others
	No	V	
	Explanation: None		
Other disclosure items	None		

(2) Current CPA

Name of company	Deloitte & Touche
Name of CPA	Li-Wen Kuo, Kwan-Chung Lai
Date of engagement	April 30, 2015
Results of consultations with the CPA on accounting measures and principles that might influence his/her opinion prior to his/her engagement	None
Has the incumbent CPA issued any dissenting opinion on opinions issued by the previous CPA?	None

(3) The former CPA's response to the issues referred to in Article 10.6.1 and Item 3 of Article 10.6.2 of the Regulations Governing Information to be Published in Annual Reports of Public Companies: None.

4. Company Chairman, President or finance/accounting manager held positions in the Company's audit firm or its affiliates within the past year: None

Direct and indirect investments in affiliated companies

As of December 31, 2016

Unit: shares, %, foreign currency

Long-term investments under equity method	Investment by TWM		Investment by TWM's directors, managers and its directly or indirectly controlled businesses		Total investment	
	Shares (Note 1)	Holding (%)	Shares (Note 1)	Holding (%)	Shares (Note 1)	Holding (%)
Taiwan Cellular Co., Ltd.	502,970,309	100.00%	—	—	502,970,309	100.00%
Wealth Media Technology Co., Ltd.	42,065,000	100.00%	—	—	42,065,000	100.00%
Taipei New Horizon Co., Ltd.	191,865,500	49.90%	—	—	191,865,500	49.90%
Alliance Digital Tech Co., Ltd.	6,000,000	14.40%	—	—	6,000,000	14.40%
Taiwan Fixed Network Co., Ltd.	—	—	2,100,000,000	100.00%	2,100,000,000	100.00%
Taiwan Teleservices & Technologies Co., Ltd.	—	—	2,484,300	100.00%	2,484,300	100.00%
TWM Holding Co. Ltd.	—	—	US\$ 1	100.00%	USD 1	100.00%
TCC Investment Co., Ltd.	—	—	154,721,308	100.00%	154,721,308	100.00%
Taiwan Digital Communications Co., Ltd.	—	—	11,200,000	100.00%	11,200,000	100.00%
Taiwan Digital Service Co., Ltd.	—	—	2,500,000	100.00%	2,500,000	100.00%
TFN Media Co., Ltd.	—	—	230,921,304	100.00%	230,921,304	100.00%
Global Forest Media Technology Co., Ltd.	—	—	1,500,000	100.00%	1,500,000	100.00%
Global Wealth Media Technology Co., Ltd.	—	—	8,944,867	100.00%	8,944,867	100.00%
Win TV Broadcasting Co., Ltd.	—	—	18,177,382	100.00%	18,177,382	100.00%
momo.com Inc.	—	—	63,047,205	44.38% (Note 2)	63,047,205	44.38% (Note 2)
TFN Union Investment Co., Ltd.	—	—	400,000	100.00%	400,000	100.00%
Taiwan Pelican Express Co., Ltd.	—	—	16,893,000	17.70%	16,893,000	17.70%
TVD Shopping Co., Ltd.	—	—	31,150,000	35.00%	31,150,000	35.00%
TFN HK Ltd.	—	—	HK\$ 1,300,000	100.00%	HK\$ 1,300,000	100.00%
TT&T Holdings Co., Ltd.	—	—	US\$ 1,300,000	100.00%	US\$ 1,300,000	100.00%
TWM Communications (Beijing) Ltd.	—	—	US\$ 3,000,000	100.00%	US\$ 3,000,000	100.00%

TCCI Investment and Development Co., Ltd.	—	—	104,712,000	100.00%	104,712,000	100.00%
Taiwan Kuro Times Co., Ltd.	—	—	12,000,000	100.00%	12,000,000	100.00%
Kbro Media Co., Ltd.	—	—	29,250,000	32.50%	29,250,000	32.50%
Yeong Jia Leh Cable TV Co., Ltd.	—	—	33,940,000	100.00%	33,940,000	100.00%
Mangrove Cable TV Co., Ltd.	—	—	6,248,000	29.53%	6,248,000	29.53%
Phoenix Cable TV Co., Ltd.	—	—	68,090,198	100.00%	68,090,198	100.00%
Union Cable TV Co., Ltd.	—	—	170,441,326	99.99%	170,441,326	99.99%
Globalview Cable TV Co., Ltd.	—	—	55,558,533	99.21%	55,558,533	99.21%
Asian Crown International Co., Ltd.	—	—	US\$ 26,500,000	76.26%	US\$ 26,500,000	76.26%
Honest Development Co., Ltd.	—	—	US\$ 21,778,413	100.00%	US\$ 21,778,413	100.00%
Fuli Life Insurance Agent Co., Ltd.	—	—	500,000	100.00%	500,000	100.00%
Fuli Property Insurance Agent Co., Ltd.	—	—	500,000	100.00%	500,000	100.00%
Fu Sheng Travel Service Co., Ltd.	—	—	3,000,000	100.00%	3,000,000	100.00%
Fortune Kingdom Corp.	—	—	US\$ 33,632,777	100.00%	US\$ 33,632,777	100.00%
Hongkong Yue Numerous Investment Co., Ltd.	—	—	HK\$ 16,600,000	100.00%	HK\$ 16,600,000	100.00%
Hong Kong Fubon Multimedia Technology Co., Ltd.	—	—	US\$ 33,632,777	100.00%	US\$ 33,632,777	100.00%
Haobo Information Consulting (Shenzhen) Co., Ltd.	—	—	RMB 11,000,000	100.00%	RMB 11,000,000	100.00%
Fubon Gehua (Beijing) Enterprise Ltd.	—	—	RMB 210,000,000	91.30%	RMB 210,000,000	91.30%
Beijing Global Guoguang Media Technology Co., Ltd.	—	—	RMB 2,614,379	20.00%	RMB 2,614,379	20.00%

Note 1: No. of shares unless stated otherwise, i.e., paid-in capital in foreign denomination.

Note 2: Holding ratio is calculated based on total issued shares, including treasury shares.

Changes in shareholdings of directors, managers and major shareholders

1. Minor changes in shareholder structure

Unit: shares

Title	Name	2016		2017 (as of February 27)	
		Net change in shareholding	Net change in shares pledged	Net change in shareholding ¹	Net change in shares pledged
Chairman	Fu Chi Investment Co., Ltd. Representative: Daniel M. Tsai (Note1)				
Vice Chairman	Fu Chi Investment Co., Ltd. Representative: Richard M. Tsai (Note 1)	0	0	0	0
Director	Fu Chi Investment Co., Ltd. Representative: San-Cheng Chang (Note 2)				
Director	TCC Investment Co., Ltd. Representative: Howard Lin	0	0	0	0
Director	TCC Investment Co., Ltd. Representative: James Jeng				
Independent Director	Jack J.T. Huang	0	0	0	0
Independent Director	Tsung-Ming Chung	0	0	0	0
Independent Director	Hsueh-Jen Sung	0	0	0	0
Independent Director	Guu-Chang Yan	0	0	0	0
Major Shareholder (shareholding of more than 10%)	TFN Union Investment Co., Ltd.	0	0	0	0
President	James Jeng	0	0	0	0
EVP and Chief Financial Officer	Rosie Yu	0	0	0	0
SVP and Chief Technology Officer	C.H. Jih	0	0	0	0
SVP and Chief Business Officer	Jeff Ku	0	0	0	0
VP and General Counsel	Ariel Hwang	0	0	0	0
VP and Chief Information Officer	James Chang	0	0	0	0
Vice President	Jay Hong	(5,000)	0	0	0
Vice President	Iris Liu	0	0	0	0
Vice President	Naomi Lee	0	0	0	0
Vice President	C.H. Wu (took office on September 26, 2016)	0	0	0	0

Title	Name	2016		2017 (as of February 27)	
		Net change in shareholding	Net change in shares pledged	Net change in shareholding ¹	Net change in shares pledged
Vice President	Egon Chen	(40,000)	0	0	0
Vice President	Chien Chen	0	0	0	0
Vice President	Tom Koh	0	0	0	0
Vice President	Steve Chou	0	0	0	0
Vice President	Daphne Lee	0	0	0	0
Vice President	David Lin (took office on May 3, 2016)	0	0	0	0
Vice President	Michael Teng (took office on January 3, 2017)	NA	NA	0	0
Vice President	Eddie Chan (took office on January 3, 2017)	NA	NA	0	0
Chief Accounting Officer	Darren Shih	0	0	0	0
Vice President	Sean Hsieh (resigned on January 15, 2016)	0	0	NA	NA
Vice President	Paul Huang (resigned on January 15, 2016)	0	0	NA	NA

Note 1: Messrs. Richard M. Tsai and Daniel M. Tsai resigned as Chairman and Vice Chairman, respectively, on Oct. 12, 2016. Messrs. Daniel M. Tsai and Richard M. Tsai were elected as Chairman and Vice Chairman, respectively, by the board on the same date.

Note 2: Fu Chi Investment Co., Ltd. appointed San-Cheng Chang as its representative, taking over Vivien Hsu's duties on October 11, 2016.

2. Shareholding transferred with related party: None

3. Stock pledged with related party: None

Relationship between TWM's top 10 shareholders

As of July 6, 2016

Name (A)	Current shareholding		Spouse's/minor's shareholding		Name and relationship between TWM's shareholders who are defined as related parties, spouse or a relative within two degrees	
	Shares	%	Shares	%	Name (B)	Relationship
TFN Union Investment Co., Ltd. (Note 1)	410,665,284	12.00%	-	-	TCC Investment Co., Ltd. Ming Dong Co., Ltd. Fubon Life Insurance Co., Ltd. Dao Ying Co., Ltd. Daniel M. Tsai Richard M. Tsai TCCI Investment and Development Co., Ltd.	A and B have the same chairman A and B have the same chairman B's chairman is a relative within two degrees of A's chairman A and B have the same chairman B is A's chairman B is a director at A A and B have the same chairman
Chairman: Daniel M. Tsai	-	-	-	-	TFN Union Investment Co., Ltd. TCC Investment Co., Ltd. Ming Dong Co., Ltd. Fubon Life Insurance Co., Ltd. Dao Ying Co., Ltd. Richard M. Tsai TCCI Investment and Development Co., Ltd.	A is B's chairman A is B's chairman A is B's chairman A is a relative within two degrees of B's chairman A is B's chairman B is A's relative within two degrees A is B's chairman
TCC Investment Co., Ltd. (Note 1)	200,496,761	5.86%	-	-	TFN Union Investment Co., Ltd. Ming Dong Co., Ltd. Fubon Life Insurance Co., Ltd. Dao Ying Co., Ltd. Daniel M. Tsai Richard M. Tsai TCCI Investment and Development Co., Ltd.	A and B have the same chairman A and B have the same chairman B's chairman is a relative within two degrees of A's chairman A and B have the same chairman B is A's chairman B is a director at A A and B have the same chairman
Chairman: Daniel M. Tsai	-	-	-	-	TFN Union Investment Co., Ltd. TCC Investment Co., Ltd. Ming Dong Co., Ltd. Fubon Life Insurance Co., Ltd. Dao Ying Co., Ltd. Richard M. Tsai TCCI Investment and Development Co., Ltd.	A is B's chairman A is B's chairman A is B's chairman A is a relative within two degrees of B's chairman A is B's chairman B is A's relative within two degrees A is B's chairman
Ming Dong Co., Ltd. (Note 1)	184,736,452	5.40%	-	-	TFN Union Investment Co., Ltd. TCC Investment Co., Ltd. Fubon Life Insurance Co., Ltd. Dao Ying Co., Ltd. Daniel M. Tsai Richard M. Tsai	A and B have the same chairman A and B have the same chairman B's chairman is a relative within two degrees of A's chairman A and B have the same chairman B is A's chairman B is a director at A

Name (A)	Current shareholding		Spouse's/minor's shareholding		Name and relationship between TWM's shareholders who are defined as related parties, spouse or a relative within two degrees	
	Shares	%	Shares	%	Name (B)	Relationship
Chairman: Daniel M. Tsai	-	-	-	-	TCCI Investment and Development Co., Ltd.	A and B have the same chairman
					TFN Union Investment Co., Ltd.	A is B's chairman
					TCC Investment Co., Ltd.	A is B's chairman
					Ming Dong Co., Ltd.	A is B's chairman
					Fubon Life Insurance Co., Ltd.	A is a relative within two degrees of B's chairman
					Dao Ying Co., Ltd.	A is B's chairman
					Richard M. Tsai	B is A's relative within two degrees
TCCI Investment and Development Co., Ltd.	A is B's chairman					
Fubon Life Insurance Co., Ltd. (Note 2)	124,997,400	3.65%	-	-	TFN Union Investment Co., Ltd.	B's chairman is a relative within two degrees of A's chairman
					TCC Investment Co., Ltd.	B's chairman is a relative within two degrees of A's chairman
					Ming Dong Co., Ltd.	B's chairman is a relative within two degrees of A's chairman
					Dao Ying Co., Ltd.	B's chairman is a relative within two degrees of A's chairman
					Daniel M. Tsai	B is a relative within two degrees of A's chairman
					Richard M. Tsai	B is A's chairman
					TCCI Investment and Development Co., Ltd.	B's chairman is a relative within two degrees of A's chairman
Chairman: Richard M. Tsai	-	-	-	-	TFN Union Investment Co., Ltd.	A is a director at B
					TCC Investment Co., Ltd.	A is a director at B
					Ming Dong Co., Ltd.	A is a director at B
					Fubon Life Insurance Co., Ltd.	A is B's chairman
					Dao Ying Co., Ltd.	A is a director at B
					Daniel M. Tsai	B is A's relative within two degrees
					TCCI Investment and Development Co., Ltd.	A is a director at B
Dao Ying Co., Ltd. (Note 1)	113,609,742	3.32%	-	-	TFN Union Investment Co., Ltd.	A and B have the same chairman
					TCC Investment Co., Ltd.	A and B have the same chairman
					Ming Dong Co., Ltd.	A and B have the same chairman
					Fubon Life Insurance Co., Ltd.	B's chairman is a relative within two degrees of A's chairman
					Daniel M. Tsai	B is A's chairman
					Richard M. Tsai	B is a director at A
					TCCI Investment and Development Co., Ltd.	A and B have the same chairman
Chairman: Daniel M. Tsai	-	-	-	-	TFN Union Investment Co., Ltd.	A is B's chairman
					TCC Investment Co., Ltd.	A is B's chairman
					Ming Dong Co., Ltd.	A is B's chairman
					Fubon Life Insurance Co., Ltd.	A is a relative within two degrees of B's chairman
					Dao Ying Co., Ltd.	A is B's chairman
					Richard M. Tsai	B is A's relative within two degrees
					TCCI Investment and Development Co., Ltd.	A is B's chairman

Name (A)	Current shareholding		Spouse's/minor's shareholding		Name and relationship between TWM's shareholders who are defined as related parties, spouse or a relative within two degrees	
	Shares	%	Shares	%	Name (B)	Relationship
Shin Kong Life Insurance Co., Ltd.	112,438,000	3.29%	–	–	None	None
Chairman: Tung-Chin Wu	–	–	–	–	None	None
Nan Shan Life Insurance Co., Ltd.	99,481,500	2.91%	–	–	None	None
Chairman: Ying Tsung Tu	–	–	–	–	None	None
Daniel M. Tsai	92,109,990	2.69%	4,580,070	0.13%	TFN Union Investment Co., Ltd. TCC Investment Co., Ltd. Ming Dong Co., Ltd. Fubon Life Insurance Co., Ltd. Dao Ying Co., Ltd. Richard M. Tsai TCCI Investment and Development Co., Ltd.	A is B's chairman A is B's chairman A is B's chairman A is a relative within two degrees of B's chairman A is B's chairman B is A's relative within two degrees A is B's chairman
Richard M. Tsai	90,257,938	2.64%	5,986,496	0.18%	TFN Union Investment Co., Ltd. TCC Investment Co., Ltd. Ming Dong Co., Ltd. Fubon Life Insurance Co., Ltd. Dao Ying Co., Ltd. Daniel M. Tsai TCCI Investment and Development Co., Ltd.	A is a director at B A is a director at B A is a director at B B is A's chairman A is a director at B B is A's relative within two degrees A is a director at B
TCCI Investment and Development Co., Ltd. (Note 1)	87,589,556	2.56%	–	–	TFN Union Investment Co., Ltd. TCC Investment Co., Ltd. Ming Dong Co., Ltd. Fubon Life Insurance Co., Ltd. Dao Ying Co., Ltd. Daniel M. Tsai Richard M. Tsai	A and B have the same chairman A and B have the same chairman A and B have the same chairman B's chairman is a relative within two degrees of A's chairman A and B have the same chairman B is A's chairman B is a director at A
Chairman: Daniel M. Tsai	–	–	–	–	TFN Union Investment Co., Ltd. TCC Investment Co., Ltd. Ming Dong Co., Ltd. Fubon Life Insurance Co., Ltd. Dao Ying Co., Ltd. Richard M. Tsai	A is B's chairman A is B's chairman A is B's chairman A is a relative within two degrees of B's chairman A is B's chairman B is A's relative within two degrees

Name (A)	Current shareholding		Spouse's/minor's shareholding		Name and relationship between TWM's shareholders who are defined as related parties, spouse or a relative within two degrees	
	Shares	%	Shares	%	Name (B)	Relationship
					TCCI Investment and Development Co., Ltd.	A is B's chairman

Note 1 : Mr. Daniel M. Tsai was elected as the Chairman of the Company on Oct. 12, 2016.

Note 2 : Mr. Richard M. Tsai was elected as the Chairman of the Company on Oct. 12, 2016.

Chapter 3 Financial Information

Capital and shares

Source of capital

As of February 27, 2017

Unit: shares / NT\$

Date	Par value (NT\$)	Authorized capital		Paid-in capital		Remarks		
		Shares	Amount (NT\$)	Shares	Amount (NT\$)	Source of capital (NT\$)	In a form other than cash	Cert. No. & effective date
Oct. 2011	10	6,000,000,000	60,000,000,000	3,420,832,827	34,208,328,270	Cash capital reduction: NT\$3,800,925,360	--	Authorization No. 1000031760 July 15, 2011

As of February 27, 2017

Unit: shares

	Authorized capital			Remarks
	Listed shares	Unissued shares	Total	
Common stock	3,420,832,827	2,579,167,173	6,000,000,000	None

Information related to shelf registration: None

Shareholder structure

As of July 6, 2016

	Government agencies	Financial institutions	Other institutions	Individuals	Foreign institutions & individuals	Total
No. of shareholders	7	20	300	38,144	1,006	39,477
Total shares owned	216,855,656	378,136,330	1,350,160,133	354,818,613	1,114,862,095	3,420,832,827
Holding percentage (%)	6.34	11.05	39.65	10.37	32.59	100.00

Shareholding distribution

As of July 6, 2016

1. Common shares

Shareholding range	No. of shareholders	Total shares owned	Holding percentage
1 ~ 999	15,722	5,430,448	0.16%
1,000 ~ 5,000	18,043	36,320,141	1.06%
5,001 ~ 10,000	2,673	20,113,292	0.59%
10,001 ~ 15,000	766	9,464,546	0.28%
15,001 ~ 20,000	460	8,236,959	0.24%
20,001 ~ 30,000	411	10,270,041	0.30%
30,001 ~ 50,000	347	13,567,910	0.40%
50,001 ~ 100,000	263	18,937,674	0.55%
100,001 ~ 200,000	197	28,020,605	0.82%
200,001 ~ 400,000	171	49,647,374	1.45%
400,001 ~ 600,000	78	37,690,578	1.10%
600,001 ~ 800,000	57	39,319,733	1.15%
800,001 ~ 1,000,000	33	29,932,883	0.88%
1,000,001 and above	256	3,113,880,643	91.02%
Total	39,477	3,420,832,827	100.00%

2. Preferred shares: None

Major shareholders

As of July 6, 2016

Name	Total shares owned	Holding percentage
TFN Union Investment Co., Ltd.	410,665,284	12.00%
TCC Investment Co., Ltd.	200,496,761	5.86%
Ming Dong Co., Ltd.	184,736,452	5.40%
Fubon Life Insurance Co., Ltd.	124,997,400	3.65%
Dao Ying Co., Ltd.	113,609,742	3.32%
Shin Kong Life Insurance Co., Ltd.	112,438,000	3.29%
Nan Shan Life Insurance Co., Ltd.	99,481,500	2.91%
Daniel M. Tsai	92,109,990	2.69%
Richard M. Tsai	90,257,938	2.64%
TCCI Investment & Development Co., Ltd.	87,589,556	2.56%

Major shareholders of TWM's institutional investors

Institutional investors	Major shareholders
TFN Union Investment Co., Ltd.	Taiwan Fixed Network Co., Ltd. (100%)
TCC Investment Co., Ltd.	Taiwan Cellular Co., Ltd. (100%)
Ming Dong Co., Ltd.	Fubon Land Development Co., Ltd. (16.36%), Fubon Construction Co., Ltd. (13.89%), Fu-Chi Investment Co., Ltd. (12.63%), Ru Chi Investment Co., Ltd. (12.63%), Dao Chi Investment Co., Ltd. (12.63%), Chung Shing Development Co., Ltd. (11.77%), Dao Ying Co., Ltd. (9.60%), Fubon Charity Foundation (3.43%), Fubon Cultural and Educational Foundation (2.52%), Daniel M. Tsai (1.82%)
Fubon Life Insurance Co., Ltd.	Fubon Financial Holding Co., Ltd. (100%)
Dao Ying Co., Ltd.	Fubon Land Development Co., Ltd. (17.68%), Fubon Construction Co., Ltd. (17.68%), Fu-Chi Investment Co., Ltd. (13.13%), Ru Chi Investment Co., Ltd. (13.13%), Dao Chi Investment Co., Ltd. (13.13%), Ming Dong Co., Ltd. (9.60%), Chung Shing Development Co., Ltd. (8.84%), Daniel M. Tsai (1.52%), Richard M. Tsai (1.51%), Fubon Charity Foundation (1.01%)
Shin Kong Life Insurance Co., Ltd.	Shin Kong Financial Holding Co., Ltd. (100%)
Nan Shan Life Insurance Co., Ltd.	Dedicated investment account managed by First Bank on behalf of Ruen Chen Investment Holding Co., Ltd. (76.46%), Ruen Chen Investment Holding Co., Ltd. (14.16%), Ying Tsung Tu (3.25%), Ruen Hua Dyeing & Weaving Co., Ltd. (0.28%), Ruentex Leasing Co., Ltd. (0.15%), Chi Pin Investment Co., Ltd. (0.11%), Wen Te Kuo (0.11%), Pao Chih Investment Co., Ltd. (0.05%), Pao Yi Investment Co., Ltd. (0.05%), Pao Hui Investment Co., Ltd. (0.05%), Pao Huang Investment Co., Ltd. (0.05%)
TCCI Investment & Development Co., Ltd.	TCC Investment Co., Ltd. (100%)

Share price, net worth, earnings, dividends and related information

Unit: NT\$, '000 shares

		2015	2016	As of February 27, 2017	
Share price (NT\$)	High	113.00	116.50	108.50	
	Low	95.00	96.40	102.00	
	Average	103.88	107.91	105.96	
Net worth per share (NT\$)	Before earnings appropriation	21.88	22.20	—	
	After earnings appropriation	16.28	(Note 1)	—	
Earnings per share (NT\$)	Adjusted weighted average outstanding shares	2,722,081	2,722,081	2,722,081	
	Earnings per share	5.76	5.63	—	
Dividends per share (NT\$)	Cash dividends	5.6	(Note 1)	—	
	Stock dividends	Retained earnings	—	(Note 1)	—
		Capital surplus	—	(Note 1)	—
	Accumulated unpaid dividends	—	—	—	
PE and dividend yield (Note 2)	Price earnings ratio (x)	18.03	19.17	—	
	Price to cash dividend (x)	18.55	—	—	
	Cash dividend yield (%)	5.39	—	—	

Note 1: The appropriation amount indicated above is based on resolutions approved at the annual shareholders' meetings in the subsequent year. The appropriation amount for 2016 has yet to be approved at the AGM.

Note 2: Price earnings ratio = Average closing price / earnings per share
 Price to cash dividend = Average closing price / cash dividend per share
 Cash dividend yield = Cash dividend per share / average closing price

Dividend policy

1. Dividend policy under Articles of Incorporation

The dividend policy in general is to distribute earnings from retained earnings in the form of cash after deducting forecast capital expenditure. Should there be a stock dividend distribution, it should not exceed 80% of the total dividends distributed in a single year. The dividend payout proposed by the Board of Directors (BOD) has to be approved at the annual shareholders' meeting.

2. Proposed dividend allocation for approval at annual shareholders' meeting

The BOD has not yet approved the proposed dividend allocation for 2016 as of the publication date. The board expects to approve the proposal 40 days prior to the AGM, and any resolution will be announced on the Company's website and MOPS.

3. The Company maintains a dividend policy with a high payout ratio. Historically, dividends distributed to shareholders were no less than 80% of net income for that year and composed of over 80% cash. A historical listing of dividends distributed is listed on TWM's official website.

Impact of stock dividend distribution on business performance and EPS

The BOD has not yet approved the dividend allocation proposal for 2016 as of publication date.

Employee bonuses and compensation to directors

1. Earnings distribution plan according to the Company's Articles of Incorporation

If the Company has profits in a fiscal year, it shall set aside 1% to 3% of the profits as employee bonuses and not more than 0.3% of the profits as director compensation. However, if the Company has accumulated losses, it shall first reserve a certain amount for offsetting losses, then allocate for the employee bonuses and director compensation proportionally from the remaining amount.

Recipients are to include qualified employees of the subsidiaries.

2. Accounting treatment for the deviation between the estimated and actual distribution amount of employee bonuses and compensation to directors

The Company accrues employee bonuses and compensation to directors proportionally from the pre-tax income before deducting employee bonuses and compensation to directors. Should there be a deviation between the actual distribution amount and the accrued amount in the annual financial reports after their publication date, the difference should be treated as changes in accounting estimates and adjusted in the following year.

3. 2016 employee bonus and and directors' compensation proposal adopted by the BOD

- (1) Employee bonuses and compensation to directors paid in the form of cash or shares and differences/reasons/treatments of accrued numbers if any:

The 2016 employee bonuses and compensation to directors approved by the BOD on January 25, 2017 totaled NT\$468,063 thousand and NT\$46,806 thousand, respectively, in the form of cash, while the accrued amount in the financial reports were NT\$494,483 thousand and NT\$49,448 thousand, respectively. The differences between the actual distribution and the accrued amounts of NT\$26,420 thousand and NT\$2,642 thousand, respectively, were treated as changes in accounting estimates and adjusted in 2017.

- (2) Employee bonuses paid in the form of shares and as a percentage of total net income on a stand-alone basis and of total employee bonuses: None.

4. Earnings distributed as employee bonuses and compensation to directors in the previous year

Actual employee cash bonuses and compensation to directors distributed from 2015 earnings were NT\$454,747 thousand and NT\$45,476 thousand, respectively, while the accrued amount in the 2015 financial reports were NT\$466,322 thousand and NT\$46,632 thousand, respectively. The differences of NT\$11,565 thousand and NT\$1,156 thousand, respectively, between the actual distribution and accrued amounts were treated as changes in accounting estimates and adjusted in 2016.

Share buyback: None.

Corporate bond issuance

Corporate bonds

Issuance	Third Unsecured Corporate Bonds	Fourth Unsecured Corporate Bonds	Third Domestic Unsecured Convertible Bonds
Issue date	December 20, 2012	April 25, 2013	November 22, 2016
Denomination	NT\$10,000,000	NT\$10,000,000	NT\$100,000
Issuance and listing	Not applicable	Not applicable	Not applicable
Issue price	100% of par value	100% of par value	100% of par value
Total amount	NT\$9,000,000,000	NT\$5,800,000,000	NT\$10,000,000,000
Coupon	1.34% p.a.	1.29% p.a.	0% p.a.
Term	7 years, maturing on Dec. 20, 2019	5 years, maturing on Apr. 25, 2018	5 years, maturing on Nov. 22, 2021
Guarantor	None	None	None
Trustee	Hua Nan Bank, Trust Division	Hua Nan Bank, Trust Division	Bank of Taiwan
Underwriter	None	None	Yuanta Securities Co., Ltd.
Legal counsel	Bang Shang Lin , Attorney	Bang Shang Lin , Attorney	Tai Yuan Huang , Attorney
Auditor	Simon Chen, CPA KPMG	Simon Chen, CPA KPMG	Li-wen Kuo, CPA Kwan-chuang Lai, CPA Deloitte & Touche
Repayment	Repayment of 50% of the principal in the 6 th year and the remaining 50% in the 7 th year	Repayment of 50% of the principal in the 4 th year and the remaining 50% in the 5 th year	All bonds shall be redeemed in cash on maturity date at par value unless otherwise converted in accordance with Clause 10 of the Terms for Issuance and Conversion of TWM's 3 rd Domestic Unsecured Convertible Bonds ("the Procedures") by the holders of the bonds into common shares of the Company, the put option being exercised in accordance with Clause 19 of the Procedures by the holders of the bonds, early redemption in accordance with Clause 18 of the Procedures by the Company, or repurchased from securities firms and cancelled by the Company prior to the maturity date
Outstanding balance	NT\$9,000,000,000	NT\$5,800,000,000	NT\$10,000,000,000
Early repayment clause	None	None	Please refer to the Terms for Issuance and Conversion of TWM's 3 rd Domestic Unsecured Convertible Bonds.
Covenants	None	None	None
Credit rating agency, rating date, company credit rating	TRC, 2012.11.12, twAA TRC, 2013.06.04, twAA TRC, 2014.05.13, twAA TRC, 2015.06.02, twAA TRC, 2016.06.16, twAA- Fitch Australia Pty Ltd, Taiwan Branch, 2016.11.14, AA(twn)	TRC, 2013.1.30, twAA TRC, 2013.06.04, twAA TRC, 2014.05.13, twAA TRC, 2015.06.02, twAA TRC, 2016.06.16, twAA- Fitch Australia Pty Ltd, Taiwan Branch, 2016.11.14, AA(twn)	None
Ancillary rights	Amount converted/exchanged into common shares, ADRs or other securities Not applicable	Not applicable	None

Issuance		Third Unsecured Corporate Bonds	Fourth Unsecured Corporate Bonds	Third Domestic Unsecured Convertible Bonds
	Rules governing issuance or conversion (exchanged or subscribed)	Not applicable	Not applicable	Please refer to the Terms for Issuance and Conversion of TWM's 3 rd Domestic Unsecured Convertible Bonds.
Dilution and other effects on shareholders' equity		Not applicable	Not applicable	No material impact on shareholders' equity if all bonds are converted into common shares at NT\$116.1 per share, with a maximum EPS dilution of 2.46%
Custodian		Not applicable	Not applicable	Not applicable

Convertible bond information:

Type of corporate bond		Third Domestic Unsecured Convertible Bonds	
Item	Year	2016	2017 (As of the publication date)
		Market price of convertible bonds (NT\$)	Highest
Lowest	100.00		100.25
Average	100.48		100.54
Conversion price (NT\$)		116.10	116.10
Issue date and conversion price at issuance		Issue date: Nov. 22, 2016 Conversion price at issuance: NT\$116.1	
Conversion method		Issuing new shares	

Exchangeable bonds: None

Shelf registration issuance: None

Bonds with warrant: None

Preferred shares: None

Depository receipt issuance: None

Employee stock options and new restricted employee shares: None

Shares issued for mergers and acquisitions: None

Use of proceeds from rights issue: None

Chapter 4 Operational Highlights

Performance by Division

	Consumer Business Group	Enterprise Business Group	Home Business Group	Retail Business
Brand name	Taiwan Mobile	TWM Business Solution	TWM Broadband	momo
Services	<ul style="list-style-type: none"> ● Voice and data mobile services for consumers ● Mobile to international direct dialing (IDD) services 	<ul style="list-style-type: none"> ● Voice and data mobile services for enterprises ● Fixed-line services ● International simple resale (ISR) services ● Internet data center (IDC) and cloud (IaaS) 	<ul style="list-style-type: none"> ● Pay TV services ● Cable broadband services ● Others 	<ul style="list-style-type: none"> ● E-commerce ● TV home shopping ● Mail order

Unit: NT\$m

	Telecom business		Cable business	Retail business
	Mobile business	Fixed-line business		
Market position	Second-largest mobile operator in a five-player market, with a market share of around 29% in terms of mobile service revenue	A market share of 1.3% for ADSL/FTTx business. One of the top three internet service providers (ISP), with a market share of 4.5% (including cable broadband subscribers from its cable business)	Fourth-largest multisystem operator (MSO), covering about 11% of households in Taiwan	Ranked among the top two in B2C e-commerce and TV home shopping businesses
2016 revenue*	81,850		6,533	28,081
2016 EBITDA*	28,568		3,504	1,371

* Source: 2016 financial reports. The difference between the sum of each division and consolidated numbers was due to inter-division adjustments and eliminations.

Scope of Business

Business overview

Telecom Business

1. Telecom products and services

Consumer Business Group (CBG)

The Consumer Business Group is mainly engaged in providing mobile communication services to individual users.

The Company offers a wide range of products, including SIM cards for postpaid subscribers, as well as SIM and reloadable cards for prepaid subscribers that can be used for making/receiving calls and value-added services, such as short messaging service (SMS), data and multimedia.

Target customers	Service category	Description	Highlights
Individual consumers	Mobile	Voice	Basic telecommunication voice services, including making and receiving calls from fixed-line and mobile phones
		Data	Value-added services, including voice mail, call forwarding, call waiting, conferencing, SMS, roaming, call barring, video calls, multimedia and content (e.g., mobile TV, music, games, financial information, online bookstore, messaging apps, video clips, video streaming), and internet access using 4G/HSDPA/3G transmission
	IDD	International direct dialing services	

Enterprise Business Group (EBG)

The Enterprise Business Group offers enterprise customers integrated telecommunication and information services, and aims to become a partner in the areas of mobile application, IoT, big data, information security and smart industry solution to its enterprise customers.

Service category	Description
Mobility	<ul style="list-style-type: none"> ● Mobile virtual private network (MVPN) ● Mobile data virtual private network (MDVPN) ● Mobile broadband service ● Business mobility services, including customized apps, mobile device management, instant messaging (M+ Messages, enterprise edition), and enterprise mobility management (EMM) ● International roaming
Fixed-line voice	<ul style="list-style-type: none"> ● Integrated voice solutions, including multi-port residential gateway (MRG), local calls, long-distance calls, international calls and fixed mobile convergence (FMC) ● 080 domestic toll-free service, audio conference, intelligent network services (e.g., 0209 services) and international simple resale (ISR)
Fixed-line data	<ul style="list-style-type: none"> ● Domestic leased line, Metro Ethernet, IP virtual private network ● International private leased circuit (IPLC) and ADSL VPN
Internet	<ul style="list-style-type: none"> ● Internet access via leased line, Metro Ethernet, ADSL and FTTx
Cloud	<ul style="list-style-type: none"> ● The only Uptime Tier III certified cloud data center in Taiwan. ● Infrastructure as a service (IaaS) ● Software as a service (SaaS), including web hosting, mail hosting, domain name system (DNS) management, and video conference
Enterprise total solutions	<ul style="list-style-type: none"> ● Mobile communications, smart data center, smart network, information security and smart industry solutions

2. Telecom revenue breakdown (including CBG and EBG)

Unit: NT\$mn

Item \ Year	2016	
	Revenue	% of total
Service revenue	61,416	75%
Device sales	20,434	25%
Total	81,850	100%

3. New telecom products and services

Consumer Business Group

- (1) Voice services: Continue to roll out innovative rate plans to meet the calling preferences and personal demands of subscribers.
- (2) Value-added services: Focus on mainstream smart devices; develop a diverse range of services and digital content to meet consumers' mobile needs.

Enterprise Business Group

- (1) Information security solutions:
Comprehensive information security solutions, including multilayer anti-DDoS, managed security service, vulnerability assessment, intrusion prevention system, and integrated information security services and equipment.
- (2) Data center service:
Complete, non-stop data center service from design to construction, migration, operation and management.
- (3) Fleet management system (FMS) service:
FMS service provides work progress updates by locating on-duty vehicles. Should there be any abnormality, the system automatically sends out an alert to facilitate solutions and minimize delays.
- (4) Internet of Things (IoT):
In line with the government policy of promoting the IoT industry, TWM has developed smart electric/water meter services. Aside from automatically providing power consumption readings to the utility provider, smart electric meters allow users to monitor, analyze and manage power usage to maximize efficiency. Smart water meters likewise allow users to monitor and record water consumption to manage water usage efficiently.
- (5) Cloud storage service:
Large and flexible cloud storage space with fast download speeds.

4. Mobile business operating status

- (1) Postpaid products and services

In response to keen market competition and declines in voice minutes, the Company has focused on boosting handset sales and the migration of 3G/4G clients to raise its ARPU. As of January 2017, 3G/4G customer mix

was 99%.

The Company has excellent loyalty programs in place to secure its client base and minimize churn rates. With the aid of business intelligence tools and its direct marketing network, the Company uses market segmentation to target and provide customers with services that better match their needs. For high ARPU customers, the Company has an exclusive program called “myVIP.” The Company also offers a credit card program that allows customers to earn rebates based on their phone bills.

(2) Prepaid products and services

The Company provides diverse mobile internet services and was ahead of its peers in launching data roaming services in Japan in 2016.

Home Business Group (HBG)

1. CATV products and services

Leveraging off the group’s resources – from mobile and fixed-line to innovative cloud technology – HBG provides digital convergence services across “four screens and a cloud” to home users. TFN Media (TFNM), a subsidiary of the Company, holds a cable television system operator’s license and a Type II telecommunication license. Its subsidiary, TV production company Win TV Broadcasting, operates the “momo family channel” and owns distribution rights to a large number of outstanding domestic and foreign TV content, enabling it to provide subscribers with a wide range of digital audiovisual entertainment services.

Service category	Products / Services	Description
Pay TV	Digital TV	Uses high bandwidth coaxial cable to transmit a wide range of TV channels and programs to home TVs.
	High-definition digital TV	TWM Broadband’s CATV networks transmit domestic and international digital TV channels to subscribers’ homes; subscribers can use the set-top box provided by TWM Broadband to view high-definition digital video content.
Broadband internet access	Cable fiber-optic broadband internet access	Provides high-speed internet access service via a hybrid fiber/coaxial (HFC) network deployed by the CATV system operator, together with new-generation DOCSIS 3.0 broadband internet access technology.
Content distribution	Analog and digital TV channels	Distributes high-quality domestic and foreign TV content on both analog and digital TV services by licensing the broadcasting rights of these channels to other CATV system operators and video service platforms.
Digital home services	SuperMOD service	The first in Taiwan to provide high-definition on-demand video, audio and interactive applications/content by combining video on demand, internet TV and digital TV onto a single platform. Subscribers can access

Service category	Products / Services	Description
		SuperMOD content on their TVs, computers, smartphones and tablets anytime, anywhere.
	HomePlay service	A multi-screen sharing service that enables subscribers to share and watch TV programs, high-definition (HD) video on demand and internet video content across multiple screens, such as TVs, tablets and smartphones. Subscribers can access any content through any device via HomePlay's user-friendly application at home.
	Personal video recorder (PVR)	An interactive TV program recording device with 500G storage that enables subscribers to record TV programs through multiple devices, including computers, TVs and handsets.
	HomeSecurity service	Offers round-the-clock protection for households and small and medium-sized businesses by providing a multi-screen monitoring and cloud storage system that sends out alerts via apps for smart devices, SuperMOD, SMS and e-mails.

2. CATV revenue breakdown

Unit: NT\$m

Item \ Year	2016	
	Revenue	% of total
Pay TV service	4,350	67%
Cable broadband service	1,306	20%
TV content agency and others	878	13%
Total	6,533	100%

3. New CATV products and services

(1) High-definition digital TV services:

In line with the government's push to achieve 100% digital cable TV penetration, TWM Broadband has positioned itself to maximize the opportunity by expanding the economies of scale of HDTV and digitizing audio-visual home entertainment. When the digitalization is completed in the end of 2017, CATV system operators can release more analog spectrum to increase the signal transmission capacity to offer a wider range of viewing options and more value-added services. Moreover, TWM Broadband is to offer more 4K content for consumers and to lead the industry into a whole new era of home entertainment.

(2) High-speed fiber-optic internet access services:

Consumer demand for high-speed internet access has soared with the fast-growing popularity of online videos and social media. TWM Broadband was ahead of the trend in upgrading its fiber-optic network, enabling it to provide 300Mbps & 500Mbps high-speed broadband access services. In the near future, DOCSIS 3.1 network

technology and infrastructure will be adopted to deliver speeds up to 1Gbps to customers.

(3) Digital home services:

In 2016, TWM Broadband turned its attention to OTT (Over the Top) and announced the digital home 4.0 by launching SuperMOD OTT service. It is the first platform in Taiwan to provide high-definition on-demand video, audio and interactive applications/content by combining video on demand, internet TV and digital TV onto a single platform. Subscribers can access SuperMOD content on their TVs, computers, smartphones and tablets anytime, anywhere. Furthermore, TWM Broadband will enter the market of healthcare and cooperate with medical institutions to provide remote home care services such as professional consultancy and health measurement equipment.

Retail Business (momo.com Inc. or “momo”)

1. Retail products and services

momo offers TV home shopping, e-commerce, mail order service, travel services, and property and life insurance sales.

Service category	Products / Services	Description
TV home shopping	Programing	Self-owned professional studio and filming team provides 24-hour momo TV programs for 5mn households nationwide.
	Product orders	Provides 0800 toll-free hotline and mobile app for consumers to purchase products featured on momo TV programs or momo TV app.
	Customer service	Customer service team works around the clock to answer questions about product features, purchase and return policy.
E-commerce	Supplier recruitment service	momoshop: Recruits suppliers across Taiwan to provide clients with premium products and the best service. momomall: Assists suppliers interested in e-commerce to establish and operate online platforms.
	Product orders	momoshop: Sells over 1.9mn stock keeping units (SKU) and provides express delivery for select products. momomall: Gathers over 3,000 suppliers with 14mn SKUs.
	Customer service	Provides 24-hour online customer service and supplier contact platform to satisfy customers' shopping needs.
Catalogue / Mail order	Merchandising	Selects prime products from momo's TV home shopping and B2C shopping platforms and highlights their selling points.
	Catalogue production	Designs catalogue layout and highlights product features for customers.
	Member service	Distributes 800K copies by mail to momo members.
	Product order and	0800 toll-free 24-hour hotline manned by a professional customer service

	customer service	team that answers questions about product features, purchase and return policy.
Travel	Domestic and international travel e-voucher sales	Works with leading travel agencies to sell domestic and international services, including tours, accommodations and amusement park tickets by e-vouchers.
Property/Life insurance	Property/life insurance products and services	Provides property/life insurance products and services.

2. Retail revenue breakdown

Unit: NT\$mn

Item	Year	2016	
		Revenue	% of total
E-commerce		20,580	73%
TV home shopping, mail order service and others		7,501	27%
Total		28,081	100%

3. New retail products and services

- (1) Develop new product categories: Product variety is critical to maintaining viewership for TV home shopping and enable marketing campaigns to successfully engage with the target customer base. momo has successfully continued to explore and introduced new product categories, including essential oil and branded home appliances, to sustain buyers' interest. Additionally, momo has introduced an e-voucher system to expand its service offerings.
- (2) Introduce more brands: Backed by its prolific marketing resources and a stable supply chain, momo has attracted more and more quality brands to list products on its B2C platform (momoshop), including Dyson, Electrolux and Coach. Meanwhile, momomall, the company's B2B2c platform, which has already teamed up with many large and well-known merchants, such as HOLA, Test Rite and Qsquare, has added a few more – FNAC, Uni-Ustyle Department Stores and Sinya Digital Corp – and plans to continue seeking new partnership opportunities.
- (3) Expand business platforms: With CATV penetration nearing saturation, viewership of traditional TV falling, and the rise in popularity of digital TV and mobile platforms, TV home shopping is looking to adapt to changes in consumer's lifestyle and trends. momo is adapting mobile platforms through its TV app and leveraging social networks to promote its brand and products by leveraging its Facebook and Line groups to building up a fan base, including streaming live videos to enhance the engagement with its customer base in order to boost customer stickiness.

- (4) Build up mobile commerce: As sales from mobile devices continued to increase, momo aims to aggressively promote mobile commerce products by providing a better user experience to increase user stickiness and raise mobile commerce's share of total revenue.
- (5) Improve services: Logistics and IT play key roles in addressing the "last-mile" issue. momo aims to enhance suppliers' delivery capabilities and build up its logistics and warehousing facilities to provide fast, transparent and timely deliveries.

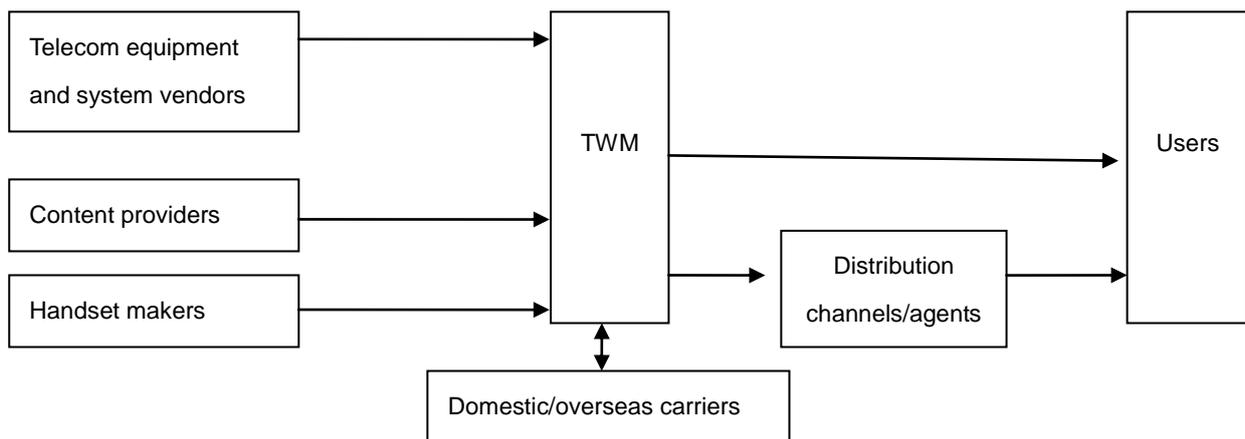
Industry overview

Consumer Business Group

1. Industry status and development

Though telecom operators have launched their 4G services one after the other since 2014, smaller players remain constrained by a lack of competent 4G network infrastructure and subscriber economies of scale. The three major operators will likely continue to dominate the market

2. Industry value chain



3. Product development trends and competitive landscape

The operators are seeking to further expand the mobile broadband market in the 4G era. A variety of new rate plans for data services, combined with new terminal devices and new value-added services, has been introduced to stimulate 4G subscriber take-up. This should be an important future revenue growth driver. As for the prepaid segment, pricing competition is intensifying.

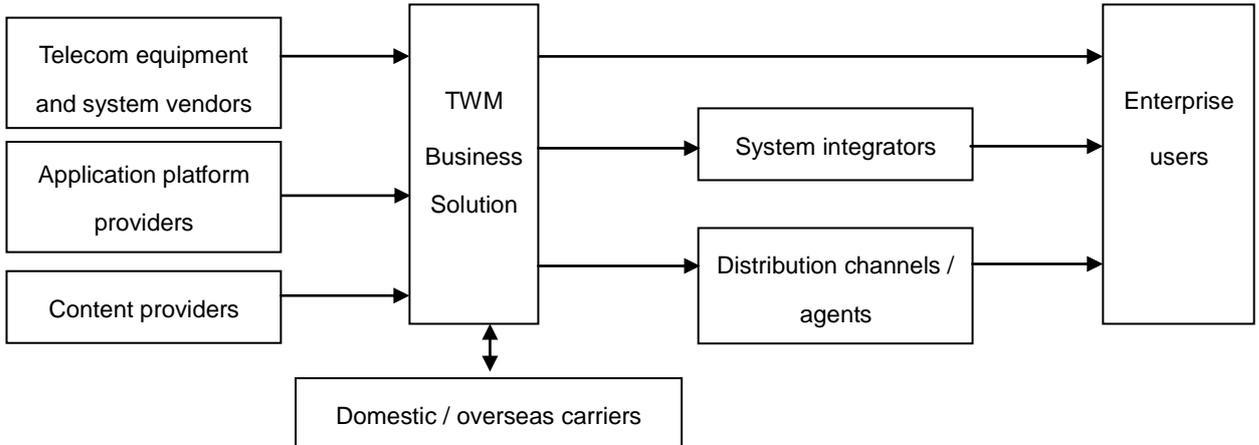
Enterprise Business Group

1. Industry status and development

According to statistics provided by the National Communications Commission (NCC), there were 82 Type I telecommunication providers, including four fixed-line operators, five mobile operators; and 410 Type II telecommunication providers, including ISR, ISP, VoIP and other value-added service providers. Given intense competition in the fixed-line market and the growing trend toward IP network and digital convergence,

telecommunication providers have to offer not only infrastructure, but also applications and total solutions.

2. Industry value chain



3. Product development trends and competitive landscape

Data provided by the NCC show that Chunghwa Telecom (CHT) has a virtual monopoly of the telecom market. It accounts for over 90% of local network service revenue, and about 50% of long-distance network service revenue and international network service revenue. Since CHT has the “last mile” advantage, other internet service providers find it hard to effectively compete with the carrier.

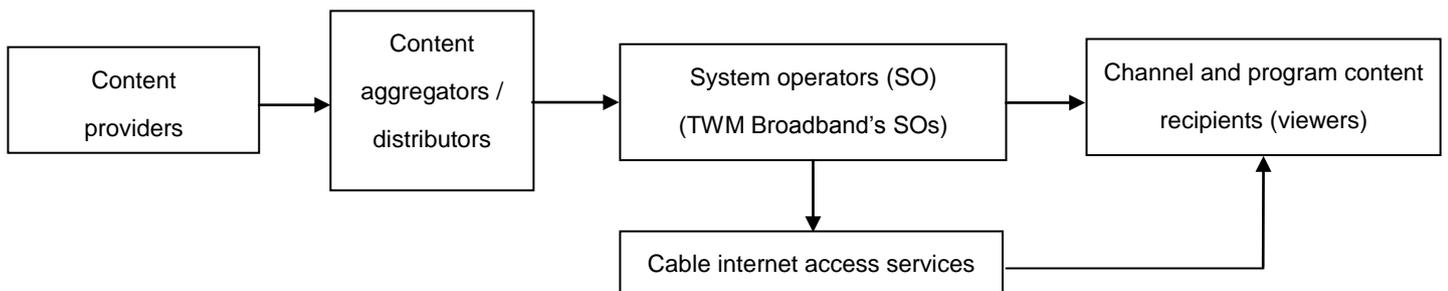
Cloud and enterprise mobility applications will be the main trends in the future. Carriers will provide various efficient and effective mobile commercial application services to enhance the competitiveness of enterprise clients.

Home Business Group

1. Industry status and development

Cable TV has become a must-have video platform, but it faces challenges from alternative services such as IPTV, digital terrestrial TV and other emerging media (e.g., OTT video streaming) that have successively entered the market. The cable TV industry must digitalize aggressively and continue to provide innovative digital TV value-added services to attract traditional cable TV subscribers to switch to digital TV.

2. Industry value chain



TWM Broadband has the advantage of controlling “last mile” access to customers. TWM Broadband aims to take the lead in vertical integration to build up its core competitiveness and explore new business opportunities in the age of digitalization.

3. Product development trends and competitive landscape

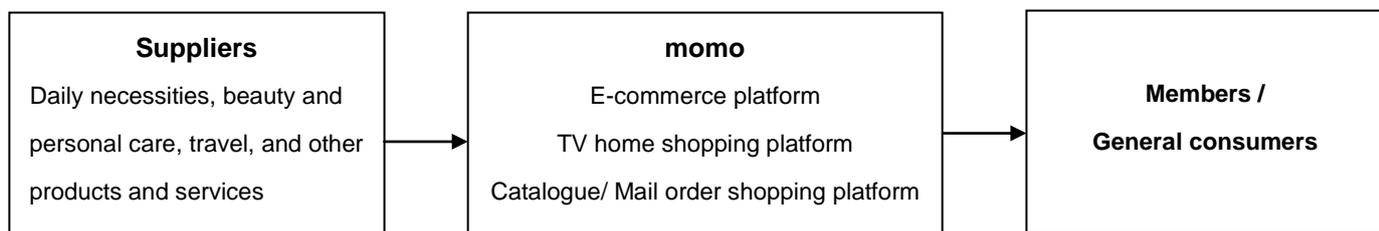
Despite a saturated market that is dominated by Chunghwa Telecom, TWM Broadband managed to grow its subscriber numbers in the cable internet business by bundling cable broadband products with HD DTV services in its cable TV service areas, following the example of leading global operators, such as PCCW in Hong Kong, as well as AT&T and Comcast in the US. To fend off competition, TWM Broadband provides not only high-speed broadband internet access service, but also an increasing number of HD programs and more innovative digital value-added services to let subscribers enjoy a whole new experience in home entertainment.

Retail Business

1. Industry status and development

The proliferation of cable TV, digital TV and smart devices has given rise to a new breed of home shoppers. Consumers can order by telephone or through virtual platforms, choosing from a plethora of convenient payment options and receive the product in a short amount of time.

2. Industry value chain



momo sources its products from suppliers of daily necessities, beauty and personal care, travel services, and other products and services, and sell them through its TV home shopping networks, online shopping sites and mail order catalogues for members and general consumers.

3. Product development trends and competitive landscape

- (1) E-commerce: Although momo entered the market later than industry peers such as Yahoo! Taiwan and PChome Online, it has made major strides as a comprehensive business-to-consumer (B2C) e-commerce player, growing rapidly by leveraging its know-how in TV home shopping.
- (2) TV home shopping: Aside from momo, leading players in the industry include Easter Home Shopping (EHS) and viva. The rise of virtual shopping platforms has intensified competition from e-commerce and mobile commerce. momo has countered this by launching its own mobile apps, and leverage social platform and its capabilities including live streaming to strengthen the engagement with its membership and customer base..

(3) Catalogue / Mail order: The mail order business attracts different types of players, from TV home shopping operators (e.g., momo, EHS, U-Life and viva) to direct marketing players (e.g., Amway, Avon, Herbalife and Nu Skin), and Japanese mail order companies (e.g., DHC and Orbis). momo's main rivals in this business are direct marketing players and Japanese mail order companies.

Research and development expenditure

Investment in research and development and its ratio as a percentage of total revenue are shown in the table below. For 2017, the Company plans to spend NT\$832.7mn on the research and development of more advanced technologies to increase customer satisfaction, which in turn should boost value-added service revenue and overall operations growth.

Year	2016	2017 (As of January 31)
R&D expense (NT\$'000)	743,639	56,245
As a % of total revenue	0.64%	0.57%

Major research and development achievements

Project name	Description
5G green communication technologies	<ul style="list-style-type: none"> Energy harvesting and low-power transmission technologies to extend the battery life of wireless IoT devices. Cloud-radio access network (C-RAN) to minimize network delays, optimize power consumption, and reduce deployment costs. Cell zooming, which adaptively adjusts cell size according to traffic load to save energy.
4G LTE customer experience management	Collect customer experience records from network probes to support better customer service, network optimization and user behavior analyses.
Call center PBX system – SS7 equipment upgrade	In line with the government policy to terminate 2G services, TWM upgraded its call center PBX and phased in voice gateway products and technology to build an IP-based service platform.
M+ Messenger	Provided video conference, video/audio/photo upload and answering machine functions to improve communication efficiency and productivity.
TAMedia mobile advertisement platform	Developed a new interactive ad – floating ad, and improved advertising performance by enriching video tracking mechanism.
myVideo	Renewed user interface and experience; enriched big screen interactive video playback; and provided multi-language video playback.
Mobile payment	Integrated a variety of transport payment cards and parking fee payment services for Taipei/New Taipei City.
myBook	Developed an end-to-end mechanism to enhance the experience of reading magazines on mobile devices. Provided a new mobile reading app to support interactive multimedia e-books. In addition, provided a one click button to allow users to switch between text and graphics modes while reading magazines.

Sales development plans

Consumer Business Group

1. Short-term plan

- (1) Leverage 4G LTE services to extend value-added services, including digital music, video and mobile commerce. Integrate virtual and physical channels to offer more instant and convenient consumption options.
- (2) Develop various rate plans to meet the needs of different types of customers and introduce a new store concept that provides optimal service processes and quality in order to give customers the best service experience.
- (3) Strengthen channel performance and competitiveness through management and deployment.

2. Long-term plan

The Company aims to provide subscribers with a variety of digital convergence services through 4G's faster transmission speed. The focus will be on the following:

- (1) Establishing a "quadruple-play" platform that integrates mobile communication, fixed line, broadband internet access and cable TV services to give the Company a lead over its competitors in offering digital convergence services in Taiwan.
- (2) Developing and introducing Internet of Things (IoT) technologies and platforms, e.g. Connectivity Management Platform, embedded Universal Integrated Circuit Card (eUICC) and Narrowband IoT. The initial focus will be on developing a connected car solution to provide global automakers with local connectivity and value-added services. The goal is to define and develop innovative and profitable business models in the IoT field.

Enterprise Business Group

1. Short-term plan

- (1) Develop comprehensive information security services.
- (2) Complete phase III construction of the cloud data center and promote it abroad.
- (3) Enhance Fleet Management System (FMS) in response to the rapid development of Internet of Vehicles (IoV) and usage-based insurance (UBI).
- (4) Develop unified communications (UC) service to satisfy clients' communication integration needs. Enterprise efficiency can be improved by integrating information receiving and sending in a single platform where the user can log in through a unified interface and device.

2. Long-term plan

EBG's vision is to expand enterprise services from network-centric to IP solutions, mobile applications and cloud services. The Company plans to:

- (1) Continue investing in cloud computing and enterprise integrated solutions.
- (2) Develop IoT integrated solutions for enterprise clients.
- (3) Raise sales productivity and expand the small-and-medium enterprise market through channel integration.

Home Business Group

1. Short-term plan

- (1) TWM Broadband will continue to optimize its network infrastructure in regions where it is already operating cable TV systems, and provide HD digital content and video on demand to set the foundation for its digital services.
- (2) TWM Broadband plans to launch its 500Mbps super high-speed internet access service bundled with HD digital TV to boost its cable broadband and digital TV service penetration rates in the hope of raising its subscriber mix of high-speed broadband service users and DTV customer numbers.

2. Long-term plan

In line with the National Communications Commission's goal of raising the digital TV penetration rate to 100% by the end of 2017, TWM Broadband aims to become a one-stop shop for home digital services by integrating high-definition digital content, multiple-viewing terminal devices, high-speed fiber-optic broadband services and cloud technology, allowing families and individual subscribers to enjoy the benefits of "four screens and a cloud" (i.e., mobile phones, PCs, tablets and TVs).

Retail Business

1. Short-term plan

- (1) E-commerce: Provide differentiated value-added services, further enhance competitive advantages in the mobile platforms, leverage big data analytics and recommend more personalized products to clients. Leverage various social shopping platforms and profit-sharing mechanisms to create a more significant revenue contribution from community shopping websites. Develop a B2B2C business model to introduce more leading brands, as well as mid-and-big physical suppliers, to provide customers with more diverse choices.
- (2) TV home shopping: Enhance product differentiation by listing more branded products from overseas, cultivating fan base on social platforms such as Facebook and Line, and cooperate with suppliers from E-commerce business to expand product offerings.
- (3) Catalogue / Mail order: Strengthen visual editing to refine the design of momo catalogs and develop e-catalog services to strengthen tractions with the customer base.

2. Long-term plan

Take a pro-active approach in increasing momo's brand image, further expand into Southeast Asia's TV shopping market,, export best-selling products across multiple countries, leverage the Group's marketing resources and sales channels to enhance efficiency of operation, and provide innovative services through mobile and cloud platforms.

Customer satisfaction

To create the best experience for customers, TWM conducts annual customer satisfaction surveys by telephone to better understand their needs and expectations. Customers are asked to evaluate call quality, rates, bills, customer hotline

service, store service, value-added services, and the Company's website among others. The findings from these polls are used as a reference to set new objectives and improve service quality.

Customer satisfaction key indicators	2014	2015	2016
Overall rating	3.7	3.7	3.8
Call quality	3.7	3.7	3.8
Customer hotline service	4.3	4.4	4.3
Store service	4.1	4.2	4.2
Note: Customer satisfaction is rated based on the following scores: Very satisfied (5), Satisfied (4), Neither satisfied nor dissatisfied (3), Dissatisfied (2) and Very dissatisfied (1).			

Market and Sales Overview

Market analysis

Consumer Business Group

1. Main products and service areas

The Company provides mobile services nationwide, covering Taiwan and the outlying islands of Kinmen and Matsu.

2. Market status

As of the end of 2016, the penetration rate for mobile subscribers had reached 123%, implying a saturated market. However, along with the fast-increasing adoption of 4G services, rapid innovations in mobile devices and rising demand for mobile internet and value-added services suggest a growing market, encouraging new entrants to venture into the market.

3. Competitive advantages

(1) Better customer mix

The Company has further improved its subscriber base structure, with 3G/4G subscribers accounting for 99% of the total as of January 2017.

(2) Market leader in wireless broadband

In 2005, the Company became the first mobile communication operator in Taiwan to launch 3G services, and in 2007, it rolled out the nation's first 3.5G services. In 2014, 4G services were launched. By the end of 2016, the Company had a 3G/4G subscriber base of more than 7.35 million users, who contributed more significantly to value-added service ARPU than 2G subscribers and have become the main driver of VAS revenue growth.

4. Opportunities and challenges

Positive factors

- (1) With the introduction of 4G services, lower prices for smart devices and data rate plans, and the emergence of new, varied applications, mobile internet access has rapidly spread from entrepreneurs and professionals to ordinary consumers, contributing to the rapid growth in non-voice revenue.
- (2) With information technology, communication and media trends converging, mobile operators play a pivotal role in the supply chain.

Negative factors

- (1) The NCC's implementation of mobile termination rate (MTR) cuts from 2013 to 2016 is expected to weigh on mobile voice revenue.
- (2) The popularity of 4G unlimited data rate plans limits growth in mobile service revenue.

Countermeasures

- (1) The Company maps out strategies in response to government policy changes and new laws and regulations.
- (3) The Company will continue to introduce innovative value-added services and adjust 4G pricing plans in response to changes in the market in order to boost overall mobile service revenue.

Enterprise Business Group

1. Main products and service areas

EBG mainly offers its products and services in Taiwan, but also provides international services in 243 countries. As of the end of 2016, the company's roaming services covered the following: GSM: 213 countries, 408 networks; GPRS: 186 countries, 358 networks; 3G: 157 countries, 301 networks; 4G: 59 countries, 98 networks.

2. Market status

Enterprise clients still need voice, data and internet services. Revenue from services related to mobility, cloud applications and ICT total solutions have potential to grow significantly.

- (1) Voice service: Fixed lines' talk minutes for local and international calls as well as unit price for fixed-to-mobile calls are expected to continue declining because of rising competition from VoIP and mobile services and the NCC's introduction of mobile termination rate cuts.
- (2) Data service: Given rising demand for enterprise data access, revenue from IP VPN and Metro Ethernet will remain the main contributor.
- (3) Internet service: As internet content services boom, enterprise demand for high-speed internet access has been rising. However, fierce competition will result in moderate revenue growth.
- (4) Mobile service: As the demand for office mobility increases, TWM is helping enterprise customers incorporate various mobile applications – including business workflow, sales automation, business intelligence, enterprise mobility management and mobility information security – into their mobile devices through high-speed 4G services. With enterprise users increasingly accessing internet information via their smart devices, mobile data revenue should benefit from the rising demand for mobile internet services.
- (5) Cloud service: Interest in cloud services has swept across industries, with more players investing in the

business in search of new hardware and software supply chain models. This bodes well for market expansion and increasing revenue from cloud services.

- (6) Enterprise integrated solutions: TWM has formed alliances with leading industry names, providing them with mobile applications, IoT, big data applications, security and smart industry solutions. These, along with telecom services, should boost revenues.

3. Competitive advantages

- (1) Premium brand equity: The Company provides customer-centric quality services. TWM Business Solution is readily associated with Taiwan Mobile and has won recognition among major enterprises.
- (2) Professional management team and efficient support group: Information security and backup frameworks are key considerations for enterprises adopting IP-based network. EBG fills this need, having won certifications from EuroCloud Star Audit (ECSA) and Cloud Security Alliance (CSA). Its cloud IDC is also the first and only data center in Taiwan to have been awarded Tier III certifications for design, construction and operational sustainability.
- (3) Tailor-made integrated services: The Company provides one-stop shopping and tailor-made services to enterprise customers to meet their various industry needs.
- (4) Effective sales teams and channels: The Company's direct sales teams and retail chains across the nation are an effective channel for developing and expanding services.
- (5) Expanding resources from international alliances: The Company is the sole Taiwanese member of the Bridge Alliance, the largest mobile alliance in the Asia-Pacific region, with a combined customer base of about 340 million.

4. Opportunities and challenges

Positive factors

- (1) 4G foundation and cloud (IaaS) services: Market demand for mobility and cloud services will drive revenue growth.
- (2) Fixed broadband products: Enterprises will need even-larger bandwidths to transport data.
- (3) EBG has long cultivated the enterprise market and knows what companies need. It has teamed up with enterprises to help them integrate their fixed-line, mobile, information system and cloud services.

Negative factors

- (1) The local loop bottleneck is a major obstacle to fixed-line operators' business expansion, as market leader Chunghwa Telecom continues to dominate with its last mile advantage.
- (2) Industrial and geographical boundaries have become increasingly blurred because of digital convergence. Domestic telecom operators face tough challenges from transnational large-scale content and cloud service companies.

Countermeasures

Confronted by changes in communication technology, multi-platform cloud services and mobility trends, as well as falling telecom service tariffs, enterprise clients are looking for telcos that can provide them not only basic telecom services, but also serve as a partner in exploring mobile, IoT and big data solutions. EBG will continue to promote and develop diversified services and applications to create more value and improve customer loyalty.

Home Business Group

1. Main products and service areas

TWM Broadband provides cable TV, HD digital cable TV, fiber-optic broadband internet access and value-added digital application services. Its main service areas are New Taipei City's Sinhuang and Sijhih districts, Yilan County and Greater Kaohsiung's Fongshan District.

2. Market status

(1) Cable TV

Taiwan's cable TV penetration rate has reached over 60% of households, according to NCC data. Watching TV is a major leisure activity in Taiwan – one that is relatively unaffected by fluctuations in the economy, ensuring stable market demand.

(2) High-definition digital cable TV

Digitalization is the future trend for CATV. With the National Communications Commission setting a target of 100% digital TV penetration rate by the end of 2017, business opportunities abound in this market of 8 million households nationwide. TWM Broadband is tapping into this digitalization value chain by offering rich HD content, stable and quality signals, various platforms for viewing TV programs and an affordable TV set promo package to boost digital TV's penetration rate.

(3) Broadband internet access

With the broadband internet access market moving toward higher-speed services, the migration of mid-to-low speed users to faster speeds will be the main growth driver for the market. TWM Broadband expects to expand its market share by offering competitive prices, around-the-clock customer service and superior quality for its 300Mbps internet access services.

3. Competitive advantages

(1) Optimize broadband network quality

TWM Broadband introduced network quality assurance management (QAM) to optimize management of its network system and bandwidth to ensure that customers get premium broadband access and the best user experience. Aside from lowering the group's broadband costs, this has helped enhance TWM's competitiveness in the broadband access market and facilitate digital convergence.

(2) Strengthen fiber-optic broadband cable networks

TWM Broadband will continue to deploy a dense, ring-type fiber-optic backbone network and provide back-up systems for its bi-directional network with advanced DOCSIS 3.0 network technology. TWM Broadband is able to provide up to 300Mbps high-speed internet access services. Unlike ADSL with its range constraints, cable internet provides lower cost, but premium quality, super high-speed broadband services. To cope with the rising number of customers, the Company will deploy more and denser fiber nodes to provide them with higher-speed and more stable broadband services.

(3) Enrich digital content and VAS to increase digital TV service ARPU

TWM Broadband aims to increase the variety and quantity of value-added services, such as HomeSecurity, personal video recorder (PVR), HomePlay and SuperMOD, to offer bundled services (i.e., broadband access, digital TV and VAS) to increase its subscriber base and ARPU.

(4) Leverage Taiwan Mobile Group's integrated resources to develop innovative digital convergence products and services

The Company's resources cover mobile communication, fixed network, CATV, ISP and channel content. The integration of these resources, together with Taiwan Mobile Group's extensive technical support, as well as sales and marketing resources, forms the core of TWM Broadband's competitive advantage in the home market.

4. Opportunities and challenges

Positive factors

(1) Government speeding up digitization policy to promote development of digital TV

Riding on the government's digitization policy push and the launch of its SuperMOD, HomePlay and HomeSecurity services, TWM Broadband promoted its CATV services and facilitated its analog TV customers' switch to digital services, thereby raising its digital TV subscriber numbers and penetration rate. TWM Broadband will further increase its digital TV value-added services to boost its revenue stream.

(2) High-speed cable internet service has become the mainstream

Consumer demand for downloading, uploading and sharing high-definition videos are increasing and 120Mbps high-speed cable internet service has become the mainstream. TWM Broadband has finished upgrading its ring-type fiber-optic backbone network and infrastructure in its operating areas and adopted the latest high-speed DOCSIS 3.0 cable internet technology. It can provide high-speed broadband internet access speeds of 300Mbps to help expand its market share, as well as increase customer loyalty and ARPU.

Negative factors

(1) There is still a risk that local governments might lower the cap on cable TV fees during their annual review.

(2) The NCC might support the airing of CATV content on Chunghwa Telecom's MOD, posing a threat to CATV operators.

(3) The NCC made it mandatory that CATV operators should provide customers with at least two free set-top

boxes, increasing operating costs.

- (4) The NCC has introduced CATV service area rezoning and competition has intensified as new entrants engage in price-cutting competition to win market share.

Countermeasures

- (1) TWM Broadband has been able to utilize its extensive resources (e.g., technology, marketing, sales and distribution) to promote high-speed internet access services and market digital convergence services with Taiwan Mobile Group's telecommunication, information and media content services. TWM Broadband aims to provide a "one-stop shopping" service that meets all of its customers' needs in order to boost its cable TV, high-speed broadband internet access and high-definition digital TV subscriber numbers and their contribution to revenue.
- (2) TWM Broadband is using its digital cable TV platform to cultivate Taiwan's cultural and creative industries, enrich the nation's digital channel and connected TV content, and stimulate the development of digital content and innovative connected TV services.
- (3) TWM Broadband seeks to maintain good relations with local governments and communities. With the help of Taiwan Mobile Group's extensive resources – such as the Taiwan Mobile Foundation – TWM Broadband sponsors local artistic, cultural and charitable activities, while also subsidizing the cost of network deployment in remote areas, working to bridge the digital divide, and fulfilling its responsibilities as a good corporate citizen, thereby strengthening its corporate image of "community-based growth and giving back to the community."
- (4) TWM Broadband is closely monitoring developments in the regulatory authorities' policies on digitization and relevant laws and regulations. TWM Broadband will take the initiative in formulating countermeasures to deal with changes in the market.
- (5) TWM Broadband is expected to roll out the latest high-speed DOCSIS 3.1 cable internet technology and infrastructure to deliver speeds up to 1Gbps high-speed service to customers. In addition, SuperMOD is built as a multi-tenant platform for the future cooperation with other OTT operators. The strategy will attract more partners to take part in SuperMOD and expand the scale of the OTT business.

Retail Business

1. Main products and service areas

momo mainly provides e-commerce and TV home shopping services in Taiwan, mainland China and Thailand.

2. Market status

New types of marketing platforms, such as shopping via mobile devices, are also growing alongside rising 4G adoption. Mobile platforms attract younger groups and could lead them back to cable or digital TV channels, allowing these sales channels to continue growing.

3. Competitive advantages

- (1) A solid reputation: Backed by years of experience, momo has built a solid reputation with suppliers and customers in the TV home shopping industry. Besides winning customers' confidence, momo has enhanced suppliers' willingness to entrust their brands to the Company, allowing it to offer a diverse range of products.
- (2) Strong support: momo is able to leverage the resources of affiliates – including TWM's mobile, fixed-line and cable TV businesses – to set up digital convergence, mobile platforms and mobile payment mechanisms.
- (3) Expanding economies of scale: momo's B2C e-commerce business is now a top two in the industry. This has given momo even stronger negotiating power with suppliers and made it more attractive to first-tier merchants, allowing it to increase its product offerings with higher quality.

4. Opportunities and challenges

Positive factors

- (1) A rising mobile device penetration rate should foster rapid growth in the mobile shopping market.
- (2) E-commerce should continue to benefit from the government's intent to accelerate the rollout of fiber-optic and 4G wireless broadband networks.
- (3) A low birthrate and an aging population are creating a new social trend that is worth tapping into.

Negative factors

- (1) Some products featured on home shopping networks have been fined for deceptive and exaggerated advertising claims.
- (2) Substitution from competing channels/platforms and intensifying market competition.
- (3) High product homogeneity and cutthroat pricing competition lead to lower product gross margins.
- (4) Food safety risks.

Countermeasures

- (1) Having started in TV home shopping, momo has an extensive system of suppliers and a professional product development team. This facilitated its expansion into online shopping, as it already has a trove of best-selling products to tap into, which not only prolonged their product life cycle, but also increased sales volumes and create differentiating factor versus the competition.
- (2) momo launched an online shopping mobile app to tap into the mobile market and increase customer stickiness. By promoting group buying and limited time promotions, momo is able to reach more consumers and stimulate buying willingness. The mobile platform also offers a more convenient shopping platform, encouraging consumers to increase the frequency of their purchases.
- (3) momo has a quality control team that visits factories to ensure that suppliers meet manufacturing safety standards. It also outsources product testing and examinations to ensure that products' raw materials , ingredients as well as labels, are in compliance with food safety standards.

(4) momo will continue to further strengthen new sales platforms, such as mobile apps, shopping via remote control and digital TV interactive shopping, to meet the potential changes in the buying behavior of the consumers.

(5) momo has enforced measures to filter out controversial or risky products and clearly define obligations between supplier and the company if and when fined.

Main features and production process of major products: The Company provides wireless/fixed-line telecom services, analog TV/digital TV subscription, cable broadband, e-commerce/TV home shopping and integrated information/communication services.

Supply of raw materials: Not applicable as the Company is not a manufacturer.

Major suppliers and customers in the past two years

- A supplier/customer that accounts for at least 10% of consolidated procurement/revenue

Major suppliers

Unit: NT\$'000

	2015				2016			
	Company	Procurement amount	% of consolidated procurement	Nature of relationship	Company	Procurement amount	% of consolidated procurement	Nature of relationship
1	Company A	11,575,751	20	Third party	Company A	7,630,557	13	Third party
2					Company B	6,096,355	11	Third party
	Others	47,356,081	80		Others	43,184,204	76	
	Total	58,931,832	100		Total	56,911,116	100	

Major customers: Not applicable as the Company's revenue from a single customer does not exceed 10% of its total operating revenue.

Reasons for variation

Procurements from suppliers varied as the Company purchased handsets and other 3C – computer, communication and consumer electronics – products from different vendors to meet its business development needs and market demand.

Production volume in the past two years: Not applicable as the Company is not a manufacturer.

Revenue and sales volume in the past two years

Services		2015		2016	
		Sales volume	Revenue (NT\$'000)	Sales volume	Revenue (NT\$'000)
Mobile	Mobile services ('000 subs by year end)	7,453	51,811,095	7,439	51,549,981
Domestic fixed line	Local network ('000 minutes) ¹	351,611	580,204	332,634	558,769
	Domestic long distance ('000 minutes) ¹	130,795	103,569	120,851	91,583
International fixed line	International network ('000 minutes) ¹	428,177	3,229,646	306,650	2,500,771
Data service ('000 lines)		240	2,118,267	297	2,148,864

Note 1: Outgoing minutes only.

Note 2: Including retail sales of handsets, accessories, information products, 3C home appliances, daily necessities and cosmetics.

Human Resources

Employee statistics in the past two years up to publication date

Year		2015	2016	2017 (as of February 27)
Number of employees	Consolidated	7,292	7,663	7,615
	Stand-alone	3,726	3,983	3,955
Education level	Ph.D.	0.12%	0.16%	0.17%
	Master's	14.15%	14.30%	14.25%
	University	55.34%	57.13%	57.16%
	College	20.19%	18.34%	18.28%
	Others	10.20%	10.07%	10.14%
Average age		36.09	36.23	36.37
Average years of service		6.66	6.82	6.95

Environmental Protection Expenditure

Loss or penalty due to environmental pollution in 2016 up to publication date in 2017: None

Countermeasures:

The Company has taken into consideration any potential risks or violation of environmental regulations in formulating its environmental management system. TWM also closely monitors developments in the government's environmental policies or regulations to be able to design precautionary measures. The Company does not expect any expenditure arising from environmental pollution in the future.

The Company is committed to protecting the environment and has adopted various measures, such as promoting "green" procurement, establishing energy-efficient base stations and data centers, minimizing the use of paper in offices and stores, recycling waste cables, batteries and handsets, and encouraging users to switch to e-billing and online services.

Employee Relations

Employee behavior/ethical standards

The Company has established policies and rules as a guide for employee conduct, rights, responsibilities and ethical standards.

Delegation of authority

1. Authorization guidelines and limitations: Aimed at streamlining business processes, strengthening distribution of responsibility, and detailing management authority at each job level.

2. Empowerment and delegation rules: Designed to ensure smooth and normal business operations.
3. Job ranking, title and organizational structure policy: Formulated to correspond to employees' career plans.

Work rules

The Company's work rules clearly define the rights and obligations of management and employees. The Company's modern management approach has promoted cooperation among employees and benefited the Company.

Divisional responsibilities

The Company's major divisions are separated by functions. Each division is tasked with specific job responsibilities and this separation of functions has strengthened the core competency of the Company.

Reward and punishment policies

The Company has drawn up a number of policies on rewards and punishments to encourage employees who have made special contributions to the Company, as well as discourage employees from behaving in a manner deemed damaging to the Company. These policies are stated in the Company's "Work Rules."

Employee assessment policy

Supervisors provide feedback, assistance and map out individual development plans based on employees' performance.

Attendance and leave policy

Enforcement of this policy – designed to serve as a guideline for employees – helps enhance work quality.

Business confidentiality policy

To maintain the Company's competitiveness, employees are required to sign a "Confidentiality and Intellectual Property Rights Statement" and an "Employment Contract" as safeguards against potential damage arising from the disclosure of trade secrets. The Company provides employees with the required information and training courses to strengthen their understanding of information security.

Sexual harassment prevention and handling procedures

The Company's "Work Rules" include regulations on preventing sexual harassment in the workplace and promoting gender equality. The Company disseminates information on laws and procedures for filing complaints on sexual harassment on the intranet to serve as a guideline for employees.

Code of Conduct

The Company and its affiliates have a Code of Conduct that all directors, managers and employees are expected to adhere to and advocate in accordance with the highest ethical standards.

Employee benefits program

1. All employees are entitled to labor insurance, national health insurance and group insurance coverage starting

from the first day of work.

2. The Company has an Employee Stock Ownership Trust (ESOT) and an employee profit-sharing plan.
3. The Company and its subsidiaries had established Employee Welfare Committees to handle and implement employee benefits programs. The Committees are in charge of a number of benefits designed to raise employees' quality of life and promote physical and mental well-being, including club activities, company outings, family day, and benefits for special occasions, such as weddings, festivals and funerals.

Employee training and education program

1. Training expense from 2016 to January 31, 2017 totaled NT\$43,849,047, with 193,819 employees taking a total of 162,994.5 training hours.
2. Orientation for new employees includes company profile, culture, brand, company organization, telecommunication market, innovative services, internal network systems, employee safety and health, IT security training, and avenues for learning.
3. Core competency development: Develop basic competencies, such as self-management and work management, problem analysis and solution skills, creative thinking, communication and interaction skills, project management, and knowledge of industry trends, basic telecommunications laws and code of ethics; hold service training programs; organize book clubs; and invite celebrity speakers.
4. Management training and development: Separate training programs for entry-level management, middle management and senior management. Training courses include performance management, leadership, strategy management, innovative thinking, team dynamics and organizational development skills, as well as corporate governance seminars.
5. The Company arranges for employees to participate in different programs according to their professional knowledge and skills, including information technology, auditing, human resources, marketing, procurement, safety, finances, accounting and telecommunications technology. These activities have a profound impact on upgrading the Company's technologies, developing new products, introducing new and innovative ideas, and improving managerial skills.
6. The Company has a scholarship program for employees to develop their expertise in telecommunication technologies and business administration.
7. The Company sponsors external training courses for all employees annually. Employees can select courses that combine their personal interests and job needs to reap the maximum benefits from these training sessions.

Retirement plan and implementation

1. The Company has published its Employee Retirement Guidelines in accordance with the law.
2. The Company has a Labor Pension Supervisory Committee, which was evaluated and approved by the Taipei City Government. In addition, the Company retains the services of an actuary to assess and calculate labor

pension reserves and provide a detailed report.

3. The Company implemented the New Labor Pension System in July 2005.

Employee safety and sanitary policy

To fulfill the Company's social responsibility in providing its employees with a safe, healthy and comfortable working environment, the Company endeavors to:

1. Abide by and comply with regulations on environmental protection, safety and sanitation.
2. Be on constant watch for potential hazards in the work environment to minimize accidents.
3. Promote health education, conduct physical examinations, and implement health management programs.

The Company's employee safety and sanitary policy is posted on the intranet and is summarized as follows:

1. A unit dedicated to conducting environmental inspections and carrying out employee sanitary training courses was established in accordance with regulations.
2. A Health and Safety Committee was set up to draft a plan to prevent job injuries, ensure compliance and conduct periodic reviews of related rules on employee health and sanitary improvement solutions.
3. Full-time professional nursing personnel are employed to perform health checks, track the progress of staff who failed their health examinations, and hold talks on health promotion. Employees who are able to administer first aid treatment have been placed in each work area.
4. Each office site is equipped with an automated external defibrillator and staffed with a sufficient number of first-aid personnel.
5. Fire/flood protection exercises are held periodically to reduce risks of employee injury and property loss from natural disasters.
6. Guards and security systems have been installed at all main base stations and work offices to protect staff, property and information security.

Employee negotiations and protection of employee benefits

The Company, working under the management and employees as one concept and the belief that a win-win situation can be achieved when the two sides work together, has followed relevant labor laws and regulations, held quarterly employee communication forums hosted by the President and management/employee meetings to facilitate communication, and promoted employee benefits to build a harmonious and satisfactory management/employee relationship.

Losses caused by employee disputes in 2016 and up to publication date in 2017: The Company maintains a harmonious management/employee relationship and there were no material disputes.

Number of disabilities due to on-the-job injuries/fatalities in 2016 and up to publication date in 2017

Year	2016	2017 As of February 27
Number of disabilities	1	0
Disabling Frequency Rate ¹ (FR)	0.13	0
Disabling Severity Rate ² (SR)	0.61	0

Note 1: The number of injuries resulting in fatalities and permanent total disabilities cases per million hours worked.

Note 2: The number of workday lost due to fatalities, permanent total disabilities per million hours worked.

Major Contracts

Nature	Counterpart	Contract period	Description	Restriction clauses
Sales and distribution	Tecom Co., Ltd.	2016.04.01~2017.12.31	Tecom is authorized to distribute TWM's mobile services.	Non-disclosure
	Aurora Telecom Corp.	2015.07.01~2017.06.30	Aurora is authorized to distribute TWM's mobile services.	Non-disclosure
	Tsann Kuen Enterprise Co., Ltd.	2016.01.01~2017.12.31	Tsann Kuen is authorized to distribute TWM's mobile services.	Non-disclosure
Network interconnection	Chunghwa Telecom Co., Ltd.	2011.06.01~2012.05.31 (Note 1)	Network interconnection	Non-disclosure
	New Century InfoComm Tech Co., Ltd.	2015.07.01~2016.06.30 (Note 1)	Network interconnection	Non-disclosure
	Taiwan Fixed Network Co., Ltd.	2011.01.01~2011.12.31 (Note 1)	Network interconnection	Non-disclosure
	Taiwan Star Telecom Corp., Ltd.	2015.07.01~2016.06.30 (Note 1)	Network interconnection	Non-disclosure
	Asia Pacific Telecom Co., Ltd.	2011.08.01~2012.07.31 (Note 1)	Network interconnection	Non-disclosure
	Far EastOne Telecommunications Co., Ltd.	2014.03.25~2015.03.24 (Note 1)	Network interconnection	Non-disclosure
Long-term credit facility	The Bank of Tokyo-Mitsubishi UFJ, Ltd., Taipei Branch	2015.04.15~2018.04.13	NT\$2 billion loan	Non-disclosure
		2015.10.30~2018.10.30	NT\$3 billion loan	Non-disclosure
		2016.02.26~2019.02.26	NT\$2 billion loan	Non-disclosure
	Sumitomo Mitsui Banking Corp., Taipei Branch	2016.01.31~2018.01.31	NT\$4 billion loan	Non-disclosure
		2015.04.30~2017.04.28	NT\$3 billion loan	Non-disclosure
	Mizuho Bank, Ltd., Taipei Branch	2016.04.14~2018.04.14	NT\$7 billion loan	Non-disclosure

Nature	Counterpart	Contract period	Description	Restriction clauses
Mobile phone purchase	Apple Asia LLC	2016.06.01~2019.05.31	Mobile phone purchase agreement	Non-disclosure
Equipment purchase	Nokia Solutions and Networks Taiwan Co., Ltd.	2014.01.01~2016.12.31	4G equipment supply contract for 2014-2016 set at NT\$11.564 billion	Non-disclosure
		2016.01.01~2016.12.31	4G equipment supply contract for 2016 set at NT\$2.9 billion	Non-disclosure
Customer service	Taiwan Teleservices & Technologies Co., Ltd.	2006.01.01~2010.12.31 (Note 2)	TT&T was consigned to manage TWM's customer services and product sales.	Non-disclosure

Affiliates
momo.com Inc.

Nature	Counterpart	Contract period	Description	Restriction clauses
Construction	Li Jin Engineering Co., Ltd.	2015.10.20~2017.02.17	Construction of momo's logistics center	Non-disclosure
Equipment purchase	Daifuku Co., Ltd.	2015.12.29~2018.12.29	Equipment procurement for momo's logistics center	Non-disclosure

Note 1: Negotiations for the following year's contract shall commence three months prior to the contract's expiry date. If negotiations are not finalized prior to the expiry date, the parties shall agree to perform their obligations based on the current contract until such time when negotiations are finalized.

Note 2: The contract shall remain valid past its expiration date if both parties do not issue any objection to the continuation of the contract.

Chapter 5 Financial Highlights

Condensed Balance Sheets and Statements of Comprehensive Income

Consolidated condensed balance sheet (2012-2016) – Based on IFRS

Unit: NT\$'000

		2012	2013	2014	2015	2016
Current assets		23,772,918	29,493,868	32,834,704	34,174,935	34,280,112
Investments		3,057,545	4,194,570	5,070,051	4,958,924	5,412,671
Property, plant and equipment (PP&E)		40,737,678	42,985,801	47,066,319	47,247,121	42,415,229
Intangible assets		26,654,154	54,837,271	61,168,844	62,402,424	59,677,982
Other assets		6,167,930	6,840,869	7,399,775	7,302,269	9,591,411
Total assets		100,390,225	138,352,379	153,539,693	156,085,673	151,377,405
Current liabilities	Before appropriation	29,930,393	58,605,638	53,468,928	59,232,218	38,144,597
	After appropriation	44,725,981	73,670,237	68,712,583	74,475,873	(Note1)
Non-current liabilities		12,816,539	21,226,100	33,570,433	31,561,731	47,046,273
Total liabilities	Before appropriation	42,746,932	79,831,738	87,039,361	90,793,949	85,190,870
	After appropriation	57,542,520	94,896,337	102,283,016	106,037,604	(Note1)
Equity attributable to owners of the parent company		56,571,089	57,433,894	60,247,435	59,555,705	60,416,890
Paid-in capital		34,208,328	34,208,328	34,208,328	34,208,328	34,208,328
Capital surplus		12,431,851	12,456,891	14,715,830	14,586,376	14,985,047
Retained earnings	Before appropriation	40,668,067	41,433,176	41,343,607	41,652,299	41,630,893
	After appropriation	25,872,479	26,368,577	26,099,952	26,408,644	(Note1)
Other equity interest		340,026	412,682	(302,986)	(1,173,954)	(690,034)
Treasury shares		(31,077,183)	(31,077,183)	(29,717,344)	(29,717,344)	(29,717,344)
Non-controlling interest		1,072,204	1,086,747	6,252,897	5,736,019	5,769,645
Total equity	Before appropriation	57,643,293	58,520,641	66,500,332	65,291,724	66,186,535
	After appropriation	42,847,705	43,456,042	51,256,677	50,048,069	(Note1)

Note 1: The appropriation amount for 2016 still has to be approved at the AGM.

Note 2: All financial data have been duly audited by independent auditors.

Note 3: IFRS was adopted starting 2013.

Stand-alone condensed balance sheet (2012-2016) – Based on IFRS

Unit: NT\$'000

		2012	2013	2014	2015	2016
Current assets		16,467,066	19,819,698	15,251,167	19,357,631	22,561,728
Investments		33,717,978	39,563,373	49,867,554	44,904,267	42,250,372
Property, plant and equipment (PP&E)		29,799,766	28,975,365	32,294,190	32,709,888	27,081,627
Intangible assets		11,932,848	40,247,043	39,117,370	40,441,171	38,039,908
Other assets		6,647,558	5,571,753	4,080,997	5,470,595	8,715,470
Total assets		98,565,216	134,177,232	140,611,278	142,883,552	138,649,105
Current liabilities	Before appropriation	30,377,402	57,236,700	53,250,046	58,318,339	37,044,613
	After appropriation	45,172,990	72,301,299	68,493,701	73,561,994	(Note1)
Non-current liabilities		11,616,725	19,506,638	27,113,797	25,009,508	41,187,602
Total liabilities	Before appropriation	41,994,127	76,743,338	80,363,843	83,327,847	78,232,215
	After appropriation	56,789,715	91,807,937	95,607,498	98,571,502	(Note1)
Paid-in capital		34,208,328	34,208,328	34,208,328	34,208,328	34,208,328
Capital surplus		12,431,851	12,456,891	14,715,830	14,586,376	14,985,047
Retained earnings	Before appropriation	40,668,067	41,433,176	41,343,607	41,652,299	41,630,893
	After appropriation	25,872,479	26,368,577	26,099,952	26,408,644	(Note1)
Other equity interest		340,026	412,682	(302,986)	(1,173,954)	(690,034)
Treasury shares		(31,077,183)	(31,077,183)	(29,717,344)	(29,717,344)	(29,717,344)
Total shareholders' equity	Before appropriation	56,571,089	57,433,894	60,247,435	59,555,705	60,416,890
	After appropriation	41,775,501	42,369,295	45,003,780	44,312,050	(Note1)

Note 1: The appropriation amount for 2016 still has to be approved at the AGM.

Note 2: All financial data have been duly audited by independent auditors.

Note 3: IFRS was adopted starting 2013.

Consolidated condensed balance sheet (2012) – Based on ROC GAAP

Unit: NT\$'000

		2012
Current assets		19,884,936
Investments		2,842,353
Fixed assets		39,978,686
Intangible assets		26,781,024
Other assets		2,865,019
Total assets		92,352,018
Current liabilities	Before appropriation	30,726,480
	After appropriation	45,522,068
Long-term liabilities		8,995,180
Other liabilities		1,824,538
Total liabilities	Before appropriation	41,546,198
	After appropriation	56,341,786
Paid-in capital		34,208,328
Capital surplus		12,432,446
Retained earnings	Before appropriation	34,082,930
	After appropriation	19,287,342
Unrealized valuation loss on financial instruments		99,351
Translation adjustments		2,115
Net loss not recognized as pension cost		(24,050)
Treasury shares		(31,077,183)
Minority interest		1,081,883
Total shareholders' equity	Before appropriation	50,805,820
	After appropriation	36,010,232

Note: All financial data have been duly audited by independent auditors.

Stand-alone condensed balance sheet (2012) – Based on ROC GAAP

Unit: NT\$'000

		2012
Current assets		12,702,556
Investments		34,466,074
Fixed assets		29,131,007
Intangible assets		12,014,914
Other assets		3,650,151
Total assets		91,964,702
Current liabilities	Before appropriation	31,158,254
	After appropriation	45,953,842
Long-term liabilities		8,995,180
Other liabilities		2,087,331
Total liabilities	Before appropriation	42,240,765
	After appropriation	57,036,353
Paid-in capital		34,208,328
Capital surplus		12,432,446
Retained earnings	Before appropriation	34,082,930
	After appropriation	19,287,342
Unrealized valuation loss on financial instruments		99,351
Translation adjustments		2,115
Net loss not recognized as pension cost		(24,050)
Treasury shares		(31,077,183)
Total shareholders' equity	Before appropriation	49,723,937
	After appropriation	34,928,349

Note: All financial data have been duly audited by independent auditors.

Consolidated statements of comprehensive income (2012-2016) – Based on IFRS

Unit: NT\$'000

	2012	2013	2014	2015	2016
Operating revenue	99,740,256	108,407,931	112,623,879	116,144,205	116,647,498
Gross profit	38,114,612	38,836,911	37,526,337	36,359,070	37,856,980
Operating income	20,782,210	21,071,835	19,711,810	18,769,149	20,019,766
Non-operating income (expenses)	(840,885)	(1,652,822)	(845,638)	(603,199)	(828,294)
Pre-tax income	19,941,325	19,419,013	18,866,172	18,165,950	19,191,472
Income from continuing operations	16,550,199	16,067,173	15,632,343	16,168,029	15,928,443
Loss from discontinued operations, net of tax	-	249,392	78,329	-	-
Net income	16,550,199	15,817,781	15,554,014	16,168,029	15,928,443
Other comprehensive income (after tax)	(57,035)	53,691	(720,968)	(1,091,109)	351,303
Comprehensive income	16,493,164	15,871,472	14,833,046	15,076,920	16,279,746
Profit attributable to owners of the parent company	16,326,013	15,583,447	15,006,337	15,686,186	15,320,187
Profit attributable to non-controlling interest	224,186	234,334	547,677	481,843	608,256
Comprehensive income attributable to owners of parent company	16,274,624	15,655,368	14,272,725	14,681,379	15,706,230
Comprehensive income attributable to non-controlling interest	218,540	216,104	560,321	395,541	573,516
EPS (NT\$)	6.07	5.79	5.56	5.76	5.63

Note 1: All financial data have been duly audited by independent auditors.

Note 2: IFRS was adopted starting 2013.

Stand-alone statements of comprehensive income (2012-2016) – Based on IFRS

Unit: NT\$'000

	2012	2013	2014	2015	2016
Operating revenue	69,867,814	78,928,492	81,649,070	83,710,453	80,543,403
Net Gross profit	27,460,813	27,629,638	28,814,569	31,521,743	29,927,702
Operating income	13,063,580	8,258,017	5,712,718	12,397,268	15,401,232
Non-operating income (expenses)	5,244,610	8,329,636	10,029,032	4,366,737	2,369,009
Pre-tax income	18,308,190	16,587,653	15,741,750	16,764,005	17,770,241
Net income	16,326,013	15,583,447	15,006,337	15,686,186	15,320,187
Other comprehensive income (after tax)	(51,389)	71,921	(733,612)	(1,004,807)	386,043
Comprehensive income	16,274,624	15,655,368	14,272,725	14,681,379	15,706,230
EPS (NT\$)	6.07	5.79	5.56	5.76	5.63

Note 1: All financial data have been duly audited by independent auditors.

Note 2: IFRS was adopted starting 2013.

Consolidated condensed income statement (2012) – Based on ROC GAAP

Unit: NT\$'000

	2012
Operating revenue	98,250,353
Gross profit	35,972,109
Operating income	18,734,841
Non-operating income	200,288
Non-operating expenses	963,707
Pre-tax income	17,971,422
Net income	14,916,282
EPS (NT\$)	5.46

Note: All financial data have been duly audited by independent auditors.

Stand-alone condensed income statement (2012) – Based on ROC GAAP

Unit: NT\$'000

	2012
Operating revenue	68,025,875
Gross profit	25,616,164
Operating income	11,310,743
Non-operating income	6,068,970
Non-operating expenses	994,871
Pre-tax income	16,384,842
Net income	14,691,605
EPS (NT\$)	5.46

Note: All financial data have been duly audited by independent auditors.

Independent auditors' names and their audit opinions for the past five years

Year	Accounting firm	Name of CPA	Opinion
2012	KPMG	Simon Chen, Janice Lai	Unqualified opinion
2013	KPMG	Simon Chen, Leo Chi	Modified unqualified opinion
2014	KPMG	Simon Chen, Leo Chi	Unqualified opinion
2015	Deloitte & Touche	Kuo Li-Wen, Lai Kwan-Chung	Modified unqualified opinion
2016	Deloitte & Touche	Kuo Li-Wen, Lai Kwan-Chung	Unqualified opinion

Financial Analysis

Consolidated financial analysis (2012-2016) – Based on IFRS

		2012	2013	2014	2015	2016
Financial structure	Liabilities to assets ratio (%)	42.58	57.70	56.69	58.17	56.28
	Long-term fund to PP&E ratio (%)	170.33	182.99	199.33	192.85	253.36
Solvency	Current ratio (%)	79.43	50.33	61.41	57.70	89.87
	Quick ratio (%)	68.95	42.98	54.49	49.88	77.88
	Interest coverage ratio (%)	6,104.36	4,911.23	3,219.10	2,585.36	2,949.77
Operations	Accounts receivable turnover (x)	6.72	6.14	5.66	5.57	5.55
	Average collection days	54.31	59.44	64.48	65.52	65.76
	Inventory turnover (x)	13.05	12.00	12.19	12.46	11.08
	Accounts payable turnover (x)	9.01	9.53	10.03	11.11	11.45
	Average days sales	27.96	30.41	29.94	29.29	32.94
	Property, plant and equipment turnover (x)	2.45	2.54	2.51	2.46	2.60
	Total asset turnover (x)	0.99	0.79	0.77	0.75	0.76
Profitability	Return on assets (%)	16.99	13.53	11.00	10.84	10.72
	Return on equity (%)	29.48	27.34	25.51	26.19	25.54
	Pre-tax income as a % of paid-in capital	58.29	55.89	54.87	53.10	56.10
	Net income margin (%)	16.59	14.49	13.79	13.92	13.66
	EPS (NT\$)	6.07	5.79	5.56	5.76	5.63
Cash flow	Cash flow ratio (%)	86.82	42.37	53.00	43.57	83.45
	Cash flow adequacy ratio (%)	129.18	111.11	106.30	99.96	99.82
	Cash reinvestment rate (%)	9.63	6.18	7.50	5.43	8.79
Leverage	Operating leverage	2.07	2.13	2.66	2.84	2.74
	Financial leverage	1.02	1.02	1.03	1.04	1.03
Others (Note)	EBITDA (NT\$'000)	30,529,287	31,003,599	31,295,941	32,284,941	33,871,581
	EBITDA margin (%)	30.61	28.60	27.79	27.80	29.04

Explanation of significant changes in 2016 compared with the previous year:

- (1) The long-term fund to PP&E ratio, current ratio, quick ratio and cash flow ratio all increased due to the issuance of convertible bonds and settlement of short-term borrowings in 2016.
- (2) The cash reinvestment rate increased due to higher operating cash inflows in 2016.

Note 1: The financial data for 2014 and 2013 do not include discontinued operations.

Note 2: IFRS was adopted starting 2013.

Stand-alone financial analysis (2012-2016) – Based on IFRS

		2012	2013	2014	2015	2016
Financial structure	Liabilities to assets ratio (%)	42.61	57.20	57.15	58.32	56.42
	Long-term fund to PP&E ratio (%)	228.82	265.54	270.52	258.53	375.18
Solvency	Current ratio (%)	54.21	34.63	28.64	33.19	60.90
	Quick ratio (%)	46.49	29.92	24.32	25.78	50.07
	Interest coverage ratio (%)	4,841.74	3,835.17	2,726.79	2,426.13	2,887.46
Operations	Accounts receivable turnover (x)	5.39	5.10	5.38	5.58	4.56
	Average collection days	67.71	71.56	67.84	65.41	80.04
	Inventory turnover (x)	10.10	11.13	11.42	8.34	6.07
	Accounts payable turnover (x)	10.28	11.46	12.34	13.52	14.38
	Average days sales	36.13	32.79	31.96	43.76	60.13
	Property, plant and equipment turnover (x)	2.27	2.69	2.67	2.58	2.69
	Total asset turnover (x)	0.71	0.59	0.59	0.59	0.57
Profitability	Return on assets (%)	17.73	13.71	11.28	11.49	11.26
	Return on equity (%)	29.48	27.34	25.51	26.19	25.54
	Pre-tax income as a % of paid-in capital	53.52	48.49	46.02	49.01	51.95
	Net profit margin (%)	23.37	19.74	18.38	18.74	19.02
	EPS (NT\$)	6.07	5.79	5.56	5.76	5.63
Cash flow	Cash flow ratio (%)	58.81	21.31	32.37	28.39	60.67
	Cash flow adequacy ratio (%)	128.55	103.57	89.23	77.55	74.13
	Cash reinvestment rate (%)	3.22	-	1.25	0.75	4.26
Leverage	Operating leverage	2.02	2.64	5.89	3.28	2.93
	Financial leverage	1.03	1.06	1.12	1.06	1.04

Explanation of significant changes in 2016 compared with the previous year:

- (1) The long-term fund to PP&E ratio, current ratio, quick ratio and cash flow ratio all increased due to the issuance of convertible bonds and settlement of short-term borrowings in 2016.
- (2) Both the inventories and accounts receivable of bundled product sales increased due to the termination of its direct store management contract with 100%-owned Taiwan Digital Service Co., Ltd. in 2015. As a result, the accounts receivable turnover and inventory turnover decreased, while the average collection days and average days sales increased.
- (3) The cash reinvestment rate increased due to higher operating cash inflows in 2016.

Note 1: The financial data for 2012-2016 have been duly audited by independent auditors.

Note 2: IFRS was adopted starting 2013.

Formulas for the above tables:

Financial structure

- (1) Debt to asset ratio = Total liabilities / Total assets
- (2) Long-term fund to PP&E ratio = (Shareholders' equity + Long-term liabilities) / Net PP&E

Solvency

- (1) Current ratio = Current assets / Current liabilities
- (2) Quick ratio = (Current assets – Inventory – Prepaid expenses) / Current liabilities
- (3) Interest coverage ratio = Income before interest and taxes / Interest expense

Operations

- (1) Accounts receivable turnover = Net revenue / Average accounts receivable
- (2) Average collection days = 365 / AR turnover
- (3) Inventory turnover = COGS / Average inventory
- (4) Accounts payable turnover = COGS / Average accounts payable
- (5) Average days sales = 365 / Inventory turnover
- (6) PP&E turnover = Net revenue / Average net PP&E
- (7) Total asset turnover = Net revenue / Average total assets

Profitability

- (1) Return on assets = [Net income + Interest expense x (1 – Tax rate)] / Average assets
- (2) Return on equity = Net income / Average equity
- (3) Net income margin = Net income / Net sales
- (4) EPS = (Net income – Preferred stock dividends) / Weighted average outstanding shares

Cash flow

- (1) Cash flow ratio = Cash flow from operating activities / Current liabilities

- (2) Cash flow adequacy ratio = Net cash flow from operating activities for the past 5 years / (Capital expenditure + Increases in inventory + Cash dividends for the past 5 years) (2009-2011 numbers were calculated based on ROC GAAP)
- (3) Cash reinvestment rate = (Cash flow from operating activities – Cash dividends) / (Gross PP&E + Long-term investments + Other assets + Working capital)
(Note: Use zero if working capital value is negative)

Leverage

- (1) Operating leverage = (Net revenue – Variable operating costs and expenses) / Operating income
(2) Financial leverage = Operating income / (Operating income – Interest expense)

Others

- (1) EBITDA = Operating income + Depreciation + Amortization
(2) EBITDA margin = EBITDA / Net revenue

Consolidated financial analysis (2012) – Based on ROC GAAP

		2012	
Financial structure	Liabilities to assets ratio (%)	44.99	
	Long-term fund to fixed asset ratio (%)	146.88	
Solvency	Current ratio (%)	64.72	
	Quick ratio (%)	53.21	
	Interest coverage ratio (%)	5,511.22	
Operations	Accounts receivable turnover (x)	11.81	
	Average collection days	30.91	
	Inventory turnover (x)	13.24	
	Accounts payable turnover (x)	8.96	
	Average days sales	27.57	
	Fixed asset turnover (x)	2.46	
	Total asset turnover (x)	1.06	
Profitability	Return on assets (%)	16.50	
	Return on equity (%)	29.78	
	% of paid-in capital	Operating income	54.77
		Pre-tax income	52.54
	Net profit margin (%)	15.18	
EPS (NT\$)	5.46		
Cash flow	Cash flow ratio (%)	84.16	
	Cash flow adequacy ratio (%)	130.24	
	Cash reinvestment rate (%)	12.40	
Leverage	Operating leverage	2.14	
	Financial leverage	1.02	
Others	EBITDA (NT\$'000)	26,985,307	
	EBITDA margin (%)	27.47	

Stand-alone financial analysis (2012) – Based on ROC GAAP

		2012	
Financial structure	Liabilities to assets ratio (%)	45.93	
	Long-term fund to fixed asset ratio (%)	201.57	
Solvency	Current ratio (%)	40.77	
	Quick ratio (%)	32.04	
	Interest coverage ratio (%)	4,343.60	
Operations	Accounts receivable turnover (x)	10.22	
	Average collection days	35.71	
	Inventory turnover (x)	10.09	
	Accounts payable turnover (x)	10.28	
	Average days sales	36.17	
	Fixed asset turnover (x)	2.34	
	Total asset turnover (x)	0.74	
Profitability	Return on assets (%)	16.99	
	Return on equity (%)	29.78	
	% of paid-in capital	Operating income Pre-tax income	33.06 47.90
	Net profit margin (%)	21.60	
	EPS (NT\$)	5.46	
Cash flow	Cash flow ratio (%)	67.31	
	Cash flow adequacy ratio (%)	133.23	
	Cash reinvestment rate (%)	6.38	
Leverage	Operating leverage	2.18	
	Financial leverage	1.04	

Note: All financial data have been duly audited by independent auditors.

Formulas for the above tables:

Financial structure

- (1) Debt to asset ratio = Total liabilities / Total assets
- (2) Long-term fund to fixed asset ratio = (Shareholders' equity + Long-term liabilities) / Net fixed assets

Solvency

- (1) Current ratio = Current assets / Current liabilities
- (2) Quick ratio = (Current assets – Inventory – Prepaid expenses) / Current liabilities
- (3) Interest coverage ratio = Income before interest and tax / Interest expense

Operations

- (1) Accounts receivable turnover = Net revenue / Average accounts receivable
- (2) Average collection days = 365 / AR turnover
- (3) Inventory turnover = COGS / Average inventory
- (4) Accounts payable turnover = COGS / Average accounts payable
- (5) Average days sales = 365 / Inventory turnover
- (6) Fixed asset turnover = Net revenue / Average net fixed assets
- (7) Total asset turnover = Net revenue / Average total assets

Profitability

- (1) Return on assets = [Net income + Interest expense * (1 – Tax rate)] / Average assets
- (2) Return on equity = Net income / Average equity
- (3) Net income margin = Net income / Net sales
- (4) EPS = (Net income – Preferred stock dividends) / Weighted average outstanding shares

Cash flow

- (1) Cash flow ratio = Cash flow from operating activities / Current liabilities
- (2) Cash flow adequacy ratio = Net cash flow from operating activities for the past 5 years / (Capital expenditures + Increases in inventory + Cash dividends) for the past 5 years
- (3) Cash reinvestment rate = (Cash flow from operating activities – Cash dividends) / (Gross fixed assets + Long-term investments + Other assets + Working capital)
(Note: Use zero if working capital value is negative)

Leverage

- (1) Operating leverage = (Net revenue – Variable operating costs and expenses) / Operating income
- (2) Financial leverage = Operating income / (Operating income – Interest expense)

Others

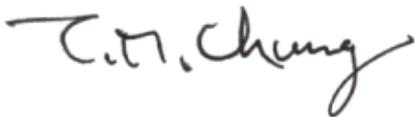
- (1) EBITDA = Operating income + Depreciation + Amortization
- (2) EBITDA margin = EBITDA / Net revenue

Audit Committee Report

Date: January 25, 2017

The Board of Directors of Taiwan Mobile Co., Ltd. (TWM) has submitted the Company's 2016 business report and financial statements to the Audit Committee. The CPA firm, Deloitte & Touche, was retained by the Board to audit TWM's financial statements and has issued an audit report relating to the financial statements. The business report and financial statements have been reviewed and determined to be correct and accurate by the Audit Committee of TWM. According to Article 14-4 of the Securities and Exchange Act and Article 219 of the Company Act, I hereby submit this report on behalf of all members of the committee to the 2017 Annual General Meeting of shareholders for ratifications.

Taiwan Mobile Co., Ltd.



Tsung-Ming Chung
Chairman of the Audit Committee

2016 Consolidated Financial Statements:

Refer to the attachment.

Financial Difficulties for the Company and its Affiliates:

None

Chapter 6 Review and Analysis of Financial Conditions, Operating Results and Risk Management

Balance Sheet Analysis

Consolidated balance sheet analysis

Explanation of significant changes (at least a 20% change) in the past two years' assets, liabilities and shareholders' equity:

1. Other assets rose as some property, plant and equipment were reclassified as investment properties in 2016.
2. Current liabilities decreased and non-current liabilities increased due to the issuance of convertible bonds in 2016 to pay down short-term bank loans.

2015 - 2016 Consolidated Balance Sheet

Unit: NT\$'000, %

	2015	2016	YoY change	
			Amount	%
Current assets	34,174,935	34,280,112	105,177	0.31
Investments	4,958,924	5,412,671	453,747	9.15
Property, plant and equipment	47,247,121	42,415,229	(4,831,892)	(10.23)
Intangible assets	62,402,424	59,677,982	(2,724,442)	(4.37)
Other assets	7,302,269	9,591,411	2,289,142	31.35
Total assets	156,085,673	151,377,405	(4,708,268)	(3.02)
Current liabilities	59,232,218	38,144,597	(21,087,621)	(35.60)
Non-current liabilities	31,561,731	47,046,273	15,484,542	49.06
Total liabilities	90,793,949	85,190,870	(5,603,079)	(6.17)
Paid-in capital	34,208,328	34,208,328	-	-
Capital surplus	14,586,376	14,985,047	398,671	2.73
Retained earnings	41,652,299	41,630,893	(21,406)	(0.05)
Other equity and treasury stock	(30,891,298)	(30,407,378)	483,920	(1.57)
Non-controlling interests	5,736,019	5,769,645	33,626	0.59
Total equity	65,291,724	66,186,535	894,811	1.37

Stand-alone balance sheet analysis

Explanation of significant changes (at least a 20% change) in the past two years' assets, liabilities and shareholders' equity:

1. Other assets rose as some property, plant and equipment were reclassified as investment properties in 2016.
2. Current liabilities decreased and non-current liabilities increased due to the issuance of convertible bonds in 2016 to pay down short-term bank loans.

2015- 2016 Stand-alone Balance Sheet

Unit: NT\$'000, %

	2015	2016	YoY change	
			Amount	%
Current assets	19,357,631	22,561,728	3,204,097	16.55
Investments	44,904,267	42,250,372	(2,653,895)	(5.91)
Property, plant and equipment	32,709,888	27,081,627	(5,628,261)	(17.21)
Intangible assets	40,441,171	38,039,908	(2,401,263)	(5.94)
Other assets	5,470,595	8,715,470	3,244,875	59.31
Total assets	142,883,552	138,649,105	(4,234,447)	(2.96)
Current liabilities	58,318,339	37,044,613	(21,273,726)	(36.48)
Non-current liabilities	25,009,508	41,187,602	16,178,094	64.69
Total liabilities	83,327,847	78,232,215	(5,095,632)	(6.12)
Paid-in capital	34,208,328	34,208,328	-	-
Capital surplus	14,586,376	14,985,047	398,671	2.73
Retained earnings	41,652,299	41,630,893	(21,406)	(0.05)
Other equity and treasury stock	(30,891,298)	(30,407,378)	483,920	(1.57)
Total shareholders' equity	59,555,705	60,416,890	861,185	1.45

Impact of changes in financial conditions on financial results: No significant impact

Preventive measures: Not applicable

Statements of Comprehensive Income Analysis

Consolidated statements of comprehensive income

Explanation of significant changes in the past two years' operating revenue, operating income and income before tax:

1. Non-operating expenses increased in 2016 due to higher losses from disposal of property, plant and equipment.

2015 – 2016 Consolidated Statements of Comprehensive Income

Unit: NT\$'000, %

	2015	2016	YoY change	
			Amount	%
Operating revenue	116,144,205	116,647,498	503,293	0.43
Operating costs	79,785,135	78,790,518	(994,617)	(1.25)
Gross profit	36,359,070	37,856,980	1,497,910	4.12
Operating expenses	17,894,501	18,260,396	365,895	2.04
Operating income	18,769,149	20,019,766	1,250,617	6.66
Non-operating income (expenses)	(603,199)	(828,294)	(225,095)	37.32
Income before tax	18,165,950	19,191,472	1,025,522	5.65
Net income	16,168,029	15,928,443	(239,586)	(1.48)

Stand-alone statements of comprehensive income

Explanation of significant changes in the past two years' operating revenue, operating income and income before tax:

1. Operating expenses decreased and operating income increased due to the Company's termination of its direct store management contract with 100%-owned Taiwan Digital Service Co., Ltd. (TDS) in 2015.
2. Non-operating income decreased due to the decline in investment income from subsidiaries after the Company terminated its direct store management contract with TDS.

2015 – 2016 Stand-alone Statements of Comprehensive Income

Unit: NT\$'000, %

	2015	2016	YoY change	
			Amount	%
Operating revenue	83,710,453	80,543,403	(3,167,050)	(3.78)
Operating costs	52,234,342	50,615,701	(1,618,641)	(3.10)
Net Gross profit	31,521,743	29,927,702	(1,594,041)	(5.06)
Operating expenses	19,363,666	14,920,182	(4,443,484)	(22.95)
Operating income	12,397,268	15,401,232	3,003,964	24.23
Non-operating income (expenses)	4,366,737	2,369,009	(1,997,728)	(45.75)
Income before tax	16,764,005	17,770,241	1,006,236	6.00
Net income	15,686,186	15,320,187	(365,999)	(2.33)

Revenue outlook, key assumptions, potential impact on the Company's business and corresponding proposal:

In 2017, the Company will continue to leverage its 4G high-speed mobile internet service to expand its market share. As demand for smart devices increases, the Company will invest in value-added services to tap into this market's full growth potential. It will focus on developing and enhancing top-of-the-line mobile value-added services, including mobile shopping, mobile payment, video/audio services and myBook store (an e-book platform), to satisfy customer demand and boost average revenue per user. The Company will make full use of its potential and competitive edge in handset procurement to raise its cost-efficiency so as to meet its profit target.

Cash Flow Analysis

Consolidated cash flow analysis

1. Increase in cash inflow from operating activities: Cash inflow increased due to better cash collection.
2. Decrease in cash outflow from investment activities: Cash outflow declined as acquisitions of property, plant and equipment dropped in 2016.
3. Increase in cash outflow from financing activities: Cash outflow increased as the Company paid down bank borrowings.

2015 – 2016 Consolidated Cash Flow Statement

Unit: NT\$'000, %

	2015	2016	YoY change	
			Amount	%
Cash inflow (outflow) from operating activities	25,805,736	31,830,164	6,024,428	23.35
Cash inflow (outflow) from investment activities	(15,179,543)	(11,527,956)	3,651,587	(24.06)
Cash inflow (outflow) from financing activities	(9,948,924)	(21,170,963)	(11,222,039)	112.80
Impact from changes in exchange rate	(1,624)	(6,150)	(4,526)	278.69
Net cash increase (decrease)	675,645	(874,905)	(1,550,550)	NM

Stand-alone cash flow analysis

1. Increase in cash inflow from operating activities: Cash inflow rose due to higher revenue collection.
2. Decrease in cash outflow from investment activities: Cash outflow declined because acquisitions of property, plant and equipment dropped in 2016.
3. Increase in cash outflow from financing activities: Cash outflow increased as the Company paid down bank borrowings.

2015 – 2016 Stand-alone Cash Flow Statement

Unit: NT\$'000, %

	2015	2016	YoY change	
			Amount	%
Cash inflow (outflow) from operating activities	16,554,741	22,475,739	5,920,998	35.77
Cash inflow (outflow) from investment activities	(4,547,144)	(2,471,192)	2,075,952	(45.65)
Cash inflow (outflow) from financing activities	(11,629,231)	(20,065,912)	(8,436,681)	72.55
Net cash increase (decrease)	378,366	(61,365)	(439,731)	NM

Plans to improve negative liquidity: Not applicable

Consolidated projected cash flow for 2017

1. Projected cash inflow from operating activities: Expected to remain stable
2. Projected cash outflow from investment activities: For capital expenditure
3. Projected cash outflow from financing activities: For cash dividend distribution

2017 Consolidated Projected Cash Flow Analysis

Unit: NT\$'000

Cash balance, beginning of the year (1)	Forecast net cash inflow from operations (2)	Forecast cash outflow from investment and financing activities (3)	Cash balance, end of the year (1) + (2) - (3)	Source of funding for negative cash balance	
				Cash inflow from investment activities	Cash inflow from financing activities
7,704,517	28,787,520	28,630,859	7,861,178	—	—

Source of funding for negative cash flow in 2017: Not applicable

Analysis of Major Capex and its Impact on Finance and Operations

Given stable operations and operating cash inflows, the Company funds its major capex with its own working capital, which therefore has a minimal impact on its financials.

Investment Policies, Reasons for Profit/Loss, Plans for Improvement and Future Investment Plan

All of TWM's long-term holdings are strategic investments. The Company is committed to promoting digital convergence and becoming a leading player in the T.I.M.E (Telecommunication, Internet, Media & Entertainment, E-Commerce) era. In 2016, on a consolidated basis, TWM's investment income from long-term investments under the equity method amounted to NT\$51,824 thousand as the operations of said investments stabilized. For future investments, TWM will continue to make decisions based on prudent strategic assessments.

Risk Management

Impact of inflation, interest and exchange rate fluctuations, and preventive measures:

1. Impact of interest rate fluctuations

Interest rate fluctuations had a minimal impact on TWM's 2016 short-term bank borrowings, as interest rates remained low and stable. The Company signed a mid-term loan agreement with banks to lock in mid-to-long-term interest rates and minimize impacts from interest rate fluctuations.

2. Impact of exchange rate fluctuations

Only some of the Company's expenditures are denominated in euros and US dollars. To minimize the impact from foreign exchange rate fluctuations, the Company hedges risks through foreign exchange spot market transactions. Overall, exchange rate fluctuations had a minimal impact on the Company.

3. Impact of inflation

Inflation had a minimal impact on the Company's operating performance in 2016 up to publication date in 2017.

Investment policy and reasons for gains & losses for high-risk/high-leverage financial products, derivatives, loans to others and guarantees of debts:

1. The Company was not involved in any high-risk, high-leverage financial investment.
2. The Company passed the "Rules and Procedures on Lending and Making Endorsements/Guarantees" to regulate its financing and endorsement activities.
3. Derivatives transaction: None.

Research and development plans

Project name	Objective	Completion date
Personalized music and video recommendation service	Use machine learning algorithms to analyze personal profiles, listening and viewing behavior, and music and video features to provide personalized music and video recommendations.	Sept. 2017
Mobile commerce	Apply big data analytics using 4G customers' behavior, such as their social network, hobbies and lifestyle, to create a more effective mobile commerce marketing program.	Sept. 2017
M+ Messenger	Improve quality of video calls as a substitute for traditional voice calls, and integrate them with enterprise clients' electronic authorization procedure to enhance clients' business efficiency.	June 2017
TAMedia - Mobile advertisement platform	Provide new types of interactive ads. Improve ad performance by integrating big data technology.	Sept. 2017
myVideo	Enrich multimedia player solutions. Improve user experience of big-screen video playback.	Sept. 2017
Mobile payment	Allow users to input a variety of membership or identification cards, as well as social media accounts, into their mobile payment account, expanding services provided to include discounts, vouchers and membership points.	July 2017

Project name	Objective	Completion date
myBook	Apply big data analytics to provide a recommendation system, and integrate traditional and online sales channels according to various marketing strategies.	Sept. 2017

Regulatory changes and developments

1. Revision of digital convergence regulations

(1) Status

In response to the development of digital convergence services, the NCC is planning to amend the Digital Communication Broadcasting Act and the Telecommunication Administration Act. The commission has been soliciting public opinions on digital convergence development since January 4, 2017. The proposed amendments reference digital convergence models adopted by developed countries, and take into account the evolution and development of the local telecommunications industry, to establish a new regulatory framework for the industry.

(2) Countermeasures

The Company is closely monitoring the progress of the proposed amendments and continues to communicate with and forward suggestions and recommendations on related policies and regulations to the NCC and the Executive Yuan to ensure a favorable regulatory environment for the industry's development.

2. Revision of Type I telecommunications business regulations

(1) Status

The Ministry of Transportation and Communications (MoTC) on March 16, 2016 announced plans to amend the Regulations Governing the Operating Items and Scope, the Timetable for Deregulation and the Number of Operators to Be Allowed for Type I Telecom Services. As 3G licenses in the 2.1GHz frequency band are set to expire at the end of 2018, the MoTC and the NCC are planning to auction the spectrum for 4G licenses. Related policy planning, management regulations and auction rules are under way and are expected to be finalized in June 2017.

(2) Countermeasures

TWM will continue to put forth its recommendations on the issue and urge the MoTC and the NCC to step up their approval of the final rules. The 2.1GHz spectrum that is to be released this round is currently used for 3G services. The Company will participate in the auction to acquire the spectrum to continue its 3G services and provide better mobile internet service for 4G customers.

3. 2G user rights protection plan

(1) Status

With 2G licenses set to expire on June 30, 2017, the NCC on December 7, 2016 unveiled its 2G user rights protection plan to ensure "zero impact" and "zero dispute" as 2G users migrate to 3G/4G services.

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(2) Countermeasures

In line with the government's 2G user rights protection plan, TWM offers preferential programs to encourage 2G users to migrate to 3G/4G services. The Company also plans to shut down the energy-consuming 2G network to improve spectrum efficiency and promote energy/carbon savings.

4. NCC drafting bill on preventing monopolies and promoting diversity in media

(1) Status

Driven by public opposition to Far EasTone Telecommunications Co., Ltd's bid to acquire China Network Systems Co., Ltd. (CNS), the NCC is drafting a bill to prevent media monopolization and promote diversity. In April 2016, the New Power Party released its draft version of the bill. The NCC has also stepped up its drafting of a proposal after new commission members took office in August of the same year. It plans to release a proposal to regulate horizontal and vertical integration in the broadcasting industry and cross-industry integration of print and broadcasting businesses.

(2) Countermeasures

The drafting of a bill against media monopolization is still in the initial phase due to differences in opinion among academics, politicians and the public. Legislative approval will also take time before the government, as well as ruling and opposition lawmakers, reach a consensus. The Company is closely monitoring the progress of the proposed amendments and continues to communicate with and forward suggestions and recommendations on related policies and regulations to the Legislative Yuan to prevent overregulation hindering the development of the media industry.

Technological changes and development

1. Long Term Evolution (LTE) and Long Term Evolution Advanced (LTE-A)

(1) Status

After taking into account the Company's network requirements, shareholders' interests, consumer benefits and operating cost, TWM dropped out of the 2.6GHz spectrum auction held in late 2015 when bidding prices exceeded their fair value. Industry developments over the past year include:

- a. Live streaming has become a popular social medium. Video content shared via mobile network led to significant traffic growth.
- b. Other operators actively deployed 2.6GHz frequency band to expand network capacity.
- c. LTE-A 3CCA technology was deployed by other operators to improve peak throughput.

(2) Countermeasures

TWM continued to step up 700MHz and 1800MHz deployment to cope with changes in the industry:

- a. Increased number of base stations to improve network coverage and deployed small cells to offload traffic in hotspots.
- b. Dynamically adjusted traffic load between 700MHz and 1800MHz to optimize spectrum efficiency, and extended two-band carrier aggregation (CA) coverage to enhance network capacity and throughput.
- c. Provided LTE-A 4X2 MIMO services through 4-way transmission (from radio network) with 2-way receiving (to handsets), enhancing signal stability at the cell edge and providing more network capacity compared with traditional LTE 2X2 MIMO technology.

The Company will continue to focus on providing high-speed 4G services with the widest network coverage to maintain its competitive edge.

2. Rising popularity of internet protocol

(1) Status

Software-defined networking (SDN) is a next-generation network architecture that separates the control layer and data transfer layer to optimize performance and simplify network configuration and deployment. Another important new technology is network function virtualization (NFV), which uses virtualization technology to separate network functions from proprietary hardware. NFV reduces the complexity of the integration and deployment of large numbers of specialized and proprietary hardware devices. The industry transformation by NFV and SDN will not only impact network computing platforms and network architecture, but also enable the rapid deployment of network infrastructure supporting smart cities, homes, cars, enterprises and the Internet of Things (IoT).

(2) Countermeasures

TWM is evaluating, trial testing and deploying SDN and NFV technologies to enhance network performance and provide users with innovative and diversified services through the most advanced network. TWM has completed the initial introduction of NFV technology in smart meters, vehicle positioning management system, home security and other

services via accelerated cross-industry cooperation in 1Q17 in response to the rapid changes and developments in the IoT industry. TWM is also designing an SDN network to deliver the new capabilities quickly and efficiently to meet its business needs.

3. Digital convergence and cloud services

(1) Status

Next generation network (NGN) utilizes a converged all-IP network to transport voice, data, image and video, and support a wide variety of devices. Meanwhile, cloud services have broken the traditional boundaries between industries, triggering cross-industry competition.

(2) Countermeasures

In 2016, TWM's IaaS received ISO27018 certification for personal information security, while its cloud data center received ISO14001 certification for environmental management. TWM's strategy is to continuously enhance its information security, service quality and cloud services, and complementing them with a world-class cloud IDC infrastructure.

Impact of changes in brand image on the Company's risk management policies in 2016 up to publication date in 2017:

None. TWM has long built up a sound image among investors and customers for its continuing efforts to enhance corporate governance, network communication quality and customer service, as well as to fulfill its corporate social responsibility. These efforts won numerous recognitions and awards in 2016 (please refer to Chapter 1) and should aid the Company in preventing, controlling and managing latent risks that it may face and help it maintain its good corporate image.

Expected benefits and risks from mergers in 2016 up to publication date in 2017: None.

Expected benefits and risks related to plant facility expansions in 2016 up to publication date in 2017: Not applicable as the Company is not a manufacturer.

Risks from supplier and buyer concentration in 2016 up to publication date in 2017:

The Company has minimal risks from supplier and buyer concentrations (please refer to Chapter 4).

Significant changes in shareholdings of directors and major shareholders in 2016 up to publication date in 2017: None.

Changes in management controls in 2016 up to publication date in 2017: Not applicable.

Significant lawsuits and non-litigious matters in 2016 up to publication date in 2017

1. The Company:

(1) Spectrum dispute between Far EasTone Telecommunications Co., Ltd. ("FET") and the Company

Parties Involved: FET is the plaintiff and the Company is the defendant.

Grounds for Lawsuit:

FET filed a lawsuit claiming the Company: a) to file an immediate application to return the spectrum block 1748.7-1754.9/ 1843.7-1849.9 MHz (hereinafter referred to as "C4 spectrum block") to the NCC, b) to stop using the

spectrum block 1715.1-1721.3/1810.1-1816.3 MHz (hereinafter referred to as “C1 spectrum block”) until it has returned the C4 spectrum block to the NCC, and c) to pay FET NT\$1,005,800,000.

Status:

In May 2016, the Taipei District Court ruled that: (i) the Company shall apply to return the C4 spectrum block to the NCC; (ii) the Company shall not use the C4 spectrum block in any way; (iii) the Company shall not use the C1 spectrum block before the C4 spectrum block has been returned to the NCC, (iv) the rest of FET’s claims were rejected; and (v) FET may file a provisional execution with a collateral of NT\$320,630,000, and the Company may provide a counter security of NT\$961,913,313 or the same amount of negotiable certificates of deposit (NCDs) issued by Taipei Fubon Bank to be exempted from, or to move for revocation of FET’s provisional execution.

On June 27, 2016, the Company provided a counter security of NT\$962,000,000 to be exempted from the provisional execution. The Company shall not be required to return the C4 spectrum block to the NCC immediately, and its use of C1 and C4 spectrum blocks shall remain as is. The Company and FET filed separate appeals against parts of the judgment deemed as unfavorable to them. The appeals are pending in the Taiwan High Court.

In order to increase the efficiency of the overall spectrum, the Company submitted an application to return a part of C4 spectrum block, total of 10MHz, including uplink and downlink 5MHz each (actually used for the uplink 1748.7~1753.7MHz, downlink 1843.7~1848.7MHz).

(2) Provisional injunction filed over spectrum dispute between FET and the Company

Parties Involved: FET is the claimant and the Company is the counterparty.

Grounds for Lawsuit: FET filed a provisional injunction in May 2015 to prohibit the Company’s use of the C1 spectrum block.

Status: On July 1, 2015, the Taipei District Court ruled that FET may provide a collateral of NT\$1,048,703,000 or the same amount of NCDs issued by the Bank of Taiwan to restrict the Company’s use of the C1 spectrum block from July 1, 2015 to June 30, 2017, before the Company returns the C4 spectrum block and receives the NCC’s green light to use the C1 spectrum block. The Company may provide a counter security of NT\$927,000,000 or the same amount of NCDs issued by the Bank of Taiwan to be exempted from, or to move for revocation of said provisional injunction.

The Company provided the counter security on July 14, 2015 to continue using the C1 spectrum. The Company also filed an appeal against the above ruling. The Taiwan High Court rejected the Company’s appeal in a final ruling in September 2015.

(3) Provisional injunction filed over spectrum dispute between FET and the Company

Parties Involved: FET is the claimant and the Company is the counterparty.

Grounds for Lawsuit: FET filed a provisional injunction in April 2016, claiming that: a) the Company must file an immediate application to return the C4 spectrum block to the NCC; b) the Company must not use the C4 spectrum block in any way; and c) the Company must not use the C1 spectrum block until it has returned the C4 spectrum block to the NCC.

Status: On April 28, 2016, a ruling received from the Taipei District Court ruled that: (i) after FET provides a collateral of NT\$143,050,272 or same amount of NCDs issued by Far Eastern International Bank, the Company shall apply to return the C4 spectrum block to the NCC and shall be prohibited from using the C4 spectrum block; and (ii) the Company may provide a counter security of NT\$547,118,523 or same amount of NCDs issued by the Bank of Taiwan to be exempted from, or to move for revocation of the above provisional injunction. The Company provided the

counter security on May 5, 2016. The Company shall not be required to return the C4 spectrum block to the NCC immediately. Its use of the C4 spectrum block shall remain as is. The Company and FET filed separate appeals against parts of the ruling deemed as unfavorable to them.

The High Court in August 2016 dismissed the ruling regarding the prohibition on the Company's use of the C4 spectrum block and that the Company may provide a counter security to be exempted from, or to move for revocation of the provisional injunction. With the above dismissal, the provisional injunction filed by FET was hereby rejected. Other appeals filed by the Company and FET were rejected.

The Company and FET filed separate appeals against the ruling. The appeals are pending in the Supreme Court.

2. The Company's directors, general manager, executives, major shareholder holding more than 10 percent of the Company's shares: None.

3. The Company's subsidiaries

(1) Taiwan Kuro Times Co., Ltd. ("Taiwan Kuro")

The Taiwan Intellectual Property Office ("TIPO") issued an administrative disposition in response to Taiwan Kuro's appeal for a review of the generalized licensing royalty rates announced by the Music Copyright Society of Chinese Taipei ("MUST"). Taiwan Kuro disagreed with TIPO's disposition and filed an administrative appeal. When the Ministry of Economic Affairs dismissed the appeal, Taiwan Kuro filed an administrative litigation. The Intellectual Property Court dismissed Taiwan Kuro's claim, and Taiwan Kuro appealed to the Supreme Administrative Court. The Supreme Administrative Court reversed the original judgment and remanded the case to the Intellectual Property Court.

Parties Involved: Taiwan Kuro is the plaintiff and TIPO is the defendant.

Grounds for Lawsuit:

On December 19, 2012, TIPO issued an administrative disposition in response to an appeal filed by Taiwan Kuro on September 1, 2010, for a review of the generalized licensing royalty rates announced by MUST on August 12, 2010. TIPO stated that pursuant to Article 25, Paragraph 6 of the Copyright Collective Management Organization Act: "When there is sufficient reason for an application for review under Paragraph 1, the specialized agency in charge of copyright matters shall make a determination of the given royalty rate, which shall be effective from the date of application for review, provided that in the case of applications made prior to the date of implementation of a given royalty rate, the newly determined rate shall take effect from the date of implementation." Taiwan Kuro disagreed with the generalized licensing royalty rates stipulated in TIPO's disposition and filed an administrative appeal.

Status:

The Ministry of Economic Affairs dismissed the appeal issued by Taiwan Kuro on June 25, 2013. Taiwan Kuro filed an administrative litigation to revoke TIPO's disposition on August 23, 2013. The Intellectual Property Court dismissed Taiwan Kuro's claim on March 26, 2014. Taiwan Kuro disagreed with the judgment and appealed to the Supreme Administrative Court on April 25, 2014. The Supreme Administrative Court reversed the original judgment and remanded the case to the Intellectual Property Court on August 17, 2015. The Intellectual Property Court rejected Taiwan Kuro's claim on July 14, 2016 (judgment received on July 27, 2016). Taiwan Kuro filed an appeal with the Supreme Administrative Court on August 15, 2016. The case is pending in the Supreme Administrative Court.

Other major risks

Customer fraud management policy

1. Verification before activation

Applicants' identity and qualifications are carefully reviewed and verified before service is activated.

2. Monitoring after activation

- (1) Exception management: Relatively "high-risk" applicants are filtered out by the system to protect users' interests.
- (2) Credit control: The system analyzes customers' behavioral patterns to strengthen client management.

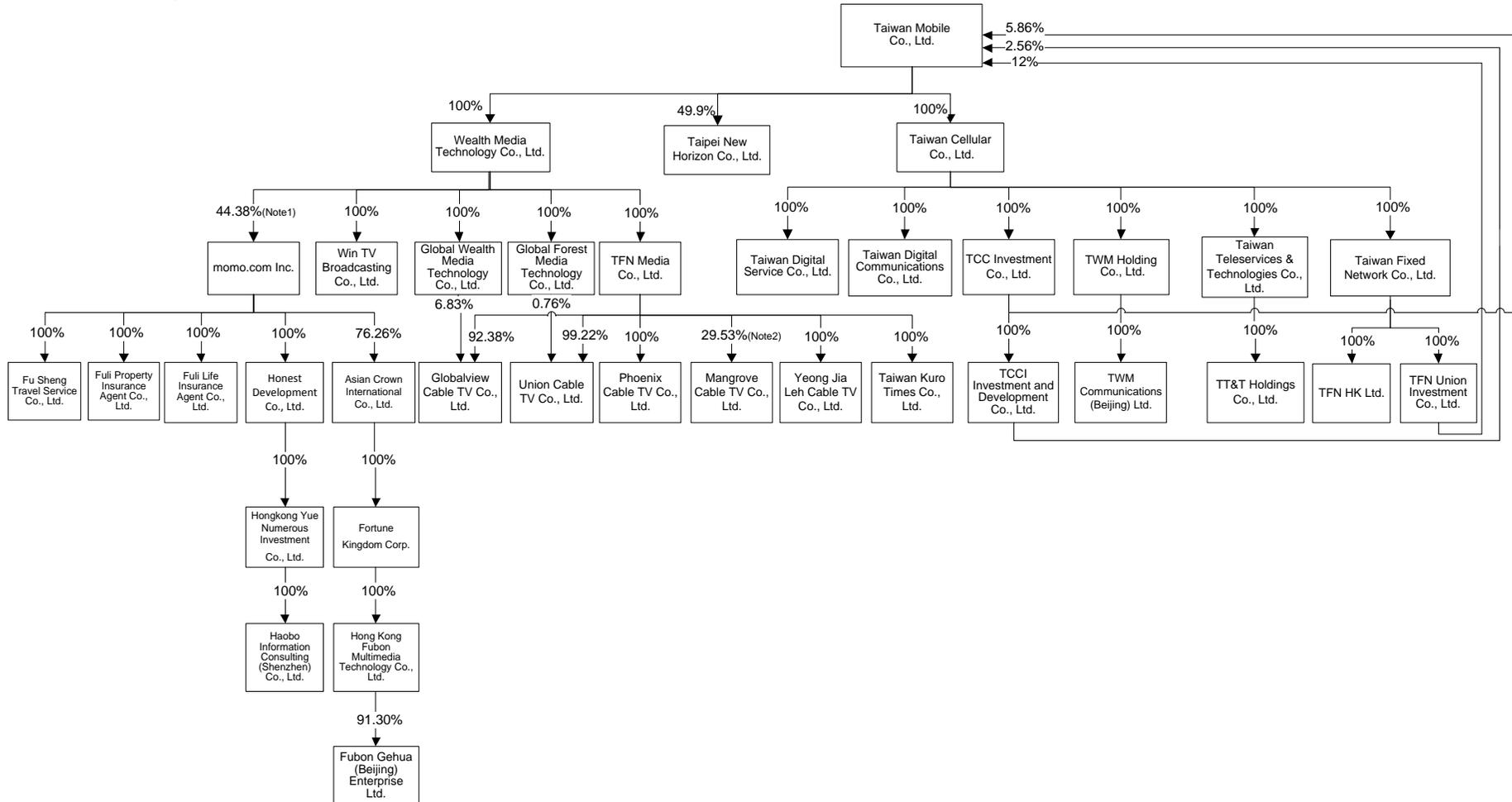
Other significant items: None.

Chapter 7 Special Notes

Affiliates

1. Investment holding structure

As of December 31, 2016



Note1: The shareholding ratio is calculated by issued shares (including treasury shares).

Note2: 70.47% of shares are held under trustee accounts.

2. Affiliates' profile

December 31, 2016; Unit: NT\$ (unless otherwise stated)

Name	Date of incorporation	Address	Paid-in capital	Main business
Taiwan Cellular Co., Ltd.	2005.09.20	7F, No. 206, Sec. 2, Dunhua S. Rd., Da-an District., Taipei	5,029,703,090	Investment
Wealth Media Technology Co., Ltd.	2007.08.07	7F, No. 206, Sec. 2, Dunhua S. Rd., Da-an District., Taipei	420,650,000	Investment
Taipei New Horizon Co., Ltd.	2009.01.07	6F, No. 88, Yanchang Rd., Xinyi District, Taipei	3,845,000,000	Property investment and management of Songshan Cultural and Creative Park
Taiwan Fixed Network Co., Ltd.	2007.01.30	7F, No. 206, Sec. 2, Dunhua S. Rd., Da-an District., Taipei	21,000,000,000	Fixed-line service provider
Taiwan Teleservices & Technologies Co., Ltd.	2001.06.08	7F, No. 206, Sec. 2, Dunhua S. Rd., Da-an District., Taipei	24,843,000	Call center service and telemarketing
TWM Holding Co. Ltd.	2006.06.09	Arias, Fabrega & Fabrega Trust Co., BVI Ltd. 325 Waterfront Drive, Road Town, Tortola, British Virgin Islands	US\$1	Investment
TCC Investment Co., Ltd.	2009.08.10	7F, No. 206, Sec. 2, Dunhua S. Rd., Da-an District., Taipei	1,547,213,080	Investment
Taiwan Digital Communications Co., Ltd.	2007.06.06	7F, No. 206, Sec. 2, Dunhua S. Rd., Da-an District., Taipei	112,000,000	TV program producer and mobile phone wholesaler
Taiwan Digital Service Co., Ltd.	2013.04.02	7F, No. 206, Sec. 2, Dunhua S. Rd., Da-an District., Taipei	25,000,000	Service and repair
TFN Media Co., Ltd.	2005.01.25	11F, No. 98, Zhouzi St., Neihu District, Taipei	2,309,213,040	Cable broadband and value-added services provider
Global Forest Media Technology Co., Ltd.	2008.12.26	7F, No. 206, Sec. 2, Dunhua S. Rd., Da-an District., Taipei	15,000,000	Investment
Global Wealth Media Technology Co., Ltd.	2007.10.26	1F, No. 206, Datong Rd., Sec. 2, Xizhi District, New Taipei City	89,448,670	Investment
Win TV Broadcasting Co., Ltd.	2005.10.17	11F, No. 98, Zhouzi St., Neihu District, Taipei	181,773,820	Television network
momo.com Inc.	2004.09.27	4F, No. 96, Zhouzi St., Neihu District, Taipei	1,420,585,000	Wholesale and retail sales
TFN Union Investment Co., Ltd.	2009.09.22	7F, No. 206, Sec. 2, Dunhua S. Rd, Da-Aa District., Taipei	4,000,000	Investment
TFN HK Ltd.	2003.05.14	Unit 511, 5/F, Tower 1, Silvercord, 30 Canton Road, Tsimshatsui, Kowloon, Hong Kong	HK\$1,300,000	Telecommunications service provider
TT&T Holdings Co., Ltd.	2004.10.08	TrustNet Chambers Lotemau Centre, P.O. Box 1225, Apia, Samoa	US\$1,300,000	Investment
TWM Communications (Beijing) Ltd.	2002.09.17	Room 2106, No. 9, Beisihuan West Rd., Haidian District, Beijing, China	US\$3,000,000	Mobile application development and design
TCCI Investment and Development Co., Ltd.	2009.09.22	7F, No. 206, Sec. 2, Dunhua S. Rd., Da-an District., Taipei	1,047,120,000	Investment

Name	Date of incorporation	Address	Paid-in capital	Main business
Taiwan Kuro Times Co., Ltd.	2009.02.11	12F, No. 88, Yanchang Rd., Xinyi District, Taipei	120,000,000	Digital music service
Yeong Jia Leh Cable TV Co., Ltd.	1994.09.26	10F, No. 651-5, Zhongzheng Rd., Xinzhuang District, New Taipei City	339,400,000	Cable TV service provider
Mangrove Cable TV Co., Ltd.	1996.01.23	5F, No. 33, Lane 3, Zhongzheng E. Rd., Sec. 1, Danshui District, New Taipei City	211,600,000	Cable TV service provider
Phoenix Cable TV Co., Ltd.	1996.08.22	No. 312, Fongping 1st Rd., Daliao Township, Greater Kaohsiung	680,901,980	Cable TV service provider
Union Cable TV Co., Ltd.	2005.02.04	No.179, Nujhong Rd., Sec. 1, Yilan City, Yilan County	1,704,632,800	Cable TV service provider
Globalview Cable TV Co., Ltd.	1995.11.25	No. 206, Datong Rd., Sec. 2, Xizhi District, New Taipei City	560,000,000	Cable TV service provider
Asian Crown International Co., Ltd.	2009.01.07	Palm Grove House, P.O. Box 438, Road Town, Tortola, British Virgin Islands	US\$34,750,000	Investment
Honest Development Co., Ltd.	2015.01.23	TMF Chambers, P.O. Box 3269, Apia, Samoa	US\$21,778,413	Investment
Fuli Life Insurance Agent Co., Ltd.	2005.12.27	7F, No. 98, Zhouzi St., Neihu District, Taipei	5,000,000	Life insurance agency
Fuli Property Insurance Agent Co., Ltd.	2006.01.03	7F, No. 96, Zhouzi St., Neihu District, Taipei	5,000,000	Property insurance agency
Fu Sheng Travel Service Co., Ltd.	2004.12.16	7F, No. 92, Zhouzi St., Neihu District, Taipei	30,000,000	Travel agency
Fortune Kingdom Corp.	2009.01.06	Equity Trust Chambers, P.O. Box 3269, Apia, Samoa	US\$33,632,777	Investment
Hongkong Yue Numerous Investment Co., Ltd.	2015.03.12	Unit 1903, 19/F., Podium Plaza, 5 Hanoi Road, Tsim Sha Tsui, Kowloon, Hong Kong	HK\$16,600,000	Investment
Hong Kong Fubon Multimedia Technology Co., Ltd.	2010.03.18	Unit 1405-1406, Dominion Center, No. 43-59, Queen's Road East, Wanchai, Hong Kong	US\$33,632,777	Investment
Haobo Information Consulting (Shenzhen) Co., Ltd.	2008.11.14	2208B, Fuchun Eastern Building, Agricultural Science Center, Futian District, Shenzhen, Guangdong Province	RMB11,000,000	Investment
Fubon Gehua (Beijing) Enterprise Ltd.	2010.12.08	Room 102, Building 3, No. 241, PingFang Rd., Chaoyang District, Beijing, China	RMB230,000,000	Wholesaler

2. Industries covered by affiliates' business operations:

The Company's affiliates have set digital convergence as their core strategy, focusing on building (1) platforms: mobile network, cable TV/digital TV and cable broadband; 2) content: momo TV home shopping broadcasting, momo Family TV Channel, digital content and media, mobile commerce and payment, mobile apps and IoT, and 3) virtual/physical channels: myfone direct stores/online shopping, momoshop, momo mail orders, to develop the Group's Telecom, Internet, Media & Entertainment and E-commerce (TIME) footprint.

3. Affiliates' operating highlights

December 31, 2016; Unit: NT\$'000

Company name	Paid-in capital	Total assets	Total liabilities	Net worth	Operating revenue	Operating income	Net income	EPS (NT\$)
Taiwan Cellular Co., Ltd.	5,029,703	83,145,903	7,395	83,138,508	-	(486)	3,531,903	7.02
Wealth Media Technology Co., Ltd.	420,650	20,497,586	2,322	20,495,264	-	(176)	2,547,495	60.56
Taipei New Horizon Co., Ltd.	3,845,000	8,317,416	4,997,073	3,320,343	565,566	67,785	(52,631)	(0.14)
Taiwan Fixed Network Co., Ltd.	21,000,000	57,248,205	3,652,680	53,595,525	10,381,872	3,955,418	3,449,158	1.64
Taiwan Teleservices & Technologies Co., Ltd.	24,843	470,049	370,360	99,689	1,234,216	68,667	56,816	22.87
TWM Holding Co., Ltd.	0.032	258,594	31	258,563	-	(66)	(1,021)	(1,021,351)
TCC Investment Co., Ltd.	1,547,213	28,937,467	522,554	28,414,913	431	569	6,534	0.04
Taiwan Digital Communications Co., Ltd.	112,000	115,819	62	115,757	-	(538)	(179)	(0.02)
Taiwan Digital Service Co., Ltd.	25,000	129,228	26,639	102,589	119,200	8,498	8,197	3.28
TFN Media Co., Ltd.	2,309,213	14,213,510	4,400,770	9,812,740	3,228,067	1,822,693	1,991,584	8.62
Global Forest Media Technology Co., Ltd.	15,000	17,740	51	17,689	-	(136)	486	0.32
Global Wealth Media Technology Co., Ltd.	89,449	98,432	73	98,359	-	(161)	5,157	0.58
Win TV Broadcasting Co., Ltd.	181,774	551,917	211,857	340,060	961,584	141,017	116,455	6.41
momo.com Inc.	1,420,585	9,763,756	3,982,413	5,781,343	27,930,996	1,293,955	1,183,227	8.45
TFN Union Investment Co., Ltd.	4,000	42,710,115	1,223,823	41,486,292	1	(110)	(110)	(0.28)
TFN HK Ltd.	5,409	30,072	8,658	21,414	68,522	891	864	0.66
TT&T Holdings Co., Ltd.	40,943	53,770	-	53,770	-	-	(648)	(0.50)
TWM Communications (Beijing) Co., Ltd.	96,840	79,899	57	79,842	-	(466)	618	NA
TCCI Investment and Development Co., Ltd.	1,047,120	9,111,680	261,082	8,850,598	1	(138)	(138)	0.00
Taiwan Kuro Times Co., Ltd.	120,000	234,672	127,467	107,205	380,232	(39,181)	(32,173)	(2.68)
Yeong Jia Leh Cable TV Co., Ltd.	339,400	1,009,971	343,349	666,622	1,019,731	92,682	107,352	3.16
Mangrove Cable TV Co., Ltd.	211,600	664,301	254,424	409,877	519,947	132,046	110,629	5.23
Phoenix Cable TV Co., Ltd.	680,902	1,482,598	343,701	1,138,897	1,240,017	255,509	220,702	3.24
Union Cable TV Co., Ltd.	1,704,633	2,190,668	306,752	1,883,916	680,678	96,589	81,406	0.48

Company name	Paid-in capital	Total assets	Total liabilities	Net worth	Operating revenue	Operating income	Net income	EPS (NT\$)
Globalview Cable TV Co., Ltd.	560,000	945,773	231,127	714,646	532,065	89,595	77,834	1.39
Asian Crown International Co., Ltd.	1,068,610	4,746	8,513	(3,767)	-	(58)	(49,976)	(1.44)
Honest Development Co., Ltd.	670,448	716,333	-	716,333	-	-	56,751	2.61
Fuli Life Insurance Agent Co., Ltd.	5,000	11,457	507	10,950	3,549	2,619	2,218	4.44
Fuli Property Insurance Agent Co., Ltd.	5,000	7,661	267	7,394	533	(915)	(722)	(1.44)
Fu Sheng Travel Service Co., Ltd.	30,000	311,056	265,604	45,452	35,674	24,894	18,327	6.11
Fortune Kingdom Corp.	1,035,051	-	8,513	(8,513)	-	-	(49,834)	(1.48)
Hongkong Yue Numerous Investment Co., Ltd.	66,035	716,333	-	716,333	-	-	56,751	3.42
Hong Kong Fubon Multimedia Technology Co., Ltd.	1,035,051	381	8,894	(8,513)	-	(112)	(49,834)	(1.48)
Haobo Information Consulting (Shenzhen) Co., Ltd.	50,919	736,904	20,571	716,333	-	(56)	56,751	NA
Fubon Gehua (Beijing) Enterprise Ltd.	1,064,670	88,704	98,446	(9,742)	110,037	(50,758)	(54,447)	NA

Note : Exchange rates: US\$1=NT\$32.28, HK\$1=NT\$4.161 and RMB1=NT\$4.629 as of December 31, 2016

Average exchange rates: US\$1=NT\$32.2566, HK\$1=NT\$4.1552 and RMB1=NT\$4.8601 for 2016

Private placement of company shares: None

TWM shares held / sold by subsidiaries

Unit: NT\$'000

Subsidiary	TCC Investment Co., Ltd. (TCCI)	TFN Union Investment Co., Ltd. (TUI)	TCCI Investment and Development Co., Ltd. (TID)
Paid-in capital	1,547,213	4,000	1,047,120
Source of funding	Equity	TFN established TUI with the shares of the Company	TFN Investment (Note 2) established TID with the shares of the Company
% owned by the Company	100%	100%	100%
Acquisition / disposal date	–	–	–
No. of shares acquired and payment costs	–	–	–
No. of shares sold / proceeds	–	–	–
Investment income	–	–	–
Up to publication date: Total No. of shares / value (Note 1)	200,496,761 shares / NT\$12,163,470	410,665,284 shares / NT\$22,312,814	87,589,556 shares / NT\$4,759,033
Pledges	None	None	None
Guarantees / endorsements provided by the Company	–	–	–
Financing provided by the Company	–	–	–

Note 1: Ending balance is carrying cost and does not include evaluation gains/losses.

Note 2: TFN Investment was merged into TCC Investment Co., Ltd. on September 19, 2009.

Other supplementary information: None

Other significant events affecting shareholders' equity or stock price: None



20 Years of Glory
Innovation beyond Imagination

Taiwan Mobile Co., Ltd. and Subsidiaries

**Consolidated Financial Statements for the
Years Ended December 31, 2016 and 2015 and
Independent Auditors' Report**

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders
Taiwan Mobile Co., Ltd.

Opinion

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

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

The Basis of Opinion

We conducted our audit in accordance with the Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants ("CPA") and auditing standards generally accepted in the ROC. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the CPA Ethical Standards, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

The descriptions of the key audit matters of 2016 consolidated financial statements are as follow:

The Impairment Loss of Property, Plant and Equipment and Intangible Assets (Including Goodwill)

The description of key audit matter:

The consolidated balances of property, plant and equipment and intangible assets including goodwill amounted to \$42,415,229 thousand and \$59,677,982 thousand, respectively as of December 31, 2016. On each balance sheet date, the Group reviews for indication of impairment of the tangible and intangible assets. If any indication thereof exists, the Group then estimates the recoverable amount of the assets. If it is not possible to determine the recoverable amount (fair value less cost to sell and value in use) for the individual asset, then the Group will determine the recoverable amount for the asset's cash-generating unit. Because the aforementioned tangible and intangible assets amounted to \$102,093,211 thousand (67% of total consolidated assets) and the calculation for recoverable amount involved several assumptions and estimations, which directly impacts the amount recognized as impairment losses, we believe that the review of impairment of assets is a Key Audit Matter item.

Corresponding audit procedure:

By conducting compliance test, we obtained an understanding of the estimation for asset impairment and of the design and execution for relevant control. We also performed major audit procedures as follows:

1. Obtain the valuation form of assets impairment produced by the company for each cash-generating unit.
2. Evaluate and consult with the internal experts of the CPA firm the appropriateness of the assumptions and sensitivity analyses including the classification of cash-generating units, forecast of cash flows, and discount rate for the management to assess the assets impairment.

Telecommunication Service Revenue

The description of key audit matter:

The source of the major operating revenue of the Group is the telecommunication service revenue. For the year ended December 31, 2016, the telecommunication service revenue amounted to \$56,849,968 thousand. Because nowadays the telecommunication industry is more competitive where the calculation of the service revenue becomes more complex and cumbersome, and relies highly on automatic, systematic connection and implementation, the telecommunication service revenue is considered as one of the key audit matters.

Corresponding audit procedure:

By conducting compliance test, we obtained an understanding of the revenue recognition process and of the design and execution for relevant control. We also performed major audit procedures as follows:

1. Review the contracts of mobile subscribers to ensure the accuracy of information in the accounting system.
2. Perform the dialing test to verify the completeness of the information in the telephone-exchange.
3. Perform system integration test from telephone-exchange to telephone traffic.
4. Test for the accuracy of billing calculation.
5. Verify the accuracy of the billing amounts generated from monthly rental as well as airtime accounting system.

Other Matter

We have also audited the parent company only financial statements of Taiwan Mobile Co., Ltd. as of and for the years ended December 31, 2016 and 2015 on which we have issued an unmodified and a modified unqualified report, respectively.

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

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

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

Those charged with governance (including audit committee) are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

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

1. Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

The engagement partners on the audit resulting in this independent auditors' report are Li-Wen Kuo and Kwan-Chung Lai.

Deloitte & Touche
Taipei, Taiwan
Republic of China
January 25, 2017

Notice to Readers

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

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

TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (In Thousands of New Taiwan Dollars)

ASSETS	December 31, 2016		December 31, 2015		LIABILITIES AND EQUITY	December 31, 2016		December 31, 2015	
	Amount	%	Amount	%		Amount	%	Amount	%
CURRENT ASSETS					CURRENT LIABILITIES				
Cash and cash equivalents (Notes 6 and 29)	\$ 7,704,517	5	\$ 8,579,422	5	Short-term borrowings (Notes 17 and 29)	\$ 7,363,005	5	\$ 14,220,938	9
Available-for-sale financial assets (Notes 7 and 29)	1,231,871	1	1,028,132	1	Short-term notes and bills payable (Note 17)	-	-	10,793,487	7
Accounts and notes receivable, net (Note 8)	15,331,965	10	15,656,266	10	Accounts and notes payable	7,114,164	5	6,410,405	4
Accounts receivable due from related parties (Note 29)	83,541	-	62,103	-	Accounts payable due to related parties (Note 29)	145,982	-	91,486	-
Other receivables (Note 29)	1,287,274	1	1,178,226	1	Other payables (Note 29)	9,822,578	6	11,273,991	7
Inventories (Note 9)	4,071,748	3	4,188,213	3	Current tax liabilities	2,221,519	1	1,876,908	1
Prepayments (Note 29)	500,558	-	439,628	-	Provisions (Note 19)	202,873	-	166,217	-
Other financial assets (Notes 29 and 30)	4,018,764	3	3,003,099	2	Advance receipts	2,637,194	2	2,288,795	2
Other current assets	49,874	-	39,846	-	Long-term liabilities, current portion (Notes 17 and 18)	6,252,767	4	10,267,891	7
Total current assets	<u>34,280,112</u>	<u>23</u>	<u>34,174,935</u>	<u>22</u>	Other current liabilities	<u>2,384,515</u>	<u>2</u>	<u>1,842,100</u>	<u>1</u>
					Total current liabilities	<u>38,144,597</u>	<u>25</u>	<u>59,232,218</u>	<u>38</u>
NON-CURRENT ASSETS					NON-CURRENT LIABILITIES				
Financial assets at fair value through profit or loss	42,030	-	158,322	-	Financial liabilities at fair value through profit or loss (Note 18)	41,961	-	-	-
Available-for-sale financial assets (Note 7)	3,194,347	2	2,664,478	2	Bonds payable (Note 18)	21,459,896	14	14,795,938	9
Financial assets at cost	188,548	-	192,700	-	Long-term borrowings (Note 17)	21,447,691	14	11,682,472	7
Debt instrument investment without active market	423,481	-	359,062	-	Provisions (Note 19)	1,305,688	1	1,231,244	1
Investments accounted for using equity method (Notes 10 and 29)	1,564,265	1	1,584,362	1	Deferred tax liabilities (Note 24)	822,880	1	2,014,310	1
Property, plant and equipment (Notes 5 and 13)	42,415,229	28	47,247,121	30	Net defined benefit liabilities (Note 20)	369,322	-	274,636	-
Investment properties, net (Note 14)	2,951,079	2	330,165	-	Guarantee deposits	887,163	1	797,787	1
Concessions (Notes 5, 15 and 30)	37,864,311	25	40,445,341	26	Other non-current liabilities	<u>711,672</u>	<u>-</u>	<u>765,344</u>	<u>1</u>
Goodwill (Notes 5 and 15)	15,845,930	10	15,845,930	10	Total non-current liabilities	<u>47,046,273</u>	<u>31</u>	<u>31,561,731</u>	<u>20</u>
Other intangible assets, net (Notes 5 and 15)	5,967,741	4	6,111,153	4	Total liabilities	<u>85,190,870</u>	<u>56</u>	<u>90,793,949</u>	<u>58</u>
Deferred tax assets (Note 24)	708,656	1	811,782	1	EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT (Note 21)				
Other financial assets (Notes 29, 30 and 31)	125,953	-	109,366	-	Common stock	34,208,328	23	34,208,328	22
Other non-current assets (Notes 16 and 29)	<u>5,805,723</u>	<u>4</u>	<u>6,050,956</u>	<u>4</u>	Capital surplus	14,985,047	10	14,586,376	9
Total non-current assets	<u>117,097,293</u>	<u>77</u>	<u>121,910,738</u>	<u>78</u>	Retained earnings				
					Legal reserve	24,606,828	16	23,038,209	15
					Special reserve	1,173,954	1	302,986	-
					Unappropriated earnings	15,850,111	10	18,311,104	12
					Other equity interests	(690,034)	-	(1,173,954)	(1)
					Treasury shares	<u>(29,717,344)</u>	<u>(20)</u>	<u>(29,717,344)</u>	<u>(19)</u>
					Total equity attributable to owners of the parent	60,416,890	40	59,555,705	38
					NON-CONTROLLING INTERESTS (Note 21)	<u>5,769,645</u>	<u>4</u>	<u>5,736,019</u>	<u>4</u>
					Total equity	<u>66,186,535</u>	<u>44</u>	<u>65,291,724</u>	<u>42</u>
TOTAL	<u>\$ 151,377,405</u>	<u>100</u>	<u>\$ 156,085,673</u>	<u>100</u>	TOTAL	<u>\$ 151,377,405</u>	<u>100</u>	<u>\$ 156,085,673</u>	<u>100</u>

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

TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES

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

	2016		2015	
	Amount	%	Amount	%
OPERATING REVENUES (Notes 22 and 29)	\$ 116,647,498	100	\$ 116,144,205	100
OPERATING COSTS (Notes 29 and 34)	<u>78,790,518</u>	<u>68</u>	<u>79,785,135</u>	<u>69</u>
GROSS PROFIT FROM OPERATIONS	<u>37,856,980</u>	<u>32</u>	<u>36,359,070</u>	<u>31</u>
OPERATING EXPENSES (Notes 29 and 34)				
Marketing	12,977,366	11	12,820,487	11
Administrative	<u>5,283,030</u>	<u>4</u>	<u>5,074,014</u>	<u>4</u>
Total operating expenses	<u>18,260,396</u>	<u>15</u>	<u>17,894,501</u>	<u>15</u>
NET OTHER INCOME AND EXPENSES	<u>423,182</u>	<u>-</u>	<u>304,580</u>	<u>-</u>
OPERATING INCOME	<u>20,019,766</u>	<u>17</u>	<u>18,769,149</u>	<u>16</u>
NON-OPERATING INCOME AND EXPENSES				
Other income (Notes 23 and 29)	379,957	-	448,789	-
Other gains and losses, net (Notes 23 and 29)	(586,636)	-	(388,633)	-
Finance costs (Notes 23 and 29)	(673,439)	-	(730,917)	-
Share of profit (loss) of associates accounted for using equity method (Note 10)	<u>51,824</u>	<u>-</u>	<u>67,562</u>	<u>-</u>
Total non-operating income and expenses	<u>(828,294)</u>	<u>-</u>	<u>(603,199)</u>	<u>-</u>
PROFIT BEFORE TAX	19,191,472	17	18,165,950	16
INCOME TAX EXPENSE (Note 24)	<u>3,263,029</u>	<u>3</u>	<u>1,997,921</u>	<u>2</u>
PROFIT	<u>15,928,443</u>	<u>14</u>	<u>16,168,029</u>	<u>14</u>
OTHER COMPREHENSIVE INCOME (LOSS)				
Items that will not be reclassified subsequently to profit or loss				
Re-measurements from defined benefit plans	(98,443)	-	(133,738)	-
Share of other comprehensive income (loss) of associates accounted for using equity method	(472)	-	(1,275)	-
Items that may be reclassified subsequently to profit or loss				
Exchange differences on translation	(69,331)	-	(12,254)	-
Unrealized gains (losses) on available-for-sale financial assets	533,608	-	(907,330)	(1)
Share of other comprehensive income (loss) of associates accounted for using equity method	<u>(14,059)</u>	<u>-</u>	<u>(36,512)</u>	<u>-</u>
Other comprehensive loss (after tax)	<u>351,303</u>	<u>-</u>	<u>(1,091,109)</u>	<u>(1)</u>
COMPREHENSIVE INCOME	<u>\$ 16,279,746</u>	<u>14</u>	<u>\$ 15,076,920</u>	<u>13</u>
PROFIT ATTRIBUTABLE TO:				
Owners of the parent	\$ 15,320,187	14	\$ 15,686,186	14
Non-controlling interests	<u>608,256</u>	<u>-</u>	<u>481,843</u>	<u>-</u>
	<u>\$ 15,928,443</u>	<u>14</u>	<u>\$ 16,168,029</u>	<u>14</u>
COMPREHENSIVE INCOME ATTRIBUTABLE TO:				
Owners of the parent	\$ 15,706,230	14	\$ 14,681,379	13
Non-controlling interests	<u>573,516</u>	<u>-</u>	<u>395,541</u>	<u>-</u>
	<u>\$ 16,279,746</u>	<u>14</u>	<u>\$ 15,076,920</u>	<u>13</u>
EARNINGS PER SHARE (Note 25)				
Basic earnings per share	<u>\$ 5.63</u>		<u>\$ 5.76</u>	
Diluted earnings per share	<u>\$ 5.60</u>		<u>\$ 5.75</u>	

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

TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(In Thousands of New Taiwan Dollars)

	Equity Attributable to Owners of the Parent					Other Equity Interests			Total	Non-controlling Interests	Total Equity
	Common Stock	Capital Surplus	Retained Earnings		Unappropriated Earnings	Exchange Differences on Translation	Unrealized Gain (Loss) on Available-for-sale Financial Assets	Treasury Shares			
			Legal Reserve	Special Reserve							
BALANCE, JANUARY 1, 2015	\$ 34,208,328	\$ 14,715,830	\$ 21,537,666	\$ -	\$ 19,805,941	\$ 31,294	\$ (334,280)	\$(29,717,344)	\$ 60,247,435	\$ 6,252,897	\$ 66,500,332
Distribution of 2014 earnings	-	-	1,500,543	-	(1,500,543)	-	-	-	-	-	-
Legal reserve	-	-	-	-	(302,986)	-	-	-	-	-	-
Special reserve	-	-	-	302,986	(302,986)	-	-	-	-	-	-
Cash dividends	-	-	-	-	(15,243,655)	-	-	-	(15,243,655)	-	(15,243,655)
Total distribution of earnings	-	-	1,500,543	302,986	(17,047,184)	-	-	-	(15,243,655)	-	(15,243,655)
Profit for the year ended December 31, 2015	-	-	-	-	15,686,186	-	-	-	15,686,186	481,843	16,168,029
Other comprehensive income for the year ended December 31, 2015	-	-	-	-	(133,839)	(8,908)	(862,060)	-	(1,004,807)	(86,302)	(1,091,109)
Total comprehensive income for the year ended December 31, 2015	-	-	-	-	15,552,347	(8,908)	(862,060)	-	14,681,379	395,541	15,076,920
Changes in equity of associates accounted for using equity method	-	11,203	-	-	-	-	-	-	11,203	14,038	25,241
Adjustments arising from changes in percentage of ownership of subsidiaries	-	(140,657)	-	-	-	-	-	-	(140,657)	(255,874)	(396,531)
Cash dividends from subsidiaries paid to non-controlling interests	-	-	-	-	-	-	-	-	-	(670,583)	(670,583)
BALANCE, DECEMBER 31, 2015	34,208,328	14,586,376	23,038,209	302,986	18,311,104	22,386	(1,196,340)	(29,717,344)	59,555,705	5,736,019	65,291,724
Distribution of 2015 earnings	-	-	1,568,619	-	(1,568,619)	-	-	-	-	-	-
Legal reserve	-	-	-	-	(870,968)	-	-	-	-	-	-
Special reserve	-	-	-	870,968	(870,968)	-	-	-	-	-	-
Cash dividends	-	-	-	-	(15,243,655)	-	-	-	(15,243,655)	-	(15,243,655)
Total distribution of earnings	-	-	1,568,619	870,968	(17,683,242)	-	-	-	(15,243,655)	-	(15,243,655)
Profit for the year ended December 31, 2016	-	-	-	-	15,320,187	-	-	-	15,320,187	608,256	15,928,443
Other comprehensive income for the year ended December 31, 2016	-	-	-	-	(97,877)	(31,519)	515,439	-	386,043	(34,740)	351,303
Total comprehensive income for the year ended December 31, 2016	-	-	-	-	15,222,310	(31,519)	515,439	-	15,706,230	573,516	16,279,746
Equity component of convertible bonds issued by the Company	-	400,564	-	-	-	-	-	-	400,564	-	400,564
Changes in equity of associates accounted for using equity method	-	(1,893)	-	-	(61)	-	-	-	(1,954)	(75)	(2,029)
Cash dividends from subsidiaries paid to non-controlling interests	-	-	-	-	-	-	-	-	-	(539,625)	(539,625)
Decrease in non-controlling interests	-	-	-	-	-	-	-	-	-	(190)	(190)
BALANCE, DECEMBER 31, 2016	<u>\$ 34,208,328</u>	<u>\$ 14,985,047</u>	<u>\$ 24,606,828</u>	<u>\$ 1,173,954</u>	<u>\$ 15,850,111</u>	<u>\$ (9,133)</u>	<u>\$ (680,901)</u>	<u>\$(29,717,344)</u>	<u>\$ 60,416,890</u>	<u>\$ 5,769,645</u>	<u>\$ 66,186,535</u>

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

TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES

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

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	\$ 19,191,472	\$ 18,165,950
Adjustments		
Depreciation expense	10,650,126	10,576,173
Amortization expense	3,201,689	2,939,619
Loss on disposal of property, plant and equipment, net	457,819	332,085
Gain on disposal of intangible assets	-	(47)
Provision for bad debt expense	385,004	395,016
Finance costs	673,439	730,917
Interest income	(164,174)	(154,760)
Dividend income	(80,168)	(21,213)
Share of profit of associates accounted for using equity method	(51,824)	(67,562)
Valuation loss on financial assets and liabilities at fair value through profit or loss	118,234	68,618
Impairment loss on financial assets	2,209	-
Gain on disposal of investments, net	-	(12,437)
Gain (loss) on foreign exchange, net	12,075	(40,004)
Others	1,366	1,629
Changes in operating assets and liabilities		
Financial assets held for trading	-	1,478
Accounts and notes receivable	187,756	(1,234,205)
Accounts receivable due from related parties	(21,438)	(27,542)
Other receivables	(106,626)	(182,688)
Inventories	112,784	(977,225)
Prepayments	(62,050)	55,247
Other current assets	1,502	(4,528)
Other financial assets	5,254	(5,319)
Accounts and notes payable	703,759	(1,371,871)
Accounts payable due to related parties	54,496	12,094
Other payables	(358,829)	(229,022)
Provisions	54,911	91,006
Advance receipts	348,399	24,183
Other current liabilities	542,415	(156,635)
Net defined benefit liabilities	(23,920)	(23,276)
Net cash inflows generated by operating activities	35,835,680	28,885,681
Interest received	1,374	1,194
Interest paid	(2,414)	(601)
Income taxes paid	(4,004,476)	(3,080,538)
Net cash generated by operating activities	<u>31,830,164</u>	<u>25,805,736</u>

(Continued)

TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES

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

	2016	2015
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of property, plant and equipment	\$ (9,932,672)	\$ (11,585,672)
Acquisition of intangible assets	(274,594)	(4,180,118)
Increase in prepayments for equipment	(280,998)	(288,176)
Proceeds from disposal of property, plant and equipment	29,416	150,937
Proceeds from disposal of intangible assets	-	47
Acquisition of available-for-sale financial assets	(200,000)	-
Proceeds from disposal of available-for-sale financial assets	-	1,192,504
Acquisition of convertible notes	-	(596,730)
Acquisition of investments accounted for using equity method	(30,000)	(670,448)
Acquisition of financial assets at cost	-	(2,108)
Proceeds from redemption of debt investments with no active market	-	500,000
Proceeds from capital return of financial assets at cost	1,944	2,160
Increase in refundable deposits	(212,008)	(1,222,077)
Decrease in refundable deposits	195,335	1,219,549
Increase in other financial assets	(2,861,536)	(2,127,122)
Decrease in other financial assets	1,823,478	2,259,551
Interest received	87,859	115,539
Dividend received	125,820	52,621
	<u>(11,527,956)</u>	<u>(15,179,543)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of short-term borrowings	(6,853,000)	(4,679,062)
Increase (decrease) in short-term notes and bills payable	(10,792,680)	5,203,447
Proceeds from issue of convertible bonds	9,989,130	-
Proceeds from long-term borrowings	13,130,000	8,770,000
Repayment of long-term borrowings	(10,282,000)	(2,210,000)
Increase in guarantee deposits received	295,340	388,216
Decrease in guarantee deposits received	(204,589)	(405,335)
Cash dividends paid (including paid to non-controlling interests)	(15,783,271)	(15,914,229)
Interest paid	(669,893)	(704,786)
Decrease in non-controlling interests	-	(397,175)
	<u>(21,170,963)</u>	<u>(9,948,924)</u>
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND EQUIVALENTS		
	<u>(6,150)</u>	<u>(1,624)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(874,905)	675,645
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>8,579,422</u>	<u>7,903,777</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 7,704,517</u>	<u>\$ 8,579,422</u>

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

(Concluded)

TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015 (In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

1. ORGANIZATION AND OPERATIONS

Taiwan Mobile Co., Ltd. (“TWM”) was incorporated in Taiwan, the ROC on February 25, 1997. TWM’s shares were listed on the ROC Over-the-Counter Securities Exchange (“OTC”, formerly known as the GreTai Securities Market) on September 19, 2000. On August 26, 2002, TWM’s shares were shifted to be listed on the Taiwan Stock Exchange. TWM is mainly engaged in rendering wireless communication services, sales of mobile phones and accessories, games and e-books.

TWM’s received a second-generation (“2G”) mobile telecommunications concession operation license issued by the Directorate General of Telecommunications (“DGT”) of the ROC. The license allows TWM to provide services for 15 years from 1997 onwards. The license was renewed and its expiry date was extended to June 2017 by the National Communications Commission (“NCC”). In March 2005, TWM received a third-generation (“3G”) concession operation license issued by the DGT. The 3G license shall be valid until December 2018. TWM participated in NCC’s fourth-generation (“4G”) mobile spectrum auction for the need of long-term business development and acquired the concession license for the Mobile Broadband Spectrum in the 700 and 1800 MHz frequency bands in April 2014. The 4G license shall be valid until December 2030.

The consolidated financial statements of TWM comprise TWM and its subsidiaries.

2. APPROVAL DATE AND PROCEDURES OF THE CONSOLIDATED FINANCIAL STATEMENTS

The Board of Directors approved the consolidated financial statements on January 25, 2017.

3. ADOPTION OF NEW AND AMENDED STANDARDS AND INTERPRETATIONS

- a. Amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the IFRS, IAS, IFRIC, and SIC endorsed by the FSC (collectively, the “IFRSs”) for application starting from 2017.

Rule No. 1050050021 and Rule No. 1050026834 issued by the FSC stipulated that starting January 1, 2017, the Group should apply the amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the IFRSs issued by the IASB and endorsed by the FSC for application starting from 2017.

<u>New, Revised or Amended Standards and Interpretations</u>	<u>Effective Date Issued by IASB (Note 1)</u>
Annual Improvements to IFRSs 2010-2012 Cycle	July 1, 2014 (Note 2)
Annual Improvements to IFRSs 2011-2013 Cycle	July 1, 2014
Annual Improvements to IFRSs 2012-2014 Cycle	January 1, 2016 (Note 3)
Amendments to IFRS 10, IFRS 12 and IAS 28 “Investment Entities: Applying the Consolidation Exception”	January 1, 2016

(Continued)

New, Revised or Amended Standards and Interpretations	Effective Date Issued by IASB (Note 1)
Amendment to IFRS 11 “Accounting for Acquisitions of Interests in Joint Operations”	January 1, 2016
IFRS 14 “Regulatory Deferral Accounts”	January 1, 2016
Amendment to IAS 1 “Disclosure Initiative”	January 1, 2016
Amendments to IAS 16 and IAS 38 “Clarification of Acceptable Methods of Depreciation and Amortization”	January 1, 2016
Amendments to IAS 16 and IAS 41 “Agriculture: Bearer Plants”	January 1, 2016
Amendment to IAS 19 “Defined Benefit Plans: Employee Contributions”	July 1, 2014
Amendment to IAS 36 “Impairment of Assets: Recoverable Amount Disclosures for Non-financial Assets”	January 1, 2014
Amendment to IAS 39 “Novation of Derivatives and Continuation of Hedge Accounting”	January 1, 2014
IFRIC 21 “Levies”	January 1, 2014

(Concluded)

Note 1: Unless stated otherwise, the above New, Revised or Amended IFRSs are effective for annual periods beginning on or after their respective effective dates.

Note 2: The amendment to IFRS 2 applies to share-based payment transactions with grant date on or after July 1, 2014; the amendment to IFRS 3 applies to business combinations with acquisition date on or after July 1, 2014; the amendment to IFRS 13 is effective immediately; the remaining amendments are effective for annual periods beginning on or after July 1, 2014.

Note 3: The amendment to IFRS 5 is applied prospectively to changes in a method of disposal that occur in annual periods beginning on or after January 1, 2016; the remaining amendments are effective for annual periods beginning on or after January 1, 2016.

The initial application in 2017 of the above IFRSs and related amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers would not have any material impact on the Group’s accounting policies, except for the following:

Amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers

The amendments include additions of several accounting items and requirements for disclosures of impairment of non-financial assets as a consequence of the IFRSs endorsed by the FSC for application starting from 2017. In addition, as a result of the post implementation review of IFRSs in Taiwan, the amendments also include emphasis on certain recognition and measurement considerations and add requirements for disclosures of related party transactions and goodwill.

The amendments stipulate that other companies or institutions of which the chairman of the board of directors or president serves as the chairman of the board of directors or the president, or is the spouse or second immediate family of the chairman of the board of directors or president of the issuer are deemed to have a substantive related party relationship, unless it can be demonstrated that no control, joint control, or significant influence exists. Furthermore, the amendments require the disclosure of the names of the related parties and the relationship with whom the Group has significant transaction. If the transaction or balance with a specific related party is 10% or more of the Group’s respective total transaction or balance, such transaction should be separately disclosed by the name of each related party.

The amendments also require additional disclosure if there is a significant difference between the actual operation after business combination and the expected benefit on acquisition date.

The disclosures of related party transactions and impairment of goodwill will be enhanced when the above amendments are retrospectively applied in 2017.

b. New IFRSs issued by IASB but not yet endorsed by the FSC.

The Group has not applied the following IFRSs issued by the IASB but not yet endorsed by the FSC. As of the date the consolidated financial statements were authorized for issue, except for IFRS 9 and IFRS 15 to be effective on January 1, 2018, the FSC has not announced the effective dates of the other new IFRSs.

New, Revised or Amended Standards and Interpretations	Effective Date Issued by IASB (Note 1)
Annual Improvements to IFRSs 2014-2016 Cycle	Note 2
Amendment to IFRS 2 “Classification and Measurement of Share-based Payment Transactions”	January 1, 2018
Amendments to IFRS 4 “Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts”	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
Amendment to IFRS 15 “Clarifications to IFRS 15”	January 1, 2018
IFRS 16 “Leases”	January 1, 2019
Amendment to IAS 7 “Disclosure Initiative”	January 1, 2017
Amendments to IAS 12 “Recognition of Deferred Tax Assets for Unrealized Losses”	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: Unless stated otherwise, the above New, Revised or Amended IFRSs are effective for annual periods beginning on or after their respective effective dates.

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.

1) IFRS 15 “Revenue from Contracts with Customers” and related amendment

IFRS 15 establishes the principles that apply to report revenue arising from a contract with a customer. This standard will replace IAS 18 Revenue, IAS 11 Construction Contracts, and related interpretations.

When adopting IFRS 15, the Group recognizes revenue by the following steps:

- a) Identify the contract with the customer;
- b) Identify the performance obligations in the contract;
- c) Determine the transaction price;
- d) Allocate the transaction price to the performance obligations in the contract; and
- e) Recognize revenue when the entity satisfies a performance obligation.

IFRS 15 establishes the principles that incremental costs of obtaining a contract will be recognized as an asset to the extent the Group 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 during the contract period to which the asset relates. This will lead to the later recognition of charges for certain customer-obtaining costs.

IFRS 15 and related amendment require that when another party is involved in providing goods or services to a customer, the Group is a principal if it controls the specified good or service before that good or service is transferred to a customer.

When IFRS 15 and related amendment are effective, the Group may elect to apply this standard either retrospectively to each period presented or to recognize the accumulated adjustment at the date of initial application.

2) 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 Group 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 Group 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 Group should present the depreciation expense charged on the right-of-use asset separately from interest expense accrued on the lease liability; 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 and for interest portion are classified within financing activities.

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

When IFRS 16 becomes effective, the Group 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 above potential impact, as of the date the consolidated financial statements were authorized for issue, the Group is continuously assessing the possible impact that the application of other standards and interpretations will have on the Group’s financial position and financial performance, and will disclose the relevant impact when the assessment is completed.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance

The consolidated financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and IFRSs as endorsed by the FSC.

Basis of Preparation

a. Basis of measurement

The consolidated financial statements have been prepared on a historical cost basis except for financial instruments measured at fair value through profit or loss, which are measured at fair value.

b. Functional and presentation currency

The functional currency of each individual consolidated entity is determined based on the primary economic environment in which the entity operates. The Group's consolidated financial statements are presented in New Taiwan Dollars (NTD), which is TWM's functional currency.

Basis of Consolidation

a. Principles of preparation of consolidated financial statements

The consolidated financial statements incorporate the financial statements of TWM and its controlled entities (the subsidiaries). Control is achieved where TWM has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The financial statements of the subsidiaries are included in the consolidated financial statements from the date of obtaining control and are excluded from the date of losing control. The comprehensive income from subsidiaries is allocated to TWM and its non-controlling interests, even if the non-controlling interests have a deficit balance.

The consolidated statements of comprehensive income include the results of a disposed subsidiary up to the date of disposal.

Changes in the ownership of a subsidiary that do not result in loss of control are accounted for as equity transactions.

Financial statements of subsidiaries are adequately adjusted to align their accounting policies with those of the Group.

Transactions and balances, and any unrealized income and expenses arising from intra-group transactions are eliminated in preparing the consolidated financial statements.

b. The subsidiaries included in the consolidated financial statements were as follows:

Investor	Subsidiary	Main Business and Products	Percentage of Ownership		Note
			2016	2015	
TWM	Taiwan Cellular Co., Ltd. (TCC)	Investment	100.00%	100.00%	-
	Wealth Media Technology Co., Ltd. (WMT)	Investment	100.00%	100.00%	-
	Taipei New Horizon Co., Ltd. (TNH)	Building and operating Songshan Cultural and Creative Park BOT project	49.90%	49.90%	-
TCC	Taiwan Fixed Network Co., Ltd. (TFN)	Fixed-line service provider	100.00%	100.00%	-
	Taiwan Teleservices & Technologies Co., Ltd. (TT&T)	Call center service and telephone marketing	100.00%	100.00%	-
	TWM Holding Co., Ltd. (TWM Holding)	Investment	100.00%	100.00%	-
	TCC Investment Co., Ltd. (TCCI)	Investment	100.00%	100.00%	Note 1
	Taiwan Digital Communications Co., Ltd. (TDC)	Mobile phone wholesaling and TV program production	100.00%	100.00%	-
	Taiwan Digital Service Co., Ltd. (TDS)	Commissioned maintenance service	100.00%	100.00%	-

(Continued)

Investor	Subsidiary	Main Business and Products	Percentage of Ownership		Note	
			2016	2015		
WMT	TFN Media Co., Ltd. (TFNM)	Cable broadband and value-added services provider	100.00%	100.00%	-	
	Global Forest Media Technology Co., Ltd. (GFMT)	Investment	100.00%	100.00%	-	
	Global Wealth Media Technology Co., Ltd. (GWMT)	Investment	100.00%	100.00%	-	
	Win TV Broadcasting Co., Ltd. (WTVB)	TV program provider	100.00%	100.00%	-	
TFN	momo.com Inc. (momo)	Wholesale and retail sales	45.01%	45.01%	Note 2	
	TFN Union Investment Co., Ltd. (TUI)	Investment	100.00%	100.00%	Note 1	
	TFN HK Ltd.	Telecommunication service provider	100.00%	100.00%	-	
TT&T	TT&T Holdings Co., Ltd. (TT&T Holdings)	Investment	100.00%	100.00%	-	
TWM Holding	TWM Communications (Beijing) Co., Ltd. (TWMC)	Mobile application development and design	100.00%	100.00%	-	
TCCI	TCCI Investment and Development Co., Ltd. (TID)	Investment	100.00%	100.00%	Note 1	
TFNM	Taiwan Kuro Times Co., Ltd. (TKT)	Online music service	100.00%	100.00%	-	
	Yeong Jia Leh Cable TV Co., Ltd. (YJCTV)	Cable TV service provider	100.00%	100.00%	-	
	Mangrove Cable TV Co., Ltd. (MCTV)	Cable TV service provider	29.53%	29.53%	Note 3	
	Phoenix Cable TV Co., Ltd. (PCTV)	Cable TV service provider	100.00%	100.00%	-	
	Union Cable TV Co., Ltd. (UCTV)	Cable TV service provider	99.22%	99.22%	-	
	Globalview Cable TV Co., Ltd. (GCTV)	Cable TV service provider	92.38%	92.38%	-	
GFMT	UCTV	Cable TV service provider	0.76%	0.76%	-	
GWMT	GCTV	Cable TV service provider	6.83%	6.83%	-	
momo	Asian Crown International Co., Ltd. (Asian Crown (BVI))	Investment	76.26%	76.26%	-	
	Honest Development Co., Ltd. (Honest Development)	Investment	100.00%	100.00%	-	
	Fuli Life Insurance Agent Co., Ltd. (FLI)	Life insurance agent	100.00%	100.00%	-	
	Fuli Property Insurance Agent Co., Ltd. (FPI)	Property insurance agent	100.00%	100.00%	-	
	Fu Sheng Travel Service Co., Ltd. (FST)	Travel agent	100.00%	100.00%	-	
	Asian Crown (BVI)	Fortune Kingdom Corporation (Fortune Kingdom)	Investment	100.00%	100.00%	-
	Honest Development	Hongkong Yue Numerous Investment Co., Ltd. (HK Yue Numerous)	Investment	100.00%	100.00%	Note 4
	Fortune Kingdom	Hong Kong Fubon Multimedia Technology Co., Ltd. (HK Fubon Multimedia)	Investment	100.00%	100.00%	-
HK Yue Numerous	Haobo Information Consulting (Shenzhen) Co., Ltd. (Haobo)	Investment	100.00%	100.00%	Note 4	
HK Fubon Multimedia	Fubon Gehua (Beijing) Enterprise Ltd. (FGE)	Wholesaling	91.30%	91.30%	-	

(Concluded)

Note 1: TCCI, TUI and TID collectively owned 698,752 thousand shares of TWM representing 20.42% of total outstanding shares as of December 31, 2016.

Note 2: WMT increased the percentage of ownership interests in momo due to momo's buy-back of treasury shares from October to December in 2015.

Note 3: The other 70.47% of shares were held under trustee accounts.

Note 4: In June 2015, momo established Honest Development to purchase HK Yue Numerous and its subsidiary, Haobo, through portfolio investment, and indirectly acquired the associate Beijing Global Guoguang Media Technology Co., Ltd., through Haobo.

c. Subsidiaries excluded from the consolidated financial statements: None.

Foreign Currency

Foreign currency transactions are recorded at the spot exchange rate on the date of the transaction. At the end of the reporting period, foreign currency monetary items are reported using the closing rate.

Non-monetary items carried at fair value should be reported at the rate that existed when the fair values were determined. Non-monetary items carried at historical cost are reported using the exchange rate at the date of the transaction.

Exchange differences due to settlement of transactions or translation of monetary items are recognized in profit or loss.

Exchange differences arising on non-monetary items carried at fair value (for example, equity instruments) are recognized in profit or loss. If a gain or loss on a non-monetary item is recognized in other comprehensive income (loss), any foreign exchange component of that gain or loss is also recognized in other comprehensive income (loss).

For the purpose of preparing consolidated financial statements, the assets and liabilities of foreign operations are translated to NTD using the exchange rates at the end of the reporting period. The income and expenses of foreign operations are translated at the average exchange rate for the period. Exchange differences are recognized in other comprehensive income and accumulated in equity.

Classification of Current and Non-current Assets and Liabilities

The Group classifies an asset as current when any one of the following requirements is met. Assets that are not classified as current are non-current assets.

- a. It expects to realize the asset, or intends to sell or consume it, in its normal operating cycle;
- b. It holds the asset primarily for the purpose of trading;
- c. It expects to realize the asset within twelve months after the reporting period; or
- d. The asset is cash or a cash equivalent unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

The Group classifies a liability as current when any one of the following requirements is met. Liabilities that are not classified as current are non-current liabilities.

- a. It expects to settle the liability in its normal operating cycle;
- b. It holds the liability primarily for the purpose of trading;

- c. The liability is due to be settled within twelve months after the reporting period; or
- d. It does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

Cash and Cash Equivalents

Cash and cash equivalents comprise cash, revolving funds, cash in bank and short-term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value. Time deposits which meet the above definition and are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes should be recognized as cash equivalents. If they do not meet the above definition, time deposits should be recognized as other current and non-current financial assets.

Financial Instruments

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

a. Financial assets

The Group adopts trade-date accounting to recognize and derecognize financial assets. Financial assets are classified into the following categories: Financial assets at fair value through profit or loss, available-for-sale financial assets, and loans and receivables.

1) Financial assets at fair value through profit or loss

A financial asset classified in this category is for the purpose of trading or is at fair value through profit or loss.

This type of financial assets is measured at fair value, and the profit and loss (including relevant dividend and interest income) pertaining to re-measurement are recognized as non-operating income and expenses.

2) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available for sale or are not classified in any of the other categories of financial assets. Available-for-sale financial assets are recognized initially at fair value, plus any directly attributable transaction cost, and changes are measured at fair value afterwards. Impairment losses, dividend income, and changes in the carrying amount of available-for-sale financial assets from foreign exchange gains or losses and interest income using the effective interest method are recognized in profit and loss, while other changes in carrying amount are recognized in other comprehensive income (loss) and presented in unrealized gain (loss) on available-for-sale financial assets in equity. When an investment is derecognized, the gain or loss accumulated in equity is reclassified to profit or loss, and is included in non-operating income and expenses.

Investments in equity instruments 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 impairment loss, and are included in financial assets measured at cost.

3) Loans and receivables

Receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables other than insignificant interest on short-term receivables are measured at amortized cost using the effective interest method less any impairment losses.

Loans and receivables comprise cash and cash equivalents, accounts receivable, other receivables, debt instrument investment without active market, other financial assets, and refundable deposits.

4) Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for impairment 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 an available-for-sale investment in an equity security, a significant or prolonged decline in its fair value below its cost is considered objective evidence of impairment. In addition, objective evidence that financial assets are impaired includes default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, adverse changes in the payment status of borrowers or issuers, economic conditions that correlate with defaults, or the disappearance of an active market for a security.

Impairment losses on available-for-sale financial assets are recognized by reclassifying the losses accumulated in the fair value reserve in equity to profit or loss.

Impairment losses recognized on an available-for-sale equity security are not reversed through profit or loss. Any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognized in other comprehensive income (loss), and accumulated in other equity.

An impairment loss in respect of a financial asset measured at cost is calculated as the difference between its 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 reversible in subsequent periods.

For financial assets at amortized cost, an impairment loss is calculated as the difference between an asset's carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate.

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.

Receivables are assessed as to whether any impairment has occurred at the end of each reporting period. A receivable is impaired if, and only if, there is any objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset and that loss event has an impact on the estimated future cash flows of the asset that can be estimated reliably. An impairment loss is calculated as the difference between its carrying amount and the present value of the estimated future cash flows (taking into account any guarantee and collateral) discounted at the asset's original effective interest rate.

An impairment loss in respect of a financial asset is deducted from the carrying amount except for receivables, for which an impairment loss is reflected in an allowance account against the receivables. When it is determined that a receivable is uncollectible, it is written off from the allowance account. Any subsequent recovery of the receivable written off is recorded in the allowance account. Changes in the amount of the allowance account are recognized in profit or loss.

5) Derecognition of financial assets

The Group derecognizes financial assets when the contractual rights of the cash inflow from the asset are terminated, or when the Group transfers substantially all the risks and rewards of ownership of the financial assets.

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

b. Financial liabilities

1) Recognition

Financial liabilities not classified as held for trading or designated as at fair value through profit or loss, which comprise loans and borrowings, short-term notes and bills payable, bonds payable, accounts and notes payable, other payables, and guarantee deposits received, are measured at fair value plus any directly attributable transaction cost at the time of initial recognition. Subsequent to initial recognition, they are measured at amortized cost calculated using the effective interest method.

2) Convertible bonds

The component parts of compound financial instruments (convertible bonds) issued by the Group are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

On initial recognition, the fair value of the liability component is estimated at the prevailing market interest rate for similar non-convertible instruments. The amount is recognized as a liability on an amortized cost basis using the effective interest method until extinguished upon conversion or the instrument's maturity date. Any embedded derivative liability is measured at fair value.

The conversion option classified as equity is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognized and included in equity, and is not subsequently remeasured. In addition, the conversion option classified as equity will remain in equity until the conversion option is exercised, in which case, the balance recognized in equity will be reclassified as capital surplus - additional paid-in capital. If the conversion option remains unexercised at maturity, the balance recognized in equity will be reclassified as capital surplus - other.

Transaction costs that relate to the issuance of the convertible bonds are allocated to the liability and equity components in proportion to the allocation of the gross proceeds. Transaction costs relating to the equity component are recognized directly in equity. Transaction costs relating to the liability component are included in the carrying amount of the liability component.

3) Derivative financial instruments

Derivatives are initially recognized at fair value at the date the derivative contracts are entered into and are subsequently re-measured 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.

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when they meet the definition of a derivative, their risks and characteristics are not closely related to those of the host contracts and the contracts are not measured at fair value through profit or loss.

4) Derecognition of financial liabilities

The Group derecognizes a financial liability when its contractual obligation has been discharged or cancelled, or has expired. The difference between the carrying amount of a financial liability removed and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognized in profit or loss.

Inventories

Inventories are measured at the lower of cost or net realizable value. Inventories are assessed item by item, except those with similar characteristics which are assessed collectively. Net realizable value is the estimated selling price in the ordinary course of business less the estimated selling expenses. The weighted-average method is used in the calculation of cost.

Non-current Assets Held for Sale

The book value of non-current assets classified as held for sale is expected to be recovered primarily through sale. Being classified as held for sale, the assets should be available for immediate sale. Being available for immediate sale means the management is committed to a planned sale and the sale is highly probable within 12 months.

Assets classified as non-current assets held for sale are measured at the lower of the carrying amount and fair value less costs to sell, and should not be depreciated.

Investment in Associates

An associate is an entity in which the Group has significant influence over the financial and operating policies, but is neither a subsidiary nor an interest in a joint venture.

Investments in associates are accounted for using equity method and are recognized initially at cost. The cost of the investment includes transaction costs. The carrying amount of the investment in associates includes goodwill arising from the acquisition less any accumulated impairment losses. Goodwill is not amortized. 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.

The consolidated financial statements include the Group's share of the profit or loss and other comprehensive income (loss) of equity-accounted investees, after adjustments to align their accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases.

If the Group does not subscribe the newly issued shares of associates in accordance with the percentage of ownership, which causes a change in percentage of ownership and net worth of the investment, the adjustment should be reflected in capital surplus and investments accounted for using equity method. If there is insufficient capital surplus from the investments accounted for using equity method to offset the change, then such insufficiency should be accounted for under retained earnings.

When a group entity transacts with its associates, profits and losses resulting from the transactions with the associates are recognized in the Group' consolidated financial statements only to the extent that interests in the associates are not related to the Group.

When the Group's share of losses exceeds its interest in an associate, the carrying amount of the investment, including any long-term interests that form part thereof, is reduced to zero, and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

Property, Plant and Equipment

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributed to the acquisition of the asset, the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, and any borrowing cost that is eligible for capitalization.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated with a separate depreciation rate or depreciation method.

Property, plant and equipment are derecognized when disposed of or expected to have no future economic benefits generated through usage. The gain or loss arising from the derecognition of an item of property, plant and equipment shall be determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item, and it shall be recognized in profit and loss.

Subsequent expenditure is capitalized only when it is probable that the future economic benefits associated with the expenditure will flow to the Group and the amount can be reliably measured. The carrying amount of those parts that are replaced is derecognized. Ongoing repairs and maintenance are expensed as incurred.

The depreciable amount of an asset is determined after deducting its residual amount, and the net amount shall be allocated by the straight-line method over its useful life. Each significant item of property, plant and equipment shall be evaluated and depreciated separately if it possesses a different useful life. The depreciation charge for each period shall be recognized in profit or loss.

The depreciable amount of a leased asset is allocated to each accounting period during the period of expected use on a systematic basis consistent with the depreciation policy the lessee adopts for depreciable assets that are owned. The asset is depreciated over the shorter of the lease term or its useful life.

Operation utensils are measured at the cost of the acquired assets when acquisition occurs. Some of the operation utensils are depreciated over the useful life, and others are recognized as expenses when breakage occurs.

Land has an unlimited useful life and therefore is not depreciated. For the estimated useful lives, for the current and comparative years, of significant items of property, plant and equipment, see Note 13 to the consolidated financial statements for details.

Depreciation methods, useful lives, and residual values are reviewed at the end of each reporting period. If expectations differ from the previous estimates, the change is accounted for as a change in accounting estimate.

Investment Property

Investment property is a property held either to earn rental income or for capital appreciation or for both. Investment property is measured at cost on initial recognition. Subsequent to initial recognition, investment properties are measured at cost less accumulated depreciation and accumulated impairment loss. Cost includes expenditure that is directly attributable to the acquisition of the investment property.

Leases

Leases in which the lessee assumes substantially all of the risks and rewards of ownership are classified as finance leases. Other leases are operating leases. Receivables collected are periodically recognized as rental income during the lease contract.

Under an operating lease, rental income or lease payments are recognized as income or expense, respectively, on a straight-line basis over the lease term.

Under a finance lease, the proceeds from the lessee should be recognized on a net basis as lease receivable when the Group is the lessor. The finance income is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the receivable.

Intangible Assets

a. Goodwill

Goodwill acquired in a business combination is included in intangible assets, and is measured at cost less accumulated impairment losses.

b. Service concession agreement

The operator recognizes the right to charge users for a service as an intangible asset. The operator measures the intangible asset at fair value.

c. Other intangible assets

Other intangible assets that are acquired through business combinations or are internally developed are measured at cost less accumulated amortization and any accumulated impairment losses. Intangible assets that are acquired through business combinations are measured at acquisition-date fair value, and recognized along with goodwill.

d. Amortization

Amortization is recognized in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill and intangible assets with an indefinite useful life, from the date that they are available for use. For the estimated useful lives for the current and comparative periods, see Note 15 to the consolidated financial statements for details.

The amortization method, the amortization period, and the residual value for an intangible asset with a finite useful life shall be reviewed at each fiscal year-end. Any changes shall be accounted for as changes in accounting estimates.

Impairment of Non-financial Assets

The Group measures whether impairment occurred in non-financial assets (except for inventories, deferred income tax assets, and employee benefits) every reporting period, and estimates the recoverable amount. If it is not possible to determine the recoverable amount (fair value less cost to sell and value in use) for the individual asset, then the Group will determine the recoverable amount for the asset's cash-generating unit.

The recoverable amount for an individual asset or a cash-generating unit is the higher of its fair value less costs to sell or its value in use. If, and only if, the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset shall be reduced to its recoverable amount. That reduction is an impairment loss. An impairment loss shall be recognized immediately in profit or loss.

The Group should assess at the end of each reporting period whether there is any indication that an impairment loss recognized in prior periods for an asset other than goodwill may no longer exist or may have decreased. If any such indication exists, the entity shall estimate the recoverable amount of that asset. An impairment loss recognized in prior periods for an asset other than goodwill shall be reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If this is the case, the carrying amount of the asset shall be increased to its recoverable amount. That increase is a reversal of an impairment loss. An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

Notwithstanding whether indicators exist, recoverability of goodwill and intangible assets with indefinite useful lives or those not yet in use is required to be tested at least annually. Impairment loss is recognized if the recoverable amount is less than the carrying amount.

For the purpose of impairment testing, goodwill acquired in a business combination shall, from the acquisition date, be allocated to each of the acquirer's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination. If the carrying amount of the cash-generating units exceeds the recoverable amount of the units, the entity shall recognize the impairment loss, and the impairment loss shall be allocated to reduce the carrying amount of each asset in the units. Reversal of an impairment loss on goodwill is prohibited.

Provisions

A provision is recognized if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects the current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as finance cost.

a. Restoration

The restoration costs for property, plant and equipment that were originally acquired or used by the Group for a period of time and had obligations for dismantling, relocating, and restoring to the previous state should be recognized as an addition to the assets and accrued as a potential liability accordingly.

b. Decommissioning

For a service concession agreement, the concession receiver has an obligation for maintenance or decommissioning before returning the construction to the grantor as stated in the concession agreement. For a BOT contract, the costs paid for the obligation for maintenance or decommissioning should be recognized as expense and liabilities.

c. Warranties

A provision for warranties is recognized when the underlying products or services are sold. The provision is based on sales contracts, historical warranty data, and a weighing of all possible outcomes against their associated probabilities.

Treasury Shares

Repurchased shares are recognized under treasury shares (a contra-equity account) based on their repurchase price (including all directly accountable costs), net of tax. TWM's shares held by its subsidiaries are regarded as treasury shares.

Gains on disposal of treasury shares should be recognized under "capital reserve - treasury share transactions"; losses on disposal of treasury shares should be offset against existing capital reserves arising from similar types of treasury shares. If there is insufficient capital reserve to offset the losses, then such losses should be accounted for under retained earnings. The carrying amount of treasury shares should be calculated using the weighted-average method by the purpose of repurchased shares.

Government Grants

Government grants are not recognized until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognized in profit or loss on a systematic basis over the periods in which the Group recognizes as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognized as deferred revenue and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognized in profit or loss in the period in which they become receivable.

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.

Obligations for contributions to defined contribution pension plans are recognized as an expense in profit or loss in the periods during which services are rendered by employees.

The defined benefit costs (including service cost, net interest, and re-measurement) of defined benefit plan use the projected unit credit method for the actuarial valuation. Service cost (including current service cost and past service cost) and net interest on the net defined benefit liability (asset) are recognized under employee benefit expense as they occur. Re-measurement (including actuarial gains and losses, changes in the effect of the asset ceiling, and the return on plan assets, excluding amounts included in net interest) is recognized in other comprehensive income (loss) in retained earnings as it occurs, and is not reclassifiable to profit or loss subsequently.

Net defined benefit liability (asset) is the deficit (surplus) of defined benefit plans. IAS 19 requires the Group to limit the carrying amount of a net defined benefit asset so that it does not exceed the economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

Income Tax

Income tax expense represents the sum of the tax currently payable and deferred tax. Except for expenses related to business combinations, expenses directly recognized in equity or other comprehensive income (loss), and other related expenses, all current and deferred taxes shall be recognized in profit or loss.

a. Current taxes

Current taxes include tax payables and tax deduction receivables on taxable gains (losses) for the year calculated using the statutory tax rate at the end of the reporting period or the actual legislative tax rate, as well as tax adjustments related to prior years.

An additional 10% surtax on undistributed earnings, computed according to the ROC Income Tax Act, is recognized in current taxes in the year of approval by a shareholders' meeting resolution.

b. Deferred taxes

Deferred taxes arise due to temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their respective tax bases. Deferred tax assets are generally recognized for all deductible temporary differences, net operating loss carryforwards, and unused tax credits to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Deferred taxes shall not be recognized for temporary differences from the following:

- 1) Assets and liabilities that are initially recognized but not related to a business combination and have no effect on net income or taxable gains (losses) during the combination.
- 2) Temporary differences arising from equity investments in subsidiaries or joint ventures where there is a high probability that such temporary differences will not reverse.
- 3) Initial recognition of goodwill.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realized or the liability is settled, based on tax rates that have been enacted or substantively enacted at the end of the reporting period. The measurement reflects the entity's expectations at the end of the reporting period as to the manner in which the carrying amount of its assets and liabilities will be recovered or settled.

A deferred tax asset should be recognized for the carry forward of unused tax losses, unused tax credits, and deductible temporary differences to the extent that it is probable that future taxable profit will be available against which the unused tax losses, unused tax credits, and deductible temporary differences can be utilized. Such unused tax losses, unused tax credits, and deductible temporary differences shall also be re-evaluated at the end of each reporting period, and adjusted based on the probability that future taxable profit will be available against which the unused tax losses, unused tax credits, and deductible temporary differences can be utilized.

Income tax expense recognized in equity balances or other comprehensive income (loss) shall be measured at the tax rates that are expected to apply in the period when the asset is realized or the liability is settled based on the temporary differences between the carrying amount and the tax basis of related assets and liabilities at the end of the reporting period.

Revenue

Revenue is measured at the fair value of the consideration received or receivable, net of returns, trade discounts, and volume rebates. Revenue from bundle sales is recognized by using the relative fair value method, and the total price of the contract is allocated to each component of revenue based on the relative fair values.

- a. Service revenues from mobile communication services, wireless services, fixed network services, and value-added services, net of any applicable discount, are billed at predetermined rates; the fixed monthly fees on the basic cable TV services are accrued.

b. Sales of goods

Revenue from sales of goods is recognized when the conditions mentioned below are all satisfied; the amount of sales allowance is reasonably estimated based on previous experience and other relevant factors.

- 1) The Group has transferred the significant risks and rewards of ownership to the counterparty;
- 2) The Group will not be involved in any control activities and will not maintain effective control over the goods sold;
- 3) The amount can be reliably measured;
- 4) Economic benefits relevant to the transactions will probably flow to the Group;
- 5) Costs related to the transactions, whether incurred or expected, can be reliably measured.

Generally, revenue is recognized as goods are delivered and ownership is transferred.

c. Proceeds from games services are recognized as advance receipts upon receiving deposits from customers and are recognized as revenue over the service periods or upon the consumption of deposits.

d. Customer loyalty program

The deferred revenue allocated to the customer loyalty program is estimated at fair value and is recognized as revenue when obligations have been fulfilled.

e. Commissions

Revenue from services rendered is recognized in profit or loss in proportion to the stage of completion of the transaction at the end of the reporting period.

When the Group acts in the capacity of an agent rather than as the principal in a transaction, the revenue recognized is the net amount of commission due to the Group.

f. Revenue from room service and restaurants is recognized when the service is provided.

g. Dividend and interest income

If it is highly probable that the economic benefit associated with transactions made by an investee will flow to the Group, the dividend income attributable to investments is recognized on the date that it is certain that the Group will receive the dividend payments.

Interest arising from financial instruments is recognized when the economic benefits will probably flow to the Group and the amount can be reliably measured. Revenue is recognized on an accrual basis, and the amount of revenue is calculated by the weighted-average outstanding principal and effective interest rate.

Business Combination

Business combination is accounted by the acquisition method. Goodwill is measured as an aggregation of the consideration transferred, which is measured at fair value at the acquisition date, and the amount of any non-controlling interest in the acquiree, net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed at fair value. If the residual balance is negative, the Group shall re-assess whether it has correctly identified all of the assets acquired and liabilities assumed, and recognize a gain on the bargain purchase thereafter.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The preparation of the consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of the accounting policies and the reported amount of assets, liabilities, income and expenses. Actual results may differ from these estimates.

The management will continually review the estimates and basic assumptions. The impact of changes in accounting estimates will be recognized in the period of change and the future period impacted.

a. Impairment assessment of tangible and intangible assets (goodwill is excluded)

In the process of impairment assessment, the Group relies on subjective judgment to determine the individual cash flows of a specific group of assets and estimates future gain and loss according to the usage of assets and business characteristics. Alteration of estimates from any change in economic conditions or business strategy may lead to significant impairment loss in the future.

b. Impairment assessment of goodwill

The usage value of the cash-generating units to which goodwill is allocated should be predetermined when assessing whether the goodwill is impaired. Management estimates the future cash flows from cash-generating units and assigns an appropriate discount rate in calculating present value. Significant impairment loss may occur if actual cash flows are less than forecasted.

6. CASH AND CASH EQUIVALENTS

	December 31	
	2016	2015
Cash on hand and revolving funds	\$ 149,138	\$ 79,942
Cash in banks	2,098,137	2,893,599
Time deposits	2,394,640	2,630,693
Government bonds with repurchase rights and short-term notes and bills	<u>3,062,602</u>	<u>2,975,188</u>
	<u>\$ 7,704,517</u>	<u>\$ 8,579,422</u>

7. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	December 31	
	2016	2015
Domestic listed stock	\$ 3,414,959	\$ 215,395
Domestic emerging stock	-	937,307
Domestic unlisted stock	-	1,727,171
Beneficiary certificates	965,833	734,991
Foreign unlisted stock	<u>45,426</u>	<u>77,746</u>
	<u>\$ 4,426,218</u>	<u>\$ 3,692,610</u>

(Continued)

	December 31	
	2016	2015
Current	\$ 1,231,871	\$ 1,028,132
Non-current	<u>3,194,347</u>	<u>2,664,478</u>
	<u>\$ 4,426,218</u>	<u>\$ 3,692,610</u> (Concluded)

8. ACCOUNTS AND NOTES RECEIVABLE, NET

	December 31	
	2016	2015
Notes receivable	\$ 265,974	\$ 308,939
Accounts receivable	15,681,563	15,940,068
Less: Allowance for doubtful accounts	<u>(615,572)</u>	<u>(592,741)</u>
Accounts receivable, net	<u>15,065,991</u>	<u>15,347,327</u>
	<u>\$ 15,331,965</u>	<u>\$ 15,656,266</u>

The net accounts receivable aging analysis of the Group was as follows:

	December 31	
	2016	2015
Neither past due nor impaired	\$ 14,730,088	\$ 15,022,116
Past due but not impaired		
Past due within 30 days	217,750	236,298
Past due 31-60 days	77,494	44,390
Past due 61-120 days	24,391	23,182
Past due 121-180 days	9,833	12,884
Past due over 181 days	<u>6,435</u>	<u>8,457</u>
	<u>\$ 15,065,991</u>	<u>\$ 15,347,327</u>

Movements of allowance for doubtful receivables by individual and collective assessment were as follows:

	For the Year Ended December 31	
	2016	2015
Beginning balance (after reclassified)	\$ 592,741	\$ 587,502
Add: Provision	387,597	387,020
Recovery	58,266	70,823
Less: Write-off	(422,947)	(452,604)
Effect of exchange rate changes	<u>(85)</u>	<u>-</u>
Ending balance	<u>\$ 615,572</u>	<u>\$ 592,741</u>

The Group entered into accounts receivable factoring contracts with asset management companies. The Group sold the asset management companies the overdue accounts receivable that had been written off. Under the contracts, the Group would no longer assume the risk on the receivables. The related information was as follows:

Counterparty	Amount of Accounts Receivable Sold	Proceeds of the Sale of Accounts Receivable
<u>February 2016</u>		
Long Sun Asset Management Co., Ltd.	<u>\$ 845,385</u>	<u>\$ 46,644</u>
<u>January 2015</u>		
Long Sun Asset Management Co., Ltd.	<u>\$ 626,514</u>	<u>\$ 31,025</u>

9. INVENTORIES

	<u>December 31</u>	
	<u>2016</u>	<u>2015</u>
Merchandise	\$ 4,041,274	\$ 4,122,447
Materials for maintenance	30,474	63,652
Catering inventories	<u>-</u>	<u>2,114</u>
	<u>\$ 4,071,748</u>	<u>\$ 4,188,213</u>

For the years ended December 31, 2016 and 2015, the cost of goods sold recognized in consolidated comprehensive income amounted to \$45,749,379 thousand and \$46,080,547 thousand, respectively, which included the inventory recovery based on net realizable value amounting to \$33,278 thousand and \$73,765 thousand, respectively.

10. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

Associates that are not individually material accounted for using equity method were as follows:

Investee Company	<u>December 31</u>			
	<u>2016</u>		<u>2015</u>	
	Amount	% of Ownership	Amount	% of Ownership
Beijing Global Guoguang Media Technology Co., Ltd. (GHS)	\$ 736,742	20.00	\$ 713,691	18.00
Taiwan Pelican Express Co., Ltd. (TPE)	402,464	17.70	415,597	17.70
Kbro Media Co., Ltd. (Kbro Media)	243,670	32.50	277,574	32.50
TVD Shopping Co., Ltd. (TVD shopping)	147,521	35.00	161,491	35.00
Alliance Digital Tech Co., Ltd. (ADT)	<u>33,868</u>	14.40	<u>16,009</u>	13.33
	<u>\$ 1,564,265</u>		<u>\$ 1,584,362</u>	

Aggregate information of associates that are not individually material:

	<u>December 31</u>	
	<u>2016</u>	<u>2015</u>
The Group's share of:		
Profit	\$ 51,824	\$ 67,562
Other comprehensive income (loss)	<u>(14,531)</u>	<u>(37,787)</u>
Comprehensive income	<u>\$ 37,293</u>	<u>\$ 29,775</u>

a. GHS

In June 2015, momo's subsidiary acquired 20% equity interests of GHS for \$670,448 thousand and obtained the purchase price allocation report in December 2015. The excess of the purchase price over the fair value of the acquired net assets includes \$657,332 thousand and \$79,617 thousand, respectively, for goodwill and customer relationship, whereas customer relationship is amortized over a period of nine and a half years.

Due to non-participation in GHS's capital increase in October 2015, momo's subsidiary's percentage of ownership interests in GHS decreased to 18%. However, momo still has significant influence on GHS due to having a seat on GHS's board of directors.

In January 2016, momo's subsidiary's percentage of ownership interests in GHS increased to 20% due to acquisition of additional 2% equity interests of GHS. As of December 31, 2016, payments for the additional investments were not yet settled.

b. TPE

In August 2012, momo, a subsidiary of TWM, acquired 20% equity interests of TPE.

As of December 2013, momo held 17.70% equity interests of TPE due to not subscribing for new shares issued by TPE and selling part of its shares when TPE went public. momo still has significant influence on TPE due to its having two seats on TPE's board of directors.

c. TVD Shopping

In April 2014, momo acquired 35% equity interests of TVD Shopping.

d. ADT

In November 2013, TWM acquired 19.23% equity interests of ADT.

In 2014, TWM's percentage of ownership interests in ADT decreased to 13.33% as TWM did not subscribe for any newly issued ADT shares. In December 2016, TWM increased its percentage of ownership interests in ADT to 14.40% by paying \$30,000 thousand to subscribe for new shares issued by ADT. TWM still has significant influence on ADT due to having a seat on ADT's board of directors.

11. SUBSIDIARIES WITH MATERIAL NON-CONTROLLING INTERESTS

Subsidiary	Proportion of Non-controlling Interests' Ownership and Voting Rights	
	December 31	
	2016	2015
momo	54.99%	54.99%

For information on the principal place of business and the Company's country of registration, see Table 7.

momo and its subsidiaries' summary financial information has taken into account the adjustments to acquisition-date fair value, and reflects the amounts before eliminations of intercompany transactions:

	December 31	
	2016	2015
Current assets	\$ 5,715,073	\$ 5,940,774
Non-current assets	11,869,693	11,140,732
Current liabilities	(4,066,357)	(3,683,020)
Non-current liabilities	<u>(265,341)</u>	<u>(267,878)</u>
Equity	<u>\$ 13,253,068</u>	<u>\$ 13,130,608</u>
Equity attributable to:		
Owners of the parent	\$ 9,152,791	\$ 9,090,251
Non-controlling interests of momo	4,102,018	4,025,330
Non-controlling interests of momo's subsidiaries	<u>(1,741)</u>	<u>15,027</u>
	<u>\$ 13,253,068</u>	<u>\$ 13,130,608</u>
	For the Year Ended December 31	
	2016	2015
Operating revenues	<u>\$ 28,080,788</u>	<u>\$ 25,639,898</u>
Profit	\$ 1,166,228	\$ 992,290
Other comprehensive loss	<u>(63,032)</u>	<u>(154,807)</u>
Comprehensive income	<u>\$ 1,103,196</u>	<u>\$ 837,483</u>
Profit attributable to:		
Owners of the parent	\$ 532,229	\$ 471,100
Non-controlling interests of momo	650,598	588,882
Non-controlling interests of momo's subsidiaries	<u>(16,599)</u>	<u>(67,692)</u>
	<u>\$ 1,166,228</u>	<u>\$ 992,290</u>
Comprehensive income attributable to:		
Owners of the parent	\$ 503,931	\$ 402,578
Non-controlling interests of momo	616,033	503,749
Non-controlling interests of momo's subsidiaries	<u>(16,768)</u>	<u>(68,844)</u>
	<u>\$ 1,103,196</u>	<u>\$ 837,483</u>

(Continued)

	For the Year Ended December 31	
	2016	2015
Net cash from operating activities	\$ 1,206,149	\$ 1,130,175
Net cash from investing activities	(601,863)	1,565,304
Net cash from financing activities	(987,194)	(1,525,290)
Effect of exchange rate changes	<u>186</u>	<u>(318)</u>
Net increase (decrease) in cash	<u>\$ (382,722)</u>	<u>\$ 1,169,871</u>
Dividend paid to non-controlling interests	<u>\$ (539,079)</u>	<u>\$ (670,016)</u> (Concluded)

12. TRANSACTIONS WITH NON-CONTROLLING INTERESTS

WMT increased the percentage of ownership interests in momo from 44.38% to 45.01% due to momo's buy-back of treasury shares from October to December in 2015. The transaction was as follows:

Consideration paid in cash	\$ (397,175)
Transferring amount of non-controlling interests resulted from the calculation of relative equity changes	255,874
Other adjustments	<u>644</u>
Capital surplus - changes in equity of subsidiaries	<u>\$ (140,657)</u>

13. PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings	Telecommuni- cation Equipment and Machinery	Miscellaneous Equipment	Construction in Progress and Equipment to be Inspected	Total
<u>Cost</u>						
Balance, January 1, 2016	\$ 10,306,780	\$ 4,905,637	\$ 86,948,140	\$ 7,433,581	\$ 2,821,435	\$ 112,415,573
Additions	-	-	202,691	440,251	8,296,284	8,939,226
Reclassification	(2,014,922)	(1,002,418)	7,511,437	569,645	(8,114,792)	(3,051,050)
Disposals and retirements	-	(4,379)	(5,406,278)	(332,955)	(3,488)	(5,747,100)
Effect of exchange rate changes	<u>-</u>	<u>-</u>	<u>(12,769)</u>	<u>(199)</u>	<u>-</u>	<u>(12,968)</u>
Balance, December 31, 2016	<u>\$ 8,291,858</u>	<u>\$ 3,898,840</u>	<u>\$ 89,243,221</u>	<u>\$ 8,110,323</u>	<u>\$ 2,999,439</u>	<u>\$ 112,543,681</u>
<u>Accumulated depreciation and impairment</u>						
Balance, January 1, 2016	\$ 83,426	\$ 1,529,090	\$ 58,103,733	\$ 5,452,203	\$ -	\$ 65,168,452
Depreciation	-	132,530	9,519,768	985,678	-	10,637,976
Reclassification	-	(384,276)	(1,353)	(665)	-	(386,294)
Disposals and retirements	-	(4,379)	(4,973,643)	(304,832)	-	(5,282,854)
Effect of exchange rate changes	<u>-</u>	<u>-</u>	<u>(8,682)</u>	<u>(146)</u>	<u>-</u>	<u>(8,828)</u>
Balance, December 31, 2016	<u>\$ 83,426</u>	<u>\$ 1,272,965</u>	<u>\$ 62,639,823</u>	<u>\$ 6,132,238</u>	<u>\$ -</u>	<u>\$ 70,128,452</u>
Carrying amount, December 31, 2016	<u>\$ 8,208,432</u>	<u>\$ 2,625,875</u>	<u>\$ 26,603,398</u>	<u>\$ 1,978,085</u>	<u>\$ 2,999,439</u>	<u>\$ 42,415,229</u> (Continued)

	Land	Buildings	Telecommuni- cation Equipment and Machinery	Miscellaneous Equipment	Construction in Progress and Equipment to be Inspected	Total
<u>Cost</u>						
Balance, January 1, 2015	\$ 10,366,685	\$ 4,947,700	\$ 78,863,132	\$ 6,979,293	\$ 3,985,597	\$ 105,142,407
Additions	-	-	331,689	386,922	10,511,962	11,230,573
Reclassification	16,316	9,034	11,243,747	417,198	(11,673,104)	13,191
Disposals and retirements	(76,221)	(51,097)	(3,485,863)	(348,799)	(3,020)	(3,965,000)
Effect of exchange rate changes	-	-	(4,565)	(1,033)	-	(5,598)
Balance, December 31, 2015	<u>\$ 10,306,780</u>	<u>\$ 4,905,637</u>	<u>\$ 86,948,140</u>	<u>\$ 7,433,581</u>	<u>\$ 2,821,435</u>	<u>\$ 112,415,573</u>
<u>Accumulated depreciation and impairment</u>						
Balance, January 1, 2015	\$ 83,426	\$ 1,398,811	\$ 51,830,986	\$ 4,762,865	\$ -	\$ 58,076,088
Depreciation	-	143,531	9,427,459	1,002,164	-	10,573,154
Reclassification	-	4,325	-	-	-	4,325
Disposals and retirements	-	(17,577)	(3,152,202)	(312,199)	-	(3,481,978)
Effect of exchange rate changes	-	-	(2,510)	(627)	-	(3,137)
Balance, December 31, 2015	<u>\$ 83,426</u>	<u>\$ 1,529,090</u>	<u>\$ 58,103,733</u>	<u>\$ 5,452,203</u>	<u>\$ -</u>	<u>\$ 65,168,452</u>
Carrying amount, December 31, 2015	<u>\$ 10,223,354</u>	<u>\$ 3,376,547</u>	<u>\$ 28,844,407</u>	<u>\$ 1,981,378</u>	<u>\$ 2,821,435</u>	<u>\$ 47,247,121</u>

(Concluded)

- a. The estimated useful lives, for the current and comparative years, of significant items of property, plant and equipment are as follows:

Buildings

Primary buildings	20-55 years
Mechanical and electrical equipment	15 years
Telecommunication equipment and machinery	2-20 years
Miscellaneous equipment	2-20 years

- b. The non-cash investing activities of the Group for the years ended December 31, 2016 and 2015 were as follows:

	<u>For the Year Ended December 31</u>	
	<u>2016</u>	<u>2015</u>
Acquisition of property, plant and equipment	\$ 8,939,226	\$ 11,230,573
Non-cash investing activities		
Changes in other payables	1,037,732	417,039
Changes in provisions	<u>(44,286)</u>	<u>(61,940)</u>
Cash paid for acquisition of property, plant and equipment	<u>\$ 9,932,672</u>	<u>\$ 11,585,672</u>

14. INVESTMENT PROPERTIES

	December 31	
	2016	2015
Cost	\$ 3,391,362	\$ 374,022
Accumulated depreciation	<u>440,283</u>	<u>43,857</u>
Carrying amount	<u>\$ 2,951,079</u>	<u>\$ 330,165</u>
Fair value	<u>\$ 6,691,275</u>	<u>\$ 834,950</u>
Capitalization rate	0.94%-5.23%	0.8%-5.34%

Properties were reclassified from property, plant and equipment to investment property since the properties were no longer used by the Group and it was decided to put such properties for lease.

Fair value of an investment property was measured by Level 3 inputs, using income approach, comparative approach, and cost approach by HomeBan Appraisers Joint Firm.

15. INTANGIBLE ASSETS

	Concessions		Goodwill	Other Intangible Assets					Total
	Concession License	Service Concession		Computer Software	Customer Relationship	Operating Rights	Trademarks	Others	
Cost									
Balance, January 1, 2016	\$ 42,724,375	\$ 8,180,697	\$ 15,845,930	\$ 2,948,499	\$ 2,654,089	\$ 1,382,000	\$ 2,517,866	\$ -	\$ 76,253,456
Addition	-	-	-	174,670	-	-	-	-	174,670
Disposals and retirements	-	-	-	(135,811)	-	-	-	-	(135,811)
Adjustment and reclassification	-	(619)	-	303,759	-	-	-	-	303,140
Effect of exchange rate changes	-	-	-	(1,702)	-	-	-	-	(1,702)
Balance, December 31, 2016	<u>\$ 42,724,375</u>	<u>\$ 8,180,078</u>	<u>\$ 15,845,930</u>	<u>\$ 3,289,415</u>	<u>\$ 2,654,089</u>	<u>\$ 1,382,000</u>	<u>\$ 2,517,866</u>	<u>\$ -</u>	<u>\$ 76,593,753</u>
Accumulated amortization and impairment									
Balance, January 1, 2016	\$ 9,964,550	\$ 495,181	\$ -	\$ 2,288,861	\$ 1,101,463	\$ -	\$ 977	\$ -	\$ 13,851,032
Amortization	2,401,725	178,686	-	484,688	136,400	-	190	-	3,201,689
Disposals and retirements	-	-	-	(135,811)	-	-	-	-	(135,811)
Effect of exchange rate changes	-	-	-	(1,139)	-	-	-	-	(1,139)
Balance, December 31, 2016	<u>\$ 12,366,275</u>	<u>\$ 673,867</u>	<u>\$ -</u>	<u>\$ 2,636,599</u>	<u>\$ 1,237,863</u>	<u>\$ -</u>	<u>\$ 1,167</u>	<u>\$ -</u>	<u>\$ 16,915,771</u>
Carrying amount, December 31, 2016	<u>\$ 30,358,100</u>	<u>\$ 7,506,211</u>	<u>\$ 15,845,930</u>	<u>\$ 652,816</u>	<u>\$ 1,416,226</u>	<u>\$ 1,382,000</u>	<u>\$ 2,516,699</u>	<u>\$ -</u>	<u>\$ 59,677,982</u>
Cost									
Balance, January 1, 2015	\$ 39,291,000	\$ 7,914,775	\$ 15,845,930	\$ 2,484,186	\$ 2,849,197	\$ 1,382,000	\$ 2,517,866	\$ 5,217	\$ 72,290,171
Addition	3,433,375	334,961	-	165,801	-	-	-	-	3,934,137
Disposals and retirements	-	-	-	(9,239)	(195,108)	-	-	(5,147)	(209,494)
Adjustment and reclassification	-	(69,039)	-	308,341	-	-	-	-	239,302
Effect of exchange rate changes	-	-	-	(590)	-	-	-	(70)	(660)
Balance, December 31, 2015	<u>\$ 42,724,375</u>	<u>\$ 8,180,697</u>	<u>\$ 15,845,930</u>	<u>\$ 2,948,499</u>	<u>\$ 2,654,089</u>	<u>\$ 1,382,000</u>	<u>\$ 2,517,866</u>	<u>\$ -</u>	<u>\$ 76,253,456</u>
Accumulated amortization and impairment									
Balance, January 1, 2015	\$ 7,785,003	\$ 317,480	\$ -	\$ 1,852,678	\$ 1,160,171	\$ -	\$ 778	\$ 5,217	\$ 11,121,327
Amortization	2,179,547	177,701	-	445,772	136,400	-	199	-	2,939,619
Disposals and retirements	-	-	-	(9,239)	(195,108)	-	-	(5,147)	(209,494)
Effect of exchange rate changes	-	-	-	(350)	-	-	-	(70)	(420)
Balance, December 31, 2015	<u>\$ 9,964,550</u>	<u>\$ 495,181</u>	<u>\$ -</u>	<u>\$ 2,288,861</u>	<u>\$ 1,101,463</u>	<u>\$ -</u>	<u>\$ 977</u>	<u>\$ -</u>	<u>\$ 13,851,032</u>
Carrying amount, December 31, 2015	<u>\$ 32,759,825</u>	<u>\$ 7,685,516</u>	<u>\$ 15,845,930</u>	<u>\$ 659,638</u>	<u>\$ 1,552,626</u>	<u>\$ 1,382,000</u>	<u>\$ 2,516,889</u>	<u>\$ -</u>	<u>\$ 62,402,424</u>

The estimated useful lives for the current and comparative periods are as follows:

Concession license	14-17 years
Service concession	44-50 years
Computer software	2-10 years
Customer relationship	20 years
Trademarks	10 years

a. Service concession

On January 15, 2009, TNH signed the BOT contract with the Department of Cultural Affairs of Taipei City Government. Under the BOT contract, TNH obtained the right to build and operate the development project on the location of old Songshan Tobacco Plant. The development concession premium of superficies is amortized on a straight-line basis during the contract period, and the construction costs are amortized on a straight-line basis from the completion date of the construction to the BOT contract expiry date.

b. Customer relationship, trademarks, and operating rights

The Group measures the fair value of the acquired assets when acquisition occurs, and identifies the fair value and amortization periods of the intangible assets which conform to materiality and related standards. Although some of the intangible assets such as operating rights and trademarks have a legal useful life, which can be extended, the Group regards these assets as intangible assets with indefinite useful life.

- 1) On April 17, 2007, TFN, one of TWM's wholly-owned subsidiaries, acquired more than 50% of the former Taiwan Fixed Network Co., Ltd. (the former TFN) through a public tender offer. TWM split the former TFN and its subsidiaries into two cash-generating units, i.e., fixed network service and cable television business. Accordingly, customer relationship and operating rights are identified as major intangible assets.
- 2) On September 1, 2010, TFNM, one of TWM's wholly-owned subsidiaries, acquired 55% of TKT. On August 12, 2011, TFNM acquired 45% of TKT. TWM measured the fair value of the acquired net assets and viewed TKT's wireless services as one cash-generating unit. Accordingly, trademarks and customer relationship are identified as major intangible assets.
- 3) On July 13, 2011, WMT, one of TWM's wholly-owned subsidiaries, acquired more than 50% of momo. TWM measured the fair value of the acquired assets and viewed momo's retail business as one cash-generating unit. Accordingly, trademarks are identified as major intangible assets.

c. Goodwill

The carrying amounts of goodwill allocated to the above units were as follows:

	December 31	
	2016	2015
Mobile communication service	\$ 7,238,758	\$ 7,238,758
Fixed network service	357,970	357,970
Cable television business	3,269,636	3,269,636
Retail business	<u>4,979,566</u>	<u>4,979,566</u>
	<u>\$ 15,845,930</u>	<u>\$ 15,845,930</u>

d. Impairment of assets

In conformity with IAS 36 Impairment of Assets, the Group identified mobile communication service, fixed network service, the cable television business, and the retail business as the smallest identifiable units which can generate cash inflows independently.

The recoverable amounts of the operating assets and intangible assets were evaluated by business type, and the critical assumptions used for this evaluation were as follows:

1) Mobile communication service

a) Assumptions on cash flows

The five-year cash flow projections were estimated on the basis of previous experience, actual operating results, and the financial budget.

b) Assumptions on operating revenues

After taking changes in the telecom industry and competitive landscape into consideration, operating revenues were estimated on the basis of the projected changes in subscriber numbers, minutes of incoming and outgoing calls, and average revenue per minute.

c) Assumptions on operating costs and expenses

The estimates of activation commissions and customer retention costs were based on the new customers obtained and existing customers maintained. The estimates of remaining costs and expenses were based on the cost drivers of each item.

d) Assumptions on discount rate

For the years ended December 31, 2016 and 2015, the discount rate used to calculate the asset recoverable amounts of TWM was 6.31% and 5.93%, respectively.

2) Fixed network service

a) Assumptions on cash flows

The five-year cash flow projections were made on the basis of previous experience, actual operating results, and the financial budget.

b) Assumptions on operating revenues

After taking into consideration the changes and growth of business in the telecom industry, the operating revenues were estimated based on the types of data transmission and the demand for the broadband capacity.

c) Assumptions on operating costs and expenses

The estimates of operating costs and expenses were based on the cost drivers of each cost and expense.

d) Assumptions on discount rate

For the years ended December 31, 2016 and 2015, the discount rates were 7.06% and 6.72%, respectively, in calculating the asset recoverable amounts of TFN.

3) Cable television business

a) Assumptions on cash flows

The five-year cash flow projections were estimated on the basis of previous experience, actual operating results, and the financial budget.

b) Assumptions on operating revenues

After taking changes in the cable television industry and competitive landscape into consideration, operating revenues were estimated on the basis of the projected changes in subscriber numbers and average revenue per subscriber.

c) Assumptions on operating costs and expenses

The estimates of cost of commissions, customer service costs, and bill processing costs were based on the projected changes in subscriber numbers. The estimates of remaining costs and expenses were based on the actual costs and expenses as a proportion of operating revenues.

d) Assumptions on discount rate

The discount rates used to calculate the asset recoverable amounts for each system operator ranged from 5.84% to 6.52% and from 3.47% to 4.53% for the years ended December 31, 2016 and 2015, respectively.

4) Retail business

a) Assumptions on cash flows

The five-year cash flow projections were estimated on the basis of previous experience, actual operating results, and the financial budget.

b) Assumptions on operating revenues

After taking into consideration the changes in the retail business industry and competitiveness of the market, the operating revenues were estimated based on the classification and the average price of commodities, and the degree of the contribution of the customers.

c) Assumptions on operating costs and expenses

The costs and expenses were based on the actual costs and expenses as a proportion of operating revenues.

d) Assumptions on discount rate

For the years ended December 31, 2016 and 2015, the discount rates in calculating the asset recoverable amounts were 10.27% and 12.46%, respectively.

Based on the key assumptions of each cash-generating unit, the Group's management believes that the carrying amounts of these operating assets and intangible assets will not exceed their recoverable amounts even if there are any reasonable changes in the critical assumptions used to estimate recoverable amounts. Thus, there was no impairment of assets for the years ended December 31, 2016 and 2015.

16. OTHER NON-CURRENT ASSETS

	<u>December 31</u>	
	2016	2015
Long-term accounts receivable	\$ 4,648,593	\$ 4,896,360
Refundable deposits	596,781	581,237
Prepayments for equipment	58,546	68,843
Others	<u>501,803</u>	<u>504,516</u>
	<u>\$ 5,805,723</u>	<u>\$ 6,050,956</u>

17. BORROWINGS

a. Short-term borrowings

	<u>December 31</u>	
	2016	2015
Unsecured loans	<u>\$ 7,363,005</u>	<u>\$ 14,220,938</u>
Annual interest rate	0.7%-5.22%	0.82%-4.57%

For the information on endorsements and guarantees and pledged deposits, see Note 30, Note 31 (b) and Table 2.

b. Short-term notes and bills payable

	<u>December 31</u>	
	2016	2015
Short-term notes and bills payable	\$ -	\$ 10,800,000
Less: Discount on short-term notes and bills payable	<u>-</u>	<u>(6,513)</u>
	<u>\$ -</u>	<u>\$ 10,793,487</u>
Annual interest rate	-	0.642%-0.95%

c. Long-term borrowings

	<u>December 31</u>	
	2016	2015
Unsecured loans	\$ 21,828,000	\$ 18,770,000
Secured loans	2,972,582	3,180,363
Less: Current portion	<u>(3,352,891)</u>	<u>(10,267,891)</u>
	<u>\$ 21,447,691</u>	<u>\$ 11,682,472</u>
Annual interest rate:		
Unsecured loans	0.71%-1.9926%	1.07%-2.1406%
Secured loans	2.2211%	2.1789%

1) Unsecured loans

The Group entered into credit facility agreements with a group of banks for mid-term requirements of operating capital. The facilities last from 2 to 7 years from the date of drawing and from the date of contracting, respectively, and the interests are paid periodically. Under certain credit agreements, loans are treated revolving credit facilities, and the maturity dates of loans are based on terms under the agreements. Besides, some credit facilities are subject to covenants regarding debt ratio and interest protection multiples during the credit facility period.

2) Secured loans

On January 22, 2010, TNH entered into a syndicated loan agreement, with respect to the investment under the aforementioned BOT contract, with a group of banks for which credit facility is managed by Bank of Taiwan. The aggregate credit and guarantee amount were up to \$3,565,000 thousand for 7 years, including the grace period of 4 years, with interest payments on a monthly basis. In addition, TNH signed the supplementary agreement on December 29, 2015 to extend the credit period to 10 years starting from the date the initial drawdown was made. In accordance with the loan agreement, the regular financial covenants, e.g. current ratio, equity ratio, and interest protection multiples, must be complied with during the credit facility period. For property under the BOT contract and its superficies that have been pledged as collateral, see Note 30.

18. BONDS PAYABLE

	December 31	
	2016	2015
3rd domestic unsecured bonds	\$ 8,998,203	\$ 8,997,447
4th domestic unsecured bonds	5,799,381	5,798,491
3rd domestic unsecured convertible bonds	9,562,188	-
Less: Current portion	<u>(2,899,876)</u>	<u>-</u>
	<u>\$ 21,459,896</u>	<u>\$ 14,795,938</u>

a. 3rd domestic unsecured bonds

On December 20, 2012, TWM authorized Hua Nan Commercial Bank as a trustee to issue \$9,000,000 thousand of seven-year 3rd domestic unsecured bonds, each having a face value of \$10,000 thousand and a coupon rate of 1.34% per annum, with simple interest due annually. Repayment will be made in the sixth and seventh years with equal installments, i.e., \$4,500,000 thousand. As of December 31, 2016, the amount of unamortized bond issue cost was \$1,797 thousand.

Future repayments of the above-mentioned corporate bonds are as follows:

Year	Amount
2018	\$ 4,500,000
2019	<u>4,500,000</u>
	<u>\$ 9,000,000</u>

b. 4th domestic unsecured bonds

On April 25, 2013, TWM authorized Hua Nan Commercial Bank as a trustee to issue \$5,800,000 thousand of five-year 4th domestic unsecured bonds, each having a face value of \$10,000 thousand and a coupon rate of 1.29% per annum, with simple interest due annually. Repayment will be made in the fourth and fifth years with equal installments, i.e., \$2,900,000 thousand. As of December 31, 2016, the amount of unamortized bond issue cost was \$619 thousand.

Future repayments of the above-mentioned corporate bonds are as follows:

Year	Amount
2017	\$ 2,900,000
2018	<u>2,900,000</u>
	<u>\$ 5,800,000</u>

c. 3rd domestic unsecured convertible bonds

On November 22, 2016, TWM issued its 3rd domestic five-year unsecured zero-coupon convertible bonds with an aggregate principal amount of \$10,000,000 thousand and a par value of \$100 thousand per bond certificate. The conversion price is set initially at \$116.1 per share. Except for the book closure period, bondholders are entitled to convert bonds into TWM's common stock from December 23, 2016 to November 22, 2021.

If the closing price of TWM's common shares continues being at least 130% of the conversion price then in effect for 30 consecutive trading days or the aggregate outstanding balance of bonds payable is less than 10% of the original issuance amount, TWM has the right to redeem the outstanding bonds payable at par value in cash during the period from one month after the issuance date to the date 40 days prior to the maturity date.

At the end of the third year from the bond issuance date, bondholders have the right to request TWM to redeem the convertible bonds at par value in cash.

The convertible bonds contain both liability and equity components. The equity component was presented in equity under the heading of capital surplus - option. The effective interest rate of the liability component was 0.9149% per annum on initial recognition.

Proceeds of the issuance (minus transaction costs \$10,870 thousand)	\$ 9,989,130
Equity component	(400,564)
Financial liabilities	<u>(35,961)</u>
Liability component at the date of issuance	9,552,605
Interest charged at an effective interest rate	<u>9,583</u>
Liability component at December 31, 2016	<u>\$ 9,562,188</u>

19. PROVISIONS

	<u>December 31</u>	
	<u>2016</u>	<u>2015</u>
Restoration	\$ 1,186,572	\$ 1,160,809
Decommissioning	160,923	110,876
Warranties	<u>161,066</u>	<u>125,776</u>
	<u>\$ 1,508,561</u>	<u>\$ 1,397,461</u>
Current	\$ 202,873	\$ 166,217
Non-current	<u>1,305,688</u>	<u>1,231,244</u>
	<u>\$ 1,508,561</u>	<u>\$ 1,397,461</u>

	Restoration	Decommissioning	Warranties	Total
Balance, January 1, 2016	\$ 1,160,809	\$ 110,876	\$ 125,776	\$ 1,397,461
Provision	79,502	46,511	234,314	360,327
Reversal	(27,487)	-	(58,898)	(86,385)
Unwinding of discount	8,367	3,536	-	11,903
Payment	<u>(34,619)</u>	<u>-</u>	<u>(140,126)</u>	<u>(174,745)</u>
Balance, December 31, 2016	<u>\$ 1,186,572</u>	<u>\$ 160,923</u>	<u>\$ 161,066</u>	<u>\$ 1,508,561</u>
Balance, January 1, 2015	\$ 1,105,662	\$ 63,246	\$ 62,524	\$ 1,231,432
Provision	79,207	45,332	196,962	321,501
Reversal	(18,196)	-	(39,913)	(58,109)
Unwinding of discount	10,784	2,298	-	13,082
Payment	<u>(16,648)</u>	<u>-</u>	<u>(93,797)</u>	<u>(110,445)</u>
Balance, December 31, 2015	<u>\$ 1,160,809</u>	<u>\$ 110,876</u>	<u>\$ 125,776</u>	<u>\$ 1,397,461</u>

20. RETIREMENT BENEFIT PLANS

a. Defined contribution plans

Domestic firms of the Group adopted a pension plan under the Labor Pension Act (the "LPA"), which is a state-managed and defined contribution plan. Under the LPA, an entity makes monthly contributions to employees' individual pension accounts at 6% of monthly salaries and wages. The employees of the Group's subsidiaries in other countries are participants of state-managed retirement benefit plans operated by local governments. In accordance with the above provision, the Group's contribution to the pension plan amounted to \$286,307 thousand and \$259,709 thousand for the years ended December 31, 2016 and 2015, respectively.

b. Defined benefit plan

The Group contributed 2% of each employee's monthly wages to the pension fund, with Bank of Taiwan acting as the custodian bank, in accordance with the defined benefit plans. The plan, under the Labor Standards Law, provides benefits based on an employee's years of service and average monthly salary for six-month period prior to retirement. Before the end of each year, the Group assesses the balance in the pension fund. If the amount of the balance in the pension fund is inadequate to pay retirement benefits for employees who conform to retirement requirements in the next year, the Group will fund the difference in one appropriation before the end of March of the following year.

The defined benefit plans were as follows:

	December 31	
	2016	2015
Present value of defined benefit obligations	\$ 1,182,705	\$ 1,062,292
Fair value of plan assets	<u>(813,383)</u>	<u>(787,656)</u>
Net defined benefit liability	<u>\$ 369,322</u>	<u>\$ 274,636</u>

The movements in present value of defined benefit obligations for the years ended December 31, 2016 and 2015 were as follows:

	For the Year Ended December 31	
	2016	2015
Balance, January 1	\$ 1,062,292	\$ 881,719
Current service costs	2,266	2,423
Past service costs	(1,416)	(696)
Interest cost	16,206	16,976
Actuarial loss - changes in demographic assumptions	64,643	61,881
Actuarial loss - changes in financial assumptions	6,511	61,925
Actuarial loss - experience adjustments	40,761	42,776
The plan assets of benefits paid	<u>(8,558)</u>	<u>(4,712)</u>
Balance, December 31	<u>\$ 1,182,705</u>	<u>\$ 1,062,292</u>

The movements in the fair value of the plan assets for the years ended December 31, 2016 and 2015 were as follows:

	For the Year Ended December 31	
	2016	2015
Balance, January 1	\$ 787,656	\$ 744,937
Net interest income	12,337	14,534
Return on plan assets (excluding amounts included in net interest)	(6,691)	5,452
Contributions from the employer	28,639	27,445
The plan assets of benefits paid	<u>(8,558)</u>	<u>(4,712)</u>
Balance, December 31	<u>\$ 813,383</u>	<u>\$ 787,656</u>

The expenses recognized in profit or loss for the years ended December 31, 2016 and 2015 were as follows:

	For the Year Ended December 31	
	2016	2015
Current service costs	\$ 2,266	\$ 2,423
Past service costs	(1,416)	(696)
Interest cost	16,206	16,976
Net interest income	<u>(12,337)</u>	<u>(14,534)</u>
	<u>\$ 4,719</u>	<u>\$ 4,169</u>

The pre-tax re-measurements recognized in other comprehensive income (loss) for the years ended December 31, 2016 and 2015 were as follows:

	For the Year Ended December 31	
	2016	2015
Return on plan assets (excluding amounts included in net interest)	\$ 6,691	\$ (5,452)
Actuarial loss - changes in demographic assumptions	64,643	61,881
Actuarial loss - changes in financial assumptions	6,511	61,925
Actuarial loss - experience adjustments	<u>40,761</u>	<u>42,776</u>
	<u>\$ 118,606</u>	<u>\$ 161,130</u>

Through the defined benefit plans under the Labor Standards Law, the Group is exposed to the following risks:

- 1) Investment risk: The plan assets are invested in domestic and foreign equity and debt securities, bank deposits, etc. The investment is conducted at the discretion of the Bureau or under the mandated management. However, in accordance with relevant regulations, the return generated by plan assets should not be below the interest rate for a 2-year time deposit with local banks.
- 2) Interest risk: A decrease in the government bond interest rate will increase the present value of the defined benefit obligation; however, this will be partially offset by an increase in the return on the plan's debt investments.
- 3) Salary risk: The present value of the defined benefit obligation is calculated by reference to the future salaries of plan participants. As such, an increase in the salary of the plan participants will increase the present value of the defined benefit obligation.

The actuarial present values of the defined benefit obligation were carried out by the chartered actuary.

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

	December 31	
	2016	2015
Discount rate	1.25%-1.50%	1.50%-1.75%
Long-term average adjustment rate of salary	2.50%-3.00%	2.50%-3.00%

If possible reasonable change in each of the significant actuarial assumptions will occur and all other assumptions will remain constant, the present value of the defined benefit obligation would increase (decrease) as follows:

	December 31	
	2016	2015
Discount rate		
0.25% increase	<u>\$ (44,926)</u>	<u>\$ (41,504)</u>
0.25% decrease	<u>\$ 47,106</u>	<u>\$ 43,570</u>
Long-term average adjustment rate of salary		
0.25% increase	<u>\$ 45,951</u>	<u>\$ 42,528</u>
0.25% decrease	<u>\$ (44,069)</u>	<u>\$ (40,738)</u>

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.

	December 31	
	2016	2015
The expected contributions to the plan for the next year	<u>\$ 33,308</u>	<u>\$ 28,332</u>
The average duration of the defined benefit obligation	12-20 years	13-19.4 years

21. EQUITY

a. Common stock

As of December 31, 2016 and 2015, TWM had authorized 6,000,000 thousand common shares, with 3,420,833 thousand shares issued and outstanding at par value \$10 per share.

b. Capital surplus

	December 31	
	2016	2015
Additional paid-in capital from convertible corporate bonds	\$ 8,775,820	\$ 8,775,820
Treasury share transactions	5,159,704	5,159,704
Difference between consideration and carrying amount arising from the disposal of subsidiaries' shares	85,965	85,965
Changes in equity of subsidiaries	511,562	511,562
Convertible bonds payable option	400,564	-
Changes in equity of associates accounted for using equity method	36,014	37,907
Others	<u>15,418</u>	<u>15,418</u>
	<u>\$ 14,985,047</u>	<u>\$ 14,586,376</u>

Under the Company Act, capital surplus generated from the excess of the issue price over the par value of capital stock, including the stock issued for new capital, the conversion premium from convertible corporate bonds, the difference between consideration and carrying amount of subsidiaries' shares acquired or disposed of, and treasury share transactions, may be applied to make-up accumulated deficit, if any, or be transferred to capital as stock dividends, or be distributed as cash dividends when there is no accumulated deficit, and this transfer is restricted to a certain percentage of the paid-in capital. The capital surplus arising from changes in equity of subsidiaries and changes in equity of associates accounted for using equity method could also be applied to make-up accumulated deficit, if any. And the other capital surplus cannot be used by any means.

c. Appropriation of earnings and dividend policy

In accordance with the amendments to the Company Act made in May 2015, the recipients of dividends and bonuses are limited to shareholders and do not include employees. The shareholders held the annual general shareholders' meeting ("AGM") on June 15, 2016 and, in that meeting, had resolved to make amendments to TWM's Articles of Incorporation (the "Articles"), particularly the amendment to the policy on dividend distribution and the addition of the policy on distribution of employees' compensation and remuneration to directors.

The policy on appropriation of earnings and dividend distribution in amended TWM's Articles of Incorporation provided that, in the event that TWM, according to the final settlement, earns profits in a fiscal year, such profits shall first be set aside to pay the applicable taxes, offset losses, set aside for legal reserve pursuant to laws and regulations, unless the legal reserve has reached TWM's total paid-up capital. The remaining profits shall be set aside for special reserve in accordance with the laws, regulations, or the business requirements. Any further remaining profits plus unappropriated earnings shall be distributed in accordance with the proposal submitted by the Board of Directors, for approval at a shareholders' meeting. For the policies on distribution of employees' compensation or bonuses to employees and remuneration to directors before and after amendment, see Note 34.

TWM adopts a dividend distribution policy whereby only surplus profits of TWM shall be distributed to shareholders. That is, after setting aside amounts for retained earnings based on TWM's capital budget plan, the residual profits shall be distributed as cash dividends. Stock dividends in a particular year shall be capped at no more than 80% of total dividends to be distributed for that year. The amount of the distributable dividends, the forms in which dividends shall be distributed, and the ratio thereof shall depend on the actual profit and cash positions of TWM and shall be approved by resolutions of the Board, who shall, upon such approval, recommend the same to the shareholders for approval by resolution at the shareholders' meetings.

The above appropriation of earnings should be resolved by the AGM held in the following year.

According to the ROC Company Act, a company shall first set aside 10% of its income after taxes as legal reserve until it equals the paid-in capital. After offsetting any deficit, the legal reserve may be transferred to capital and distributed as stock dividends or cash dividends for the amount in excess of 25% of the paid-in capital pursuant to a resolution adopted by the shareholders' meeting.

TWM distributes and reverses special reserve in accordance with Decree No. 1010012865, Decree No. 1010047490, and "The Q&A for special reserve recognition after adopting IFRS" issued by the FSC.

The 2015 and 2014 earnings appropriations having been approved by the AGM on June 15, 2016 and June 10, 2015, respectively, were as follows:

	Appropriation of Earnings		Dividends Per Share (NT\$)	
	For Fiscal Year 2015	For Fiscal Year 2014	For Fiscal Year 2015	For Fiscal Year 2014
Appropriation of legal reserve	\$ 1,568,619	\$ 1,500,543		
Appropriation of special reserve	870,968	302,986		
Cash dividends to shareholders	<u>15,243,655</u>	<u>15,243,655</u>	\$ 5.6	\$ 5.6
	<u>\$ 17,683,242</u>	<u>\$ 17,047,184</u>		

TWM's 2016 earnings appropriations will be proposed by Board of Directors and approved at the AGM. Information on earnings appropriations is available on the Market Observation Post System website of the Taiwan Stock Exchange.

d. Other equity interests

	Exchange Differences on Translation	Unrealized Gain (Loss) on Available-for- sale Financial Assets	Total
Balance, January 1, 2016	\$ 22,386	\$ (1,196,340)	\$ (1,173,954)
Exchange differences on translation	(34,617)	-	(34,617)
Changes in fair value of available-for-sale financial assets	-	534,421	534,421
Changes in other comprehensive income (loss) of associates accounted for using equity method	<u>3,098</u>	<u>(18,982)</u>	<u>(15,884)</u>
Balance, December 31, 2016	<u>\$ (9,133)</u>	<u>\$ (680,901)</u>	<u>\$ (690,034)</u>
Balance, January 1, 2015	\$ 31,294	\$ (334,280)	\$ (302,986)
Exchange differences on translation	(5,571)	-	(5,571)
Changes in fair value of available-for-sale financial assets	-	(850,971)	(850,971)
Changes in other comprehensive income (loss) of associates accounted for using equity method	<u>(3,337)</u>	<u>(11,089)</u>	<u>(14,426)</u>
Balance, December 31, 2015	<u>\$ 22,386</u>	<u>\$ (1,196,340)</u>	<u>\$ (1,173,954)</u>

e. Treasury shares

As of December 31, 2016 and 2015, TWM's stocks held for the investment purposes by TCCI, TUI and TID, which are all wholly-owned by TWM, were both 698,752 thousand shares, and the market values were \$72,670,167 thousand and \$69,875,160 thousand, respectively. Since TWM's shares held by its subsidiaries are regarded as treasury shares, TWM recognized both \$29,717,344 thousand, as treasury shares. For those treasury shares holders, they have the same rights as the other shareholders, except that they are not allowed to subscribe new shares issued by TWM for cash. In addition, based on the ROC Company Act, subsidiaries with over 50% shareholding owned by TWM cannot exercise the voting rights over such treasury shares.

f. Non-controlling interests

	For the Year Ended December 31	
	2016	2015
Beginning balance	\$ 5,736,019	\$ 6,252,897
Portion attributable to non-controlling interests		
Profit	608,256	481,843
Unrealized losses on available-for-sale financial assets	(813)	(56,359)
Exchange differences on translation	(34,714)	(6,683)
Re-measurements from defined benefit plans	(778)	(473)
Share of other comprehensive income (loss) of associates accounted for using equity method	1,565	(22,787)
Changes in equity of associates accounted for using equity method	(75)	14,038
Adjustments arising from changes in percentage of ownership of subsidiaries	-	(255,874)
Cash dividends from subsidiaries paid to non-controlling interests	(539,625)	(670,583)
Decrease in non-controlling interests	<u>(190)</u>	<u>-</u>
Ending balance	<u>\$ 5,769,645</u>	<u>\$ 5,736,019</u>

22. OPERATING REVENUES

	For the Year Ended December 31	
	2016	2015
Telecommunication service	\$ 56,849,968	\$ 57,842,781
Sales revenue	48,112,301	47,887,797
Cable TV and broadband services	6,291,711	6,344,628
Other operating revenues	<u>5,393,518</u>	<u>4,068,999</u>
	<u>\$ 116,647,498</u>	<u>\$ 116,144,205</u>

23. NON-OPERATING INCOME AND EXPENSES

a. Other income

	For the Year Ended December 31	
	2016	2015
Interest income	\$ 164,174	\$ 154,760
Dividend income	80,168	21,213
Other income	<u>135,615</u>	<u>272,816</u>
	<u>\$ 379,957</u>	<u>\$ 448,789</u>

b. Other gains and losses, net

	For the Year Ended December 31	
	2016	2015
Loss on disposal of property, plant and equipment, net	\$ (457,819)	\$ (332,085)
Gain on disposal of intangible assets	-	47
Valuation loss on financial assets and liabilities at fair value through profit or loss	(118,234)	(68,618)
Impairment losses on financial assets	(2,209)	-
Gain on disposal of investments	-	12,437
Others	<u>(8,374)</u>	<u>(414)</u>
	<u>\$ (586,636)</u>	<u>\$ (388,633)</u>

c. Finance costs

	For the Year Ended December 31	
	2016	2015
Interest expense		
Bank loans	\$ 395,152	\$ 404,867
Corporate bonds	206,799	196,916
Others	<u>78,307</u>	<u>135,427</u>
	680,258	737,210
Less: Capitalized interest	<u>(6,819)</u>	<u>(6,293)</u>
	<u>\$ 673,439</u>	<u>\$ 730,917</u>
Capitalization rates	1.33%	1.33%

24. INCOME TAX

a. Income tax recognized in profit or loss

	For the Year Ended December 31	
	2016	2015
Current income tax expense		
Current period	\$ 3,698,509	\$ 3,020,436
Prior years' adjustment	<u>632,661</u>	<u>(449,040)</u>
	4,331,170	2,571,396
Deferred income tax expense		
Temporary differences	<u>(1,068,141)</u>	<u>(573,475)</u>
Income tax expense	<u>\$ 3,263,029</u>	<u>\$ 1,997,921</u>

The reconciliation of profit before tax to income tax expense was as follows:

	For the Year Ended December 31	
	2016	2015
Profit before tax	<u>\$ 19,191,472</u>	<u>\$ 18,165,950</u>
Income tax expense at domestic statutory tax rate (17%)	\$ 3,262,550	\$ 3,088,211
Effect of different tax rates on the Group entities	(4,043)	(19,275)
Adjustment items in determining taxable profit	417,348	(53,632)
Temporary difference	(1,068,141)	(573,475)
Investment tax credit	-	(39,920)
Unrecognized loss carryforwards	22,625	41,824
Prior years' adjustment	632,661	(449,040)
Income tax on unappropriated earnings	29	-
Land value increment tax	-	3,228
	<u>\$ 3,263,029</u>	<u>\$ 1,997,921</u>

b. Income tax recognized in other comprehensive income (loss):

	For the Year Ended December 31	
	2016	2015
Deferred income tax income		
Re-measurements from defined benefit plans	<u>\$ 20,163</u>	<u>\$ 27,392</u>

c. Deferred tax assets and liabilities

1) Recognized deferred tax assets and liabilities

Changes in the amount of deferred tax assets and liabilities for the years ended December 31, 2016 and 2015, were as follows:

	Property, Plant and Equipment	Defined Benefit Plans	Others	Total
<u>Deferred tax assets</u>				
Balance, January 1, 2016	\$ 604,781	\$ 77,398	\$ 129,603	\$ 811,782
Recognized in profit or loss	(76,162)	(15,640)	(30,963)	(122,765)
Recognized in other comprehensive income (loss)	-	19,639	-	19,639
Balance, December 31, 2016	<u>\$ 528,619</u>	<u>\$ 81,397</u>	<u>\$ 98,640</u>	<u>\$ 708,656</u>
Balance, January 1, 2015	\$ 703,572	\$ 50,712	\$ 130,889	\$ 885,173
Recognized in profit or loss	(98,791)	52	(1,286)	(100,025)
Recognized in other comprehensive income (loss)	-	26,634	-	26,634
Balance, December 31, 2015	<u>\$ 604,781</u>	<u>\$ 77,398</u>	<u>\$ 129,603</u>	<u>\$ 811,782</u>

	Accounts Receivable	Intangible Assets	Others	Total
<u>Deferred tax liabilities</u>				
Balance, January 1, 2016	\$ 1,358,862	\$ 600,333	\$ 55,115	\$ 2,014,310
Recognized in profit or loss	(1,225,959)	55,834	(20,781)	(1,190,906)
Recognized in other comprehensive income (loss)	-	-	(524)	(524)
Balance, December 31, 2016	<u>\$ 132,903</u>	<u>\$ 656,167</u>	<u>\$ 33,810</u>	<u>\$ 822,880</u>
Balance, January 1, 2015	\$ 2,037,386	\$ 617,409	\$ 33,773	\$ 2,688,568
Recognized in profit or loss	(678,524)	(17,076)	22,100	(673,500)
Recognized in other comprehensive income (loss)	-	-	(758)	(758)
Balance, December 31, 2015	<u>\$ 1,358,862</u>	<u>\$ 600,333</u>	<u>\$ 55,115</u>	<u>\$ 2,014,310</u>

2) Unrecognized deferred tax assets items

	<u>December 31</u>	
	2016	2015
Loss carry-forwards	<u>\$ 1,257,305</u>	<u>\$ 1,401,958</u>

As of December 31, 2016, the Group had not recognized the prior years' loss carry-forwards as deferred tax assets. The expiry years are as follows:

Remaining Creditable Amount	Expiry Year
\$ 254,147	2017
227,205	2018
248,929	2019
227,911	2020
101,534	2021
50,934	2022
118,808	2023
27,577	2025
<u>260</u>	2026
<u>\$ 1,257,305</u>	

d. Integrated income tax information was as follows:

	<u>December 31</u>	
	2016	2015
Balance of TWM's imputation credit account (ICA)	<u>\$ 1,656,478</u>	<u>\$ 1,148,061</u>

As of December 31, 2016, there were no unappropriated earnings generated before 1997.

The estimated tax creditable ratio for 2016 and actual tax creditable ratio for 2015 were 21.01% and 19.80%, respectively, based on Decree No. 10204562810 announced on October 17, 2013, by the ROC Ministry of Finance; Under the Integrated Income Tax System, ROC resident shareholders are allowed a tax credit for the income tax paid by TWM. An ICA is maintained by TWM for such income tax, and a tax credit is allocated to each shareholder when earning distribution occurs. Actual allocation of the ICA is based on the balance on the record date for dividend distribution. Therefore, the estimated tax creditable ratio may differ from the actual tax creditable ratio for the annual earnings appropriation. Effective from January 1, 2015, the tax creditable ratio for individual shareholders residing in ROC will be half of the original tax creditable ratio.

e. Income tax examinations

The latest years for which income tax returns have been examined and cleared by the tax authorities were as follows:

<u>Company</u>	<u>Year</u>
TWM	2014
TCC	2014
WMT	2014
TNH	2014
TFN	2014
TT&T	2014
TCCI	2014
TDC	2014
TDS	2014
TFNM	2014
GFMT	2014
GWMT	2014
WTVB	2014
TUI	2014
TID	2014
TKT	2014
YJCTV	2014
MCTV	2014
PCTV	2014
UCTV	2014
GCTV	2014
momo	2014
FLI	2014
FPI	2014
FST	2014

TFN's income tax returns up to 2014 have been assessed by the tax authorities. TFN disagreed with the assessments of the appeal for 2010 and has applied for the administrative litigation at the Taipei High Administrative Court.

25. EARNINGS PER SHARE

	<u>For the Year Ended December 31, 2016</u>		
	<u>Amount After Income Tax</u>	<u>Weighted- average Number of Common Stock</u>	<u>EPS</u>
Basic EPS			
Profit attributable to owners of the parent	\$ 15,320,187	2,722,081	<u>\$ 5.63</u>
Effect of potentially dilutive common stock:			
Employees' compensation	-	5,104	
Convertible bonds	<u>15,583</u>	<u>9,413</u>	
Diluted EPS			
Profit attributable to owners of the parent (adjusted for potential effect of common stock)	<u>\$ 15,335,770</u>	<u>2,736,598</u>	<u>\$ 5.60</u>
	<u>For the Year Ended December 31, 2015</u>		
	<u>Amount After Income Tax</u>	<u>Weighted- average Number of Common Stock</u>	<u>EPS</u>
Basic EPS			
Profit attributable to owners of the parent	\$ 15,686,186	2,722,081	<u>\$ 5.76</u>
Effect of potentially dilutive common stock:			
Employees' compensation	<u>-</u>	<u>6,419</u>	
Diluted EPS			
Profit attributable to owners of the parent (adjusted for potential effect of common stock)	<u>\$ 15,686,186</u>	<u>2,728,500</u>	<u>\$ 5.75</u>

Since TWMM may settle the employees' compensation by cash or shares, TWMM should presume that the entire amount of the remuneration will be settled in shares, and the potential share dilution should be included in the weighted-average number of shares outstanding used in the calculation of diluted EPS if the shares have a dilutive effect. Such dilutive effect of the potential shares needs to be included in the calculation of diluted EPS until employees' compensation is approved in the following year.

26. OPERATING LEASE

a. Lessee

Non-cancellable rentals payable of operating leases are as follows:

	<u>December 31</u>	
	<u>2016</u>	<u>2015</u>
Less than one year	\$ 3,138,464	\$ 3,204,706
Between one and five years	4,357,600	4,815,646
More than five years	<u>86,259</u>	<u>104,120</u>
	<u>\$ 7,582,323</u>	<u>\$ 8,124,472</u>

The Group leases offices, base transceiver stations, stores, maintenance centers, machine rooms, etc., under operating leases. The leases typically run for a period of 1 to 5 years, with options for renewals.

The payments of leases and subleases were as follows:

	For the Year Ended December 31	
	2016	2015
Minimum lease payment	\$ 3,632,814	\$ 3,570,175
Sublease payment	<u>(5,477)</u>	<u>(4,398)</u>
	<u>\$ 3,627,337</u>	<u>\$ 3,565,777</u>

b. Lessor

The Group leases out investment properties under operating leases. The future minimum lease payment receivables under non-cancellable leases are as follows:

	December 31	
	2016	2015
Less than one year	\$ 134,673	\$ 19,926
Between one and five years	543,754	22,659
More than five years	<u>285,962</u>	<u>-</u>
	<u>\$ 964,389</u>	<u>\$ 42,585</u>

27. CAPITAL MANAGEMENT

The Group maintains and manages its capital to meet the minimum paid-in capital required by the competent authority, and to optimize the balance of liabilities and equity in order to maximize shareholders' return. By periodically reviewing and measuring relative cost, risk, and rate of return to ensure profit and to maintain adequate financial ratios, the Group may adopt various financing approaches to balance its capital structure in order to meet the demands for capital expenditures, working capital, settlements of liabilities, and dividend payments in normal course of business for the future.

28. FINANCIAL INSTRUMENTS

a. Categories of financial instruments

	December 31	
	2016	2015
<u>Financial assets</u>		
Available-for-sale financial assets (including current and non-current portions)	<u>\$ 4,426,218</u>	<u>\$ 3,692,610</u>
Financial assets at fair value through profit or loss	<u>42,030</u>	<u>158,322</u>
Financial assets carried at cost	<u>188,548</u>	<u>192,700</u>
Loans and receivables:		
Cash and cash equivalents	7,704,517	8,579,422
Receivables (including current and non-current portions)	21,351,373	21,792,955

(Continued)

	December 31	
	2016	2015
Debt instrument investments without active market	\$ 423,481	\$ 359,062
Other financial assets (including current and non-current portions)	4,144,717	3,112,465
Refundable deposits	<u>596,781</u>	<u>581,237</u>
Subtotal	<u>34,220,869</u>	<u>34,425,141</u>
Total	<u>\$ 38,877,665</u>	<u>\$ 38,468,773</u>
<u>Financial liabilities</u>		
Short-term borrowings	\$ 7,363,005	\$ 14,220,938
Short-term notes and bills payable	-	10,793,487
Payables (including current and non-current portions)	17,794,396	18,541,226
Financial liabilities at fair value through profit or loss	41,961	-
Bonds payable (including current portion)	24,359,772	14,795,938
Long-term borrowings (including current portion)	24,800,582	21,950,363
Guarantee deposits	<u>887,163</u>	<u>797,787</u>
Total	<u>\$ 75,246,879</u>	<u>\$ 81,099,739</u> (Concluded)

b. Fair value of financial instruments

1) Financial instruments not at fair value

Except for the table below, the Group considers that the book value of financial assets and liabilities that are not at fair value is close to the fair value, or the fair value cannot be reliably measured.

	December 31			
	2016		2015	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<u>Financial liabilities</u>				
Bonds payable (including current portion)	\$ 24,359,772	\$ 24,971,227	\$ 14,795,938	\$ 14,965,461

The fair value of bonds payable is measured by Level 2 inputs, using a volume-weighted-average price on the OTC at the end of the reporting period.

2) Fair value measurements recognized in the consolidated balance sheets

The table below provides the related analysis of financial instruments at fair value after initial recognition. Based on the extent that fair value can be observed, the fair value measurements are grouped into Levels 1 to 3:

- Level 1: Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Inputs other than quoted prices included within Level 1 are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).

- Level 3: Inputs for the assets or liabilities are not based on observable market data (unobservable inputs).

Fair value of financial instruments that are measured at fair value on a recurring basis

December 31, 2016

	Level 1	Level 2	Level 3	Total
<u>Available-for-sale financial assets</u>				
Domestic listed stock	\$ 3,414,959	\$ -	\$ -	\$ 3,414,959
Beneficiary certificates	965,833	-	-	965,833
Foreign unlisted stocks	-	45,426	-	45,426
	<u>\$ 4,380,792</u>	<u>\$ 45,426</u>	<u>\$ -</u>	<u>\$ 4,426,218</u>
Financial assets at fair value through profit or loss	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 42,030</u>	<u>\$ 42,030</u>
Financial liabilities at fair value through profit or loss	<u>\$ -</u>	<u>\$ 41,961</u>	<u>\$ -</u>	<u>\$ 41,961</u>

December 31, 2015

	Level 1	Level 2	Level 3	Total
<u>Available-for-sale financial assets</u>				
Domestic listed stock	\$ 215,395	\$ -	\$ -	\$ 215,395
Domestic emerging stock	937,307	-	-	937,307
Domestic unlisted stocks	-	1,727,171	-	1,727,171
Beneficiary certificates	734,991	-	-	734,991
Foreign unlisted stocks	-	77,746	-	77,746
	<u>\$ 1,887,693</u>	<u>\$ 1,804,917</u>	<u>\$ -</u>	<u>\$ 3,692,610</u>
Financial assets at fair value through profit or loss	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 158,322</u>	<u>\$ 158,322</u>

Transfer between Level 1 and Level 2 for the years ended December 31, 2016 was mainly due to the changes in the source of valuation. There was no transfer between the fair value measurements of Levels 1 and 2 for the years ended December 31, 2015.

Valuation techniques and assumptions used in fair value determination

- The fair value of financial instruments traded in active markets is based on quoted market prices (including stocks and funds of publicly traded companies).

- b) Valuation techniques and inputs applied for Level 2 fair value measurement for domestic and foreign unlisted stocks, the Group uses the market comparison approach to evaluate fair values based on observable prices of similar financial instruments and their market liquidity at the end of the period. The Group also takes price fluctuations and risk-free rates into consideration by using the market comparison approach. Call and put options of convertible bonds adopted for binomial tree valuation model, were evaluated by the observable closing price of the stocks, volatility, risk-free interest rate, risk discount rate, and liquidity risk at the balance sheet date.
- c) Valuation techniques and inputs applied for Level 3 fair value measurement: The embedded derivatives instruments of convertible notes are evaluated by using binary tree evaluation models to evaluate fair value, considering significant unobservable inputs are historical volatility of stock prices and liquidity discount rate. As of December 31, 2016 and 2015, the historical volatility of stock prices was estimated at 68.91% and 55.02%, respectively, and the liquidity discount rate was estimated at 30.56% and 31.15%, respectively. Assuming all other variables are constant, an increase (or decrease) in the historical volatility of stock prices used in isolation would result in an increase (or decrease) in the liquidity discount rate. There is a positive correlation between historical volatility of stock prices and fair value and a negative correlation between liquidity discount rate and fair value. As a result, the fair value is affected by historical volatility of stock prices and liquidity discount rate.

3) Reconciliation of Level 3 fair value measurements of financial instruments

Financial Assets at Fair Value Through Profit or Loss - Derivative Instruments	For the Year Ended December 31	
	2016	2015
Beginning balance	\$ 158,322	\$ -
Purchases	-	246,292
Conversion	-	(33,561)
Recognized in profit or loss		
Valuation loss on financial assets at fair value through profit or loss	(112,234)	(70,185)
Unrealized gain (loss) on foreign currency exchange	<u>(4,058)</u>	<u>15,776</u>
Ending balance	<u>\$ 42,030</u>	<u>\$ 158,322</u>

c. Financial risk management

1) The Group is exposed to the following risks due to usage of financial instruments:

- a) Credit risk
- b) Liquidity risk
- c) Market risk

This note presents information concerning the Group's risk exposure and the Group's targets, policies and procedures to measure and manage the risks.

2) Risk management framework

a) Decision-making mechanism

The Board of Directors is the highest supervisory and decision-making body responsible for assessing material risks, designating actions to control these risks, and keeping track of their execution. In addition, the Operations and Management Committee conducts periodic reviews of each business group's operating target and performance to meet the Group's guidance and budget.

b) Risk management policies

- i. Promote a risk-management-based business model.
- ii. Establish a risk management mechanism that can effectively recognize, evaluate, supervise and control risk.
- iii. Create a company-wide risk management structure that can limit risk to an acceptable level.
- iv. Introduce best risk management practices and continue to seek improvements.

c) Monitoring mechanism

The Internal Audit Office regularly monitors and assesses the potential risks that the Group may face and use this information as a reference for drafting its annual audit plan. The Internal Audit Office should report any discrepancy to the concerned unit chief and ensure that remediation efforts are completed.

3) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty of a financial instrument fails to meet its contractual obligations, which arises principally from the Group's receivables from customers and financial instruments. The Group deals with customers with good reputations and monitors customers' credit risk and credit ratings continuously. The Group does not concentrate transactions significantly with any single customer or counterparty. The Group's maximum exposure to credit risk of all kinds of financial instruments is equal to the carrying amount.

4) Liquidity risk

Liquidity risk is the risk that the Group fails to meet the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to manage liquidity is to ensure, as far as possible, that it always has sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable loss or damage to the Group's reputation.

The Group manages and maintains sufficient capital to ensure the requirements of paying estimated operating expenditures, including financial obligations on each contract. The Group also monitors its bank credit facilities to ensure that the provisions of loan contracts are all complied with properly. As of December 31, 2016 and 2015, the Group had unused bank facilities of \$53,599,608 thousand and \$44,877,067 thousand, respectively.

The table below summarizes the maturity profile of the Group's financial liabilities based on contractual undiscounted payments, but not including the financial liabilities whose carrying amounts approximate contractual cash flows.

	Carrying Amount	Contractual Cash Flows	Within 1 Year	1-5 Years	More Than 5 Years
<u>December 31, 2016</u>					
Unsecured loans	\$ 29,191,005	\$ 29,506,748	\$ 10,709,592	\$ 18,797,156	\$ -
Secured loans	2,972,582	3,180,198	273,132	2,907,066	-
Bonds payable	<u>24,359,772</u>	<u>25,213,730</u>	<u>3,095,420</u>	<u>22,118,310</u>	<u>-</u>
	<u>\$ 56,523,359</u>	<u>\$ 57,900,676</u>	<u>\$ 14,078,144</u>	<u>\$ 43,822,532</u>	<u>\$ -</u>

(Continued)

	Carrying Amount	Contractual Cash Flows	Within 1 Year	1-5 Years	More Than 5 Years
<u>December 31, 2015</u>					
Unsecured loans	\$ 32,990,938	\$ 33,336,485	\$ 24,465,439	\$ 8,838,846	\$ 32,200
Secured loans	3,180,363	3,475,786	281,980	3,193,806	-
Short-term notes and bills payable	10,793,487	10,800,000	10,800,000	-	-
Bonds payable	<u>14,795,938</u>	<u>15,409,150</u>	<u>195,420</u>	<u>15,213,730</u>	<u>-</u>
	<u>\$ 61,760,726</u>	<u>\$ 63,021,421</u>	<u>\$ 35,742,839</u>	<u>\$ 27,246,382</u>	<u>\$ 32,200</u> (Concluded)

5) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates, and equity prices, will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within an acceptable range and to optimize the return.

The Group carefully evaluates each financial instrument transaction involving any risk such as exchange rate risk, interest rate risk, and market price risk in order to decrease potential influences caused by market uncertainty.

a) Exchange rate risk

The Group mainly operates in Taiwan, except for international roaming services. Most of the operating revenues and expenses are measured in NTD. A small portion of the expenses is paid in USD and EUR, etc.; thus, the Group purchases currency at the spot rate based on the conservative principle in order to hedge exchange rate risk.

The Group's foreign currency and liabilities exposed to significant exchange rate risk were as follows:

	December 31, 2016		
	Foreign Currencies	Exchange Rate	New Taiwan Dollars
<u>Foreign currency assets</u>			
Monetary items			
RMB	\$ 5,376	4.629	\$ 24,885
USD	44,373	32.28	1,432,354
HKD	102,060	4.161	424,671
EUR	1,515	33.75	51,121
Non-monetary items			
RMB	159,158	4.629	736,742
HKD	21,018	4.161	87,456
THB	163,007	0.905	147,521
<u>Foreign currency liabilities</u>			
Monetary items			
RMB	4,444	4.629	20,571
USD	11,330	32.28	365,710
EUR	19	33.75	651

	December 31, 2015		
	Foreign Currencies	Exchange Rate	New Taiwan Dollars
<u>Foreign currency assets</u>			
Monetary items			
RMB	\$ 3,904	4.975	\$ 19,422
USD	53,819	32.86	1,768,481
HKD	84,947	4.239	360,089
EUR	928	35.94	33,342
Non-monetary items			
RMB	143,455	4.975	713,691
HKD	55,690	4.239	236,068
THB	176,166	0.9167	161,491
<u>Foreign currency liabilities</u>			
Monetary items			
USD	11,791	32.86	387,456
EUR	6	35.94	214

The Group's foreign exchange gains and losses, including realized and unrealized, for the years ended December 31, 2016 and 2015, were net exchange loss of \$41,438 thousand and net exchange gain of \$65,862 thousand, respectively. Due to the variety of functional currencies, the Group could not disclose the foreign exchange gains (losses) for each foreign currency with significant influence.

Sensitivity analysis

The Group's exchange rate risk comes mainly from conversion gains and losses of accounts denominated in foreign currencies such as cash and cash equivalents, accounts receivable, other receivables, debt instrument investments without active market, other financial assets, refundable deposits, accounts payable, other payables, and guarantee deposits, etc. If the foreign currencies with an unfavorable 5% movement in the levels of foreign exchanges against NTD at the end of the reporting period (with other factors remaining constant at the end of the reporting period and with analyses of the two periods on the same basis), profit would have decreased by \$77,305 thousand and \$89,683 thousand for the years ended December 31, 2016 and 2015, respectively.

b) Interest rate risk

The Group issued unsecured corporate bonds and signed facility agreements with banks for locking in medium- and long-term fixed interest rates. In respect of interest payables, the fluctuation of interest rates does not affect the Group significantly.

The carrying amounts of the Group's financial assets and financial liabilities exposed to interest rate risk were as follows:

	December 31	
	2016	2015
Fair value interest rate risk		
Financial assets	\$ 9,384,999	\$ 8,462,562
Financial liabilities	30,897,585	55,289,425
Cash flow interest rate risk		
Financial assets	2,307,317	3,135,602
Financial liabilities	16,063,586	6,471,301

Sensitivity analysis

The following sensitivity analysis is based on the exposure to interest rate risk of derivative and non-derivative instruments at the end of the reporting period. For floating-rate assets and liabilities, the analysis assumes that the balances of outstanding assets and liabilities at the end of the reporting period have been outstanding for the whole period and that the changes in interest rates are reasonable. If the interest rate had increased by 50 basis points (with other factors remaining constant at the end of the reporting period and with analyses of the two periods on the same basis), profit would have decreased by \$68,781 thousand and \$16,678 thousand for the years ended December 31, 2016 and 2015, respectively.

c) Other market price risk

The Group's exposure to equity price risk is mainly due to holding of equity financial instruments. The Group manages the risk by maintaining portfolios of investments with different risks and by continuously monitoring the future developments and market trends of investment targets.

Sensitivity analysis

If the prices of equity instruments had decreased by 5% (with other factors remaining constant and with the analyses of the two periods on the same basis), for the years ended December 31, 2016 and 2015, other comprehensive income would have decreased by \$221,311 thousand and \$184,630 thousand, respectively.

29. RELATED-PARTY TRANSACTIONS

a. Parent company and ultimate controlling party

TWM is the ultimate controlling party of the Group.

b. Significant transactions with related parties

1) Operating revenue

	<u>For the Year Ended December 31</u>	
	2016	2015
Associates	\$ 89,550	\$ 51,945
Other related parties	<u>421,150</u>	<u>225,190</u>
	<u>\$ 510,700</u>	<u>\$ 277,135</u>

The Group renders telecommunication, sales and maintenance services, etc., to other related parties. The transaction terms with related parties were not significantly different from those with third parties.

2) Purchases

	For the Year Ended December 31	
	2016	2015
Associates	\$ 376,218	\$ 442,121
Other related parties	<u>590,062</u>	<u>295,710</u>
	<u>\$ 966,280</u>	<u>\$ 737,831</u>

The entities mentioned above provide logistics, copyright, insurance, and other services. The transaction terms with related parties were not significantly different from those with third parties.

3) Receivables from related parties

		December 31	
Account	Related Party Categories	2016	2015
Accounts receivable	Associates	\$ 4,367	\$ 18,786
Accounts receivable	Other related parties	<u>79,174</u>	<u>43,317</u>
		<u>\$ 83,541</u>	<u>\$ 62,103</u>
Other receivables	Associates	\$ 94,873	\$ 88,661
Other receivables	Other related parties	<u>66,936</u>	<u>40,557</u>
		<u>\$ 161,809</u>	<u>\$ 129,218</u>

Receivables from related parties above were not secured with collateral, and no provisions for bad debt expenses were accrued.

4) Payables to related parties

		December 31	
Account	Related Party Categories	2016	2015
Accounts payable	Associates	\$ 507	\$ 38,485
Accounts payable	Other related parties	<u>145,475</u>	<u>53,001</u>
		<u>\$ 145,982</u>	<u>\$ 91,486</u>
Other payables	Associates	\$ 34,402	\$ -
Other payables	Other related parties	<u>81,679</u>	<u>75,394</u>
		<u>\$ 116,081</u>	<u>\$ 75,394</u>

5) Prepayments

	December 31	
	2016	2015
Other related parties	<u>\$ 36,005</u>	<u>\$ 26,445</u>

6) Long-term and short-term borrowings from related parties

	<u>December 31</u>	
	<u>2016</u>	<u>2015</u>
Other related parties	<u>\$ 63,005</u>	<u>\$ -</u>

The rate on borrowings from related parties was equivalent to the rate in the market. The Group had drawn \$16,250 thousand and \$32,500 thousand, respectively, of performance guarantee from related parties for the years ended December 31, 2016 and 2015.

7) Bank deposits, time deposits and other financial assets

	<u>December 31</u>	
	<u>2016</u>	<u>2015</u>
Other related parties	<u>\$ 2,286,855</u>	<u>\$ 2,004,158</u>

8) Disposal of available-for-sale financial assets-current

The Group sold the beneficiary certificates, which had been purchased from the same entity, to the related parties in 2015. The disposal amounts were \$390,349 thousand, which resulted in disposal losses of \$3,375 thousand for the year ended December 31, 2015.

9) Investments acquired

In December 2016, the Group acquired new shares from ADT, amounting to \$30,000 thousand.

10) Others

	<u>December 31</u>	
	<u>2016</u>	<u>2015</u>
Guarantee deposits		
Other related parties	<u>\$ 48,279</u>	<u>\$ 48,271</u>
	<u>For the Year Ended December 31</u>	
	<u>2016</u>	<u>2015</u>

Operating expenses
 Other related parties

\$ 553,149 \$ 505,284

Operating expenses include rental expenses. Leases were conducted at general market prices, and the rental was paid monthly.

For the Year Ended December 31
2016 **2015**

Non-operating income
 Other related parties

\$ 15,137 \$ 29,881

Non-operating expenses
 Other related parties

\$ 357 \$ 13,586

c. Key management compensation

	For the Year Ended December 31	
	2016	2015
Short-term employee benefits	\$ 313,477	\$ 302,304
Termination and post-employment benefits	<u>10,518</u>	<u>5,086</u>
	<u>\$ 323,995</u>	<u>\$ 307,390</u>

30. ASSETS PLEDGED

The assets pledged as collateral for bank syndicated loans, lawsuits, purchases, loan commitments and performance bonds were as follows:

	December 31	
	2016	2015
Other current financial assets	\$ 2,650,196	\$ 1,079,811
Services concession	7,506,211	7,685,516
Other non-current financial assets	<u>125,953</u>	<u>109,366</u>
	<u>\$ 10,282,360</u>	<u>\$ 8,874,693</u>

31. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED COMMITMENTS

a. Unrecognized commitments

	December 31	
	2016	2015
Purchases of property, plant and equipment	<u>\$ 3,983,037</u>	<u>\$ 4,905,394</u>
Purchases of cellular phones	<u>\$ 7,728,902</u>	<u>\$ 4,111,662</u>

b. As of December 31, 2016 and 2015, the amounts of endorsements and guarantees (provided to each entity in the Group) were \$21,688,870 thousand and \$21,699,250 thousand, respectively.

c. In accordance with the NCC's policy, TWM entered into a contract with First Commercial Bank Co., Ltd., which provides a performance guarantee for advance receipts from prepaid cards and electronic gift certificates, totaling amounting to \$1,121,395 thousand and \$14,044 thousand, respectively, as of December 31, 2016.

In accordance with the NCC's policy, cable television companies should provide a performance deposit based on a certain proportion of the advance receipts for a prepaid period. As of December 31, 2016, the cable television companies had provided \$65,861 thousand as a performance deposit, classified as other non-current financial assets.

In accordance with the Ministry of Economic Affairs' policy, momo entered into a contract with First Commercial Bank Co., Ltd., which provides a performance guarantee for advance receipts from prepaid bonus and electronic tickets totaling \$17,733 thousand and \$5,890 thousand, respectively, as of December 31, 2016.

In accordance with the Ministry of Economic Affairs' policies, TKT entered into a contract with Mega International Commercial Bank Co., Ltd., which provides a performance guarantee for advance receipts from prepaid music cards totaling \$1,588 thousand as of December 31, 2016.

- d. On January 15, 2009, TNH signed the BOT contract with the Department of Cultural Affairs of Taipei City Government. The primary terms of the contract are summarized as follows:

1) Construction and operating period:

The construction and operating period is 50 years from the day following the signing of the contract.

2) Development concession:

The total initial amount of concession was \$1,238,095 thousand (tax excluded). According to the supplemental agreement signed in November 2014, the concession will be paid with additional business tax from the signing date of the supplemental agreement; thus, the concession will be increased by \$48,750 thousand. The rest of the concession will be paid over 14 years from the year 2015. As of December 31, 2016, \$429,812 thousand (tax included) of the concession had been paid.

3) Performance guarantee:

As of December 31, 2016, TNH had provided a \$32,500 thousand performance guarantee regarding the BOT contract.

4) Rental of land:

During the construction period, TNH should pay land value tax (1% of the announced land value) and other expenses.

During the operating period, TNH should pay 60% of 5% of the announced land value, that is, 3% of the announced land value. According to the supplemental agreement signed in November 2014, the concession will be paid with additional business tax from the date of agreement signing.

- e. In May 2015, Far EasTone Telecommunications ("FET") filed with the Taipei District Court ("Court") a request for provisional injunction to prohibit TWM from using a portion of its C1 spectrum block (1715.1-1721.3/1810.1-1816.3 MHz). FET offered a security deposit of \$1,048,703 thousand for the Court to bring the requested injunction into effect. The Court granted the request but allowed TWM to provide a counter-security deposit of \$927,000 thousand to continue the use of the spectrum block. TWM filed for the counter-security on July 14, 2015 and the use of the C1 spectrum remains status quo. The rights and interests of the subscribers will not be affected.

Besides, in August 2015, FET filed with the Court a civil statement of complaint, in which FET claims that (i) TWM shall apply to return the C4 spectrum block (1748.7-1754.9/1843.7-1849.9 MHz) to the NCC; (ii) TWM shall not use the C4 spectrum block; (iii) TWM shall not use the C1 spectrum block until the application of TWM to return the C4 spectrum block is approved by the NCC; (iv) TWM shall provide \$1,005,800 thousand to FET as compensation. On May 23, 2016, the Court decided that TWM lost the lawsuit on claims (i), (ii), and (iii); FET lost on claim (iv). FET offered a security deposit of \$320,630 thousand for provisional execution of claims (i) to (iv). TWM offered a counter-security deposit of \$961,913 thousand to be exempted from the provisional execution of claims (i) to (iv). In addition, on June 27, 2016, TWM had offered a counter-security deposit of \$962,000 thousand for exemption from provisional execution of the sentence. TWM and FET have appealed against the aforementioned sentences respectively. The cases are still in the judicial process at the Taiwan High Court.

FET further filed a provisional injunction in April 2016, in which FET claimed that TWM shall apply to return the C4 spectrum block to the NCC immediately and TWM shall not use the C1 and C4 spectrum blocks. On April 28, 2016, TWM received the Court ruling, which states that, after FET has provided a collateral of \$143,050 thousand or a negotiable certificate deposit (“NCD”) issued by Far Eastern International Bank for the equal amount, TWM shall apply to return the C4 spectrum block to the NCC, and TWM shall be prohibited from the use of the C4 spectrum block; the rest of FET’s claims were rejected. TWM may provide a counter-security deposit of \$547,119 thousand or a NCD issued by the Bank of Taiwan for the equal amount to be exempted from, or to move for revocation of the above FET’s provisional injunction. TWM provided \$548,000 thousand for the counter-security deposit on May 5, 2016 so that TWM would not be required to return the C4 spectrum block, which is currently used for providing TWM’s 2G services, to the NCC, and the use of the C4 spectrum block would remain status quo. The rights and interests of TWM’s 2G subscribers will not be affected. On May 6, 2016, TWM had filed an appeal against the unfavorable portion of the judgement. On August 2, 2016, TWM received from the Taiwan High Court a ruling which partially reversed the original ruling “prohibiting TWM from using C4 spectrum block in any manner and being exempted from, or to move for revocation of the above temporary status of provisional injunction after TWM provided counter-security deposit.” FET applied for rejection of the partial reversal ruling; the rest of TWM’s claims were rejected. On August 12, 2016, TWM and FET have appealed against the judgements unfavorable to them. The cases are still in the judicial process at the Supreme Court. The outcome of the court cases is not expected to have material impact on TWM’s financial or operational aspects.

32. SIGNIFICANT CASUALTY LOSS: NONE

33. SIGNIFICANT SUBSEQUENT EVENTS:

On January 25, 2017, the Board of Directors resolved that TWM will purchase mobile broadband equipment from Nokia Solutions and Networks Taiwan Co, Ltd. The total amount of the contract will not exceed \$5,026,843 thousand.

34. OTHERS

Employee benefits, depreciation, and amortization are summarized as follows:

	For the Year Ended December 31					
	2016			2015		
	Classified as Operating Costs	Classified as Operating Expenses	Total	Classified as Operating Costs	Classified as Operating Expenses	Total
Employee benefits						
Salary	\$ 2,051,054	\$ 4,119,061	\$ 6,170,115	\$ 2,036,793	\$ 3,823,927	\$ 5,860,720
Insurance expenses	163,600	352,406	516,006	169,231	332,102	501,333
Pension	91,218	190,672	281,890	88,588	166,249	254,837
Others	101,786	245,331	347,117	105,030	223,877	328,907
Depreciation	10,169,163	468,813	10,637,976	10,074,155	498,999	10,573,154
Amortization	2,748,970	452,719	3,201,689	2,525,285	414,334	2,939,619

a. Information of employees’ compensation and remuneration to directors

In accordance with the amendments to the Company Act in May 2015 and the amended TWM’s Articles resolved in the AGM in June 2016, the estimated employees’ compensation and remuneration to directors are at the rates of 1% to 3%, respectively, and no higher than 0.3%, of profit before income tax, employees’ compensation, and remuneration to directors. Estimations for employees’ compensation, and remuneration to directors were made by applying the rates to the aforementioned profit before income tax, for the years ended December 31, 2016 and 2015, respectively.

The employees' compensation and remuneration to directors of 2016 and 2015 shown below were approved by the Board of Directors on January 25, 2017 and January 29, 2016, respectively. The differences with the amounts recognized in the consolidated financial statements have been adjusted in 2017 and 2016, respectively.

	For the Year Ended December 31			
	2016		2015	
	Employees' Compensation Paid by Cash	Remuneration to Directors	Employees' Compensation Paid by Cash	Remuneration to Directors
Amounts proposed by the Board of Directors	<u>\$ 468,063</u>	<u>\$ 46,806</u>	<u>\$ 454,757</u>	<u>\$ 45,476</u>
Amounts recognized in the consolidated financial statements	<u>\$ 494,483</u>	<u>\$ 49,448</u>	<u>\$ 466,322</u>	<u>\$ 46,632</u>

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 in the next year.

The employees' compensation and remuneration to directors for 2015 were approved by the Board of Directors and have submitted to the AGM after the resolution of the amendments to TWM's Articles by the AGM held on June 15, 2016.

On the AGM held on June 10, 2015, the AGM resolved to distribute cash bonuses to employees, and remuneration to directors totaling \$396,057 thousand and \$33,846 thousand, respectively, for 2014. There were no differences between the amounts resolved for actual distribution and the amounts recognized in the financial statements for 2014.

Information on the employees' compensation or bonuses to employees and remuneration to directors proposed by the Board of Directors is available on the Market Observation Post System website of the Taiwan Stock Exchange.

- b. For the years ended December 31, 2016 and 2015, the depreciation expense in non-operating expenses was \$12,150 thousand and \$3,019 thousand, respectively.

35. ADDITIONAL DISCLOSURES

- a. Information on significant transactions and b. Information on investees:

The following were the additional disclosures required by the Securities and Futures Bureau for TWM and its investees:

- 1) Financing extended to other parties: Table 1 (attached)
- 2) Endorsements/guarantees provided to other parties: Table 2 (attached)
- 3) Marketable securities held (excluding investments in subsidiaries and associates): Table 3 (attached)
- 4) Marketable securities acquired and disposed of at costs or prices of at least NT\$300 million or 20% of the paid-in capital: None

- 5) Acquisition of individual real estate properties at costs of at least NT\$300 million or 20% of the paid-in capital: Table 4 (attached)
 - 6) Disposal of individual real estate properties at prices of at least NT\$300 million or 20% of the paid-in capital: None
 - 7) Total purchases from or sales to related parties of at least NT\$100 million or 20% of the paid-in capital: Table 5 (attached)
 - 8) Receivables from related parties of at least NT\$100 million or 20% of the paid-in capital: Table 6 (attached)
 - 9) Names, locations and related information of investees on which TWM exercised significant influence (excluding information on investment in Mainland China): Table 7 (attached)
 - 10) Trading in derivative instruments: Note 28
 - 11) Business relationships between the parent and the subsidiaries and significant intercompany transactions: Table 8 (attached)
- c. Information on investment in Mainland China:
- 1) The names of investees in Mainland China, the main businesses and products, issued capital, method of investment, information on inflow or outflow of capital, ownership, net income or loss and recognized investment gain or loss, ending balance, amount received as earnings distributions from the investment, and limitation on investment: Table 9 (attached)
 - 2) Significant direct or indirect transactions with the investee companies, the prices and terms of payment, unrealized gain or loss, and other related information which is helpful to understand the impact of investment in Mainland China on financial reports: Tables 2 and 8 (attached)

36. SEGMENT INFORMATION

The Group divides its business into four reportable segments with different market attributes and operation modes. The four segments are described as follows.

Telecommunication: Providing mobile communication services, data mobile services, and fixed-line services.

Retail: Providing TV shopping, online shopping, and catalog shopping.

Cable Television: Providing pay TV and cable broadband services.

Others: Business other than telecommunication, retail, and cable television.

For the Year Ended December 31, 2016	Telecommuni- cation	Retail	Cable Television	Others	Adjustments and Eliminations	Total
Operating revenues	\$ 81,849,939	\$ 28,080,788	\$ 6,533,272	\$ 565,567	\$ (382,068)	\$ 116,647,498
Operating costs	50,667,418	24,769,608	3,130,701	404,841	(182,050)	78,790,518
Operating expenses	15,543,826	2,041,246	806,657	92,940	(224,273)	18,260,396
Other gains and losses, net	426,598	484	35,913	-	(39,813)	423,182
Profit	16,065,293	1,270,418	2,631,827	67,786	(15,558)	20,019,766
EBITDA (Note)	28,568,057	1,370,711	3,503,892	278,661	150,260	33,871,581

For the Year Ended December 31, 2015	Telecommuni- cation	Retail	Cable Television	Others	Adjustments and Eliminations	Total
Operating revenues	\$ 83,780,637	\$ 25,639,898	\$ 6,554,973	\$ 597,287	\$ (428,590)	\$ 116,144,205
Operating costs	53,846,632	22,536,236	3,139,944	442,425	(180,102)	79,785,135
Operating expenses	15,102,006	2,043,265	783,836	125,843	(160,449)	17,894,501
Other gains and losses, net	281,410	(1,628)	29,528	-	(4,730)	304,580
Profit	15,113,409	1,058,769	2,660,721	29,019	(92,769)	18,769,149
EBITDA (Note)	27,229,012	1,190,763	3,563,763	237,863	63,540	32,284,941

Note: The Group uses EBITDA (Operating income + Depreciation and amortization expenses) as the measurement for segment profit and the basis of performance assessment.

a. Geographical information

The Group's revenues are generated mostly from domestic business.

b. Information on major customers

The Group does not have revenues from a single customer that exceeds 10% of the consolidated operating revenues.

TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES

FINANCING EXTENDED TO OTHER PARTIES
FOR THE YEAR ENDED DECEMBER 31, 2016

(In Thousands of New Taiwan Dollars)

No.	Lending Company	Borrowing Company	Financial Statement Account	Related Parties	Maximum Balance for the Period (Note 1)	Ending Balance (Note 1)	Drawdown Amounts	Interest Rate	Nature of Financing	Transaction Amounts	Reasons for Short-term Financing	Allowance for Doubtful Accounts	Collateral		Lending Limit for Each Borrowing Company	Lending Company's Lending Amount Limits	Note
													Item	Value			
1	TFN	TWM	Other receivables	Yes	\$ 9,000,000	\$ 9,000,000	\$ 6,380,000	1.09033%-1.23511%	Short-term financing	\$ -	Operation requirements	\$ -	-	\$ -	\$ 21,438,210	\$ 21,438,210	Note 2
2	GCTV	TFNM	Other receivables	Yes	250,000	250,000	250,000	1.09067%-1.23100%	Short-term financing	-	Repayment of financing	-	-	-	285,858	507,747	Note 3
3	PCTV	TFNM	Other receivables	Yes	520,000	520,000	520,000	1.09067%-1.23100%	Transactions	559,201	-	-	-	-	559,201	1,014,760	Note 3
4	YJCTV	TFNM	Other receivables	Yes	470,000	370,000	370,000	1.08767%-1.23100%	Transactions	506,573	-	-	-	-	506,573	773,222	Note 3
5	WMT	TWM	Other receivables	Yes	3,000,000	2,680,000	1,590,000	1.08700%-1.29767%	Short-term financing	-	Operation requirements	-	-	-	8,198,105	8,198,105	Note 2
		TKT	Other receivables	Yes	100,000	100,000	-	-	Short-term financing	-	Operation requirements	-	-	-	8,198,105	8,198,105	Note 2
		WTVB	Other receivables	Yes	600,000	600,000	-	1.11611%-1.28111%	Short-term financing	-	Operation requirements	-	-	-	8,198,105	8,198,105	Note 2
		TFNM	Other receivables	Yes	3,000,000	3,000,000	2,240,000	1.11722%-1.29789%	Short-term financing	-	Operation requirements	-	-	-	8,198,105	8,198,105	Note 2
6	TCC	TWM	Other receivables	Yes	400,000	400,000	350,000	1.09033%-1.23511%	Short-term financing	-	Operation requirements	-	-	-	33,255,403	33,255,403	Note 2

Note 1: The maximum balance for the period and the ending balance represent quotas, not actual drawdown.

Note 2: Where funds are loaned for reasons of business dealings and short-term financing needs, the amount of loaned funds shall be limited to 40% of the lending company's net worth. For short-term financing needs, the aggregate amount of loaned funds shall not exceed 40% of the lending company's net worth. The individual loan funds shall be limited to the lowest amount of the following items: 1) 40% of the lending company's net worth; 2) The amount that the lending company invests in the borrowing entities; or 3) An amount equal to (the share portion of the borrowing entities that the lending company invests in) * (the total loaning amounts of the borrowing company). In the event that a lending company directly and indirectly owns 100% of the borrowing company, or the borrowing company directly and indirectly owns 100% of the lending company, the individual lending amount and the aggregate amount of loaned funds shall not exceed 40% of the lending company's net worth.

Note 3: Where funds are loaned for reasons of business dealings and short-term financing needs, the amount of loaned funds shall be limited to the total amount of business dealings and 40% of the lending company's net worth. 1) For reasons of business dealings: The individual lending amount and the aggregate amount of loaned funds shall not exceed the amount of business dealings. 2) For short-term financing needs: The individual lending amount and the aggregate amount of loaned funds shall not exceed 40% of the lending company's net worth.

TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES
ENDORSEMENT/GUARANTEE PROVIDED TO OTHER PARTIES
FOR THE YEAR ENDED DECEMBER 31, 2016

(In Thousands of New Taiwan Dollars)

No.	Company Providing Endorsements/ Guarantees	Receiving Party		Limits on Endorsements/ Guarantees Amount Provided to Each Entity	Maximum Balance for the Period (Note 1)	Ending Balance (Note 1)	Drawdown Amounts (Note 1)	Amount of Endorsements/ Guarantees Collateralized by Property	Ratio of Accumulated Endorsements/ Guarantees to Net Worth of the Guarantor (%) (Note 1)	Maximum Endorsements/ Guarantees Amount Allowable	Guarantee Provided by Parent Company	Guarantee Provided by a Subsidiary	Guarantee Provided to Subsidiaries in Mainland China	Note
		Name	Nature of Relationship											
0	TWM	TFN TKT	Note 2 Note 2	\$ 42,000,000 259,800	\$ 21,500,000 50,000	\$ 21,500,000 50,000	\$ 9,598,200 50,000	\$ - -	35.59 0.08	\$ 60,416,890 60,416,890	Y Y	N N	N N	Notes 3 and 4 Note 3
1	momo	FGE	Note 2	774,751	277,740	138,870	138,870	84,000	2.40	5,781,343	N	N	Y	Note 5

Note 1: The maximum endorsement/guarantee balance for the period, the ending balance, and the drawdown amounts represent quotas, not actual drawdown.

Note 2: Direct/indirect subsidiary.

Note 3: For 100% directly/indirectly owned subsidiaries, the aggregate endorsement/guarantee amount provided shall not exceed the net worth of TWM, and the upper limit for each subsidiary shall be double the investment amount.

Note 4: Including US\$65,000 thousand.

Note 5: The aggregate endorsement/guarantee amount provided by momo shall be limited to the net worth of momo for all the investments which momo holds, directly and indirectly, of more than 50% ownership, and the individual amount shall be limited to the investment amount for a single subsidiary.

Amount of endorsements/guarantees collateralized by property that was provided by momo consisted of pledged deposits in the amount of \$84,000 thousand.

TABLE 3

TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES

MARKETABLE SECURITIES HELD (EXCLUDING INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES)
DECEMBER 31, 2016

(In Thousands of New Taiwan Dollars)

Investing Company	Marketable Securities Type and Name	Relationship with the Securities Issuer	Financial Statement Account	December 31, 2016				Note
				Units/Shares (Thousands)	Carrying Value	Percentage of Ownership	Fair Value	
TWM	<u>Stock</u>							
	Chunghwa Telecom Co., Ltd.	-	Current available-for-sale financial assets	2,174	\$ 220,612	0.028	\$ 220,612	
	Asia Pacific Telecom Co., Ltd.	-	Non-current available-for-sale financial assets	148,255	1,534,439	3.45	1,534,439	
	Bridge Mobile Pte Ltd.	-	Non-current financial assets at cost	800	7,050	10	-	
	Yes Mobile Holdings Company	-	Non-current financial assets at cost	74	-	0.19	-	Note 1
TCC	<u>Stock</u>							
	Arcoa Communication Co., Ltd.	-	Non-current financial assets at cost	6,998	67,731	5.21	-	
	Parawin Venture Capital Corp.	-	Non-current financial assets at cost	1,749	7,367	3	-	
	Transportation High Tech Inc.	-	Non-current financial assets at cost	1,200	-	12	-	Note 1
	WEB Point Co., Ltd.	-	Non-current financial assets at cost	803	6,773	3.17	-	
TFN	<u>Stock</u>							
	Taiwan High Speed Rail Corporation	-	Non-current available-for-sale financial assets	90,212	1,659,908	1.6	1,659,908	
TCCI	<u>Stock</u>							
	TWM	TWM	Non-current available-for-sale financial assets	200,497	20,851,663	5.86	20,851,663	
	Great Taipei Broadband Co., Ltd.	-	Non-current financial assets at cost	10,000	39,627	6.67	-	
TUI	<u>Stock</u>							
	TWM	TWM	Non-current available-for-sale financial assets	410,665	42,709,190	12	42,709,190	
TID	<u>Stock</u>							
	TWM	TWM	Non-current available-for-sale financial assets	87,590	9,109,314	2.56	9,109,314	
TFNM	<u>Beneficiary Certificates</u>							
	Dragon Tiger Capital Partners Limited - Class B	-	Non-current financial assets at cost	0.2	-	0.33	-	Note 1
	Dragon Tiger Capital Partners Limited - Class C	-	Non-current financial assets at cost	0.0335	-	0.05	-	Note 1
	<u>Bonds</u>							
	Media Asia Group Holdings Limited - Convertible Notes	-	Non-current financial assets at fair value through profit or loss	-	42,030	-	42,030	
		-	Non-current debt instrument investment without active market	-	423,481	-	-	

(Continued)

Investing Company	Marketable Securities Type and Name	Relationship with the Securities Issuer	Financial Statement Account	December 31, 2016				Note
				Units/Shares (Thousands)	Carrying Value	Percentage of Ownership	Fair Value	
momo	<u>Beneficiary Certificates</u>							
	Fubon Strategic High Income Fund B	Related party in substance	Current available-for-sale financial assets	18,302	\$ 184,323	-	\$ 184,323	
	Fuh Hwa Emerging Market High Yield Bond Fund B	-	Current available-for-sale financial assets	10,225	65,235	-	65,235	
	PineBridge Global Multi - Strategy High Yield Bond Fund-B	-	Current available-for-sale financial assets	23,351	171,752	-	171,752	
	Eastspring Investments Global High Yield Bond Fund B	-	Current available-for-sale financial assets	19,028	165,081	-	165,081	
	JPMorgan (Taiwan) Asia High Yield Total Return Bond Fund - Monthly Distribution Share Class	-	Current available-for-sale financial assets	18,916	178,991	-	178,991	
	Eastspring Investments Well Pool Money Market Fund	-	Current available-for-sale financial assets	14,879	200,451	-	200,451	
	<u>Stock</u>							
	Media Asia Group Holdings Limited	-	Current available-for-sale financial assets	43,668	45,426	2.04	45,426	
	We Can Medicines Co., Ltd.	-	Non-current financial assets at cost	2,400	60,000	7.73	-	

Note 1: Impairment loss has been recognized, and the value has been reduced to zero.

Note 2: For the information on investments in subsidiaries and associates, see Table 7 and Table 9 for details.

(Concluded)

TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES

ACQUISITION OF INDIVIDUAL REAL ESTATE AT COSTS OF AT LEAST \$300 MILLION OR 20% OF THE PAID-IN CAPITAL
FOR THE YEAR ENDED DECEMBER 31, 2016

(In Thousands of New Taiwan Dollars)

Buyer	Property	Event Date	Transaction Amount	Payment Status	Counterparty	Relationship	Information on Previous Title Transfer If Counterparty Is A Related Party				Pricing Reference	Purpose of Acquisition	Other Terms
							Property Owner	Relationship	Transaction Date	Amount			
momo	Warehousing logistics construction	November 9, 2015	\$ 1,655,238	Has paid \$672,695 thousand. The remaining amounts will be settled monthly after the construction acceptance.	Li Jin Engineering Co., Ltd.	-	-	-	-	\$ -	Budget commitments had been approved by the Board of Directors, and determined by price comparison and price negotiation.	Business development needs	None

TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES

TOTAL PURCHASES FROM OR SALES TO RELATED PARTIES OF AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL
FOR THE YEAR ENDED DECEMBER 31, 2016

(In Thousands of New Taiwan Dollars)

Company Name	Related Party	Nature of Relationship	Transaction Details				Transactions with Terms Different from Others		Notes/Accounts Payable or Receivable		Note
			Purchase/Sale	Amount	% to Total	Payment Terms	Unit Price	Payment Terms	Ending Balance	% to Total	
TWM	TFN	Subsidiary	Sale	\$ 890,295	1	Based on contract terms	-	-	\$ 25,409	-	Note 1
			Purchase	4,683,435	(Note 2)	Based on contract terms	-	-	(438,381)	(Note 3)	Note 1
	TT&T	Subsidiary	Purchase	1,136,694	(Note 2)	Based on contract terms	-	-	(97,313)	(Note 3)	
	TKT	Subsidiary	Purchase	333,347	1	Based on contract terms	-	-	(75,011)	2	Note 1
	TDS	Subsidiary	Purchase	119,144	-	Based on contract terms	-	-	(10,577)	(Note 3)	
	momo	Subsidiary	Sale	102,281	-	Based on contract terms	-	-	8,687	-	
	Fubon Property & Casualty Insurance Co., Ltd	Related party in substance	Sale	176,656	-	Based on contract terms	-	-	48,950	-	
			Purchase	341,768	1	Based on contract terms	-	-	(122,961)	(Note 3)	
	TNH	Subsidiary	Purchase	120,869	(Note 2)	Based on contract terms	-	-	(5,049)	(Note 3)	
TNH	TWM	Parent	Sale	118,390	21	Based on contract terms	-	-	1,070	11	
TFN	TWM	Ultimate parent	Sale	4,683,435	45	Based on contract terms	-	-	438,381	52	Note 1
			Purchase	890,295	(Note 2)	Based on contract terms	-	-	(25,409)	(Note 3)	Note 1
	TFNM	Fellow subsidiary	Sale	154,895	1	Based on contract terms	-	-	29,283	3	
TT&T	TWM	Ultimate parent	Sale	1,136,694	92	Based on contract terms	-	-	97,313	93	
TDS	TWM	Ultimate parent	Sale	119,144	100	Based on contract terms	-	-	10,577	100	
TKT	TWM	Ultimate parent	Sale	333,347	88	Based on contract terms	-	-	76,126	100	Note 1
TFNM	TFN	Fellow subsidiary	Operating costs	142,773	12	Based on contract terms	-	-	(27,794)	12	
	YJCTV	Subsidiary	Channel leasing fee	431,820	13	Based on contract terms	(Note 4)	(Note 4)	-	-	
	PCTV	Subsidiary	Channel leasing fee	478,560	15	Based on contract terms	(Note 4)	(Note 4)	-	-	
	UCTV	Subsidiary	Channel leasing fee	221,581	7	Based on contract terms	(Note 4)	(Note 4)	-	-	
	GCTV	Subsidiary	Channel leasing fee	186,990	6	Based on contract terms	(Note 4)	(Note 4)	-	-	
YJCTV	TFNM	Parent	Royalty for copyright	431,820	57	Based on contract terms	(Note 4)	(Note 4)	-	-	
PCTV	TFNM	Parent	Royalty for copyright	478,560	59	Based on contract terms	(Note 4)	(Note 4)	-	-	
UCTV	TFNM	Parent	Royalty for copyright	221,581	45	Based on contract terms	(Note 4)	(Note 4)	-	-	
GCTV	TFNM	Parent	Royalty for copyright	186,990	51	Based on contract terms	(Note 4)	(Note 4)	-	-	
MCTV	Dai-Ka Ltd.	Related party in substance	Royalty for copyright	157,827	49	Based on contract terms	(Note 4)	(Note 4)	(27,620)	84	
momo	TWM	Ultimate parent	Purchase	112,182	1	Based on contract terms	-	-	(12,318)	(Note 3)	
	TPE	Equity-method investee	Purchase	374,719	2	Based on contract terms	-	-	(34,800)	(Note 3)	

Note 1: Accounts receivable (payable) was the net amount after being offset.

Note 2: Including operating costs and operating expenses.

Note 3: Including accounts payable and other payables.

Note 4: The companies authorized a related party to deal with the copyright fees for cable television. As said account item is the only one, there is no comparable transaction.

TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES

RECEIVABLES FROM RELATED PARTIES OF AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL
DECEMBER 31, 2016

(In Thousands of New Taiwan Dollars)

Company Name	Related Party	Nature of Relationship	Ending Balance		Turnover Rate	Overdue		Amount Received in Subsequent Period	Allowance for Bad Debts
						Amount	Action Taken		
TCC	TWM	Parent	Other receivables	\$ 350,669		\$ -	-	\$ -	\$ -
WMT	TWM	Parent	Other receivables	1,593,402		-	-	1,593,402	-
	TFNM	Subsidiary	Other receivables	2,243,266		-	-	-	-
TFN	TWM	Ultimate parent	Accounts receivable	438,381	9.81	-	-	401,262	-
			Other receivables	6,461,512		-	-	25,568	-
YJCTV	TFNM	Parent	Accounts receivable	2,391	13	-	-	-	-
			Other receivables	370,001		-	-	-	-
PCTV	TFNM	Parent	Accounts receivable	2,554	13.64	-	-	-	-
			Other receivables	520,001		-	-	-	-
GCTV	TFNM	Parent	Accounts receivable	1,167	14.29	-	-	-	-
			Other receivables	250,011		-	-	-	-

TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES

NAMES, LOCATIONS AND RELATED INFORMATION OF INVESTEEES ON WHICH TWM EXERCISED SIGNIFICANT INFLUENCE
(EXCLUDING INFORMATION ON INVESTMENT IN MAINLAND CHINA)
FOR THE YEAR ENDED DECEMBER 31, 2016

(In Thousands of New Taiwan Dollars)

Investor	Investee	Location	Main Businesses and Products	Investment Amount		Balance as of December 31, 2016			Net Income (Loss) of the Investee	Investment Income (Loss)	Note
				December 31, 2016	December 31, 2015	Shares (Thousands)	Percentage of Ownership	Carrying Value			
TWM	TCC	Taiwan	Investment	\$ 40,397,288	\$ 40,397,288	502,970	100	\$ 18,522,900	\$ 3,531,903	\$ 782,412	Note 1
	WMT	Taiwan	Investment	16,802,000	16,802,000	42,065	100	20,495,264	2,547,495	2,547,495	
	TNH	Taiwan	Building and operating Songshan Cultural and Creative Park BOT project	1,918,655	1,918,655	191,866	49.9	1,656,851	(52,631)	(26,263)	
	ADT	Taiwan	Technology development of mobile payment and information processing services	60,000	30,000	6,000	14.4	33,868	(75,570)	(10,247)	
TCC	TFN	Taiwan	Fixed line service provider	21,000,000	21,000,000	2,100,000	100	53,596,488	3,449,158	-	Note 2
	TT&T	Taiwan	Call center service and telephone marketing	56,210	56,210	2,484	100	99,689	56,816	-	Note 2
	TWM Holding	British Virgin Islands	Investment	347,951	347,951	-	100	258,563	(1,021)	-	Notes 2 and 3
	TCCI	Taiwan	Investment	17,285,441	17,285,441	154,271	100	28,508,760	6,534	-	Note 2
	TDC	Taiwan	Mobile phone wholesaling and TV program production	112,000	112,000	11,200	100	115,757	(179)	-	Note 2
	TDS	Taiwan	Commissioned maintenance service	25,000	25,000	2,500	100	102,589	8,197	-	Note 2
WMT	TFNM	Taiwan	Cable broadband and value added service provider	5,210,443	5,210,443	230,921	100	7,018,177	1,991,584	-	Note 2
	GFMT	Taiwan	Investment	16,984	16,984	1,500	100	17,689	486	-	Note 2
	GWMT	Taiwan	Investment	92,189	92,189	8,945	100	98,359	5,157	-	Note 2
	WTVB	Taiwan	TV program provider	222,417	222,417	18,177	100	347,676	116,455	-	Note 2
	momo	Taiwan	Wholesale and retail sales	8,129,394	8,129,394	63,047	45.01	9,152,791	1,183,227	-	Notes 2 and 4
TFN	TUI	Taiwan	Investment	22,314,536	22,314,536	400	100	37,333,744	(110)	-	Note 2
	TFN HK Ltd.	Hong Kong	Telecommunications service provider	3,096	3,096	1,300	100	21,414	864	-	Note 2
TT&T	TT&T Holdings	Samoa	Investment	36,284	36,284	1,300	100	53,770	(648)	-	Note 2
TCCI	TID.	Taiwan	Investment	3,602,782	3,602,782	104,712	100	7,968,433	(138)	-	Note 2
TFNM	TKT	Taiwan	Digital music service	129,900	129,900	12,000	100	219,254	(32,173)	-	Note 2
	YJCTV	Taiwan	Cable TV service provider	2,061,522	2,061,522	33,940	100	2,191,101	107,352	-	Note 2
	MCTV	Taiwan	Cable TV service provider	510,724	510,724	6,248	29.53	673,052	110,629	-	Notes 2 and 5
	PCTV	Taiwan	Cable TV service provider	3,261,073	3,261,073	68,090	100	3,463,683	220,702	-	Note 2
	UCTV	Taiwan	Cable TV service provider	1,986,250	1,986,250	169,141	99.22	2,072,488	81,406	-	Note 2
	GCTV	Taiwan	Cable TV service provider	1,221,002	1,221,002	51,733	92.38	1,282,715	77,834	-	Note 2
	Kbro Media	Taiwan	Film distribution, arts and literature service, and entertainment	292,500	292,500	29,250	32.5	243,670	(50,855)	-	Note 2

(Continued)

Investor	Investee	Location	Main Businesses and Products	Investment Amount		Balance as of December 31, 2016			Net Income (Loss) of the Investee	Investment Income (Loss)	Note
				December 31, 2016	December 31, 2015	Shares (Thousands)	Percentage of Ownership	Carrying Value			
GFMT	UCTV	Taiwan	Cable TV service provider	\$ 16,218	\$ 16,218	1,300	0.76	\$ 15,933	\$ 81,406	\$ -	Note 2
GWMT	GCTV	Taiwan	Cable TV service provider	91,910	91,910	3,825	6.83	96,825	77,834	-	Note 2
momo	Asian Crown (BVI)	British Virgin Islands	Investment	789,864	789,864	26,500	76.26	(2,873)	(49,976)	-	Note 2
	Honest Development	Samoa	Investment	670,448	670,448	21,778	100	716,333	56,751	-	Note 2
	FLI	Taiwan	Life insurance agent	3,000	3,000	500	100	10,950	2,218	-	Note 2
	FPI	Taiwan	Property insurance agent	3,000	3,000	500	100	7,394	(722)	-	Note 2
	Fu Sheng Travel Service Co., Ltd.	Taiwan	Travel agent	6,000	6,000	3,000	100	45,452	18,327	-	Note 2
	TPE	Taiwan	Logistics industry	337,860	337,860	16,893	17.7	402,464	83,162	-	Note 2
	TVD Shopping	Thailand	Wholesale and retail sales	140,954	140,954	31,150	35	147,521	69,101	-	Note 2
Asian Crown (BVI)	Fortune Kingdom	Samoa	Investment	1,035,051	1,035,051	33,633	100	(8,513)	(49,834)	-	Note 2
Honest Development	HK Yue Numerous	Hong Kong	Investment	670,448	670,448	16,600	100	716,333	56,751	-	Note 2
Fortune Kingdom	HK Fubon Multimedia	Hong Kong	Investment	1,035,051	1,035,051	33,633	100	(8,513)	(49,834)	-	Notes 2

Note 1: Downstream transactions, upstream transactions, and consolidated unrealized gain or loss with intercompany effect are included.

Note 2: The income/loss of the investee was already included in the income/loss of the investor, and is not presented in this table.

Note 3: Held 1 share on December 31, 2016.

Note 4: Non-controlling interests.

Note 5: 70.47% of shares are held under trustee accounts.

Note 6: For information on investment in Mainland China, see Table 9 for details.

(Concluded)

TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES
INTERCOMPANY RELATIONSHIPS AND SIGNIFICANT TRANSACTIONS
FOR THE YEAR ENDED DECEMBER 31, 2016

(In Thousands of New Taiwan Dollars)

Number	Company Name	Counter Party	Nature of Relationship (Note 1)	Transaction Details			Percentage of Consolidated Total Operating Revenues or Total Assets
				Account	Amount	Transaction Terms	
0	TWM	TFN	1	Accounts and notes receivable, net	\$ 25,371	The terms of transaction are determined in accordance with mutual agreements or general business practices	-
		TFN	1	Other receivables	34,785		-
		TNH	1	Other non-current assets	18,823		-
		TFN	1	Short-term borrowings	6,380,000		4
		WMT	1	Short-term borrowings	1,590,000		1
		TCC	1	Short-term borrowings	350,000		-
		TKT	1	Accounts payable	75,062		-
		TFN	1	Other payables	478,471		-
		TT&T	1	Other payables	97,304		-
		TDS	1	Other payables	10,577		-
		TFN	1	Other current liabilities	39,078		-
		TKT	1	Disposal of property, plant, and equipment	13,087		-
		TFN	1	Operating revenues	890,295		1
		momo	1	Operating revenues	102,281		-
		TFN	1	Operating costs	4,665,739		4
		TKT	1	Operating costs	333,347		-
		TDS	1	Operating costs	119,144		-
		TNH	1	Operating costs	31,245		-
		TFNM	1	Operating costs	11,233		-
		TT&T	1	Operating expenses	1,136,631		1
		TNH	1	Operating expenses	90,150		-
		TFN	1	Operating expenses	55,998		-
		momo	1	Other income	41,606		-
TFN	1	Other income	38,562	-			
TFN	1	Finance costs	75,461	-			
WMT	1	Finance costs	18,747	-			
TFN	1	Net other income and expenses	32,969	-			
1	WMT	TFNM	1	Other receivables	2,243,266	"	1
		TFNM	1	Other income	26,177	"	-

(Continued)

Number	Company Name	Counter Party	Nature of Relationship (Note 1)	Transaction Details			Percentage of Consolidated Total Operating Revenues or Total Assets	
				Account	Amount	Transaction Terms		
2	momo	FST	1	Other receivables	\$ 16,230	The terms of transaction are determined in accordance with mutual agreements or general business practices	-	
		FGE	1	Purchases of property, plant, and equipment	16,799		"	-
		TFNM	3	Operating costs	97,647		"	-
3	TFN	TFNM	3	Accounts and notes receivable, net	29,283	"	-	
		momo	3	Operating revenues	13,732	"	-	
		TFNM	3	Operating revenues	154,895	"	-	
		TFN HK Ltd.	1	Operating costs	69,133	"	-	
		TT&T	3	Operating expenses	97,186	"	-	
4	TFNM	PCTV	1	Other receivables	33,974		-	
		YJCTV	1	Other receivables	31,913		"	-
		UCTV	1	Other receivables	22,654		"	-
		GCTV	1	Other receivables	15,431		"	-
		MCTV	1	Other receivables	13,590		"	-
		PCTV	1	Short-term borrowings	520,000		"	-
		YJCTV	1	Short-term borrowings	370,000		"	-
		GCTV	1	Short-term borrowings	250,000		"	-
		WTVB	3	Notes payable	17,621		"	-
		PCTV	1	Operating revenues	520,400		"	-
		YJCTV	1	Operating revenues	469,397		"	-
		UCTV	1	Operating revenues	221,581		"	-
		GCTV	1	Operating revenues	203,756		"	-
		MCTV	1	Operating revenues	16,436		"	-
		WTVB	3	Operating costs	67,128		"	-
		PCTV	1	Operating costs	35,907		"	-
		YJCTV	1	Operating costs	33,727		"	-
UCTV	1	Operating costs	22,942	"	-			
GCTV	1	Operating costs	14,746	"	-			

Note 1: 1. Parent to subsidiary.
2. Subsidiary to parent.
3. Between subsidiaries.

Note 2: All intra-group transactions, balances, income and expenses are eliminated in full upon consolidation.

(Concluded)

TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES

INVESTMENTS IN MAINLAND CHINA
FOR THE YEAR ENDED DECEMBER 31, 2016

(In Thousands of New Taiwan Dollars)

Investee Company Name	Main Businesses and Products	Total Amount of Paid-in Capital	Investment Type (Note 1)	Accumulated Outflow of Investment from Taiwan as of January 1, 2016	Investment Flows		Accumulated Outflow of Investment from Taiwan as of December 31, 2016	Net (Loss) Income of Investee	% Ownership through Direct or Indirect Investment	Investment Income (Loss)	Carrying Value as of December 31, 2016	Accumulated Inward Remittance of Earnings as of December 31, 2016	Note
					Outflow	Inflow							
Xiamen Taifu Teleservices & Technologies Co., Ltd.	System integration, management, analysis and development of CRM application and information consulting services	\$ -	b	\$ 41,964	\$ -	\$ -	\$ 41,964	\$ -	100	\$ -	\$ -	\$ -	Note 2
TWMC	Mobile application development and design	96,840	b	157,268	-	-	157,268	618	100	618	106,664	-	
FGE	Wholesaling	1,064,670	b	774,751	-	-	774,751	(54,447)	69.63	(37,911)	(6,783)	-	
Haobo	Investment	50,919	b	-	-	-	-	56,751	100	56,751	716,333	-	
GHS	Wholesaling	60,510	b	-	-	-	-	327,551	20	55,055	736,742	-	Note 3

Company	Accumulated Investment in Mainland China as of December 31, 2016	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on Investment Authorized by Investment Commission, MOEA
TWM and subsidiaries	\$1,675,274	\$1,755,043	\$39,711,921

Note 1: The investment types are as follows:

- a. Direct investment in Mainland China.
- b. Indirect investment in Mainland China through a subsidiary in a third place, e.g. TT&T, TCC and momo.
- c. Others.

Note 2: Xiamen Taifu Teleservices & Technologies Co., Ltd. was dissolved in November 2013 and contributed capital to the parent company, TT&T Holdings.

Note 3: In January 2016, momo's subsidiary acquired 2% equity interests of GHS. The payments for the additional investments were not yet settled as of December 31, 2016.

Note 4: The amounts are based on audited financial statements.