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Taiwan Mobile

2017 Annual Report

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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 version shall prevail.

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Letter to Shareholders

Dear Shareholders,

Taiwan Mobile (“TWM” or “the Company”) posted another solid year in 2017, with revenue of NT\$117.2bn, EBITDA of NT\$32.8bn, net profit of NT\$14.2bn and earnings per share of NT\$5.21. The Company strengthened its telecom business’ profitability by aggressively promoting mobile value-added services and implementing cost-control measures. Stable core operations, coupled with momo’s robust growth, allowed the Company to outperform its peers, posting the highest earnings per share in the domestic telecommunications industry for the sixth consecutive year.

The Company remained committed to improving the efficiency of its 4G spectrum and network usage with continuous service upgrades. At the end of 2017, its 4G monthly subscription penetration rate of 78% exceeded expectations, as the Company successfully expanded the scale of its 4G business. In addition, the Company participated in the 1800/2100 MHz spectrum auction held by the National Communications Commission (NCC). It acquired four blocks on the 2100 MHz band at a cost of NT\$8.6 billion, securing a maximum continuous bandwidth of 20 MHz while paying the lowest per unit cost of spectrum among all bidders. Taiwan Mobile was able to execute a calibrated spectrum investment strategy that maximizes shareholders’ interests while satisfying customer demand.

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 initiative in meeting global standards has won not only the trust of investors, but also numerous awards and recognitions from domestic and international ratings institutions. Last year, TWM was honored with an “Industry Mover” award from sustainability investment specialist RobecoSAM in its 2017 yearbook, the only Taiwanese telecom firm to receive such a distinction. In addition, TWM was selected as a constituent of the prestigious Dow Jones Sustainability Index (DJSI) series for the sixth consecutive year and was for the first time listed among the companies in the DJSI World Index, ranking 2nd among telecom companies worldwide with an overall score of 90. The Company was also honored with two awards, “Best Investor Relations Company (Taiwan)” and “Asia’s Best CFO (Investor Relations)”, at the Asian Excellence Awards; and for the third year in a row, it ranked among the top 5% listed companies on the Taiwan Stock Exchange and the Taipei Exchange’s “Corporate Governance Evaluation.”

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 11th “Corporate Social Responsibility” award from *Global Views Monthly* and its 10th “Excellence in Corporate Social Responsibility” award from *CommonWealth* magazine, ranking fifth among large enterprises, the

highest among domestic telecom companies. It was also honored for the fourth year in a row by the Taiwan Institute for Sustainable Energy Research, receiving nine awards: top 50 corporate sustainability; transparency and integrity; social inclusion; climate leadership; people development; supply chain management; creativity in communication; top 50 corporate sustainability report award - gold award in ICT sector; and the highest individual honor, outstanding corporate sustainability professional, to TWM Chairman Daniel M. Tsai.

3. Premium services and customer satisfaction

With customer care as its core value, TWM offers premium client services, which earned the following achievements: the "Best Consumer Service Innovation Award" by the Taiwan Contact Center Development Association at the 2017 Customer Service Excellence Awards in Taiwan and its sixth Qualicert certification from the Swiss firm, SGS, for its direct store channels and customer service system.

After marking its 20th anniversary last year, Taiwan Mobile is looking forward to meeting this year's challenges. The Company is keen to embrace change and has set no limits to its identity as a telecommunications service company. It has positioned itself as an "Internet Technology Company" as the T.I.M.E. era takes shape: With the diverse developments in the Telecom, Internet, Media & Entertainment, and E-Commerce industries, Taiwan Mobile is on target to become a leader in digital convergence, aiming to provide the best value to its customers, shareholders, employees and the community.

A handwritten signature in dark 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 in 2017 increased 2.34% as the job market improved and the stock market rallied. For 2018, despite socioeconomic factors, such as a declining birthrate and an aging population, steady domestic economic growth and an increase in average pay, including remuneration for military personnel and civil servants, should further boost private consumer spending. Thus, private consumption in 2018 is expected to expand by 2.45%.

Overall Operating Results

The Company's consolidated revenue in 2017 was flat compared with a year ago. Telecom revenue declined as a result of a drop in domestic roaming, a higher sales mix of low-to-mid-range phones and continued fall in voice traffic, but strong growth in momo's e-commerce business helped to offset the decline. The success of the Company's business diversification strategy, which included the active promotion of value-added services and innovative services, and focus on cost and expense controls ensured steady profits from telecom services. Coupled with milder competition from new cable TV operators and momo's fast-growing mobile commerce, consolidated EBITDA, excluding domestic roaming, remained at the same level as in 2016.

Operating Results Review

Telecom Business

Monthly 4G subscription penetration rate reached 78% of the Company's postpaid installed base as of the end of 2017, up from 64% a year, which further boosted its 4G business' economies of scale and operating efficiency. To address challenges, such as a shrinking domestic roaming business, lower mobile interconnection rates and continuous decline in voice traffic, the Company has proactively pursued additional revenue streams, such as promoting value-added services and new services, in addition to controlling costs and expenses to ensure stable profits.

Cable Business

Pricing competition from new entrants in TWM's cable TV service areas has tapered off since the second half of 2017. The Company successfully continued its product bundling strategy (such as an exclusive Sharp TV promotion deal), as evidenced by its rising number of digital TV and broadband subscribers, thereby boosting their adoption rates. Although the consumer business group's overall revenue slid 2% YoY, the cable business has gradually stabilized.

Retail Business

The main revenue growth driver in 2017 came from the 29% growth in momo's B2C e-commerce business. As of December 2017, mobile shopping accounted for 55% of the e-commerce business. momo saw a revenue increase of 18% YoY and its EBITDA grew as high as 11%, with TV shopping, in particular, performing strongly in the latter part of the year. To meet the demands of its growing e-commerce business, a new automated logistics center was completed in 4Q17, which should enhance the Company's long-term competitiveness through optimal logistics and warehousing efficiency.

Major research and development achievements

Project name	Description
5G mmWave communications and green communication technology	<p>Research on 5G millimeter wave communication and green energy technology:</p> <ul style="list-style-type: none"> • Energy-efficient architecture for mmWave communications • Green communication technology • Evaluation of the impact of green communication base stations on the human body • Utilize data measurements to analyze the effect of electromagnetic waves on the human body • Power-saving and throughput enhancement of hierarchical transmission for LTE eMBMS (Evolved Multimedia Broadcast Multicast Service)
Personalized music and video recommendation services	Use machine learning algorithms to analyze personal profiles and interests to provide personalized music and video recommendations.
M+ Messenger	Provide video conferencing, integrate PBX and support money transfer to improve communication efficiency and productivity.
TAMedia mobile advertisement platform	Develop new interactive advertising forms – vertical video, 360-degree panoramic ad and proximity detection application; and improve advertising performance by integrating third-party tracking mechanism.
myVideo	Provide video recommendations and Google browser video playback; augmented reality + virtual reality (AR+VR) for live baseball games to enhance user experience; and expand the market for large-screen video viewing.
Mobile payment	Launched the first mobile EasyCard co-branded credit card that allows auto top-up and other lifestyle features, and for subscribers to exchange loyalty points with each other.
myBook	Revamp user experience for both iOS and Android applications.
myMusic	Integrate service in which users register only once to listen to their choice of music anytime, anywhere via TV, wearable devices, in-vehicle infotainment systems, etc. to enhance the listening experience.

Regulatory changes and developments

1. Revision of digital convergence laws and regulations

In response to the development of digital convergence services, the National Communications Commission (NCC) drafted two bills – the Digital Communication Broadcasting Act and the Telecommunications Management Act. The Executive Yuan approved the bills on November 16, 2017, and submitted them to the Legislative Yuan. The bills passed their first reading on December 1, 2017 and were referred to the legislature's Transportation Committee for review.

2. 3G user rights protection plan of 3G license expiration by the NCC

With 3G licenses due to expire on December 31, 2018, the NCC passed the 3G user rights protection plan on January 3, 2018 to ensure “zero impact” and “zero dispute” as the policy goal for 3G users migration to 4G services.

3. NCC's auction of the 1800MHz and 2100MHz bands

The Company participated in the NCC's auction of the 1800MHz and 2100MHz bands on October 31, 2017. The NCC released 120MHz of bandwidth on the 2100MHz frequency, which was divided into 12 blocks (E1~E12).

4. Draft bill to prevent media monopolies and promote diversity

The NCC held a public hearing of the draft bill against media monopolization on July 31, 2017, and invited the public to submit their opinions until September 10, 2017. Internal discussions of the bill are ongoing.

5. Revision of radio frequency usage fee scheme

To improve mobile broadband coverage in rural areas, the NCC revised regulations governing radio frequency usage charges. Telecom operators that cover over 85%, 90% or 95% of the population in rural areas are to receive discounts of 5%, 10% or 15%, respectively, on their radio frequency usage fees.

6. Reduction of mobile termination rates

To promote fair market competition, the NCC implemented a four-year scheme to lower the mobile termination rate, which was reduced from NT\$1.15 per minute to NT\$0.965 on November 1, 2017, and is to further drop to NT\$0.811 in 2018, NT\$0.680 in 2019 and NT\$0.571 in 2020.

7. Reduction of wholesale IP peering charges

Per the average price of Telegeography in Asia-Pacific region as a reference, the NCC approved Chunghwa Telecom's new wholesale pricing scheme on April 12, 2017, which lowered the IP peering charge from NT\$314 per Mbps to NT\$ 170 per Mbps, a reduction of 46%. This scheme took effect retroactively on April 1, 2017.

2018 Operating Outlook

Taiwan Mobile is consolidating the Group's resources to ensure sustainable growth in its telecom business. The Company aims to provide diversified and differentiated new media services, such as OTT video, to drive growth in new and value-added services. The Company also plans to strengthen its business solutions for enterprises, such as developing Internet of Things, information security, cloud services, and other emerging applications and services. As for its cable business, the Company is focusing on improving channel and content quality to enhance the attractiveness and competitiveness of its products, while diversifying its marketing channels to create sales opportunities. In addition, momo is working on expanding its product portfolio, while its large-scale automated warehousing should boost distribution efficiency, contributing to accelerating growth and helping it maintain its market leadership in the B2C platform.

Chapter 1 Company Highlights

Vision

On the 20th anniversary of its founding last year, Taiwan Mobile ("TWM") announced its strategic shift from a traditional telecommunications operator into an integrated technology, media and telecommunications company to meet the innovations and challenges of the Internet of Things (IoT) and 5G era. Its 6C – Coverage/Convergence/Content/Channel/Cloud/CSR – strategy is designed to enhance its competitiveness and maintain its lead as the most profitable telecommunications company. The Company strives to meet world-class standards by leveraging off its core competencies and resources to achieve the goals of "CSR Vision 2020" ahead of schedule. Furthermore, TWM is developing its CSR Blueprint for 2030 named "Zetta Connected! 2030" to enhance corporate governance, environmental sustainability and social collaboration to create the best value for its shareholders, employees and the public.

Core Competency

Taiwan Mobile applies its core 6C strategy to provide customers with the best service quality via the fastest network speed and the widest coverage, exploit its advantages by fully integrating all Fubon Group resources, maintain its leadership in the market through its creative "my" apps, and develop IoT/big data services as well as 5G technology and applications to create multiple and diverse business opportunities. A model for international standards in corporate sustainability, TWM was the first company in Taiwan to comply with the 17 targets of the UN Sustainable Development Goals. The Company is also a constituent of the Dow Jones Sustainability World Index (DJSI World), ranking second in the global telecoms industry. With the anticipated arrival of the IoT and 5G era, TWM aims to be the leader in digital convergence by adhering to the philosophy of "Think Sustainable, Act Responsible."

Brand Image

With "Think Sustainable, Act Responsible" as its central philosophy, Taiwan Mobile has integrated its core competencies and resources to promote seven crucial values: ethical operation, sustainable partnerships, brand excellence, innovative accomplishments, environmental sustainability, a happy workplace and social inclusion.

To prepare for the IoT and 5G era, TWM is building a forward-looking network, including the construction of a telecommunications cloud platform, a virtual cloud network and small cells infrastructure to provide more application services for digital convergence and cloud technology. The Company has expanded cooperation across industries through Internet of Vehicles (IoV) and IoT services. Leveraging off the Group's resources, TWM has expanded its investment in a multinational entertainment agency to enrich its sports and entertainment video content, and introduced the industry's first multi-screen integrated video platform that provides consumers, at home or away, an integrated and synchronized all-round audio-visual entertainment experience, creating new opportunities for Taiwan's film and television industry. In addition, the Company has developed Taiwan's first instant messaging mobile payment service that connects directly to banks, providing users with a brand new and convenient smart payment experience.

With "Simplicity, Innovation, Passion and Integrity" as its guiding principles, Taiwan Mobile is committed to pursuing new technologies and service innovations. The Company's goal is to turn complex technologies into simple, practical and user-friendly services to bring a whole new experience and create more value-added services for our customers. Taiwan

Mobile is a firm believer that “change and innovation” are the keys to securing its position as a leader of digital convergence in the telecommunications industry.

Date of Incorporation

The Company was founded on February 25, 1997.

Awards and recognitions from 2017 up to the publication date in 2018

January	2018	Selected as a constituent of ECPI INDEX CERTIFICATE 2017
January	2018	Received a “Silver Class” award from sustainability investment specialist RobecoSAM in its 2018 yearbook.
December	2017	Received internationally renowned Swiss firm SGS’ Qualicert certification for its direct stores channel, myfone and customer services for the sixth time in a row.
December	2017	Awarded first prize for “2017 Buying Power – Social Innovation Products and Services Purchase Reward Program” by the Ministry of Economic Affairs’ Small and Medium Enterprise Administration.
November	2017	Received the “Best Consumer Service Innovation Award” at the Taiwan Contact Center Development Association’s Customer Service Excellence Awards.
November	2017	Received nine awards at the 2017 Taiwan Corporate Sustainability Awards: corporate sustainability; transparency and integrity; social inclusion; climate leadership; people development; supply chain management; creativity in communication; top 50 corporate sustainability reports (gold award in the ICT sector); and the highest individual honor, outstanding corporate sustainability professional – TWM chairman Daniel M. Tsai.
November	2017	Received an award from the Taipei Department of Labor for employing more people with disabilities than mandated by law.
October	2017	Ranked first among telecommunications companies in CDP’s 2017 Climate Score.
September	2017	Received two commendations at the 2017 Sports Promoter Awards – Sponsorship Award Gold Class and Long-term Sponsorship Award – from the Ministry of Education’s Sports Administration.
September	2017	Selected as a constituent of the Dow Jones Sustainability World Index (DJSI World), ranking second among the world’s telecommunication enterprises.

August	2017	Recognized for Excellence in Corporate Social Responsibility by <i>CommonWealth</i> magazine, ranking first among telecommunication companies and fifth overall.
June	2017	Received the following commendations at the 2017 Asian Excellence Award – Best Investor Relations Company and Best CFO – from <i>Corporate Governance Asia</i> magazine.
June	2017	Ranked among the top 5% of listed companies in a “Corporate Governance Evaluation” conducted by the Taiwan Stock Exchange and Taipei Exchange.
May	2017	Received the top prize at the 2017 CSR Awards’ “Annual CSR Survey-Service Section”
January	2017	Received an “Industry Mover Sustainability Award” from sustainability investment specialist RobecoSAM's in its 2017 yearbook.

Milestones

December	2017	Collaborated with Taipei Fubon Bank to launch the first digital “red envelope” in Taiwan by integrating M+ Messenger and mobile internet banking to provide mobile payment via instant messenger.
November	2017	Received 3 million circuit numbers for IoT use from the National Communications Commission (NCC), thus officially beginning its IoT era.
November	2017	Collaborated with Taipei Fubon Bank and EasyCard Corp to launch the “Taiwan Mobile” co-branded credit card.”
October	2017	TWM and Fubon Group announced their strategic partnership with worldwide entertainment and sports agency Creative Artists Agency (CAA) Hollywood, CAA China and CMC Capital Partners (CMC), China's leading media and entertainment investment and operating platform.
June	2017	Daniel M. Tsai and Richard M. Tsai were elected Chairman and Vice Chairman, respectively, at the 1 st meeting of the eighth Board of Directors.
October	2016	Daniel M. Tsai and Richard M. Tsai were elected 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 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	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 telecom 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.

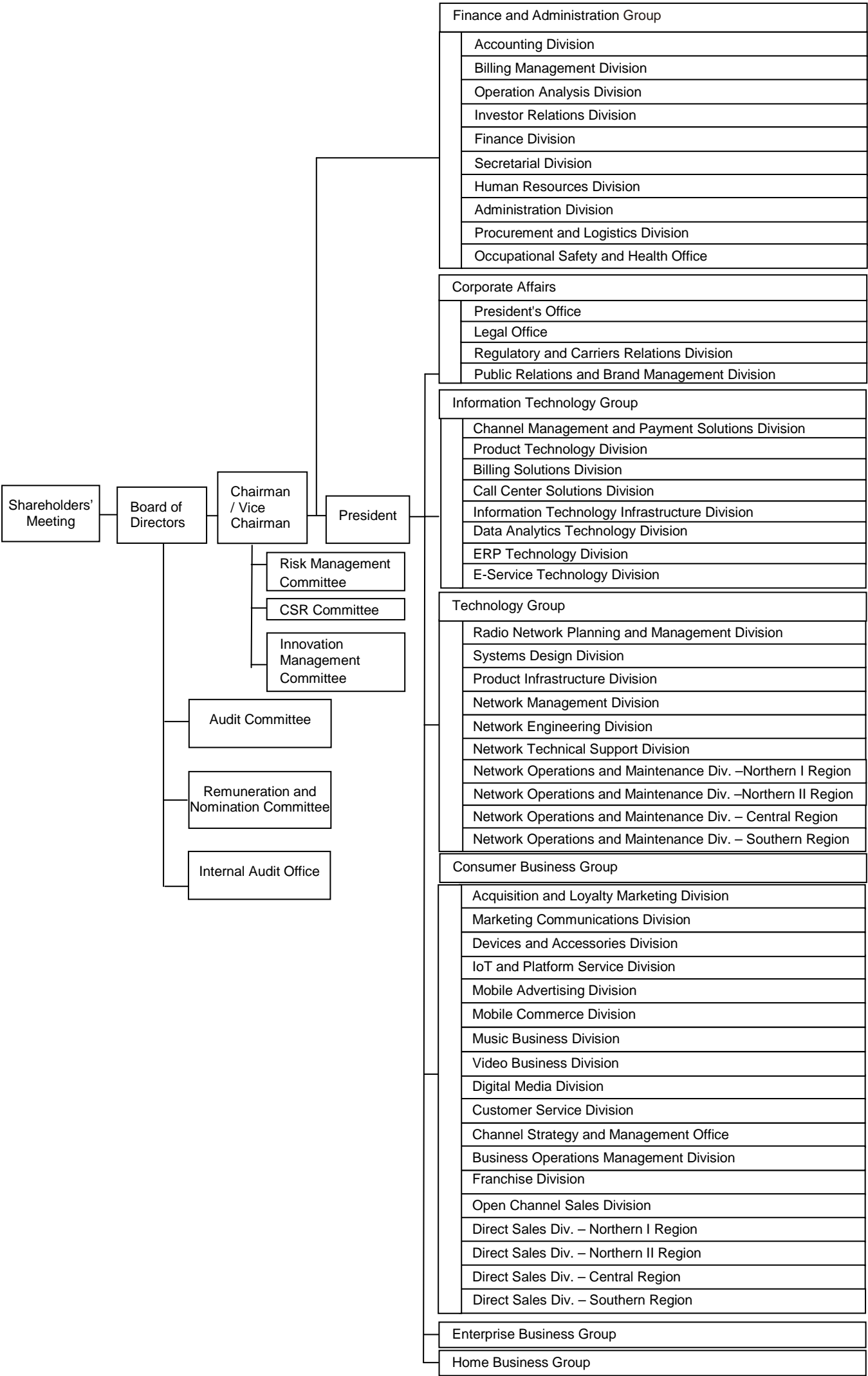
November	2000	Ray-Ying Fan was appointed President at the 8 th meeting of the second Board of Directors.
September	2000	First private telecom operator to trade on Taiwan's OTC market.
June	1999	Jack T. Sun and Joseph Lee were re-elected Chairman and Vice Chairman, respectively, at the 1 st meeting of 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.

Chapter 2 Organization and Corporate Governance

Organization

Organization Chart

February 23, 2018



Divisional Scope of Responsibilities

Division		Scope of responsibilities
Internal Audit Office		Audit of the Company and its subsidiaries Handle employee and supplier complaints Risk Management Committee Operations
Corporate Affairs	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
Finance and Administration Group	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 and contract signing Supplier management
	Occupational Safety and Health Office	Occupational safety and health management Workplace health promotion

Information Technology Group	Channel Management and Payment Solutions Division	Sales, channel services and commission system solutions Enterprise management information system solutions Members' center and payment service solutions
	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
	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
	Information Technology Infrastructure Division	Data center, systems and network infrastructure construction and operations management Implementation of information security policy
	Data Analytics Technology Division	Data analytics system solutions, including data warehouse, data science and business intelligence solutions System solutions for management of network assets, warehousing, maintenance and repair, and customer experience
	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
	E-Service Technology Division	Corporate website, e-service systems (e-store/myfone shopping/game), IoT platform 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
Technology Group	Radio Network Planning and Management	Radio network strategy development and planning Site planning and performance management Radio network quality management
	Systems Design Division	Plan and design core, IP and transmission network systems for mobile and fixed networks Verification testing of network elements
	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 corporate & brand identity, brand strategy development and marketing communications Develop and manage store signage/interior design and customer communication activities Integrate and operate company website, including digital marketing communication, online sales and services
	Devices and Accessories Division	Devices planning and management Accessories and revenue sources development Handset sales and distribution
	IoT and Platform Service Division	Develop IoT platforms to meet TWM Group's business needs and launch innovative consumer IoT services to capture future opportunities Build market-leading service platforms, including an enterprise instant messenger, a content portal and big data marketing tools Improve user experience for Customer Care app to enhance service efficiency and customer satisfaction
	Mobile Advertising Division	Provide mobile advertising solutions based on big data analysis
	Mobile Commerce Division	Develop and manage mobile commerce and payment businesses Manage Computers/Communications/Consumer electronic products, supplier/partner and sales platforms Manage Wali app and myfone e-commerce businesses
	Music Business Division	myMusic business management, strategic planning, product development, marketing and operations
	Video Business Division	myVideo business management, strategic planning, product development, marketing and operations
	Digital Media Division	Strategic planning, product development, marketing and business operations for innovative digital content services Direct carrier billing business and gaming social platform operations Legacy VAS business management and quality assurance
	Customer Service Division	Customer service and call center management Telemarketing sales and customer retention
	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
	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
	Direct Sales Division – Northern I, Northern II, Central and Southern Regions	Product sales, customer service and project execution at company stores

Enterprise Business Group	<p>Strategy development and business analysis</p> <p>Direct sales and channel development and customer relationship management</p> <p>Inter-carrier relations and international business (including international roaming) planning and implementation</p>
Home Business Group	<p>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</p> <p>Expansion of two-way optical network to broaden coverage and ensure better internet access quality and stable cable signals</p>

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, economics, finance and telecommunications fields (note 1). 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 Eighth Board of Directors is detailed below:

As of February 23, 2018

Title	Name	Gender	Date elected	Term expires	Shareholding when elected		Current shareholding		Spouse's/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	Male	2017.06.14	2020.06.13	5,748,763	0.168	5,748,763 *65,162,715 (Note 2)	0.168 *1.905	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, Dun Fu Co., Ltd. Director, Lucky Way Ltd. Director, Rainbow Cheer Ltd. Director, Key Gain Ltd. Director, Ultimate Epoch Ltd. Director, Orientland International Ltd. Director, Oceana Glory Ltd. Director, Eagle Legacy Ltd. Director, DRJ Development Ltd. Director, Globotex International Ltd. Director, Cosgrove Global Ltd. Director, Vantage Horizon Global Ltd. Director, Star Top Ventures Co., Ltd. Director, Primerose Development Group 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, Taihsin Property Insurance Agent 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.	Vice Chairman	Richard M. Tsai	Brother

Title	Name	Gender	Date elected	Term expires	Shareholding when elected		Current shareholding		Spouse's/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
Vice Chairman	Fu Chi Investment Co., Ltd. Representative: Richard M. Tsai	Male	2017.06.14	2020.06.13	5,748,763	0.168	5,748,763 *93,310,663	0.168 *2.728	5,526,496	0.162	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, Fubon Financial Holding Co., Ltd. Chairman, Fubon Life Insurance Co., Ltd. Vice Chairman, Fubon Bank (Hong Kong) Ltd. Director, Fubon Financial Holdings Venture Capital Corp. Director, Ming Dong Co., Ltd. Director, Dao Ying Co., Ltd. Director, Tien Chien Co., Ltd. Director, Ti Kun Co., Ltd. Director, Hsi Po Lai Co., Ltd. Director, Yi Fu So Co., Ltd. Director, Colossians Co., Ltd. Director, Chung Shing Development Co., Ltd. Director, Fubon Realtors Co., Ltd. Director, Fubon Construction Co., Ltd. Director, Kuo Chi Investment Co., Ltd. Director, Good TV Broadcasting Corp. Director, Cho Pharma, Inc. Director, Town Health International Medical Group Ltd. Director, International Advisory Board of the New York Philharmonic Director, Carnegie Hall Corp. Director, Lucky Way Ltd. Director, Rainbow Cheer Ltd. Director, Key Gain Ltd. Director, Ultimate Epoch Ltd. Director, Orientland International Ltd. Director, Oceana Glory Ltd. Director, Eagle Legacy Ltd. Director, DRJ Development Ltd. Director, Globotex International Ltd. Director, Cosgrove Global Ltd. Director, Vantage Horizon Global Ltd. Director, Total Formation Inc. Director, Star Top Ventures Co., Ltd. Director, Taiwan Cellular Co., Ltd. Director, Wealth Media Technology Co., Ltd. Director, Taiwan Fixed Network Co., Ltd. Director, TCC Investment Co., Ltd. Director, Taiwan Digital Communications Co., Ltd. Director, Taiwan Digital Service Co., Ltd. Director, TFN Media Co., Ltd. Director, Win TV Broadcasting Co., Ltd. Director, TFN Union Investment Co., Ltd. Director, TCCI Investment and Development Co., Ltd.	Chairman	Daniel M. Tsai	Brother

Director	Fu Chi Investment Co., Ltd. Representative: San-Cheng Chang	Male	2017.06.14	2020.06.13	5,748,763	0.168	5,748,763 *—	0.168 *—	—	—	PhD in Civil and Environmental Engineering, Cornell University MS in Civil and Environmental Engineering, Stanford University BS in Civil Engineering, National Taiwan University	Independent Director, Winbond Electronics Corp. Independent Director, Acer Inc. Director, Xue Xue Co. Honorary Dean, School of Big Data Management, Soochow University Dean, Hacker College, National Chiao Tung University Visiting Professor, Department of Technology Management and College of Computer Science and Information Engineering, Chung Hua University Honorary Professor, St. John's University Adjunct Professor, College of Computing and Informatics, Providence University Honorary Professor, National Taipei University of Business Adjunct Professor, Department of Civil Engineering, National Taiwan University	—	—	—
Director	TCC Investment Co., Ltd. Representative: Howard Lin (Note 2)	Male	2017.06.14	2020.06.13	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 Holding 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 Corp. Director, Fu Yi Health Management Corp. Ltd.	—	—	—
Director	TCC Investment Co., Ltd. Representative: James Jeng	Male	2017.06.14	2020.06.13	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, 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, Taihsin Property Insurance Agent Co., Ltd. Chairman, Tai-Fu Cloud Technology 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.				
Independent Director	Jack J.T. Huang	Male	2017.06.14	2020.06.13	—	—	—	—	—	—	SJD, Harvard University LLM, Northwestern University LLB, National Taiwan University Partner-in-charge, Jones Day	Chairman ofRemuneration and Nomination Committee and Member of Audit Committee, Taiwan Mobile Co., Ltd. Partner, Jones Day Independent Director, WPG Holdings Independent Director, Systex Corp. Independent Director, CTCI Corp.	—	—	—
Independent Director	Hsueh-Jen Sung	Male	2017.06.14	2020.06.13	—	—	—	—	—	—	MBA, Harvard University MBA, National Chengchi University BS in Management 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.	Chairman of Audit Committee and Member ofRemuneration and Nomination Committee, Taiwan Mobile Co., Ltd. Chairman, Vaucluse Capital Management Ltd. Chairman, Shin Chiuan Capital Management Ltd. Director, Hon Hai Precision Industry Co., Ltd.	—	—	—
Independent Director	Char-Dir Chung	Male	2017.06.14	2020.06.13	—	—	—	—	—	—	PhD and MS in Electrical Engineering, University of Southern California BS in Electrical Engineering, National Taiwan University Minister without Portfolio, Executive Yuan Member / Deputy Convener / Executive Secretary, Board of Science and Technology, Executive Yuan Member / Deputy Convener / Executive Secretary, National Information and Communications Initiative Committee, Executive Yuan Deputy Executive Secretary, Science and Technology Advisory Group, Executive Yuan Chairman, Department of Communication Engineering, National Central University Director, Graduate Institute of Communication Engineering, National Central University	Member of Audit Committee andRemuneration and Nomination Committee, Taiwan Mobile Co., Ltd. Professor, Department of Electrical Engineering and Graduate Institute of Communication Engineering, National Taiwan University IEEE Fellow Convener, Performance Evaluation Committee of Technology Development Program, Ministry of Economic Affairs	—	—	—

* Personal shareholdings

Note 1: Chung-Ming Kuan was elected on June 14, 2017 and resigned on January 12, 2018. The Company plans to by-elect an independent director at the 2018 annual shareholders' meeting

Note 2: 30,000,000 shares held in trust were not included.

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 23, 2018

Institutional investor	Major shareholders
Fu-Chi Investment Co., Ltd.	Richard M. Tsai (50.25%), 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 23, 2018

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

3. Qualifications and independence criteria of directors

As of February 23, 2018

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		2
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
Hsueh-Jen Sung	V	V	V	V	V	V	V	V	V	V	V	0
Char-Dir Chung	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 affiliates

Criterion 2: Not a director or supervisor of the Company's affiliates (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 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 Remuneration and Nomination Committee are not covered by this restriction per Article 7 of the Regulations Governing the Appointment and Exercise of Powers by the Remuneration and Nomination 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									
		Finance	Law	Business	Technology	Investment and M&A	FinTech	Information Technology	Risk Management	CEO/Senior management	E-commerce/Marketing
Daniel M. Tsai	19		V	V			V		V	V	
Richard M. Tsai	19	V		V		V	V			V	
San-Cheng Chang	11			V	V			V		V	V
Howard Lin	5	V		V		V			V	V	
James Jeng	30			V	V			V	V	V	
Jack J.T. Huang	15		V	V		V			V	V	
Hsueh-Jen Sung	4	V		V		V	V			V	
Char-Dir Chung	29				V			V	V	V	V

Management Team

As of February 23, 2018

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, 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	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, Taihsin Property Insurance Agent Co., Ltd. Chairman, Tai-Fu Cloud Technology 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 / 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	—	—	BS in Business Administration, 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 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.	—	—	—
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.	—	—	—

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 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. Supervisor, Tai-Fu Cloud Technology 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.	—	—	—
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	—	—	—

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	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. Director and President, Tai-Fu Cloud Technology 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	—	—	—
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. Vice President, Taiwan Mobile Co., Ltd. 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.	—	—	—

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, Taihsin Property Insurance Agent 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, Alliance Digital Technology Co., Ltd.	—	—	—
Vice President / Consumer Business Group	Steve Chou	2011.04.25	—	—	MBA, Southern Methodist University, Texas Senior Vice President, Customer Service, HSBC Bank General Manager, Secured Lending, Standard Chartered Bank Vice President, Customer Service, Sparq Telecom Vice President, Customer Service, TransAsia Telecommunications Inc. Assistant Vice President, Credit Card, Citibank, N.A.	Director and President, Taiwan Teleservices & Technologies 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	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	—	—	—
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.	—	—	—

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	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	Name	Representative	Director's compensation								A+B+C+D as a % of net profit		Compensation as an employee								A+B+C+D+E+F+G as a % of net profit		Compensation from investees other than subsidiaries
			Cash compensation (A)		Pension (B)		Director's remuneration (C)		Professional fee (D)				Performance-based salary (E)		Retirement pay of employees (F)		Earnings paid as bonus to employees (G)						
			Stand -alone	Consolidated	Stand -alone	Consolidated	Stand -alone	Consolidated	Stand -alone	Consolidated	Stand -alone	Consolidated	Stand -alone	Consolidated	Stand -alone	Consolidated	Stand-alone		Consolidated		Stand-alone	Consolidated	
																	Cash	Stock	Cash	Stock			
Chairman	Fu-Chi Investment Co., Ltd.	Daniel M. Tsai	47,580,045	52,770,391	—	—	45,335,904	45,335,904	2,410,000	3,196,000	0.6717%	0.7138%	16,074,310	16,074,310	108,000	108,000	6,301,958	—	6,301,958	—	0.8301%	0.8722%	—
Vice Chairman	Fu-Chi Investment Co., Ltd.	Richard M. Tsai																					
Director	Fu-Chi Investment Co., Ltd.	San-Cheng Chang																					
Director	TCC Investment Co., Ltd.	Howard Lin																					
Director	TCC Investment Co., Ltd.	James Jeng																					
	Jack J.T. Huang																						
	Hsueh-Jen Sung																						
Independent Directors	Char-Dir Chung (He was elected on June 14, 2017.)																						
	Chung-Ming Kuan (He was elected on June 14, 2017 and was resignation on January 12, 2018 .)																						
	Tsung-Ming Chung (He completed his tenure on June 14, 2017.)																						
	Guu-Chang Yang (He completed his tenure on June 14, 2017)																						

Note 1: The figures in the table include expenses for company cars and gasoline reimbursement, but do not include compensation paid to company drivers which totaled NT\$1,071,624.

Note 2: Remuneration paid to directors for their services to all consolidated entities totaled NT\$10,600,008.

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	San-Cheng Chang, James Jeng	San-Cheng Chang, Howard Lin	San-Cheng Chang
NT\$2,000,000~NT\$4,999,999	Chung-Ming Kuan, Char-Dir Chung, Tsung-Ming Chung, Guu-Chang Yang	Chung-Ming Kuan, Char-Dir Chung, Tsung-Ming Chung, Guu-Chang Yang	Chung-Ming Kuan, Char-Dir Chung, Tsung-Ming Chung, Guu-Chang Yang	Chung-Ming Kuan, Char-Dir Chung, Tsung-Ming Chung, Guu-Chang Yang
NT\$5,000,000~NT\$9,999,999	TCC Investment Co., Ltd., Jack J.T. Huang, Hsueh-Jen Sung	TCC Investment Co., Ltd., Jack J.T. Huang, Hsueh-Jen Sung, Howard Lin	TCC Investment Co., Ltd., Jack J.T. Huang, Hsueh-Jen Sung	TCC Investment Co., Ltd., Jack J.T. Huang, Hsueh-Jen Sung, 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	13	13	13	13

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; Vice President, C.H. Wu; Vice President, Tom Koh; Vice President, Steve Chou ; Vice President, Daphne Lee; Vice President, David Lin ; Vice President, Michael Teng; Vice President, Eddie Chan <u>Resigned managers:</u> Vice President, Egon Chen; Vice President, Chien Chen		Total
Salary (A)	Stand-alone		92,074,846
	Consolidated		92,434,846
Pension (B) *	Stand-alone		1,852,800
	Consolidated		1,852,800
Performance-based salary (C)	Stand-alone		40,964,683
	Consolidated		40,964,683
Earnings paid as bonus to employees (D)	Stand-alone	Cash	37,111,168
		Stock	—
	Consolidated	Cash	37,111,168
		Stock	—
A+B+C+D as a % of net profit	Stand-alone		1.2120%
	Consolidated		1.2145%
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 compensation paid to company drivers which totaled NT\$3,287,482.

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	—	—
NT\$2,000,000~NT\$4,999,999	—	—
NT\$5,000,000~NT\$9,999,999	Ariel Hwang, Jay Hong, Iris Liu, Naomi Lee, C.H. Wu, Tom Koh, Steve Chou, Daphne Lee, David Lin, Michael Teng, Eddie Chan, Egon Chen, Chien Chen	Ariel Hwang, Jay Hong, Iris Liu, Naomi Lee, C.H. Wu, Tom Koh, Steve Chou, Daphne Lee, David Lin, Michael Teng, Eddie Chan, Egon Chen, Chien Chen
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	Salary and pension	Performance-based salary	Earnings paid as bonus to employees
President, James Jeng	47.1%	24.9%	28.0%
Executive Vice President and Chief Financial Officer, Rosie Yu	48.0%	24.6%	27.4%
Senior Vice President and Chief Technology Officer, C.H. Jih	48.4%	25.5%	26.1%
Senior Vice President and Chief Business Officer, Jeff Ku	48.9%	24.7%	26.4%
Vice President and General Counsel, Ariel Hwang	50.6%	24.6%	24.8%
Vice President and Chief Information Officer, James Chang	48.9%	27.0%	24.1%
Vice President, Jay Hong	51.7%	22.9%	25.4%
Vice President, Iris Liu	48.2%	28.1%	23.7%
Vice President, Naomi Lee	56.6%	25.3%	18.1%
Vice President, C.H. Wu	55.1%	25.7%	19.2%
Vice President, Tom Koh	56.6%	23.6%	19.8%
Vice President, Steve Chou	50.1%	25.1%	24.8%
Vice President, Daphne Lee	50.6%	26.6%	22.8%
Vice President, David Lin	49.1%	28.3%	22.6%
Vice President, Michael Teng	56.7%	25.2%	18.1%
Vice President, Eddie Chan	50.5%	26.6%	22.9%
Vice President, Egon Chen*	88.4%	11.6%	0.0%
Vice President, Chien Chen *	89.0%	11.0%	0.0%

* Resigned

6. Managers and employee bonuses

Unit: NT\$
As of February 23, 2018

Title and name	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, Tom Koh Vice President, Steve Chou Vice President, Daphne Lee Vice President, David Lin Vice President, Michael Teng Vice President, Eddie Chan	—	37,111,168	37,111,168	0.2615%

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	2016	119,739,418	15,320,187,297	0.7816%
	2017	117,810,217	14,192,175,846	0.8301%
On a consolidated basis	2016	125,755,298	15,320,187,297	0.8208%
	2017	123,786,563	14,192,175,846	0.8722%

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 or a member of the Audit Committee or Remuneration and Nomination 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 Remuneration and Nomination 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	2016	154,319,074	15,320,187,297	1.0073%
	2017	172,003,497	14,192,175,846	1.2120%
On a consolidated basis	2016	154,704,074	15,320,187,297	1.0098%
	2017	172,388,497	14,192,175,846	1.2147%

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 Remuneration and Nomination 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 a 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 Remuneration and Nomination Committee.

Corporate Governance

Board of Directors attendance

1. The Board of Directors convened eight meetings in 2017

Title	Name	Attendance in person	By proxy	Attendance ratio	Remarks
Chairman	Fu Chi Investment Co., Ltd. Representative: Daniel M. Tsai	8	0	100%	None
Vice Chairman	Fu Chi Investment Co., Ltd. Representative: Richard M. Tsai	5	3	63%	None
Director	Fu Chi Investment Co., Ltd. Representative: San-Cheng Chang	8	0	100%	None
Director	TCC Investment Co., Ltd. Representative: Howard Lin	8	0	100%	None
Director	TCC Investment Co., Ltd. Representative: James Jeng	8	0	100%	None
Independent Director	Jack J.T. Huang	8	0	100%	None
Independent Director	Hsueh-Jen Sung	8	0	100%	None
Independent Director	Char-Dir Chung	4	0	100%	Char-Dir Chung, who was elected on June 14, 2017, was required to attend four board meetings.
Independent Director	Chung-Ming Kuan	4	0	100%	Chung-Ming Kuan, who was elected on June 14, 2017, was required to attend four board meetings. Mr. Kuan resigned on January 12, 2018.
Independent Director	Tsung-Ming Chung	4	0	100%	Tsung-Ming Chung, who completed his tenure on June 14, 2017, was required to attend four board meetings.
Independent Director	Guu-Chang Yang	4	0	100%	Guu-Chang Yang, who completed his tenure on June 14, 2017, was required to attend four board meetings.

Note: All Independence Directors' attendance ratio reached 100% in 2017.

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

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

Not applicable. The Company has already established an audit committee.

(2) Other items not covered in the preceding table: None**3. Any recusals due to conflicts of interests:**

Date	Interested directors	Proposal	Reasons for recusal	Participation in deliberation
2017.1.25	James Jeng	Remuneration and Nomination 's proposal for 2016 performance evaluation and year-end bonus for managers	The interested director is a manager	The interested director was excluded from deliberations
2017.5.4	Richard M. Tsai Jack J.T. Huang Hsueh-Jen Sung Howard Lin James Jeng	Removal of non-competition restrictions on members of the eighth term of board of directors	The interested directors had been nominated as candidates for directors	The interested directors were excluded from deliberations
2017.8.2	Daniel M. Tsai Richard M. Tsai	Distribution of 2016 bonuses and adjustment of 2017 remuneration for the Company's chairman and vice chairman	The interested directors are beneficiaries of this bonus payment.	The interested directors were excluded from deliberations
	James Jeng	Distribution of 2016 bonus and adjustment of 2017 remuneration for the Company's managers	The interested director is a manager	The interested director was excluded from deliberations
	Daniel M. Tsai James Jeng	Proposal to issue a letter of commitment for a syndicated loan of NT\$3.465 billion for Taipei New Horizon Co., Ltd.	The interested directors also serve as directors of the counterparty	The interested director was excluded from deliberations

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. The total number of training hours was 86 in 2017, which included programs such as "The AI revolution and opportunities for the banking industry" and "AI application in customer service, insurance sales and other businesses."
- (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 for 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 ensure a system of checks and balances.
- (5) The Audit Committee and the Remuneration and Nomination 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.
- (6) The Company passed the "Rules and Procedures on Evaluating Board of Directors' Performance" to enhance efficiency, under which the Remuneration and Nomination 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 2017 during the board meeting on February 1, 2018. The Taiwan Corporate Governance Association will assess the board's performance.)
- (7) To strengthen corporate governance and enhance the functions of the Board, the Board of Directors approved increasing the functions of identifying competent and nominating candidates for directors at the Remuneration and Nomination Committee and setting the target share of independent directors on the board to be at least 40%

Audit Committee attendance

1. The Audit Committee convened seven times in 2017.

Title	Name	Attendance in person	By proxy	Attendance ratio	Remarks
Independent Director	Hsueh-Jen Sung	7	0	100%	Appointed committee chairman
Independent Director	Jack J.T. Huang	7	0	100%	None
Independent Director	Char-Dir Chung	3	1	75%	Mr. Chung, who was elected on June 14, 2017, was required to attend four committee meetings.
Independent Director	Chung-Ming Kuan	4	0	100%	Mr. Kuan, who was elected on June 14, 2017, was required to attend four committee meetings. Mr. Kuan resigned on January 12, 2018.
Independent Director	Tsung-Ming Chung	3	0	100%	Mr. Chung, who completed his tenure on June 14, 2017, was required to attend three committee meetings.
Independent Director	Guu-Chang Yang	3	0	100%	Mr. Yang, who completed his tenure on June 14, 2017, was required to attend three committee meetings.

2. 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 reports	Audit Committee's opinion	Company response
January 25, 2017	15th meeting of the seventh BOD	4Q16 internal audit report	Approved as proposed	Not applicable
		2016 internal control statement		
		2016 business report and financial statements		
		2017 capital expenditure plan and donation to TWM Foundation		
		Procurement contract with Nokia Siemens Taiwan Co., Ltd. capped at NT\$5.027bn		
April 13, 2017	16th meeting of the seventh BOD	Investment in Grand Academy Investment, L.P.	Approved as proposed	Not applicable
May 4, 2017	17th meeting of the seventh BOD	1Q17 financial statements	Approved as proposed	Not applicable
		1Q17 internal audit report		
		2016 earnings distribution & cash return from capital surplus		
		Appointment of CPA		
		Revisions to the Rules and Procedures for Acquisition or Disposal of Assets		
		Removal of non-competition restrictions on members of the eighth BOD		
June 14, 2017	1st meeting of the eighth BOD	Compensation contracts with members of the eighth BOD	Approved as proposed	Not applicable
August 2, 2017	2nd meeting of the eighth BOD	2Q17 financial statements	Approved as proposed	Not applicable
		2Q17 internal audit report		
		Participation in the 1800MHz(C6) and 2100MHz spectrum auction		
		Revisions to the Audit Committee Charter		
November 3, 2017	3rd meeting of the eighth BOD	3Q17 financial statements	Approved as proposed	Not applicable
		3Q17 internal audit report		
		Internal audit plan for 2018		
November 21,	4th meeting of	Mobile broadband 2100MHz spectrum bidding results	Approved as	Not applicable

Date	BOD	Proposals and reports	Audit Committee's opinion	Company response
2017	the eighth BOD		proposed	

- (2) In addition to the items listed above, any resolution passed by over two-thirds of the directors, but not approved by the Audit Committee: None.

3. Any recusals due to conflicts of interest:

Date	Name	Proposal	Reason for recusal	Participation in Deliberation
May 3, 2017	Hsueh-Jen Sung Jack J.T. Huang	Removal of non-competition restrictions on members of the eighth BOD	Messrs. Huang and Sung had been nominated as independent directors	The interested directors were excluded from deliberations

4. Communication between independent directors and the Internal Audit Chief Officer and CPAs about major financial/operational matters:

- (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	
	Subject matter	Results	Subject matter	Results
January 23, 2017 16th meeting of the third Audit Committee	1. 4Q16 internal audit report 2. 2016 internal control statement	1. Acknowledged 2. Reviewed and submitted to BOD for approval	1. 2016 financial statements and the decree update regarding the Corporate Governance regulations 2. CPAs discussed inquiries raised by attendees	Acknowledged
May 3, 2017 18th meeting of the third Audit Committee	1Q17 internal audit report	Acknowledged	1. 1Q17 financial statements and impact of amendments to the Regulations Governing the Exercise of Powers by Audit Committees and Regulations Governing the Preparation of Financial Reports by Securities Issuers 2. CPAs discussed inquiries raised by attendees	Acknowledged
August 1, 2017 2nd meeting of the fourth Audit Committee	2Q17 internal audit report	Acknowledged	1. 2Q17 financial statements, computer audit strategy and key audit matters 2. CPAs discussed inquiries raised by attendees	Acknowledged
November 1, 2017 3rd meeting of the fourth Audit Committee	1. 3Q17 internal audit report 2. Internal audit plan for 2018	1. Acknowledged 2. Reviewed and submitted to BOD for approval	1. 3Q17 financial statements, communication of key audit matters, application of big data audit and impact of amendments to the Income Tax Act 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 Remuneration and Nomination 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 Remuneration and Nomination 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 2017 during the board meeting on February 1, 2018. The Taiwan Corporate Governance Association will assess the board’s performance.)
	Periodic 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. 3. The CPAs haven’t served as auditors for the Company for seven consecutive years. 4. The CPAs should provide the Company with a Declaration of Independence on a quarterly basis.

Item		Current practice
		<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 the Company and its subsidiaries had evaluated the independence of CPAs in the past two years and reported the results to the Audit Committee on January 23, 2017 and January 31, 2018 respectively.</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, preparing BOD's and shareholders' meetings, handling company registration and any changes therein, and preparing BOD's and shareholders' meeting minutes?	<p>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.</p> <p>Practices in 2017:</p> <ol style="list-style-type: none"> 1. The Company held annual in-house seminars to facilitate interaction between lecturers and directors. 2. The Company purchased annual liability insurance for directors. 3. The Company prepared board of directors meetings and shareholders' meetings, and handled company registration and any changes therein.
	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. Special personnel have been assigned to handle CSR-related issues.
	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 2017

Training program	Organization	Date	Hours	Participant(s)
Corporate governance conference — crisis management and strategy	Taiwan Academy of Banking and Finance	2017.03.16	3	San-Cheng Chang
Fintech — opportunities and challenges	Taiwan Corporate Governance Association	2017.05.04	3	Jack J.T. Huang
AI — opportunities and challenges	Taiwan Institute of Directors	2017.05.05	3	Jack J.T. Huang
The legal risks of directors	Taiwan Corporate Governance Association	2017.05.11	1	Jack J.T. Huang (speaker)
The legal risks of directors and managers	Taiwan Academy of Banking and Finance	2017.05.16	1	Jack J.T. Huang (speaker)
Corporate governance conference — trends and challenges of IT governance	Taiwan Academy of Banking and Finance	2017.06.29	3	San-Cheng Chang
Seminar on regulations governing share transfers by insiders of listed companies	Securities and Futures Institute	2017.07.14	3	Chung-Ming Kuan ¹
Seminar on regulations governing share transfers by insiders of listed companies	Securities and Futures Institute	2017.08.01	3	Char-Dir Chung
Personal information protection and information systems security trends in the Analytics of Things (AoT) era and board directors' and supervisors' responsibility	Taiwan Corporate Governance Association	2017.08.09	3	San-Cheng Chang
Strategy, competition, risk and crisis for board directors	Taiwan Corporate Governance Association	2017.08.18	3	Chung-Ming Kuan ¹
The AI revolution and opportunities for the banking industry	Taiwan Corporate Governance Association	2017.09.05	3	Daniel M. Tsai, Richard M. Tsai, San-Cheng Chang, Howard Lin, James Jeng, Jack J.T. Huang, Hsueh-Jen Sung, Char-Dir Chung, Chung-Ming Kuan ¹
The legal responsibility of companies in cases of major economic crimes	Taiwan Corporate Governance Association	2017.09.12	3	Char-Dir Chung

Training program	Organization	Date	Hours	Participant(s)
Board of directors' role in critical risk management in the application of innovation and technology in big data, intelligent, mobile and cloud computing	Taiwan Corporate Governance Association	2017.09.19	3	Howard Lin
What board of directors need to know about auditing and response measures	Taiwan Corporate Governance Association	2017.09.29	3	Char-Dir Chung
IFRS changes 2018-2019	Taiwan Corporate Governance Association	2017.11.08	3	San-Cheng Chang
AI application in customer service, insurance sales and other businesses	Taiwan Corporate Governance Association	2017.11.21	3	Daniel M. Tsai, Richard M. Tsai, San-Cheng Chang, Howard Lin, James Jeng, Hsueh-Jen Sung, Chung-Ming Kuan ¹

Note 1: Chung-Ming Kuan resigned on January 12, 2018.

Note 2: The training hour requirements listed above have been fulfilled.

7. Corporate governance related training programs for management in 2017

Training program	Organizer	Date	Hours	Participants
Enterprise risk management	In-house training	2017.03.24	3	James Chang, Iris Liu, Naomi Lee, Tom Koh, Steve Chou, Michael Teng
Information security – preventing information hacking	In-house training	2017.05.15	1	C.H. Jih, Jeff Ku, Ariel Hwang, James Chang, Jay Hong, Iris Liu, Naomi Lee, C.H. Wu, Tom Koh, Steve Chou, Daphne Lee, David Lin, Michael Teng, Eddie Chan
Meeting the new IoT era	In-house training	2017.05.19	2	C.H. Jih, Jeff Ku, Naomi Lee, Tom Koh, Steve Chou, Michael Teng
Business model in a new competitive era	In-house training	2017.07.14	2	C.H. Jih, Jay Hong, Tom Koh, Steve Chou, Michael Teng
Information security – preventing information leaks	In-house training	2017.08.30	1	C.H. Jih, Ariel Hwang, James Chang, Jay Hong, Naomi Lee, C.H. Wu, Tom Koh, Steve Chou, Daphne Lee, David Lin, Michael Teng, Eddie Chan
Code of ethics	In-house training	2017.06.02 ~ 2017.11.02	0.5	C.H. Jih, Iris Liu, Steve Chou, Daphne Lee
The impact of changes in the taxation system on enterprises and response measures	Chinese National Association of Industry and Commerce	2017.10.17	3	Rosie Yu
How directors can fulfill their pledge of loyalty	Taiwan Corporate Governance Association	2017.10.20	3	Rosie Yu
Information security – dissemination of the personal information protection act	In-house training	2017.11.08	1	C.H. Jih, Jay Hong, Iris Liu, Naomi Lee, C.H. Wu, Tom Koh, Steve Chou, Daphne Lee, David Lin, Michael Teng

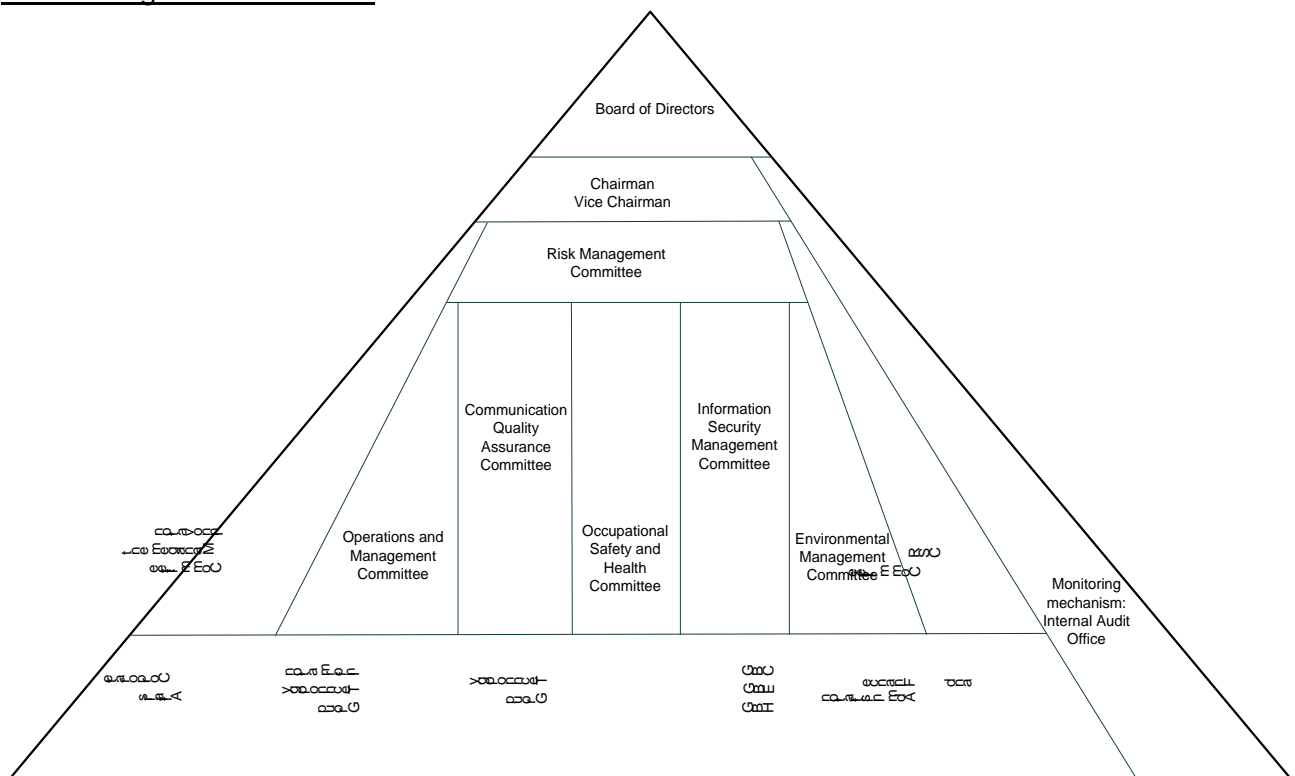
Digital transformation for global sustainability	Global e-Sustainability Initiative	2017.12.04	3.5	Jay Hong, David Lin
Corporate social responsibility	In-house training	2017.12.26	2.1	James Jeng, Jay Hong, Iris Liu

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 structures



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	Risk factors are analyzed and assigned to responsible units to monitor and ensure timely and effective detection. 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.
Middle	Risk Management Committee (Note)	Integrate the Company's risk management framework and internal control mechanism. Execute risk management strategies and conduct a review of the efficiency of the overall risk management mechanism. Exercise control over the five following committees:
	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	Integrate the Company's innovation strategies and establish a management mechanism.
		Responsible for assessing material risks, designating actions to control these risks and keeping track of their execution.
Monitoring mechanism	Internal Audit Office	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. Report any discrepancy to the concerned unit chief and ensure that remediation efforts are completed.

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	Decision making and supervision
1	Operating risk	Technology Group / IT Group	Operations and Management Committee	The highest decision making 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; three in the Operation Analysis Division; and one in the Procurement and Logistics Division

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 three consecutive years.

Remuneration and Nomination Committee operations

The Remuneration and Nomination Committee, composed entirely of independent directors, is bound by the Remuneration and Nomination 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.
- (3) Select, assess and nominate candidates for directorships.

Qualifications and independence criteria of members of the Remuneration and Nomination 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 Remuneration and Nomination 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	Hsueh-Jen Sung	V	V	V	V	V	V	V	V	V	0
Independent Director	Char-Dir Chung	V	V	V	V	V	V	V	V	V	0

Note 1: The identities of the members of the Remuneration and Nomination Committee all meet the requirements stipulated in Item 5, Article 6 of the "Regulations Governing the Appointment and Exercise of Powers by the Remuneration and Nomination 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 affiliates
- Criterion 2: Not a director or supervisor of the Company or the Company's affiliates (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, or 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

Remuneration and Nomination Committee attendance

- (1) The Remuneration and Nomination Committee consists of three members.
- (2) Tenure of the Third Remuneration and Nomination Committee: June 14, 2017 to June 13, 2020. The committee convened three times in 2017:

Title	Name	Attendance in person	By proxy	Attendance ratio	Remarks
Independent Director	Jack J.T. Huang	3	0	100%	Appointed committee chairman
Independent Director	Hsueh-Jen Sung	3	0	100%	None
Independent Director	Char-Dir Chung	1	0	100%	Mr. Chung, who was elected on June 14, 2017, was required to attend one committee meeting.
Independent Director	Chung-Ming Kuan	1	0	100%	Mr. Kuan, who was elected on June 14, 2017, was required to attend one committee meeting. Mr Kuan resigned on January 12, 2018.
Independent Director	Tsung-Ming Chung	2	0	100%	Mr. Chung, who completed his tenure on June 14, 2017, was required to attend two committee meetings.
Independent Director	Guu-Chang Yang	2	0	100%	Mr. Yang, who completed his tenure on June 14, 2017, was required to attend two committee meetings.

1. Any suggestion made by the Remuneration and Nomination 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 Remuneration and Nomination Committee against resolutions passed by the committee: None

Corporate social responsibility (CSR)

Item	Current Practices
Corporate governance	
1. Establishing a CSR policy or system and review mechanism	1. The Company set up the “Corporate Social Responsibility Policy” and “Corporate Social Responsibility Best Practice Principles” in 2011 and 2015, respectively, to ensure effective execution of corporate social responsibility. TWM also developed a sustainability strategy blueprint that serves as the foundation for its CSR Vision 2020 Project. The Corporate Social Responsibility Committee reviews and tracks the performances of CSR related projects on a quarterly basis. A year-end review showed that all projects’ targets were achieved in 2017. Taking pride in being an industry benchmark on sustainability, TWM plans to launch its CSR Blueprint for 2030 named “Zetta Connected! 2030” in 2018, setting up critical goals and KPIs (key performance indicators), to meet the UN’s 17 Sustainable Development Goals (SDGs).
2. CSR course training	2. CSR course training is held periodically.
3. Setting up a unit to carry out this policy or system	3. In 2007, TWM established the 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. Establishing a reward-and-punishment system as part of the Company’s employee performance evaluation system and CSR policy	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.

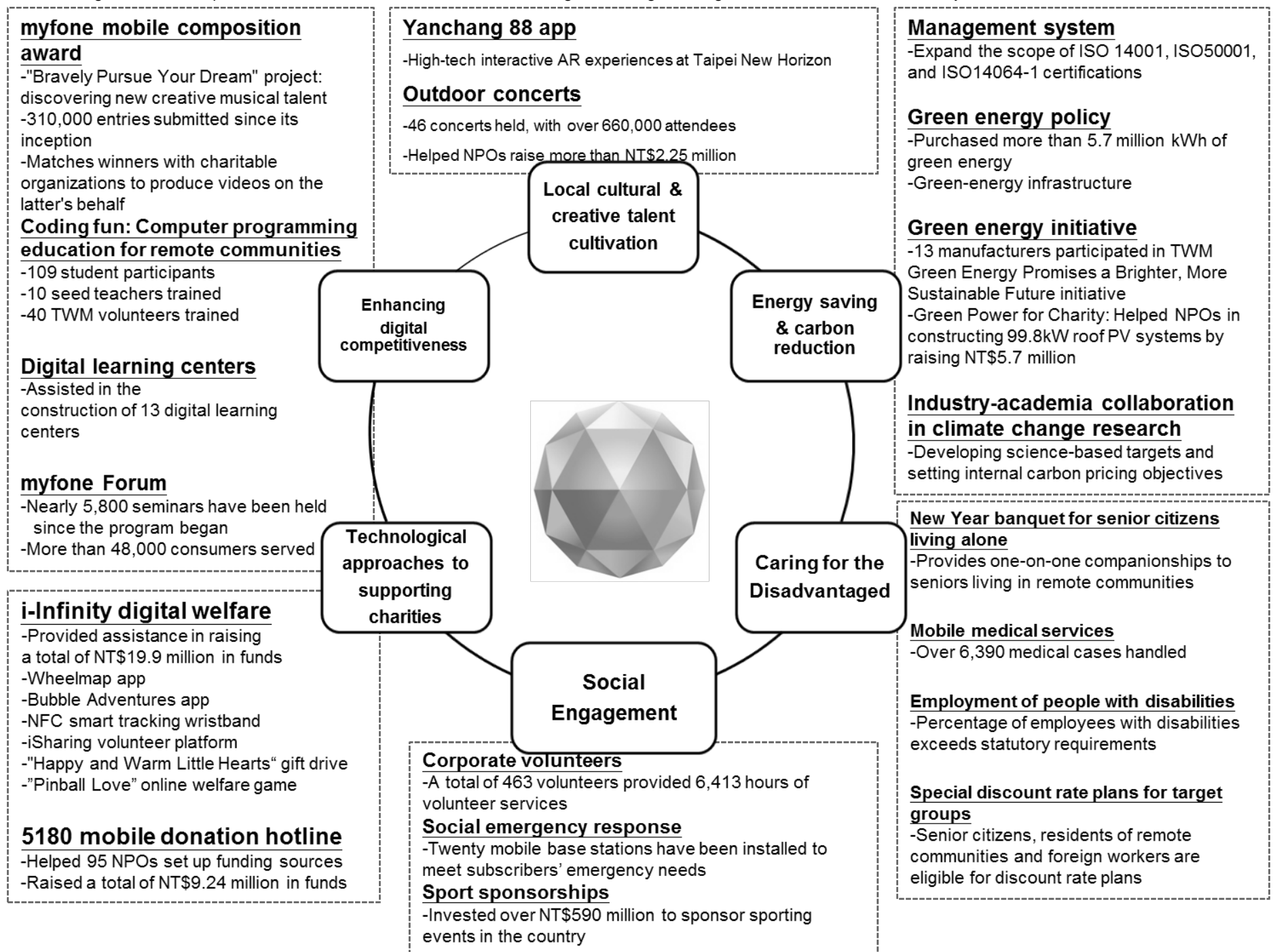
Item	Current Practices																
Environmental sustainability																	
1. Promoting advanced and efficient use of renewable resources to reduce their impact on the environment	1. TWM has continuously worked to improve the efficient use of resources, including paper, water, electricity and oil, as well as to promote reduction and recycling of electronic waste (cables, batteries and cellphones).																
2. Establishing an environmental management system in line with the nature of the Company's business operations	2. The Environmental Management Committee was set up in 2016 to develop environmental policies and objectives, integrate the administration of ISO 14001 (environmental management), ISO 14064-1 (greenhouse gas inventories) and ISO 50001 (energy management), and promote smart energy conservation strategies. These various tasks are carried out by separate teams and the results are reported to the Environmental Management Committee.																
3. Monitoring the impact of climate change on operating activities and adopting measures to reduce greenhouse gas emissions and minimize their impact on the environment	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">● Green energy infrastructure● Smart energy conservation for machine rooms, base stations, office buildings and direct stores● Green energy initiative – TWM Green Energy Promises a Brighter, More Sustainable Future● Green logistics● Green office● Green products and services● Greenhouse gas inventories (Scopes 1 & 2)● Scope 3 inventories on employee commuting, business travel, transportation and distribution, purchased goods and services, and use of sold products																
	Unit: tCO ₂ e																
	<table><tr><td></td><td>2015</td><td>2016*</td><td>2017**</td></tr><tr><td>Direct emissions (Scope 1)</td><td>7,263</td><td>5,871</td><td>4,847</td></tr><tr><td>Indirect emissions (Scope 2)</td><td>236,960</td><td>245,578</td><td>236,646</td></tr><tr><td>Total GHG emissions</td><td>244,223</td><td>251,449</td><td>241,493</td></tr></table>		2015	2016*	2017**	Direct emissions (Scope 1)	7,263	5,871	4,847	Indirect emissions (Scope 2)	236,960	245,578	236,646	Total GHG emissions	244,223	251,449	241,493
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Total GHG emissions	244,223	251,449	241,493														
	* The increase in emissions was due to the updated electricity emission factor, expansion of TWM's internet data center business and 4G services.																
	** A significant decline in emissions was due to the promotion of carbon reduction																

Item	Current Practices
<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 protection policies and appeals procedures related to R&D, procurement, production, operations and service processes 	<ol style="list-style-type: none"> 1. Pursuant to related national regulations, including the Labor Standards Act, Employment Services Act, Gender Equality in Employment Act and International Bill of Human Rights, 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) Employee opinion channel: Employees are encouraged to provide constructive opinions on any issue. Operational issues are addressed by relevant departments, while those concerning company strategies and overall situation are handled during managerial meetings led by the president, with the results being announced to all employees. (3) Labor-management meetings are held quarterly to enhance communication between employees and management to build consensus and promote cooperation. (4) 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. (5) A President's Mailbox has been set up for employees to submit recommendations to the Company. (6) Employee opinion surveys: A survey is conducted every two years to gauge job satisfaction 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. (7) 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. The Company conducts a survey on employees' career development plans and supervisors provide feedback to all employees. Based on individual career interests, strengths and weaknesses, supervisors help their staff draw up individual development plans during the annual performance review to give them systematic guidance on enhancing their skills and abilities for career development. 6. Taiwan Mobile's goal is to create the best digital life for our customers by providing world class service quality with creativity and enthusiasm through our various convenient service channels. We have received the SGS Qualicert service certification for six consecutive years. To protect personal data security, TWM introduced the "ISO/IEC 27001 information

Item	Current Practices
<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>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 NCC, having fully complied with the International Commission on Non-Ionizing Radiation Protection 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. The Board of Directors passed the "Taiwan Mobile CSR Policy" and "Taiwan Mobile CSR Guidelines" in 2011 and 2015, respectively, serving as long-term guidelines for promoting corporate social responsibility as well as ensuring effective execution of the Company's commitments to society. With its underlying corporate philosophy and core values serving as the foundation, TWM 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 Global Reporting Initiative (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 2017, TWM published its 2016 CSR report, with the disclosed contents of the report conforming to the GRI G4 comprehensive options. A limited assurance of the report contents was performed by KPMG, an independent institution, in accordance with the Assurance Standards No. 1 of the Republic of China.

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's 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) a. The aforementioned principles and related regulations request that any directors, managerial officers, employees, and mandataries of the Company shall not directly or indirectly offer, promise to offer, request or accept any improper benefits, or commit unethical acts including breach of the principle of good faith, illegal acts, or breach of fiduciary duty b. 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. 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 conflicts of interest and providing channels to report such conflicts</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, Remuneration and Nomination 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>To implement ethical corporate management and to prevent unethical conduct, the Company has set up "Ethical Corporate Management Best Practice Principles" and "Operation Rules of Ethical Corporate Management Best Practice Principles".</p> <p>(3) The Company has promulgated policies to prevent conflicts of interest. If there is any proposal that may be harmful to the interest of the Company, such directors who have conflicts of interest with the Company shall recuse themselves from discussing or voting on the issue. Any board director, managerial officer, employee and mandatory must not use his or her position or influence in the Company to obtain improper benefits for himself or any other person. 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, managerial officers, employees and mandataries 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 (including the courses about ethical corporate management, telecommunication management and personal data protection, and internal control and audit) upon request. In 2017, and up to February 23, 2018, a total of 2,257 training hours were held, with 12,457 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 Best Practice Principles 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 February 1, 2018.</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, Remuneration and Nomination 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
- Setting the target share of independent directors on the board to be at least 40%
- Audit Committee was established to ensure fair and independent financial oversight.
- Remuneration and Nomination 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.

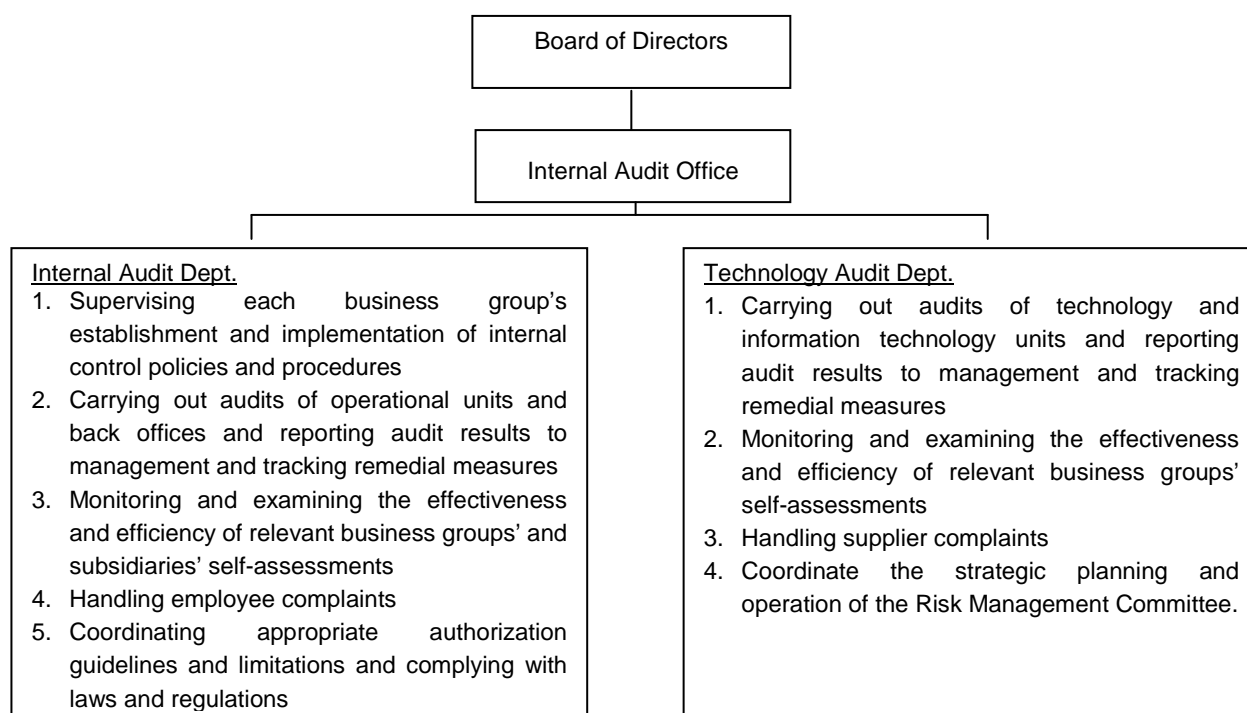
Internal control system

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 12 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

Internal Control Statement

Date: February 1, 2018

Taiwan Mobile (TWM) states the following with regard to its internal control system for the year 2017:

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, 2017, 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 February 1, 2018, where all of the eight 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:

- (1) On March 15, 2017, the National Communication Commission ("NCC") issued an administrative disposition to the Company and carried a fine of NT\$1.2 million. After investigation by the Company, it attributes to the subscriber accusation of fraudulent use of identity against the Company's reseller applied for the 3G and 4G's mobile services for such subscriber. However, the Taipei District Prosecutors Office made a non-prosecutorial disposition in favor of the Company's reseller. The Company, also a victim of a false accusation, filed an administrative litigation to revoke NCC's disposition, and the criminal suit against the subscriber.
- (2) On May 25 and October 20, 2017, the National Communication Commission ("NCC") fined the Company NT\$2.4 million each time for lending its access network to Asia Pacific Telecom, which has not yet completed the improvement measures in accordance with the NCC's requirement. The Company continues to improve in meeting the NCC's requirements as soon as possible.

Major resolutions at the shareholders' meeting and board meetings

1. Major resolutions at the 2017 shareholders' meeting

Issues approved and subsequent execution:

- (1) 2016 business report and financial statements
- (2) Distribution of 2016 earnings and cash return from capital surplus
Execution: Set record date of ex-dividend on July 17, 2017 and cash payment of NT\$5.6 per share on August 3, 2017.
- (3) Revisions to the Company's "Articles of Incorporation"
Execution: Already approved by the Ministry of Economic Affairs on July 26, 2017 and the revised rules were posted on the Company's website.
- (4) Revisions to the Rules and Procedures for Acquisition or Disposal of Assets
Execution: The revised rules were published on the Company's website and MOPS on June 15, 2017 and implemented accordingly.
- (5) Election of the eighth Board of Directors (including independent directors)
Directors: Fu-Chi Investment Co., Ltd. (representatives: Daniel M. Tsai, Richard M. Tsai and San-Cheng Chang)
TCC Investment Co., Ltd. (representatives: Howard Lin and James Jeng)
Independent Directors: Jack J.T. Huang, Hsueh-Jen Sung, Chung-Ming Kuan and Char-Dir Chung
Execution: Already approved by the Ministry of Economic Affairs on June 26, 2017 and were published on the Company's website.
- (6) Removal of non-competition restrictions for the aforementioned directors
Execution: Already published on MOPS on June 14, 2017.

2. Major resolutions by the board (from 2017 up to publication date in 2018)

1. 15th 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 Annual General Meeting
2. 16th meeting of the seventh BOD on April 13, 2017
 - (1) Approved the investment in Grand Academy Investment, L.P.
3. 17th meeting of the seventh BOD on May 4, 2017
 - (1) Approved the 2016 earnings distribution proposal and cash return from capital surplus
4. 1st meeting of the eighth BOD on June 14, 2017
 - (1) Elected Daniel M. Tsai and Richard M. Tsai Richard Tsai, representatives of Fu-Chi Investment Co., Ltd, as Chairman and Vice Chairman, respectively
5. 2nd meeting of the eighth BOD on August 2, 2017
 - (1) Approved the proposal to participate in the 1800MHz (C6) and 2100MHz spectrum auction

6. 5th meeting of eighth BOD on February 1, 2018
- (1) Approved the 2017 business report and financial statements
 - (2) Approved the 2018 consolidated financial forecasts and donation to TWM Foundation
 - (3) Approved the 2018 capital expenditure plan
 - (4) Approved the issuance of the unsecured corporate straight bond
 - (5) Approved the schedule for the 2018 Annual General Meeting

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

Major dissenting comments among directors over board meeting resolutions from 2017 up to publication date in 2018: None

Resigned/discharged chairman, president, chief accounting officer, chief financial officer, chief internal audit officer and chief research officer: None

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	2017.01.01~2017.12.31	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	8,275	-	-	-	2,024	2,024	2017.01.01~ 2017.12.31	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: 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, 2017
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%	US\$ 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%
Taihsin Property Insurance Agent Co., Ltd.	—	—	500,000	100.00%	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	—	—	104,712,000	100.00%	104,712,000	100.00%

Development Co., Ltd.						
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 52,499,800	91.30%	RMB 52,499,800	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	2017		2018 (as of February 23)	
		Net change in shareholding	Net change in shares pledged	Net change in shareholding	Net change in shares pledged
Chairman	Fu Chi Investment Co., Ltd. Representative: Daniel M. Tsai	0	0	0	0
Vice Chairman	Fu Chi Investment Co., Ltd. Representative: Richard M. Tsai				
Director	Fu Chi Investment Co., Ltd. Representative: San-Cheng Chang				
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	Hsueh-Jen Sung	0	0	0	0
Independent Director	Char-Dir Chung (took office on June 14, 2017)	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	0	0	0	0
Vice President	Iris Liu	0	0	0	0
Vice President	Naomi Lee	0	0	0	0
Vice President	C.H. Wu	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	0	0	0	0
Vice President	Michael Teng	0	0	0	0
Vice President	Eddie Chan	0	0	0	0
Chief Accounting Officer	Darren Shih	0	0	0	0
Independent Director	Chung-Ming Kuan (took office on June 14, 2017 and resigned on January 12, 2018)	0	0	0	0
Independent Director	Tsung-Ming Chung (tenure ended on June 14, 2017)	0	0	NA	NA
Independent Director	Guu-Chang Yan (tenure ended on June 14, 2017)	0	0	NA	NA
Vice President	Egon Chen (resigned on July 1, 2017)	(5,158)	0	NA	NA
Vice President	Chien Chen (resigned on July 1, 2017)	0	0	NA	NA

2. Shareholding transferred with related party: None

3. Stock pledged with related party: None

Relationship between TWM's top 10 shareholders

As of July 17, 2017

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.	410,665,284	12.00%	–	–	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. Daniel 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 director at A A and B have the same chairman B is A's 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
Shin Kong Life Insurance Co., Ltd.	286,061,000	8.36%	–	–	None	None
Chairman: Tung-Chin Wu	–	–	–	–	None	None
TCC Investment Co., Ltd.	200,496,761	5.86%	–	–	TFN Union 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. Daniel 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 director at A A and B have the same chairman B is A's 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

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
Ming Dong Co., Ltd.	184,736,452	5.40%	–	–	TFN Union Investment Co., Ltd. TCC Investment Co., Ltd. Fubon Life Insurance Co., Ltd. Dao Ying Co., Ltd. Richard M. Tsai TCCI Investment and Development Co., Ltd. Daniel 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 director at A A and B have the same chairman B is A's 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
Fubon Life Insurance Co., Ltd.	150,880,400	4.41%	–	–	TFN Union Investment Co., Ltd. TCC Investment Co., Ltd. Ming Dong Co., Ltd. Dao Ying Co., Ltd. Richard M. Tsai TCCI Investment and Development Co., Ltd. Daniel M. Tsai	B's chairman is a relative within two degrees of A's chairman B's chairman is a relative within two degrees of A's chairman B's chairman is a relative within two degrees of A's chairman B's chairman is a relative within two degrees of A's chairman B is A's chairman B's chairman is a relative within two degrees of A's chairman B is a relative within two degrees of A's chairman
Chairman: Richard M. Tsai	–	–	–	–	TFN Union Investment Co., Ltd. TCC Investment Co., Ltd. Ming Dong Co., Ltd. Fubon Life Insurance Co., Ltd. Dao Ying Co., Ltd. TCCI Investment and Development Co., Ltd. Daniel M. Tsai	A is a director at B A is a director at B A is a director at B A is B's chairman A is a director at B A is a director at B B is A's relative within two degrees
Dao Ying Co., Ltd.	113,609,742	3.32%	–	–	TFN Union Investment Co., Ltd. TCC Investment Co., Ltd. Ming Dong Co., Ltd. Fubon Life Insurance Co., Ltd. Richard M. Tsai TCCI Investment and Development Co., Ltd. Daniel 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 B is a director at A A and B have the same chairman B is A'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
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
Richard M. Tsai	93,310,663	2.73%	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. TCCI Investment and Development Co., Ltd. Daniel M. Tsai	A is a director at B A is a director at B A is a director at B A is B's chairman A is a director at B A is a director at B B is A's relative within two degrees
TCCI Investment and Development Co., Ltd.	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. Richard M. Tsai Daniel 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 director at A B is A's 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
Cathay Life Insurance Co., Ltd.	66,015,900	1.93%	–	–	None	None
Chairman: Tiao-Kuei Huang	–	–	–	–	None	None

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
Daniel M. Tsai	65,162,715	1.90%	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

Chapter 3 Financial Information

Capital and shares

Source of capital

As of February 23, 2018

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 23, 2018

	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 17, 2017

	Government agencies	Financial institutions	Other institutions	Individuals	Foreign institutions & individuals	Total
No. of shareholders	7	21	327	40,653	957	41,965
Total shares owned	230,596,656	630,136,459	1,326,586,363	335,387,758	898,125,591	3,420,832,827
Holding percentage (%)	6.74	18.42	38.78	9.80	26.26	100.00

Shareholding distribution

As of July 17, 2017

1. Common shares

Shareholding range	No. of shareholders	Total shares owned	Holding percentage
1 ~ 999	15,711	5,285,460	0.15%
1,000 ~ 5,000	20,186	40,305,519	1.18%
5,001 ~ 10,000	2,815	21,267,402	0.62%
10,001 ~ 15,000	838	10,390,367	0.30%
15,001 ~ 20,000	510	9,192,089	0.27%
20,001 ~ 30,000	474	11,963,067	0.35%
30,001 ~ 50,000	364	14,358,679	0.42%
50,001 ~ 100,000	299	21,761,001	0.64%
100,001 ~ 200,000	207	29,720,181	0.87%
200,001 ~ 400,000	171	48,441,674	1.42%
400,001 ~ 600,000	81	39,635,190	1.16%
600,001 ~ 800,000	55	38,432,882	1.12%
800,001 ~ 1,000,000	25	22,477,428	0.66%
1,000,001 and above	229	3,107,601,888	90.84%
Total	41,965	3,420,832,827	100.00%

2. Preferred shares: None

Major shareholders

As of July 17, 2017

Name	Total shares owned	Holding percentage
TFN Union Investment Co., Ltd.	410,665,284	12.00%
Shin Kong Life Insurance Co., Ltd.	286,061,000	8.36%
TCC Investment Co., Ltd.	200,496,761	5.86%
Ming Dong Co., Ltd.	184,736,452	5.40%
Fubon Life Insurance Co., Ltd.	150,880,400	4.41%
Dao Ying Co., Ltd.	113,609,742	3.32%
Richard M. Tsai	93,310,663	2.73%
TCCI Investment & Development Co., Ltd.	87,589,556	2.56%
Cathay Life Insurance Co., Ltd.	66,015,900	1.93%
Daniel M. Tsai (Note 1)	65,162,715	1.90%

Note 1: 30,000,000 shares held in a discretionary trust were not included.

Major shareholders of TWM's institutional investors

Institutional investors	Major shareholders
TFN Union Investment Co., Ltd.	Taiwan Fixed Network Co., Ltd. (100%)
Shin Kong Life Insurance Co., Ltd.	Shin Kong Financial Holding 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%)
TCCI Investment & Development Co., Ltd.	TCC Investment Co., Ltd. (100%)
Cathay Life Insurance Co., Ltd.	Cathay Financial Holding Co., Ltd. (100%)

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

		2016	2017	As of February 23, 2018
Share price (NT\$)	High	116.50	116.50	112.00
	Low	96.40	102.00	105.00
	Average	107.91	109.06	109.41
Net worth per share (NT\$)	Before earnings appropriation	22.20	21.91	—
	After earnings appropriation	16.60	(Note 1)	—
Earnings per share (NT\$)	Adjusted weighted average outstanding shares ('000 shares)	2,722,081	2,722,081	2,722,081
	Earnings per share	5.63	5.21	—
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)		19.17	20.93
	Price to cash dividend (x)		19.27	—
	Cash dividend yield (%)		5.19	—

Note 1: The appropriation amount for 2017 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 2017 as of 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.

- 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 posted 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 2017 as of publication date.

Employees' and directors' compensations

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

If the Company posts an annual profit, it shall set aside 1% to 3% of the profit as employee bonuses and not more than 0.3% of the profit as compensation to directors. However, if the Company posts a loss, it shall first reserve a certain amount to offset the losses, then allocate the remainder for employee bonuses and directors' compensation.

Recipients are to include qualified employees of TWM subsidiaries.

2. Accounting treatment for the deviation between the estimated and actual distribution amount of employees' and directors' compensations

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. 2017 employees' and directors' compensations proposal adopted by the BOD

- (1) Employees' and directors' compensations paid in the form of cash or shares and differences/reasons/treatments of accrued numbers if any:

The 2017 employee bonuses and compensation to directors approved by the BOD on February 1, 2018 totaled NT\$453,359 thousand and NT\$45,336 thousand, respectively, in the form of cash, while the accrued amounts in the 2017 financial reports were NT\$438,728 thousand and NT\$43,873 thousand, respectively. The differences between the actual distribution and the accrued amounts of NT\$14,631 thousand and NT\$1,463 thousand, respectively, were treated as changes in accounting estimates and adjusted in 2018.

- (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 2016 earnings were NT\$468,063 thousand and NT\$46,806 thousand, respectively, while the accrued amounts in the 2016 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.

Share buyback: None.

Corporate bond issuance

Corporate bonds

As of Feb. 23, 2018

Issuance		Third Unsecured Corporate Bond	Fourth Unsecured Corporate Bond	Third Domestic Unsecured Convertible Bond
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, and Kwan-chuang Lai, CPA, Deloitte & Touche
Repayment		Repayment of 50% of the principal in the 6th year and the remaining 50% in the 7th year	Repayment of 50% of the principal in the 4th year and the remaining 50% in the 5th year	All bonds shall be redeemed in cash on the maturity date at par value unless otherwise converted in accordance with Clause 10 of the Procedures for Issuance and Conversion of TWM's 3rd domestic unsecured convertible bonds (the Procedures) by the holders of the Bonds into the 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 redeemed 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\$2,900,000,000	NT\$10,000,000,000
Early repayment clause		None	None	Please refer to the Procedures for Issuance and Conversion of TWM's 3rd 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) Fitch Australia Pty Ltd, Taiwan Branch 2017.11.15, 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) Fitch Australia Pty Ltd, Taiwan Branch 2017.11.15, AA(twn)	None
Ancillary rights	Amount converted/exchanged into common shares, ADRs or other securities	Not applicable	Not applicable	None

	Rules governing issuance or conversion (exchanged or subscription)	Not applicable	Not applicable	Please refer to the Procedures for Issuance and Conversion of TWM's 3rd domestic unsecured convertible bonds.
Dilution and other effects on shareholders' equity		Not applicable	Not applicable	Based on the conversion price of NT\$110.3, if all the bonds are converted into common shares, the maximum share dilution would be 2.58%.
Custodian		Not applicable	Not applicable	Not applicable

Convertible bond information:

Corporate bond type		Third Domestic Unsecured Convertible Bond		
Item	Year	2016	2017	2018 (As of February 23, 2018)
Market price of convertible bonds (NT\$)	Highest	101.20	102.55	104.30
	Lowest	100.00	100.25	101.70
	Average	100.48	101.43	103.06
Conversion price (NT\$)		116.10	110.30	110.30
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, data and mobile value-added services for consumers 	<ul style="list-style-type: none"> ● Voice and data mobile services for enterprises ● Fixed-line services ● Cloud and enterprise total solutions 	<ul style="list-style-type: none"> ● Pay TV services (CATV/DTV) ● 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 broadband business		
Market position	Second-largest mobile operator in a five-player market, with a market share of around 30% in terms of mobile service revenue	One of top three internet service providers (ISP), with a market share of 4.4%	Fourth-largest multisystem operator (MSO), covering about 11% of households in Taiwan	Ranked in the top 2 in B2C e-commerce
2017 revenue*	77,372		6,392	33,239
2017 EBITDA*	27,516		3,276	1,515

* Source: 2017 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, 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. Communication services related to Internet of Things products, such as wearable devices, have also emerged in recent years.

Service category	Description
Mobile	<ul style="list-style-type: none"> ● Basic telecommunication voice services, including making and receiving calls from fixed-line and mobile phones ● Data and 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), internet access using 4G/HSDPA/3G transmission, and etc.

Enterprise Business Group (EBG)

The Enterprise Business Group offers information and communication integrated total solutions to enterprise clients.

Service category	Description
Mobile	<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+ Messenger, enterprise edition), and enterprise mobility management (EMM) ● International roaming ● Fleet Management System (FMS) service
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"> ● Developed integrated enterprise solutions covering mobile & communications, cloud services, Internet of Things (IoT) and information security to provide enterprise clients with comprehensive solutions ● Developed an Enterprise Information Security Service to meet the needs of finance/securities/insurance/internet enterprise clients ● Developed integrated solutions by industries, such as Smart Retail Services, SME information security service, and SME surveillance service.

2. Telecom revenue breakdown (including CBG and EBG)

Unit: NT\$mn

Item \ Year	2017	
	Revenue	% of total
Service revenue	58,022	75%
Device sales	19,350	25%
Total	77,372	100%

3. New telecom products and services

Consumer Business Group

- (1) Voice: Continue to roll out innovative rate plans catered to different segments based on their usage behaviors.
- (2) Value-added services: Focus on mainstream smart devices, wearables and IoT devices; develop a diverse range of services and digital content to meet consumers' mobile needs.

Enterprise Business Group

- (1) M+ Enterprise Mobility (EM):

M+ Enterprise Mobility is an innovative mobility service for enterprises which overturns fixed-line voice market. By implementing this service, no calls will be missed. All unanswered calls on desk phones are automatically transferred to mobile phones. Moreover, desk phones will no longer be a necessity for enterprises in the near future. Thus, enterprises can not only improve communication efficiency, but also lower cost.

- (2) Information security solutions:

TWM provides comprehensive information security solutions, including multilayer anti-DDoS, managed security services, vulnerability assessment, intrusion prevention system, information security integrated services and equipment. Other solutions, such as advanced persistent threat protection and email security, are under development.

- (3) Mobile office:

Combines business mobile service for SME clients with enterprise cloud document management service, online work flow and Office 365.

- (4) myHealth:

A self-managed health service in which users take their own health measurements, with the data automatically being uploaded to the cloud. Users can contact the call center for professional advice if they have any questions about their health data or statistics.

- (5) Azure Stack cloud service:

A collaboration between TWM and Microsoft, Azure Stack cloud service can assist businesses in meeting regulatory requirements, while dramatically reducing internet access time, thereby enhancing business efficiency. TWM's experienced cloud team can assist clients in deploying the service within the shortest possible time.

- (6) Business cloud document management:

This service provides enterprise clients with cloud storage space that can synchronize files automatically and

make multiversion backups; data deduplication, which eliminates duplicate copies of repeating data to save on storage space; and instant storage change for more flexible use of space.

(7) Smart retail:

A smart screen and customer flow analysis help retailers optimize sales strategies and daily operation.

(8) Enterprise FTTx solutions:

Enterprise FTTx solutions can assist enterprise clients in introducing not only high quality and low cost FTTx service but also variety services such as enterprise firewall, surveillance, and cloud services.

(9) IoT SIM management platform:

Enterprise clients can manage their IoT SIM remotely and improve enterprise efficiency via the platform.

4. Mobile business operating status

(1) Postpaid products and services

The Company focused on boosting smartphone sales and migrating its customers to 3G/4G services to raise its ARPU. As of December 2017, 3G/4G customers accounted for 100% of its client base.

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 cash rebates based on their phone bills and credit card spending.

(2) Prepaid products and services

The Company has continued to increase its prepaid overseas roaming service coverage. In 2017, it added data roaming service in South Korea.

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 Taiwan Win TV Media Co., Ltd., offers original content, such as 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	Subscribers can use the set-top box provided 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 DOCSIS 3.0 broadband internet access technology.
Content agency	Digital TV channels	Distributes high-quality domestic and foreign TV content on digital TV services by licensing the broadcasting rights of these channels to other CATV system operators and video service platforms.
Digital home services	OTT set-top box service	Provides 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 these contents on their TVs, computers, smartphones and tablets anytime, anywhere.
	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 SMEs by providing a multi-screen monitoring and cloud storage system that sends out alerts via apps for smart devices, OTT platforms, SMS and e-mails.
	HealthCare service	A collaboration with Taipei Medical University Hospital to provide connected health services to remote areas, including on-call professional health managers and devices.

2. CATV revenue breakdown

Unit: NT\$m

Item \ Year	2017	
	Revenue	% of total
Pay TV service	3,853	60%
Cable broadband service	1,350	21%
TV content agency and others ¹	1,189	19%
Total	6,392	100%

¹ : Including channel leasing revenues.

3. New CATV products and services

(1) High-definition digital TV services:

In line with the government's push to achieve 100% digital CATV penetration, TWM Broadband positioned itself to maximize the opportunity by expanding its HDTV economies of scale and digitizing audio-visual home entertainment. With digitalization having been completed at the end of 2017, CATV system operators can

increase their signal transmission capacity to offer a wider range of viewing options and more value-added services. TWM Broadband plans 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 up to 500Mbps high-speed broadband access services. In the near future, DOCSIS 3.1 network technology and infrastructure will be adopted to deliver speeds of up to 1Gbps.

(3) Digital home services:

Since 2017, TWM Broadband has collaborated with TWM OTT service myVideo, which provides high-definition on-demand video, audio and interactive applications & content, by combining video on demand, internet TV and digital TV onto a single platform. Furthermore, TWM Broadband has entered the healthcare market by cooperating with medical institutions to provide remote home care services, such as professional consultancy and health monitoring devices.

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 producer	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 the 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 services. momomall: Assists suppliers interested in e-commerce to establish and operate online platforms.
	Product orders	momoshop: Sells over 2.1mn stock keeping units (SKU) and provides express delivery for selected products. momomall: Gathers over 3,000 suppliers with 15mn 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 online B2C shopping platforms and highlights their selling points.
	Catalogue production	Designs catalogue layout and highlights product features for customers.
	Member service	Distributes 500K copies by mail to momo members.

	Product order and customer service	0800 toll-free 24-hour hotline manned by a professional customer service team that answers questions about product features, purchase and return policy.
Travel service	Domestic and international tourism travel e-voucher sales	Works with leading travel agencies to sell domestic and international services, including tours, accommodations and amusement park tickets, via e-vouchers.
Property/Life insurance	Property/life insurance products and services	Provides property/life insurance products and services through 100% owned insurance agency subsidiaries.

2. Retail revenue breakdown

Unit: NT\$m

Item \ Year	2017	
	Revenue	% of total
E-commerce	26,572	80%
TV home shopping, mail order service and others	6,667	20%
Total	33,239	100%

3. New retail products and services

- (1) Develop new product categories: Product variety is critical to maintaining TV home shopping viewership and effectively promote a marketing campaign to engage target customers. momo has successfully explored and introduce new product categories, including premium dietary supplements and international boutiques, and new services to sustain buyers' interests.
- (2) Enhance cooperation with brand vendors: momo is committed to cooperating with more brand-name vendors, which offer prolific marketing resources, product quality and stable supply chains. momo intends to tighten brand relations and maximize the synergy between channels and brands through market resources sharing.
- (3) Expand business platforms: With CATV penetration nearing saturation, traditional TV viewership falling, and digital TV and mobile platforms becoming ever-more popular, TV home shopping is looking to adapt to changes in consumer's lifestyle and trends. To enhance engagement with its customer base and boost customer stickiness, momo has expanded its TV fan clubs' operation, streamed live videos on Facebook since 2016 and listed two channels on MOD in 2017.
- (4) Build up mobile commerce: As sales from mobile devices continue 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 improve its logistics and warehousing facilities to provide fast, transparent and timely deliveries.

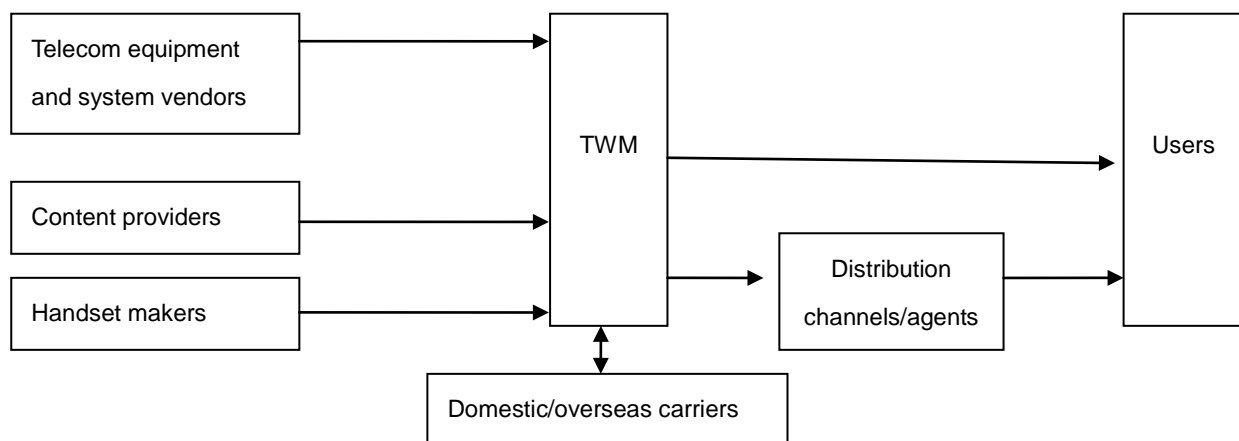
Industry overview

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

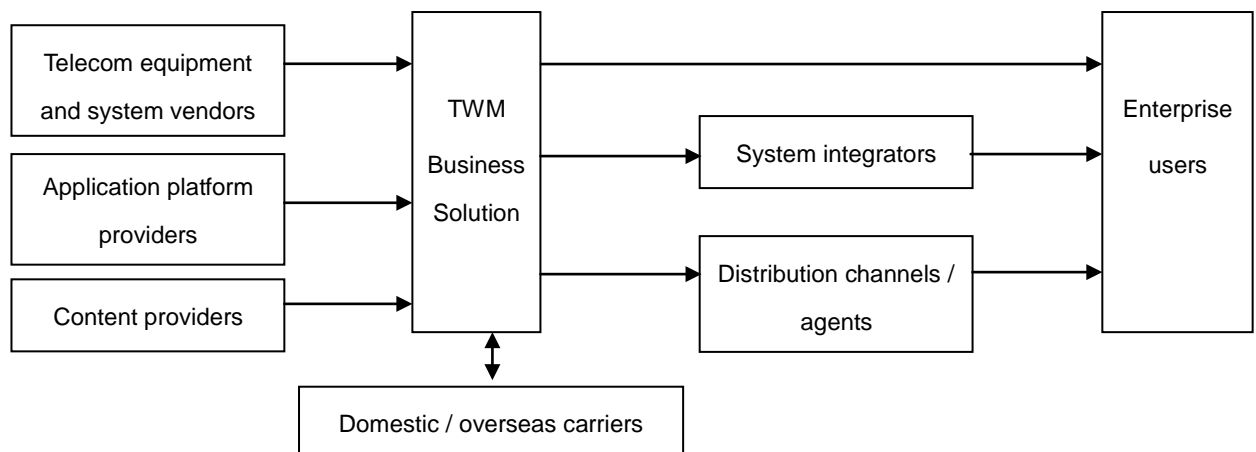
The operators are seeking to further expand the mobile broadband market in the 4G era. However, due to the intensifying competition and limited growth in data revenue, TWM has introduced a variety of new value-added services to improve ARPU. This should be an important future revenue growth driver for the post-paid segment. As for the prepaid segment, pricing competition continues.

Enterprise Business Group

1. Industry status and development

According to the National Communications Commission (NCC), there were 82 Type I telecommunication providers, including four fixed-line operators, 13 mobile operators and other circuit leasing operators, and 406 Type II telecommunication providers, such as 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 shows that Chunghwa Telecom (CHT) has a virtual monopoly of the telecom market. It has an over 90% share of local network service revenue, and about 50% share of long-distance network service and international network service revenue. TWM teamed up with cable operators to provide business FTTx service, hoping to level up market shares.

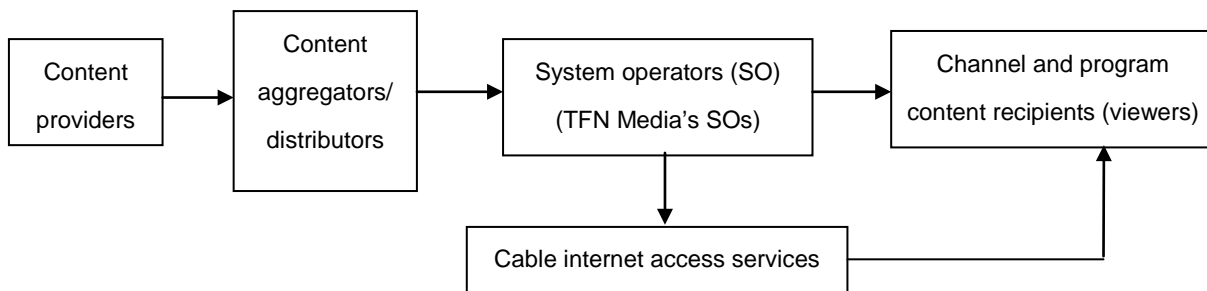
Cloud, IoT and enterprise mobility applications will be the main trends in the future. Carriers will provide various efficient and effective mobile commercial application services to enhance the competitiveness of enterprise clients.

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 CATV industry must aggressively provide innovative digital TV value-added services to attract traditional CATV subscribers to switch to digital TV.

2. Industry value chain



TFN Media 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 digital age.

3. Product development trends and competitive landscape

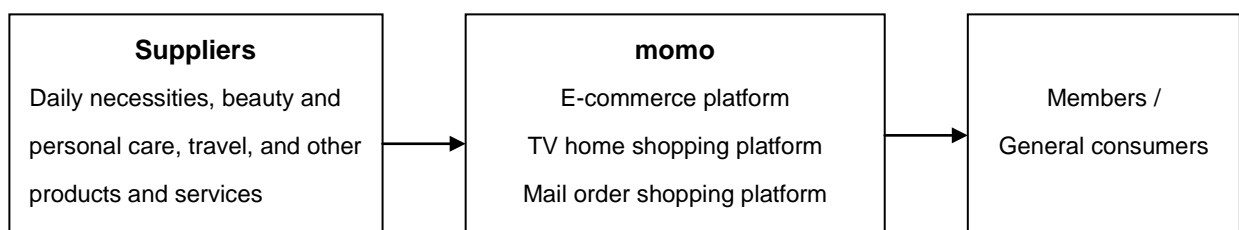
Although fixed broadband is a saturated market that is dominated by Chunghwa Telecom, TWM Broadband managed to grow its subscriber number in the cable internet business by bundling cable broadband products with HD DTV services in its CATV service areas, following the example of leading global operators, 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 CATV, 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 within a short period 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 B2C e-commerce player, growing rapidly by leveraging its know-how in TV home shopping. momo is the second largest B2C operation in Taiwan in 2017.
- (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, such as e-commerce and mobile commerce, has intensified competition in TV home shopping. momo has countered this by launching its own mobile apps and leveraging its social platform and capabilities, including live streaming to bolster engagement with its members 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 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 2018, the Company plans to spend NT\$680.2mn 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	2017	2018 (As of January 31)
R&D expense (NT\$'000)	699,692	56,511
As a % of total revenue	0.60%	0.54%

Major research and development achievements

Project name	Description
5G mmWave communications and green communication technology	Research on 5G millimeter wave communication and green energy technology: <ul style="list-style-type: none">• Energy-efficient architecture for mmWave communications• Green communication technology• Evaluation of the impact of green communication base stations on the human body• Utilize data measurements to analyze the effect of electromagnetic waves on the human body• Power-saving and throughput enhancement of hierarchical transmission for LTE eMBMS (Evolved Multimedia Broadcast Multicast Service)
Personalized music and video recommendation services	Use machine learning algorithms to analyze personal profiles and interests to provide personalized music and video recommendations.

Project name	Description
M+ Messenger	Provide video conferencing, integrate PBX and support money transfer to improve communication efficiency and productivity.
TAMedia mobile advertisement platform	Develop new interactive advertising forms – vertical video, 360-degree panoramic ad and proximity detection application; and improve advertising performance by integrating third-party tracking mechanism.
myVideo	Provide video recommendations and Google browser video playback; augmented reality + virtual reality (AR+VR) for live baseball games to enhance user experience; and expand the market for large-screen video viewing.
Mobile payment	Launched the first mobile EasyCard co-branded credit card that allows auto top-up and other lifestyle features, and for subscribers to exchange loyalty points with each other.
myBook	Revamp user experience for both iOS and Android applications.
myMusic	Integrate service in which users register only once to listen to their choice of music anytime, anywhere via TV, wearable devices, in-vehicle infotainment systems, etc. to enhance the listening experience.

Sales development plans

Consumer Business Group

1. Short-term plan

- (1) Develop various packages 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.
- (2) Boost channel performance and competitiveness by enhancing 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 an edge over its competitors in offering digital convergence services. The company's myVideo, myMusic and myBook are domestic market leaders in convergence services.
- (2) Developing and introducing 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) Develop Azure Stack cloud service with Microsoft to meet the needs of different industries.
- (3) Build up IoT SIM management platform. Clients can manage their IoT SIM remotely via this platform, which provides autonomous diagnosis and self-management functions.
- (4) Develop unified communications (UC) and launch M+ Enterprise Mobility to integrate enterprise communication services. Unanswered calls on desk phones are automatically transferred to the users' mobile phones, ensuring that users never miss important calls. Moreover, employees can use the corporate directory in M+ to find a colleague's contact information immediately.

2. Long-term plan

The company's vision is to expand enterprise services from network-centric to mobile applications, IoT, information security, and cloud services through steady investments in the following:

- (1) Cloud computing and enterprise integrated solutions
- (2) IoT integrated solutions for enterprise clients
- (3) Channel integration to raise sales productivity and expand the SME market

Home Business Group

1. Short-term plan

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

2. Long-term plan

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 mobile platforms, and leverage big data analytics and recommend more personalized products to clients. Leverage various social shopping platforms and profit-sharing mechanisms to create more significant revenue

contributions from community shopping websites.

- (2) TV home shopping: Enhance the competitiveness in distribution channel by listing more branded products from overseas, cultivating fan bases on social platforms, such as Facebook and Line, and cooperate with e-commerce suppliers to expand product offerings.
- (3) Catalogue / Mail order: Strengthen visual editing to refine the design of momo catalogs and develop e-catalog services to boost traction with customer base.

2. Long-term plan

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

Customer satisfaction

To create the best experience for its customers, TWM conducts annual customer satisfaction surveys for consumer business clients by telephone to better understand their needs and expectations. Since 2016, annual surveys for enterprise and home business clients have been conducted as well, by online questionnaire and telephone respectively. The findings from these surveys are used as a reference to set new objectives and improve service quality. In all, about 85% of the consumer, enterprise and home business clients were reported to be satisfied in 2017.

Customer satisfaction¹ (%)	Key measurements	2015	2016	2017
Consumer Business Clients	customer hotline service satisfaction	86	87	85
Enterprise Business Clients	customer hotline service satisfaction	-	82	88
Home Business Clients	installation and maintenance service satisfaction	-	81	85
Note 1: Customer satisfaction (%) refers to the percentage of respondents who chose "very satisfied" and "satisfied."				

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 2017, the penetration rate for mobile subscribers was 122%, signifying 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.

3. Competitive advantages

(1) Better customer mix

The Company has further improved its subscriber mix, with 4G subscribers accounting for 78% of the total as of the end of 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. As of the end of 2017, the Company had a 3G/4G subscriber base of 7.23 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) The rapid growth in 4G adoption has altered the landscape for mobile internet, enriching the variety of value-added services and bringing a massive influx of data on consumer behavior that promise huge business opportunities
- (2) Telecom operators are industry pioneers in IoT and innovative mobile technologies.

Negative factors

- (1) Changes in how consumers communicate have placed telecom operators' voice revenue under pressure.
- (2) The popularity of 4G unlimited data rate plans limits growth in mobile service revenue.

Countermeasures

- (1) The Company maps out strategies based on big data and concentric diversification.
- (2) The Company adjusts 4G pricing plans in response to changes in the market and proactively develops value-added services to boost overall mobile service revenue

Enterprise Business Group

1. Main products and service areas

EBG provides international services in 247 countries. As of the end of 2017, its roaming services covered the following: GSM: 214 countries, 418 networks; GPRS: 189 countries, 373 networks; 3G: 177 countries, 343 networks; 4G: 84 countries, 130 networks.

2. Market status

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

- (1) Voice service: The enterprise clients' needs of fixed lines for local and international calls as well as the unit price for fixed-to-mobile calls are both 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 the 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 service 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 online workflow, 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 an increasing number of players investing in the business in search of new hardware and software supply chain models. This bodes well for market expansion and rising revenue from cloud services.
- (6) IoT: IoT applications are becoming more mature as time advances. TWM is working with top partners to integrate different IoT solutions, which promise huge revenue potential for enterprise clients.
- (7) Information security: The rapid development of enterprise cloud services and IoT has made enterprises more vulnerable to security attacks, such as DDoS. Regulators are seeking to expand information security rules to combat such attacks. These should boost the number of enterprise information security clients and lift revenue.

Enterprise integrated solutions: TWM has formed alliances with leading partners from different industries to provide comprehensive enterprise integrated solutions, including mobile applications, IoT, big data applications, security, and vertical solutions. These should boost telecom service revenue.

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 the first and only data center in Taiwan to have been awarded Uptime Tier III certifications for design, construction and operational sustainability.
- (3) Effective sales teams and channels: The Company's direct sales teams for enterprise clients and retail chains across the nation are an effective channel for developing and expanding services.
- (4) 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, and cooperates with other leading telecom operators in the alliance to integrate more services and solutions.

4. Opportunities and challenges

Positive factors

- (1) With the advantages of multiple 4G spectrums and cloud foundations, the developments and clients' needs of mobility and cloud services will drive revenue growth.
- (2) Enterprise clients' needs for bigger fixed-line bandwidth to transport more data will ensure steady demand and revenue growth.
- (3) TWM has cultivated the enterprise market for years and knows the needs of enterprise clients. It has teamed up with enterprise clients to help them integrate their fixed-line, mobile, information system and cloud services.
- (4) Aside from cooperating with existing business partners, TWM is forming alliances with new partners in different fields.

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

- (1) TWM collaborates with Kbro on providing high-speed, high-quality and low-cost enterprise FTTx services to break CHT's "last mile" advantage in the market.
- (2) Enterprise clients nowadays are looking for telecom operators that can provide them not only telecom services, but also serve as a partner in developing mobile, IoT, cloud, and big data solutions. TWM will continue to promote and develop diversified enterprise services and applications to create more value and improve client 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 Sinjhuang and Sijhih districts, Yilan County and Kaohsiung's Fongshan District.

2. Market status

(1) Cable TV

Taiwan's CATV 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 CATV

Digitalization is the future trend for CATV, and business opportunities abound in this market of 8.6 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, round-the-clock customer service and superior 500Mbps internet access service quality.

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 deploys a dense, ring-type fiber-optic backbone network and provides back-up systems for its bi-directional network with advanced DOCSIS 3.1 network technology. TWM Broadband is able to provide up to 500Mbps 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 clients' increasing need for bandwidth, 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, HealthCare, personal video recorder and OTT services, and 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 the 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) Riding on the 100% household digital set-top-box installation, pushed by the government, and the launch of its HomeSecurity, HealthCare, PVR and OTT services, TWM Broadband will further enhance 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 HD videos is increasing and 200Mbps 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 3.1 cable internet technology, which can provide high-speed broadband internet access speeds of 500Mbps to help expand its market share, as well as increase customer stickiness and ARPU.

Negative factors

- (1) There is still a risk that local governments might lower the price cap on basic TV monthly subscription during their annual review.
- (2) Chunghwa Telecomm is aggressively pushing airing of CATV content on its IPTV platform, posing a threat to CATV operators.
- (3) The rise of OTT and illegal internet video service has cannibalized CATV viewership.
- (4) The NCC has been granting licenses to new cable MSOs to increase competition.
- (5) The NCC plans to implement tiered pricing schemes on pay TV, which might change the revenue sharing mechanism in the food chain.

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 CATV, high-speed broadband internet access and HD 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. Owning the right to broadcast Fubon Guardians 2018 home games has allowed TWM Broadband stand out from other video service providers.
- (3) TWM Broadband is expected to roll out the latest high-speed DOCSIS 3.1 cable internet technology and infrastructure to deliver speeds of up to 1Gbps to customers. In addition, OTT service is built as a multi-tenant platform for future cooperation with other OTT operators. This strategy should attract more partners and help expand its OTT business' scale.
- (4) 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."

- (5) TWM Broadband is closely monitoring developments in 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.

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 growing alongside rising 4G adoption. Mobile platforms attract younger consumers and could lead them back to cable or digital TV channels, boosting growth in these sales channels.

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, boosting its diverse range of products.
- (2) Strong support: momo is able to leverage the resources of affiliates – including TWM's mobile, fixed-line and CATV businesses – to set up digital convergence, mobile platforms and mobile payment mechanisms.
- (3) Expanding economies of scale: momo's B2C e-commerce business ranks among the top two in the industry. This has given momo even stronger negotiating power with suppliers and made it more attractive to first-tier merchants, enabling it to increase its offerings of higher-quality products.

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 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) Substitution from competing channels/platforms and intensifying market competition.
- (2) High product homogeneity and cutthroat pricing competition lead to lower product gross margins.

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 differentiated it from the competition.
- (2) momo has an online shopping mobile app to tap into the mobile commerce market and optimize customer experience. By promoting limited time and livestream promotions, momo is able to reach more consumers and stimulate buying willingness. The mobile platform also offers convenience, encouraging consumer to increase their shopping frequency.
- (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 further strengthen new sales platforms, such as mobile apps, shopping via remote control and digital TV interactive shopping, to meet potential changes in consumer buying behavior.
- (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, 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

	2016				2017			
	Company	Procurement amount	% of consolidated procurement	Nature of relationship	Company	Procurement amount	% of consolidated procurement	Nature of relationship
1	Company A	7,630,557	13	Third party	Company A	9,686,463	16	Third party
2	Company B	6,096,355	11	Third party				
	Others	43,184,204	76		Others	50,661,116	84	
	Total	56,911,116	100		Total	60,347,579	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.

Sales volume in the past two years

Services		2016		2017	
		Sales volume	Revenue (NT\$'000)	Sales volume	Revenue (NT\$'000)
Mobile	Mobile services (‘000 subs at the year end)	7,439	52,624,338	7,227	49,278,207
Domestic fixed telephony	Local calls (‘000 minutes) ¹	332,634	558,769	293,180	501,421
	Long distance calls (‘000 minutes) ¹	120,851	91,583	107,565	80,317
International fixed telephony	International calls (‘000 minutes) ¹	306,650	2,500,771	196,779	1,827,835
Fixed line data transmission (‘000 lines)		190	2,150,261	202	2,272,813
Sales revenue ²		NA	48,112,301	NA	52,221,069
Others		NA	10,609,475	NA	10,989,445
Total			116,647,498		117,171,107

1: Outgoing minutes only.

2: Including retail sales of handsets, accessories, information products, 3C home appliances, etc.

Human Resources

Employee statistics in the past two years up to publication date

Year		2016	2017	2018 (as of February 23)
Number of employees	Consolidated	7,663	7,836	7,890
	Stand-alone	3,983	3,949	3,974
Education level	Ph.D.	0.16%	0.18%	0.18%
	Master's	14.30%	14.14%	14.04%
	University	57.13%	61.54%	61.75%
	College	18.34%	17.71%	17.66%
	Others	10.07%	6.43%	6.37%
Average age		36.23	36.67	36.73
Average years of service		6.82	7.25	7.32

Environmental Protection Expenditure

Loss or penalty due to environmental pollution in 2017 up to publication date in 2018: 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 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 share 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 January 1, 2017 to January 31, 2018 totaled NT\$18,331,781, with 275,351 employees taking a total of 215,839.5 training hours.
2. Orientation for new employees includes company profile, culture, brand, company organization, telecommunications 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

The Company endeavors to contain potential hazards in the workplace, as well as build and promote a safety culture, by observing the following:

1. Regulatory compliance: Follow all rules and regulations pertaining to occupational safety and health, and conduct
2. periodic reviews of compliance.
3. Risk control: Implement measures to identify safety risks at work to minimize hazards and prevent injury or disease.
4. Consultation and communication: Enhance employee knowledge of the importance of health and safety, as well as encourage them to participate in and take responsibility for their personal health and safety management.
5. Healthcare: Organize health-oriented activities and promote care for employees' physical and mental health.
6. Performance evaluation: Conduct systematic evaluations of these measures to gauge their effectiveness and improve health and safety standards.

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

1. Occupational Safety and Health Management System (OHSAS 18001:2007) certification: Its aim is to constantly improve health and safety management in order to reduce risks in the workplace.
2. A unit dedicated to conducting environmental inspections and carrying out employee sanitary training courses was established in accordance with regulations.
3. 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.

4. 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.
5. Each office site is equipped with an automated external defibrillator and staffed with a sufficient number of first-aid personnel.
6. Fire/flood protection exercises are held periodically to reduce risks of employee injury and property loss from natural disasters.
7. 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, develop comprehensive communication channels between management and employees, and promoted employee benefits to build a harmonious and satisfactory management/employee relationship.

Losses caused by employee disputes in 2017 and up to publication date in 2018: 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 2017 up to publication date in 2018

Year	2017	2018 (as of February 23)
Number of disabilities	3	0
Disabling frequency rate ¹	0.38	0
Disabling severity rate ²	8.35	0

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

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

Major Contracts

Taiwan Mobile

Counterpart	Contract period	Nature/Description	Restriction clauses
The Bank of Tokyo-Mitsubishi UFJ, Ltd., Taipei Branch	2015.04.15~2018.04.13	Long-term loan of NT\$2 billion	Non-disclosure
	2015.10.30~2018.10.30	Long-term loan of NT\$3 billion	Non-disclosure
	2016.02.26~2019.02.26	Long-term loan of NT\$2 billion	Non-disclosure
Sumitomo Mitsui Banking Corp., Taipei Branch	2017.01.31~2019.01.31	Long-term loan of NT\$7 billion	Non-disclosure
Mizuho Bank, Ltd., Taipei Branch	2017.04.14~2019.04.14	Long-term loan of NT\$7 billion.	Non-disclosure
Bridge Alliance	2004.11.03~present	Strategic Alliance	Non-disclosure
Apple Asia LLC	2016.06.01~2019.05.31	iPhone Procurement	Non-disclosure
	2017.11.01~2020.10.31	iPad Procurement	
Samsung Electronics Taiwan Co., Ltd.	2014.11.01~2018.10.31	Procurement	Non-disclosure
HTC Corporation	2012.11.12~present	Procurement	Non-disclosure
Nokia Solutions and Networks Taiwan Co., Ltd.	2017.01.01~2018.12.31	Mobile Broadband Equipment Procurement	Non-disclosure

momo.com Inc.

Counterpart	Contract period	Nature/Description	Restriction clauses
Li Jin Engineering Co., Ltd.	2015.10.20~2017.02.17	Construction of momo's logistics center	Non-disclosure
Daifuku Co., Ltd.	2015.12.29~2018.12.29	Equipment procurement for momo's logistics center	Non-disclosure
Fubon Life Insurance Co., Ltd	2013.05.01~2018.07.31	momo headquarter lease	Non-disclosure

Chapter 5 Financial Highlights

Condensed Balance Sheets and Statements of Comprehensive Income

Consolidated condensed balance sheet (2013-2017)

Unit: NT\$'000

		2013	2014	2015	2016	2017
Current assets		29,493,868	32,834,704	34,174,935	34,280,112	32,351,117
Investments		4,194,570	5,070,051	4,958,924	5,412,671	6,049,714
Property, plant and equipment (PP&E)		42,985,801	47,066,319	47,247,121	42,415,229	41,603,421
Intangible assets		54,837,271	61,168,844	62,402,424	59,677,982	65,372,820
Other assets		6,840,869	7,399,775	7,302,269	9,591,411	9,145,682
Total assets		138,352,379	153,539,693	156,085,673	151,377,405	154,522,754
Current liabilities	Before appropriation	58,605,638	53,468,928	59,232,218	38,144,597	56,479,086
	After appropriation	73,670,237	68,712,583	74,475,873	53,388,252	(Note1)
Non-current liabilities		21,226,100	33,570,433	31,561,731	47,046,273	32,532,067
Total liabilities	Before appropriation	79,831,738	87,039,361	90,793,949	85,190,870	89,011,153
	After appropriation	94,896,337	102,283,016	106,037,604	100,434,525	(Note1)
Equity attributable to owners of the parent company		57,433,894	60,247,435	59,555,705	60,416,890	59,631,863
Paid-in capital		34,208,328	34,208,328	34,208,328	34,208,328	34,208,328
Capital surplus	Before appropriation	12,456,891	14,715,830	14,586,376	14,985,047	13,939,278
	After appropriation	12,456,891	14,715,830	14,586,376	13,917,991	(Note1)
Retained earnings	Before appropriation	41,433,176	41,343,607	41,652,299	41,630,893	41,564,304
	After appropriation	26,368,577	26,099,952	26,408,644	27,454,294	(Note1)
Other equity interests		412,682	(302,986)	(1,173,954)	(690,034)	(362,703)
Treasury stock		(31,077,183)	(29,717,344)	(29,717,344)	(29,717,344)	(29,717,344)
Non-controlling interest		1,086,747	6,252,897	5,736,019	5,769,645	5,879,738
Total equity	Before appropriation	58,520,641	66,500,332	65,291,724	66,186,535	65,511,601
	After appropriation	43,456,042	51,256,677	50,048,069	50,942,880	(Note1)

Note 1: The appropriation amount for 2017 still has to be approved at the AGM.

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

Stand-alone condensed balance sheet (2013-2017)

Unit: NT\$'000

		2013	2014	2015	2016	2017
Current assets		19,819,698	15,251,167	19,357,631	22,561,728	21,583,398
Investments		39,563,373	49,867,554	44,904,267	42,250,372	43,077,320
Property, plant and equipment (PP&E)		28,975,365	32,294,190	32,709,888	27,081,627	24,193,665
Intangible assets		40,247,043	39,117,370	40,441,171	38,039,908	44,004,623
Other assets		5,571,753	4,080,997	5,470,595	8,715,470	8,110,376
Total assets		134,177,232	140,611,278	142,883,552	138,649,105	140,969,382
Current liabilities	Before appropriation	57,236,700	53,250,046	58,318,339	37,044,613	54,419,482
	After appropriation	72,301,299	68,493,701	73,561,994	52,288,268	(Note1)
Non-current liabilities		19,506,638	27,113,797	25,009,508	41,187,602	26,918,037
Total liabilities	Before appropriation	76,743,338	80,363,843	83,327,847	78,232,215	81,337,519
	After appropriation	91,807,937	95,607,498	98,571,502	93,475,870	(Note1)
Paid-in capital		34,208,328	34,208,328	34,208,328	34,208,328	34,208,328
Capital surplus	Before appropriation	12,456,891	14,715,830	14,586,376	14,985,047	13,939,278
	After appropriation	12,456,891	14,715,830	14,586,376	13,917,991	(Note1)
Retained earnings	Before appropriation	41,433,176	41,343,607	41,652,299	41,630,893	41,564,304
	After appropriation	26,368,577	26,099,952	26,408,644	27,454,294	(Note1)
Other equity interests		412,682	(302,986)	(1,173,954)	(690,034)	(362,703)
Treasury stock		(31,077,183)	(29,717,344)	(29,717,344)	(29,717,344)	(29,717,344)
Total equity	Before appropriation	57,433,894	60,247,435	59,555,705	60,416,890	59,631,863
	After appropriation	42,369,295	45,003,780	44,312,050	45,173,235	(Note1)

Note 1: The appropriation amount for 2017 still has to be approved at the AGM.

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

Consolidated statements of comprehensive income (2013-2017)

Unit: NT\$'000

	2013	2014	2015	2016	2017
Operating revenue	108,407,931	112,623,879	116,144,205	116,647,498	117,171,107
Gross profit	38,836,911	37,526,337	36,359,070	37,856,980	35,725,991
Operating income	21,071,835	19,711,810	18,769,149	20,019,766	19,092,412
Non-operating income (expenses)	(1,652,822)	(845,638)	(603,199)	(828,294)	(1,461,129)
Pre-tax income	19,419,013	18,866,172	18,165,950	19,191,472	17,631,283
Income from continuing operations	16,067,173	15,632,343	16,168,029	15,928,443	14,948,787
Loss from discontinued operations, net of tax	249,392	78,329	-	-	-
Net income	15,817,781	15,554,014	16,168,029	15,928,443	14,948,787
Other comprehensive income (after tax)	53,691	(720,968)	(1,091,109)	351,303	215,294
Comprehensive income	15,871,472	14,833,046	15,076,920	16,279,746	15,164,081
Profit attributable to owners of the parent company	15,583,447	15,006,337	15,686,186	15,320,187	14,192,176
Profit attributable to non-controlling interest	234,334	547,677	481,843	608,256	756,611
Comprehensive income attributable to owners of parent company	15,655,368	14,272,725	14,681,379	15,706,230	14,437,341
Comprehensive income attributable to non-controlling interest	216,104	560,321	395,541	573,516	726,740
EPS (NT\$)	5.79	5.56	5.76	5.63	5.21

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

Stand-alone statements of comprehensive income (2013-2017)

Unit: NT\$'000

	2013	2014	2015	2016	2017
Operating revenue	78,928,492	81,649,070	83,710,453	80,543,403	73,612,276
Net gross profit	27,629,638	28,814,569	31,521,743	29,927,702	25,138,921
Operating income	8,258,017	5,712,718	12,397,268	15,401,232	12,094,034
Non-operating income (expenses)	8,329,636	10,029,032	4,366,737	2,369,009	3,672,554
Pre-tax income	16,587,653	15,741,750	16,764,005	17,770,241	15,766,588
Net income	15,583,447	15,006,337	15,686,186	15,320,187	14,192,176
Other comprehensive income (after tax)	71,921	(733,612)	(1,004,807)	386,043	245,165
Comprehensive income	15,655,368	14,272,725	14,681,379	15,706,230	14,437,341
EPS (NT\$)	5.79	5.56	5.76	5.63	5.21

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
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
2017	Deloitte & Touche	Kuo Li-Wen, Lai Kwan-Chung	Unqualified opinion

Financial Analysis

Current ratio, quick ratio and cash flow ratio all decreased in 2017 compared to 2016, due to the rise in short-term borrowings and the increase in current portion of long-term debts.

Consolidated financial analysis (2013-2017)

		2013	2014	2015	2016	2017
Financial structure	Liabilities to assets ratio (%)	57.70	56.69	58.17	56.28	57.60
	Long-term fund to PP&E ratio (%)	182.99	199.33	192.85	253.36	221.53
Solvency	Current ratio (%)	50.33	61.41	57.70	89.87	57.28
	Quick ratio (%)	42.98	54.49	49.88	77.88	48.71
	Interest coverage ratio (%)	4,911.23	3,219.10	2,585.36	2,949.77	2,883.04
Operations	Accounts receivable turnover (x)	6.14	5.66	5.57	5.55	5.85
	Average collection days	59.44	64.48	65.52	65.76	62.39
	Inventory turnover (x)	12.00	12.19	12.46	11.08	11.58
	Accounts payable turnover (x)	9.53	10.03	11.11	11.45	10.57
	Average days sales	30.41	29.94	29.29	32.94	31.51
	Property, plant and equipment turnover (x)	2.54	2.51	2.46	2.60	2.79
	Total asset turnover (x)	0.79	0.77	0.75	0.76	0.77
Profitability	Return on assets (%)	13.53	11.00	10.84	10.72	10.12
	Return on equity attributable to owners of the parent (%)	27.34	25.51	26.19	25.54	23.64
	Pre-tax income as a % of paid-in capital	55.89	54.87	53.10	56.10	51.54
	Net income margin (%)	14.49	13.79	13.92	13.66	12.76
	EPS (NT\$)	5.79	5.56	5.76	5.63	5.21
Cash flow	Cash flow ratio (%)	42.37	53.00	43.57	83.45	53.68
	Cash flow adequacy ratio (%)	111.11	106.30	99.96	99.82	100.84
	Cash reinvestment rate (%)	6.18	7.50	5.43	8.79	7.79
Leverage	Operating leverage	2.13	2.66	2.84	2.74	2.79
	Financial leverage	1.02	1.03	1.04	1.03	1.03
Others ¹	EBITDA (NT\$'000)	31,003,599	31,295,941	32,284,941	33,871,581	32,781,898
	EBITDA margin (%)	28.60	27.79	27.80	29.04	27.98

Stand-alone financial analysis (2013-2017)

		2013	2014	2015	2016	2017
Financial structure	Liabilities to assets ratio (%)	57.20	57.15	58.32	56.42	57.70
	Long-term fund to PP&E ratio (%)	265.54	270.52	258.53	375.18	357.74
Solvency	Current ratio (%)	34.63	28.64	33.19	60.90	39.66
	Quick ratio (%)	29.92	24.32	25.78	50.07	33.15
	Interest coverage ratio (%)	3,835.17	2,726.79	2,426.13	2,887.46	2,716.04
Operations	Accounts receivable turnover (x)	5.10	5.38	5.58	4.56	3.97
	Average collection days	71.56	67.84	65.41	80.04	91.93
	Inventory turnover (x)	11.13	11.42	8.34	6.07	6.19
	Accounts payable turnover (x)	11.46	12.34	13.52	14.38	13.32
	Average days sales	32.79	31.96	43.76	60.13	58.96
	Property, plant and equipment turnover (x)	2.69	2.67	2.58	2.69	2.87
	Total asset turnover (x)	0.59	0.59	0.59	0.57	0.53
Profitability	Return on assets (%)	13.71	11.28	11.49	11.26	10.51
	Return on equity (%)	27.34	25.51	26.19	25.54	23.64
	Pre-tax income as a % of paid-in capital	48.49	46.02	49.01	51.95	46.09
	Net profit margin (%)	19.74	18.38	18.74	19.02	19.28
	EPS (NT\$)	5.79	5.56	5.76	5.63	5.21
Cash flow	Cash flow ratio (%)	21.31	32.37	28.39	60.67	38.65
	Cash flow adequacy ratio (%)	103.57	89.23	77.55	74.13	76.51
	Cash reinvestment rate (%)	-	1.25	0.75	4.26	3.45
Leverage	Operating leverage	2.64	5.89	3.28	2.93	3.38
	Financial leverage	1.06	1.12	1.06	1.04	1.05

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

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)
(Note: 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

Audit Committee Report



Taiwan Mobile Co., Ltd.

Audit Committee Report

February 1, 2018

The Board of Directors of Taiwan Mobile Co., Ltd. (TWM) has submitted the Company's 2017 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, we hereby submit this report to the 2018 Annual General Meeting of shareholders for ratifications.

Taiwan Mobile Co., Ltd.

A handwritten signature in blue ink, appearing to read 'Hsueh-Jen Sung'.

Hsueh-Jen Sung

Chairman of the Audit Committee

2017 Consolidated Financial Statements:

Refer to the attachment:

Consolidated Financial Statements for the Years Ended December 31, 2017 and 2016 and Independent Auditors' Report.

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 equity:

1. Current liabilities increased due to the rise in short-term borrowings and the increase in current portion of long-term debts.
2. Non-current liabilities decreased because of the rise in the amount of corporate bonds and debts due within a year's time.

2016 - 2017 Consolidated Balance Sheet

Unit: NT\$'000, %

	2016	2017	YoY change	
			Amount	%
Current assets	34,280,112	32,351,117	(1,928,995)	(5.63)
Investments	5,412,671	6,049,714	637,043	11.77
Property, plant and equipment	42,415,229	41,603,421	(811,808)	(1.91)
Intangible assets	59,677,982	65,372,820	5,694,838	9.54
Other assets	9,591,411	9,145,682	(445,729)	(4.65)
Total assets	151,377,405	154,522,754	3,145,349	2.08
Current liabilities	38,144,597	56,479,086	18,334,489	48.07
Non-current liabilities	47,046,273	32,532,067	(14,514,206)	(30.85)
Total liabilities	85,190,870	89,011,153	3,820,283	4.48
Paid-in capital	34,208,328	34,208,328	-	-
Capital surplus	14,985,047	13,939,278	(1,045,769)	(6.98)
Retained earnings	41,630,893	41,564,304	(66,589)	(0.16)
Other equity and treasury stock	(30,407,378)	(30,080,047)	327,331	(1.08)
Non-controlling interests	5,769,645	5,879,738	110,093	1.91
Total equity	66,186,535	65,511,601	(674,934)	(1.02)

Stand-alone balance sheet analysis

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

1. Current liabilities increased due to the rise in short-term borrowings and the increase in current portion of long-term debts.
2. Non-current liabilities decreased because of the rise in the amount of corporate bonds and debts due within a year's time.

2016- 2017 Stand-alone Balance Sheet

Unit: NT\$'000, %

	2016	2017	YoY change	
			Amount	%
Current assets	22,561,728	21,583,398	(978,330)	(4.34)
Investments	42,250,372	43,077,320	826,948	1.96
Property, plant and equipment	27,081,627	24,193,665	(2,887,962)	(10.66)
Intangible assets	38,039,908	44,004,623	5,964,715	15.68
Other assets	8,715,470	8,110,376	(605,094)	(6.94)
Total assets	138,649,105	140,969,382	2,320,277	1.67
Current liabilities	37,044,613	54,419,482	17,374,869	46.90
Non-current liabilities	41,187,602	26,918,037	(14,269,565)	(34.65)
Total liabilities	78,232,215	81,337,519	3,105,304	3.97
Paid-in capital	34,208,328	34,208,328	-	-
Capital surplus	14,985,047	13,939,278	(1,045,769)	(6.98)
Retained earnings	41,630,893	41,564,304	(66,589)	(0.16)
Other equity and treasury stock	(30,407,378)	(30,080,047)	327,331	(1.08)
Total equity	60,416,890	59,631,863	(785,027)	(1.30)

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:

Non-operating expenses increased in 2017 due to the recognition of an estimated litigation provision.

2016 – 2017 Consolidated Statements of Comprehensive Income

Unit: NT\$'000, %

	2016	2017	YoY change	
			Amount	%
Operating revenue	116,647,498	117,171,107	523,609	0.45
Operating costs	78,790,518	81,445,116	2,654,598	3.37
Gross profit	37,856,980	35,725,991	(2,130,989)	(5.63)
Operating expenses	18,260,396	17,502,915	(757,481)	(4.15)
Operating income	20,019,766	19,092,412	(927,354)	(4.63)
Non-operating income (expenses)	(828,294)	(1,461,129)	(632,835)	76.40
Income before tax	19,191,472	17,631,283	(1,560,189)	(8.13)
Net income	15,928,443	14,948,787	(979,656)	(6.15)

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 income decreased due to the decline in telecommunication and domestic roaming revenue.
2. Non-operating income increased due to higher investment income from subsidiaries, which more than offset the litigation provision.

2016 – 2017 Stand-alone Statements of Comprehensive Income

Unit: NT\$'000, %

	2016	2017	YoY change	
			Amount	%
Operating revenue	80,543,403	73,612,276	(6,931,127)	(8.61)
Operating costs	50,615,701	48,473,355	(2,142,346)	(4.23)
Gross profit	29,927,702	25,138,921	(4,788,781)	(16.00)
Operating expenses	14,920,182	13,886,610	(1,033,572)	(6.93)
Operating income	15,401,232	12,094,034	(3,307,198)	(21.47)
Non-operating income (expenses)	2,369,009	3,672,554	1,303,545	55.02
Income before tax	17,770,241	15,766,588	(2,003,653)	(11.28)
Net income	15,320,187	14,192,176	(1,128,011)	(7.36)

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

In 2018, the Company will continue to leverage its 4G high-speed mobile internet service and 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). Meanwhile, the Company will make full use of its potential and competitive edge in handset procurement to effectively contain subscriber acquisition costs so as to meet its profit target.

Cash Flow Analysis

1. Increase in cash outflow from investment activities: Cash outflow rose due to the payment of 4G concession fee.
2. Decrease in cash outflow from financing activities: Cash outflow declined due to an increase in bank borrowings.

Consolidated cash flow analysis

2016 – 2017 Consolidated Cash Flow Statement

Unit: NT\$'000, %

	2016	2017	YoY change	
			Amount	%
Cash inflow (outflow) from operating activities	31,830,164	30,320,285	(1,509,879)	(4.74)
Cash inflow (outflow) from investment activities	(11,527,956)	(17,672,308)	(6,144,352)	53.30
Cash inflow (outflow) from financing activities	(21,170,963)	(13,717,494)	7,453,469	(35.21)
Impact from changes in exchange rate	(6,150)	(3,456)	2,694	(43.80)
Net cash decrease	(874,905)	(1,072,973)	(198,068)	22.64

Stand-alone cash flow analysis:

2016 – 2017 Stand-alone Cash Flow Statement

Unit: NT\$'000, %

	2016	2017	YoY change	
			Amount	%
Cash inflow (outflow) from operating activities	22,475,739	21,031,267	(1,444,472)	(6.43)
Cash inflow (outflow) from investment activities	(2,471,192)	(9,316,367)	(6,845,175)	277.00
Cash inflow (outflow) from financing activities	(20,065,912)	(12,252,034)	7,813,878	(38.94)
Net cash decrease	(61,365)	(537,134)	(475,769)	775.31

Plans to improve negative liquidity: Not applicable

Projected Consolidated cash flow for 2018

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

2018 Consolidated Projected Cash Flow

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
6,631,544	31,238,803	31,022,952	6,847,395	—	—

Source of funding for negative cash flow in 2018: Not applicable

Analysis of Major Capex and its Impact on Finance and Operations

With operating cash inflows, the Company funds its major capex with its internally generated cash flows.

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 focusing on areas which can solidify it as a leading player in the T.I.M.E. (Telecom, Internet, Media & Entertainment and E-commerce) space.

In 2017, on a consolidated basis, TWM's investment income from long-term investments under the equity method amounted to NT\$28,942 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 2017 short-term bank borrowings, as interest rates remained low and stable. The Company has mid-term loan agreements 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 payments 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 2017 up to the publication date in 2018.

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 Endorsement/Guarantees" to supervise its financing and endorsement activities. As the counterparties in its loans and guarantees are all its subsidiaries, there is minimal operating risk.
3. Derivatives transaction: None.

Future research and development plans

Project name	Objective	Completion date
Customer micropayment credit model	Use machine learning algorithms to build a prediction model that can more accurately estimate customers' credit limit so as to reduce overall bad debt.	Nov. 2018
Internet of Things billing system	Build an IoT SIM card connectivity management system and B2B model of the exclusive billing system.	Dec. 2018
M+ Messenger	Integrate peer-to-peer payments and business card management to enrich communication experience.	Sept. 2018
TAMedia - Mobile advertisement platform	Provide new types of video advertising and improve advertising performance by integrating third party data into data analysis.	Sept. 2018
myVideo	Enhance big-screen player solutions. Provide multiple video promotion and recommendation mechanisms. Support Dolby to enrich viewing experience.	Sept. 2018
Mobile payment	Incorporate international payment association's HCE platform to internationalize TWM's Wali service. Integrate membership, loyalty points and vouchers from convenience stores to increase Wali's penetration rate.	Sept. 2018
myBook	Provide audio feature to enhance reading experience. Cooperate with other companies to enlarge user base. Apply data analytics to provide content, categories and articles recommendation.	Sept. 2018
MyMusic	Strengthen member-get-member scheme to encourage existing members to solicit new members. Offer customers Apple and Google in-app purchases for seamless payment process. Provide personalization functions to retain users.	Sept. 2018

Regulatory changes and developments

1. Revision of digital convergence laws and regulations

(1) Status

In response to the development of digital convergence services, the National Communications Commission (NCC) drafted two bills – the Digital Communication Broadcasting Act and the Telecommunications Management Act. The Executive Yuan approved the bills on November 16, 2017, and submitted them to the Legislative Yuan. The bills passed their first reading on December 1, 2017 and were referred to the legislature's Transportation Committee for review.

(2) Countermeasures

The Company is closely monitoring the progress of the two bills and continues to communicate with government authorities on related policies and regulations to ensure a favorable regulatory environment for the industry's development.

2. 3G user rights protection plan of 3G license expiration by the NCC

(1) Status

With 3G licenses due to expire on December 31, 2018, the NCC passed the 3G user rights protection plan on January 3, 2018, to ensure “zero impact” and “zero dispute” as the policy goal for 3G users migration to 4G services.

(2) Countermeasures

The Company offers preferential programs to encourage 3G users to migrate to 4G services.

3. NCC's auction of 1800MHz and 2100MHz bands

(1) Status

The Company participated in the NCC's auction of the 1800MHz and 2100MHz bands on October 31, 2017. The NCC released 120MHz of bandwidth on the 2100MHz frequency, which was divided into 12 blocks (E1~E12). The Company successfully bid four frequency blocks, with total bandwidth of 40MHz, or 20MHz each for uplink and downlink.

(2) Countermeasures

The frequency blocks the Company successfully bid overlap with its existing 3G frequency blocks. This creates a heterogeneous network that ensures 3G voice service will not be interrupted during the transition period while providing 4G subscribers with a better user experience and broadband services.

4. Draft bill to prevent media monopolies and promote diversity

(1) Status

The NCC held a public hearing on the draft bill against media monopolization on July 31, 2017, and invited the public to submit their opinions until September 10, 2017. Internal discussions of the bill are ongoing.

(2) Countermeasures

The draft bill 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 and lawmakers reach a consensus. The Company is closely monitoring the progress of the proposed bill and continues to communicate with and forward suggestions and recommendations on related policies and regulations to the NCC, the Executive Yuan and the Legislative Yuan to prevent overregulation hindering the industry's development.

5. Revision of radio frequency usage fee scheme

(1) Status

To improve mobile broadband coverage in rural areas, the NCC revised regulations governing radio frequency usage charges. Telecom operators that cover over 85%, 90% or 95% of the population in rural areas are to receive discounts of 5%, 10% or 15%, respectively, on their radio frequency usage fees.

(2) Countermeasures

The Company is eager to set up high-speed transmission stations in rural areas to create a "win-win" situation that advances rural users' digital rights, while the Company benefits from lower spectrum usage fees.

6. Reduction of mobile termination rates

(1) Status

The NCC implemented a four-year scheme to lower the mobile termination rate, which was reduced from NT\$1.15 per minute to NT\$0.965 on November 1, 2017, and is to further drop to NT\$0.811 in 2018, NT\$0.680 in 2019 and NT\$0.571 in 2020.

(2) Countermeasures

Given that both interconnecting revenue and cost to decrease at the same time, there is no significant financial impact is expected.

7. Reduction of wholesale IP peering charges

(1) Status

Per the average price of Telegeography in Asia-Pacific region as a reference, the NCC approved Chunghwa Telecom's new wholesale pricing scheme on April 12, 2017, which lowered the IP peering charge from NT\$314 per Mbps to NT\$ 170 per Mbps, a reduction of 46%. This scheme took effect retroactively on April 1, 2017.

(2) Countermeasures

This reduction has lowered the IP peering cost of the Company, which is beneficial to the Company as it offers various digital economy services to satisfy client needs.

Technology changes and development

1. Mobile broadband access network

(1) Status

Major changes in 2017 included:

- a. 2G licenses expired on June 30, 2017, and services were terminated in August 2017.
- b. In November 2017, the NCC held its third mobile broadband spectrum auction of the 2100MHz and 1800MHz frequency bands.
- c. Increasing popularity of embedded video and live streaming on social media fueled the continued growth of mobile data traffic.
- d. To address the growing demand for connecting low-complexity, low-power devices to the wide-area mobile network, mobile network operators have started trials and deployment of IoT networks using both licensed and unlicensed bands.

(2) Countermeasures

TWM took advantage of the opportunities as follows:

- a. With 2G licenses set to expire, TWM championed the cause of terminating 2G services altogether and joined forces with other operators to lobby the NCC. 2G services were terminated in August 2017, thereby reducing operating expenditure.
- b. TWM won 20MHz of the 2100MHz paired spectrum to support its 3G services and future 4G expansion needs.
- c. Deployed small cells to increase the mobile network capacity and coverage in hotspots.
- d. Adjusted load sharing of the 700MHz and 1800MHz bands dynamically to optimize spectrum utilization. Expanded coverage of carrier aggregation to increase average spectral efficiencies and improve network performance.
- e. Improved cell throughput and user experience by deploying several key LTE technologies, including 256 QAM, 4x4 MIMO and 3CCA.
- f. Introduced a telecom-grade NB-IoT network to support low-energy-consumption IoT services with high availability and stability.

TWM will continue to focus on providing 4G services with the best speed, coverage and customer experience to maintain its competitive edge.

2. Network technology development

(1) Status

To meet the challenges of 5G, networks need to be transformed to support ultra-mobile broadband, massive IoT and mission-critical services. Multi-access edge computing (MEC) and network function virtualization (NFV) technologies have received a lot of attention. NFV facilitates the design, delivery and operation of mobile core network services in a dynamic and scalable manner, reducing the complexity and time required for deploying network equipment. MEC, which offers ultra-low latency, ultra-large bandwidth and real-time processing, can reduce the utilization of core network and backbone transmission network, as well as end-to-end latency.

(2) Countermeasures

TWM was the first telecom operator in Taiwan to deploy an NFV infrastructure for enterprises in early 2017. The NFV-core network, vEPC, supports a large number of IoT applications with low-power consumption and high transmission capacity. TWM is building an MEC platform for CPBL's Xinzhuang Baseball Stadium. By delivering multi-view, low-latency and real-time video services through MEC edge video orchestration (EVO), TWM can provide an unparalleled user experience for sporting events.

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.

Cloud services have broken the traditional boundaries between industries, triggering cross-industry competition.

(2) Countermeasures

In 2017, TWM's infrastructure as a service (IaaS) received ISO27018 certification for personal information security, and 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 complement them with a world-class cloud IDC infrastructure.

Impact of changes in brand image on the Company's risk management policies in 2017 up to publication date in 2018:

None. TWM has developed a sound reputation 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 2017 (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 2017 up to publication date in 2018: None.

Expected benefits and risks related to plant facility expansions in 2017 up to publication date in 2018: Not applicable as the Company is not a manufacturer.

Risks from supplier and buyer concentration in 2017 up to publication date in 2018:

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

Significant changes in shareholdings of directors and major shareholders in 2017 up to publication date in 2018: None.

Changes in management controls in 2017 up to publication date in 2018: Not applicable.

Significant lawsuits and non-litigious matters in 2017 up to publication date in 2018

1. The Company:

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

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

Grounds for Lawsuit:

FET filed a lawsuit claiming that the Company should: (a) 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) be prohibited from using the C4 spectrum block in any way, (c) 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 (d) pay FET NT\$1,005,800,000.

Status:

In May 2016, the Taipei District Court ("District Court") ruled that: (i) the Company received unfavorable judgment on the claims stated in sections (a) to (c); (ii) FET received unfavorable judgment on the claim stated in section (d); and (iii) FET may file a provisional execution with a collateral of NT\$320,630,000 to the favorable portion of the judgment, and the Company may provide a counter security of NT\$961,913,313 to be exempted from, or to move for revocation of FET's provisional execution. The Company has provided a counter security of NT\$962,000,000 to be exempted from the provisional execution. The Company and FET filed appeals with the Taiwan High Court ("High Court").

The High Court on January 16, 2018 ruled as follows:

- (1) The District Court judgment in connection with the following items was dismissed:
 - (i) "the Company shall apply to return the C4 spectrum block to the NCC immediately," "the Company shall not use the C4 spectrum block in any way," and "the Company shall not use the C1 spectrum block before the C4 spectrum block has been returned to the NCC," and the corresponding portion that FET claimed provisional execution; and
 - (ii) the portion of judgment that "rejected the Company paying FET NT\$1,005,800,000," the corresponding portion of provisional execution, and litigation expenses.
- (2) For the dismissed portion stated in the above section 1(i), FET's claim and the motion of provisional execution in the first instance were rejected.
- (3) For the dismissed portion stated in the above section 1(ii), the Company shall pay FET NT\$765,779,233 as well as a 5% annual interest payment, for the period starting from September 5, 2015, to the payment date, on NT\$152,583,658 of the above amount.
- (4) The rest of FET's appeal was rejected.
- (5) With regards to the ruling on the Company's payment, FET may file a provisional execution with a collateral of NT\$255,260,000; and the Company may provide a counter security of NT\$765,779,233 to be exempted from FET's provisional execution.
- (6) The Company and FET shall each bear half of the litigation expenses.
- (7) The rest of FET's motions of provisional execution and appeal was rejected.

The Company has appealed the High Court's ruling to the Supreme Court.

(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: In July 2015, the District Court ruled that FET may provide a collateral of NT\$1,048,703,000 to restrict the Company's use of the C1 spectrum block; and the Company may provide a counter security of NT\$927,000,000 to continue using the C1 spectrum block. The Company has provided such counter security to continue using the C1 spectrum. The Company filed a claim with the High Court in August 2017 to revoke the District Court's provisional injunction. The High Court revoked the District Court's ruling in a final verdict on January 9, 2018.

(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 the Company should: (a) file an immediate application to return the C4 spectrum block to the NCC; (b) not use the C4 spectrum block in any way; and (c) not use the C1 spectrum block until it has returned the C4 spectrum block to the NCC.

Status: In April 2016, the District Court ruled that: (i) after FET provided a collateral of NT\$143,050,272, the Company should apply to return the C4 spectrum block to the NCC and be prohibited from using the C4 spectrum block; and (ii) the Company may provide a counter security of NT\$547,118,523 to be exempted from, or to move for revocation of the above provisional injunction. The Company has provided the counter security; therefore, the Company is not required to return the C4 spectrum block to the NCC and may continue to use the C4 spectrum block. The Company and FET filed separate appeals against parts of the ruling deemed as unfavorable to them. The High Court ruled partly in favor of the Company. Both the Company and FET filed separate appeals with the Supreme Court. The Supreme Court dismissed the High Court's ruling and remanded the case to the High Court for a new ruling.

In September 2017, the High Court ruled that since the Company had returned the C4 spectrum block and FET had been using it, FET had achieved its claim. The High Court affirmed the Company's statement and rejected FET's appeal and application for a provisional injunction. FET filed another appeal with the Supreme Court, which rejected it in a final ruling on January 2, 2018.

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) Dispute between Taiwan Kuro Times Co., Ltd. ("MyMusic") and the Taiwan Intellectual Property Office ("TIPO") for a review of generalized licensing royalty rates

Parties Involved: MyMusic is the plaintiff and TIPO is the defendant.

Grounds for Lawsuit:

On December 19, 2012, TIPO issued an administrative disposition setting a 2.5% generalized licensing royalty rate in response to an application filed by MyMusic on September 1, 2010, for a review of the generalized licensing royalty rates announced by the Music Copyright Society of Chinese Taipei ("MUST") on August 12, 2010. MyMusic disagreed with the generalized licensing royalty rate stipulated in TIPO's disposition and filed an administrative appeal.

Status:

The Ministry of Economic Affairs dismissed the appeal issued by MyMusic on June 25, 2013. MyMusic filed an administrative litigation on August 23, 2013. The Intellectual Property Court rejected MyMusic's claim on March 26, 2014. MyMusic filed an appeal with the Supreme Administrative Court on April 25, 2014. The Supreme Administrative Court dismissed the original ruling and remanded the litigation to the Intellectual Property Court on August 17, 2015. The Intellectual Property Court rejected MyMusic's claim on July 14, 2016. MyMusic filed an appeal with the Supreme Administrative Court on August 15, 2016. The Supreme Administrative Court rejected the appeal in a final ruling on August 22, 2017 (i.e. TIPO's 2.5% generalized licensing royalty rate was upheld).

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.

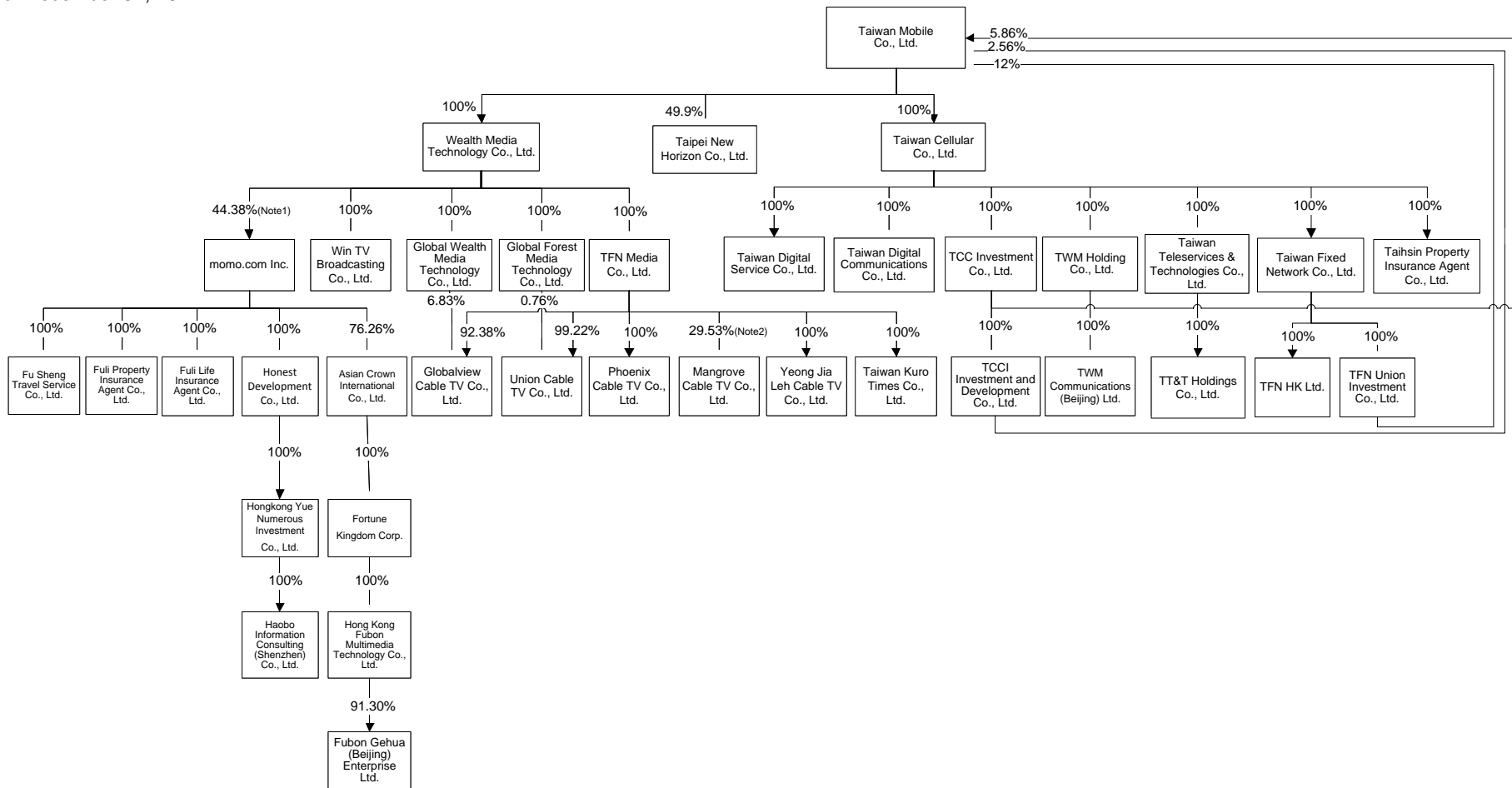
Other significant items: None.

Chapter 7 Special Notes

Affiliates

1. Investment holding structure

As of December 31, 2017



Note 1: Shareholding ratios are calculated based on the number of issued shares (including treasury shares).

Note 2: 70.47% of shares are held under trustee accounts.

2. Affiliates' profile

December 31, 2017; 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, Dunhua S. Rd., Sec. 2, Da-an District., Taipei	5,029,703,090	Investment
Wealth Media Technology Co., Ltd.	2007.08.07	7F, No. 206, Dunhua S. Rd., Sec. 2, 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	4F, No. 111, Dunhua S. Rd., Sec. 1, Da-an District., Taipei	21,000,000,000	Fixed-line service provider
Taiwan Teleservices & Technologies Co., Ltd.	2001.06.08	7F, No. 206, Dunhua S. Rd., Sec. 2, 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, Dunhua S. Rd., Sec. 2, Da-an District., Taipei	1,547,213,080	Investment
Taiwan Digital Communications Co., Ltd.	2007.06.06	7F, No. 206, Dunhua S. Rd., Sec. 2, 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, Dunhua S. Rd., Sec. 2, Da-an District., Taipei	25,000,000	Service and repair
Taihsin Property Insurance Agent Co., Ltd.	2017.12.29	7F, No. 206, Dunhua S. Rd., Sec. 2, Da-an District., Taipei	5,000,000	Property insurance agent
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, Dunhua S. Rd., Sec. 2, 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, Dunhua S. Rd., Sec. 2, Da-an District., Taipei	4,000,000	Investment
TFN HK Ltd.	2003.05.14	Unit 1405-1406, Dominion Centre, 43-59 Queen's Road East, Wanchai, 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, Dunhua S. Rd., Sec. 2, Da-an District., Taipei	1,047,120,000	Investment
Taiwan Kuro Times Co., Ltd.	2009.02.11	12F, No. 88, Yanchang Rd., Xinyi District, Taipei	120,000,000	Digital music service

Name	Date of incorporation	Address	Paid-in capital	Main business
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, Ping Fang Rd., Chaoyang District, Beijing, China	RMB57,500,000	Wholesaler

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

4. 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 and momoshop, to lay out the Group's T.I.M.E. (Telecom, Internet, Media & Entertainment and E-commerce) footprint.

5. Affiliates' operating highlights

December 31, 2017; 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	86,213,915	6,501	86,207,414	-	(462)	3,483,830	6.93
Wealth Media Technology Co., Ltd.	420,650	20,419,588	260	20,419,328	-	(146)	2,294,077	54.54
Taipei New Horizon Co., Ltd.	3,845,000	7,928,190	4,477,543	3,450,647	577,182	177,574	130,304	0.34
Taiwan Fixed Network Co., Ltd.	21,000,000	58,389,440	2,676,359	55,713,081	9,981,360	3,935,928	3,411,929	1.62
Taiwan Teleservices & Technologies Co., Ltd.	24,843	476,535	371,535	105,000	1,230,275	68,390	53,946	21.71
TWM Holding Co., Ltd.	0.032	248,425	31	248,394	-	(61)	(8,986)	(8,986,422)
TCC Investment Co., Ltd.	1,547,213	29,927,051	564,045	29,363,006	212	(34)	6,170	0.04
Taiwan Digital Communications Co., Ltd.	112,000	115,626	60	115,566	-	(546)	(191)	(0.02)
Taiwan Digital Service Co., Ltd.	25,000	136,422	33,702	102,720	171,032	9,728	8,327	3.33
Taihsin Property Insurance Agent Co., Ltd.	5,000	5,000	58	4,942	-	(58)	(58)	(0.12)
TFN Media Co., Ltd.	2,309,213	13,908,560	4,193,183	9,715,377	3,235,174	1,767,405	1,748,542	7.57
Global Forest Media Technology Co., Ltd.	15,000	17,472	51	17,421	-	(138)	240	0.16
Global Wealth Media Technology Co., Ltd.	89,449	97,098	74	97,024	-	(164)	3,437	0.38
Win TV Broadcasting Co., Ltd.	181,774	805,859	500,055	305,804	890,897	85,474	70,554	3.88
momo.com Inc.	1,420,585	11,439,221	5,562,474	5,876,747	33,173,536	1,394,563	1,270,082	9.07
TFN Union Investment Co., Ltd.	4,000	44,147,363	1,310,066	42,837,297	-	(83)	(83)	(0.21)
TFN HK LIMITED.	4,950	9,389	1,176	8,213	6,028	(186)	40	0.03
TT&T Holdings Co., Ltd.	40,943	49,940	-	49,940	-	(194)	(3,829)	(2.95)
TWM Communications (Beijing) Co., Ltd.	89,310	79,436	104	79,332	-	(321)	673	NA
TCCI Investment and Development Co., Ltd.	1,047,120	9,418,134	279,474	9,138,660	-	(107)	(107)	(0.00)
Taiwan Kuro Times Co., Ltd.	120,000	206,087	114,059	92,028	359,794	(18,368)	(15,177)	(1.26)
Yeong Jia Leh Cable TV Co., Ltd.	339,400	973,619	421,631	551,988	914,604	(21,731)	(14,068)	(0.41)
Mangrove Cable TV Co., Ltd.	211,600	614,318	233,463	380,855	525,623	85,017	71,761	3.39
Phoenix Cable TV Co., Ltd.	680,902	1,519,808	404,480	1,115,328	1,258,827	206,654	179,855	2.64

Company name	Paid-in capital	Total assets	Total liabilities	Net worth	Operating revenue	Operating income	Net income	EPS (NT\$)
Union Cable TV Co., Ltd.	1,704,633	2,175,253	324,362	1,850,891	689,471	56,735	49,469	0.29
Globalview Cable TV Co., Ltd.	560,000	904,099	208,699	695,400	527,715	59,133	52,716	0.94
Asian Crown International Co., Ltd.	1,068,610	4,354	30,794	(26,440)	-	(58)	(22,543)	(0.65)
Honest Development Co., Ltd.	670,448	761,814	-	761,814	-	-	57,713	2.65
Fuli Life Insurance Agent Co., Ltd.	5,000	10,443	307	10,136	2,374	1,415	1,182	2.36
Fuli Property Insurance Agent Co., Ltd.	5,000	9,857	692	9,165	4,194	2,495	1,771	3.54
Fu Sheng Travel Service Co., Ltd.	30,000	332,446	285,084	47,362	25,364	13,477	10,077	3.36
Fortune Kingdom Corporation	1,035,051	-	30,794	(30,794)	-	-	(22,152)	(0.66)
Hongkong Yue Numerous Investment Co., Ltd.	66,035	761,814	-	761,814	-	-	57,713	3.48
Hong Kong Fubon Multimedia Technology Co., Ltd.	1,035,051	253	31,047	(30,794)	-	(110)	(22,152)	(0.66)
Haobo Information Consulting (Shenzhen) Co., Ltd.	50,160	782,078	20,264	761,814	-	(5)	57,713	NA
Fubon Gehua (Beijing) Enterprise Ltd.	262,200	45,892	79,896	(34,004)	35,507	(23,364)	(24,121)	NA

Note : Exchange rates: US\$1=NT\$29.77, HK\$1=NT\$3.808 and RMB1=NT\$4.56 as of December 31, 2017

Average exchange rates: US\$1=NT\$30.437, HK\$1=NT\$3.906 and RMB1=NT\$4.506 for 2017

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



Taiwan Mobile Co., Ltd. and Subsidiaries

**Consolidated Financial Statements for the
Years Ended December 31, 2017 and 2016 and
Independent Auditors' Report**

INDEPENDENT AUDITORS' REPORT

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

Opinion

We have audited the accompanying consolidated financial statements of Taiwan Mobile Co., Ltd. and its subsidiaries (the "Group"), which comprise the consolidated balance sheets as of December 31, 2017 and 2016, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2017 and 2016, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Financial Reporting Standards ("IFRS"), International Accounting Standards ("IAS"), IFRIC Interpretations ("IFRIC"), and SIC Interpretations ("SIC") endorsed and issued into effect by the Financial Supervisory Commission ("FSC") of the Republic of China ("ROC").

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2017. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

The descriptions of the key audit matters of the 2017 consolidated financial statements are as follows:

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 \$41,603,421 thousand and \$65,372,820 thousand, respectively, as of December 31, 2017.

On each balance sheet date, the Group reviews its tangible and intangible assets for indications of impairment. 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 costs 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 \$106,976,241 thousand (69% of total consolidated assets) and the calculation for the recoverable amount involved several assumptions and estimations which directly impact the amount recognized as impairment losses, we believe that the review for the impairment of assets is a key audit matter.

Corresponding audit procedure:

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

1. Obtain the valuation form of asset impairment produced by the Group for each cash-generating unit.
2. Evaluate the appropriateness of the assumptions and sensitivity analyses, including the classification of cash-generating units, forecasts of cash flows, and discount rates, used by the management to assess asset 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, 2017, the telecommunication service revenue amounted to \$54,097,974 thousand. Because nowadays the telecommunication industry is more competitive and the calculation of the service revenue has become more complex and cumbersome, relying 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 tests, we obtained an understanding of the revenue recognition process and of the design and execution for relevant controls. We also performed major audit procedures which are as follows:

1. Review the contracts of mobile subscribers to ensure the accuracy of information in the accounting system.
2. Perform dialing tests to verify the completeness of the information in the telephone exchange.
3. Perform system integration tests from telephone-exchange to telephone traffic.
4. Test for the accuracy of call record charge rates and billing calculations.
5. Verify the accuracy of the billing amounts generated from monthly rentals as well as airtime accounting systems and the transfer to the accounting information 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, 2017 and 2016 on which we have issued an unmodified opinion.

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and IFRS, IAS, IFRIC, and SIC endorsed and issued into effect by the FSC of 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 the audit committee) are responsible for overseeing the Group's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the auditing standards generally accepted in the 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 auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the 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 and appropriate audit evidence regarding the financial information of 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 a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements for the year ended December 31, 2017 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

February 1, 2018

Notice to Readers

The accompanying consolidated financial statements are intended only to present the consolidated financial position, financial performance and cash flows in accordance with accounting principles and practices generally accepted in the 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 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, 2017		December 31, 2016	
	Amount	%	Amount	%
CURRENT ASSETS				
Cash and cash equivalents (Notes 6 and 28)	\$ 6,631,544	4	\$ 7,704,517	5
Available-for-sale financial assets (Notes 7 and 28)	1,104,467	1	1,231,871	1
Debt instrument investment without active market	465,654	-	-	-
Accounts and notes receivable, net (Note 8)	14,571,025	10	15,331,965	10
Accounts receivable due from related parties (Note 28)	106,475	-	83,541	-
Other receivables (Note 28)	1,791,718	1	1,287,274	1
Inventories (Note 9)	4,331,809	3	4,071,748	3
Prepayments (Note 28)	506,343	-	500,558	-
Assets held for sale	1,737	-	-	-
Other financial assets (Notes 28 and 29)	2,794,954	2	4,018,764	3
Other current assets	<u>45,391</u>	<u>-</u>	<u>49,874</u>	<u>-</u>
Total current assets	<u>32,351,117</u>	<u>21</u>	<u>34,280,112</u>	<u>23</u>
NON-CURRENT ASSETS				
Financial assets at fair value through profit or loss	-	-	42,030	-
Available-for-sale financial assets (Note 7)	4,384,641	3	3,194,347	2
Financial assets at cost	171,221	-	188,548	-
Debt instrument investment without active market	-	-	423,481	-
Investments accounted for using equity method (Notes 10 and 28)	1,493,852	1	1,564,265	1
Property, plant and equipment (Notes 5 and 12)	41,603,421	27	42,415,229	28
Investment properties, net (Note 13)	2,964,035	2	2,951,079	2
Concessions (Notes 5, 14 and 29)	43,670,580	28	37,864,311	25
Goodwill (Notes 5 and 14)	15,845,930	10	15,845,930	10
Other intangible assets, net (Notes 5 and 14)	5,856,310	4	5,967,741	4
Deferred tax assets (Note 23)	820,244	1	708,656	1
Other financial assets (Notes 28, 29 and 30)	128,987	-	125,953	-
Other non-current assets (Notes 15 and 28)	<u>5,232,416</u>	<u>3</u>	<u>5,805,723</u>	<u>4</u>
Total non-current assets	<u>122,171,637</u>	<u>79</u>	<u>117,097,293</u>	<u>77</u>
TOTAL	<u>\$ 154,522,754</u>	<u>100</u>	<u>\$ 151,377,405</u>	<u>100</u>

LIABILITIES AND EQUITY	December 31, 2017		December 31, 2016	
	Amount	%	Amount	%
CURRENT LIABILITIES				
Short-term borrowings (Notes 16 and 28)	\$ 9,662,318	6	\$ 7,363,005	5
Short-term notes and bills payable (Note 16)	5,595,892	4	-	-
Accounts and notes payable	8,014,484	5	7,114,164	5
Accounts payable due to related parties (Note 28)	129,632	-	145,982	-
Other payables (Notes 28 and 30)	11,224,440	7	9,822,578	6
Current tax liabilities	1,240,549	1	2,221,519	1
Provisions (Note 18)	178,008	-	202,873	-
Advance receipts	2,790,314	2	2,637,194	2
Long-term liabilities, current portion (Notes 16 and 17)	15,602,817	10	6,252,767	4
Other current liabilities	<u>2,040,632</u>	<u>1</u>	<u>2,384,515</u>	<u>2</u>
Total current liabilities	<u>56,479,086</u>	<u>36</u>	<u>38,144,597</u>	<u>25</u>
NON-CURRENT LIABILITIES				
Financial liabilities at fair value through profit or loss (Note 17)	9,961	-	41,961	-
Bonds payable (Note 17)	14,149,407	9	21,459,896	14
Long-term borrowings (Note 16)	14,192,673	9	21,447,691	14
Provisions (Note 18)	1,371,869	1	1,305,688	1
Deferred tax liabilities (Note 23)	729,786	1	822,880	1
Net defined benefit liabilities (Note 19)	443,044	-	369,322	-
Guarantee deposits	978,816	1	887,163	1
Other non-current liabilities	<u>656,511</u>	<u>-</u>	<u>711,672</u>	<u>-</u>
Total non-current liabilities	<u>32,532,067</u>	<u>21</u>	<u>47,046,273</u>	<u>31</u>
Total liabilities	<u>89,011,153</u>	<u>57</u>	<u>85,190,870</u>	<u>56</u>
EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT (Note 20)				
Common stock	34,208,328	22	34,208,328	23
Capital surplus	13,939,278	9	14,985,047	10
Retained earnings				
Legal reserve	26,138,846	17	24,606,828	16
Special reserve	690,034	-	1,173,954	1
Unappropriated earnings	14,735,424	10	15,850,111	10
Other equity interests	(362,703)	-	(690,034)	-
Treasury stock	<u>(29,717,344)</u>	<u>(19)</u>	<u>(29,717,344)</u>	<u>(20)</u>
Total equity attributable to owners of the parent	59,631,863	39	60,416,890	40
NON-CONTROLLING INTERESTS (Note 20)	<u>5,879,738</u>	<u>4</u>	<u>5,769,645</u>	<u>4</u>
Total equity	<u>65,511,601</u>	<u>43</u>	<u>66,186,535</u>	<u>44</u>
TOTAL	<u>\$ 154,522,754</u>	<u>100</u>	<u>\$ 151,377,405</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, 2017 AND 2016 (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2017		2016	
	Amount	%	Amount	%
OPERATING REVENUES (Notes 21 and 28)	\$ 117,171,107	100	\$ 116,647,498	100
OPERATING COSTS (Notes 9, 28 and 32)	<u>81,445,116</u>	<u>70</u>	<u>78,790,518</u>	<u>68</u>
GROSS PROFIT FROM OPERATIONS	<u>35,725,991</u>	<u>30</u>	<u>37,856,980</u>	<u>32</u>
OPERATING EXPENSES (Notes 28 and 32)				
Marketing	12,256,098	11	12,977,366	11
Administrative	<u>5,246,817</u>	<u>4</u>	<u>5,283,030</u>	<u>4</u>
Total operating expenses	<u>17,502,915</u>	<u>15</u>	<u>18,260,396</u>	<u>15</u>
NET OTHER INCOME AND EXPENSES	<u>869,336</u>	<u>1</u>	<u>423,182</u>	<u>-</u>
OPERATING INCOME	<u>19,092,412</u>	<u>16</u>	<u>20,019,766</u>	<u>17</u>
NON-OPERATING INCOME AND EXPENSES				
Other income (Notes 22 and 28)	396,068	-	379,957	-
Other gains and losses, net (Notes 22 and 28)	(1,252,614)	(1)	(586,636)	-
Finance costs (Note 22)	(633,525)	-	(673,439)	-
Share of profit (loss) of associates accounted for using equity method (Note 10)	<u>28,942</u>	<u>-</u>	<u>51,824</u>	<u>-</u>
Total non-operating income and expenses	<u>(1,461,129)</u>	<u>(1)</u>	<u>(828,294)</u>	<u>-</u>
PROFIT BEFORE TAX	17,631,283	15	19,191,472	17
INCOME TAX EXPENSE (Note 23)	<u>2,682,496</u>	<u>2</u>	<u>3,263,029</u>	<u>3</u>
PROFIT	<u>14,948,787</u>	<u>13</u>	<u>15,928,443</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	(81,799)	-	(98,443)	-
Share of other comprehensive income (loss) of associates accounted for using equity method	(510)	-	(472)	-
Items that may be reclassified subsequently to profit or loss				
Exchange differences on translation	(12,537)	-	(69,331)	-
Unrealized gain (loss) on available-for-sale financial assets	352,025	-	533,608	-
Share of other comprehensive income (loss) of associates accounted for using equity method	<u>(41,885)</u>	<u>-</u>	<u>(14,059)</u>	<u>-</u>
Other comprehensive income (loss) (after tax)	<u>215,294</u>	<u>-</u>	<u>351,303</u>	<u>-</u>
COMPREHENSIVE INCOME	<u>\$ 15,164,081</u>	<u>13</u>	<u>\$ 16,279,746</u>	<u>14</u>
PROFIT ATTRIBUTABLE TO:				
Owners of the parent	\$ 14,192,176	12	\$ 15,320,187	14
Non-controlling interests	<u>756,611</u>	<u>1</u>	<u>608,256</u>	<u>-</u>
	<u>\$ 14,948,787</u>	<u>13</u>	<u>\$ 15,928,443</u>	<u>14</u>
COMPREHENSIVE INCOME ATTRIBUTABLE TO:				
Owners of the parent	\$ 14,437,341	12	\$ 15,706,230	14
Non-controlling interests	<u>726,740</u>	<u>1</u>	<u>573,516</u>	<u>-</u>
	<u>\$ 15,164,081</u>	<u>13</u>	<u>\$ 16,279,746</u>	<u>14</u>
EARNINGS PER SHARE (Note 24)				
Basic earnings per share	<u>\$ 5.21</u>		<u>\$ 5.63</u>	
Diluted earnings per share	<u>\$ 5.06</u>		<u>\$ 5.60</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 FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016 (In Thousands of New Taiwan Dollars)

	Equity Attributable to Owners of the Parent										
						Other Equity Interests		Treasury Stock	Total	Non-controlling Interests	Total Equity
						Exchange	Unrealized Gain				
	Common Stock	Capital Surplus	Legal Reserve	Special Reserve	Unappropriated Earnings	Differences on Translation	(Loss) on Available-for-sale Financial Assets				
BALANCE, JANUARY 1, 2016	\$ 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											
Legal reserve	-	-	1,568,619	-	(1,568,619)	-	-	-	-	-	-
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 (loss) for the year ended December 31, 2016	-	-	-	-	(97,877)	(31,519)	515,439	-	386,043	(34,740)	351,303
Total comprehensive income (loss) 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 TWM	-	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 paid to non-controlling interests of subsidiaries	-	-	-	-	-	-	-	-	-	(539,625)	(539,625)
Decrease in non-controlling interests	-	-	-	-	-	-	-	-	-	(190)	(190)
BALANCE, DECEMBER 31, 2016	34,208,328	14,985,047	24,606,828	1,173,954	15,850,111	(9,133)	(680,901)	(29,717,344)	60,416,890	5,769,645	66,186,535
Distribution of 2016 earnings											
Legal reserve	-	-	1,532,018	-	(1,532,018)	-	-	-	-	-	-
Reversal of special reserve	-	-	-	(483,920)	483,920	-	-	-	-	-	-
Cash dividends	-	-	-	-	(14,176,599)	-	-	-	(14,176,599)	-	(14,176,599)
Total distribution of earnings	-	-	1,532,018	(483,920)	(15,224,697)	-	-	-	(14,176,599)	-	(14,176,599)
Cash dividends from capital surplus	-	(1,067,056)	-	-	-	-	-	-	(1,067,056)	-	(1,067,056)
Profit for the year ended December 31, 2017	-	-	-	-	14,192,176	-	-	-	14,192,176	756,611	14,948,787
Other comprehensive income (loss) for the year ended December 31, 2017	-	-	-	-	(82,166)	(7,366)	334,697	-	245,165	(29,871)	215,294
Total comprehensive income (loss) for the year ended December 31, 2017	-	-	-	-	14,110,010	(7,366)	334,697	-	14,437,341	726,740	15,164,081
Changes in equity of associates accounted for using equity method	-	3,753	-	-	-	-	-	-	3,753	-	3,753
Changes in other capital surplus	-	17,534	-	-	-	-	-	-	17,534	-	17,534
Cash dividends paid to non-controlling interests of subsidiaries	-	-	-	-	-	-	-	-	-	(616,647)	(616,647)
BALANCE, DECEMBER 31, 2017	\$ 34,208,328	\$ 13,939,278	\$ 26,138,846	\$ 690,034	\$ 14,735,424	\$ (16,499)	\$ (346,204)	\$(29,717,344)	\$ 59,631,863	\$ 5,879,738	\$ 65,511,601

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, 2017 AND 2016 (In Thousands of New Taiwan Dollars)

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	\$ 17,631,283	\$ 19,191,472
Adjustments		
Depreciation expense	10,294,267	10,650,126
Amortization expense	3,395,219	3,201,689
Loss on disposal of property, plant and equipment, net	350,074	457,819
Provision for bad debt expense	322,510	385,004
Finance costs	633,525	673,439
Interest income	(164,036)	(164,174)
Dividend income	(72,407)	(80,168)
Share of profit of associates accounted for using equity method	(28,942)	(51,824)
Valuation loss on financial assets and liabilities at fair value through profit or loss	7,319	118,234
Impairment loss on financial assets at cost	6,180	2,209
Gain on disposal of investments	(3,000)	-
Others	40,300	13,441
Changes in operating assets and liabilities		
Accounts and notes receivable	841,979	187,756
Accounts receivable due from related parties	(22,934)	(21,438)
Other receivables	(292,690)	(106,626)
Inventories	(260,061)	112,784
Prepayments	(6,619)	(62,050)
Other current assets	(2,077)	1,502
Other financial assets	(45)	5,254
Accounts and notes payable	981,373	703,759
Accounts payable due to related parties	(16,350)	54,496
Other payables	772,736	(358,829)
Provisions	(14,960)	54,911
Advance receipts	152,272	348,399
Other current liabilities	(343,883)	542,415
Net defined benefit liabilities	(24,831)	(23,920)
Net cash inflows generated by operating activities	34,176,202	35,835,680
Interest received	1,314	1,374
Interest paid	(1,288)	(2,414)
Income taxes paid	(3,855,943)	(4,004,476)
Net cash generated by operating activities	30,320,285	31,830,164

(Continued)

TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016 (In Thousands of New Taiwan Dollars)

	2017	2016
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of property, plant and equipment	\$ (9,181,491)	\$ (9,932,672)
Acquisition of intangible assets	(8,979,630)	(274,594)
Increase in prepayments for equipment	(235,276)	(280,998)
Proceeds from disposal of property, plant and equipment	32,029	29,416
Advanced receipts from assets disposals	456	-
Acquisition of available-for-sale financial assets	(1,030,865)	(200,000)
Proceeds from disposal of available-for-sale financial assets	320,692	-
Proceeds from disposal of financial assets at cost	9,081	-
Proceeds from capital return of financial assets at cost	4,374	1,944
Acquisition of investments accounted for using equity method	-	(30,000)
Increase in refundable deposits	(208,217)	(212,008)
Decrease in refundable deposits	197,587	195,335
Increase in other financial assets	(98,005)	(2,861,536)
Decrease in other financial assets	1,319,338	1,823,478
Interest received	85,677	87,859
Dividends received	<u>91,942</u>	<u>125,820</u>
Net cash used in investing activities	<u>(17,672,308)</u>	<u>(11,527,956)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase (decrease) in short-term borrowings	2,300,252	(6,853,000)
Increase (decrease) in short-term notes and bills payable	5,595,382	(10,792,680)
Proceeds from issue of convertible bonds	-	9,989,130
Repayments of bond payables	(2,900,000)	-
Proceeds from long-term borrowings	1,000,000	13,130,000
Repayment of long-term borrowings	(3,407,080)	(10,282,000)
Increase in guarantee deposits received	247,099	295,340
Decrease in guarantee deposits received	(154,635)	(204,589)
Cash dividends paid to non-controlling interests of subsidiaries	(15,860,290)	(15,783,271)
Interest paid	<u>(538,222)</u>	<u>(669,893)</u>
Net cash used in financing activities	<u>(13,717,494)</u>	<u>(21,170,963)</u>
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND EQUIVALENTS	<u>(3,456)</u>	<u>(6,150)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	<u>(1,072,973)</u>	<u>(874,905)</u>
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>7,704,517</u>	<u>8,579,422</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 6,631,544</u>	<u>\$ 7,704,517</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, 2017 AND 2016 (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 stock was listed on the ROC Over-the-Counter (“OTC”) Securities Exchange (known as The Taipei Exchange, TPEx) on September 19, 2000. On August 26, 2002, TWM’s stock was shifted to be listed on the Taiwan Stock Exchange. TWM is mainly engaged in rendering wireless communication service and the sale 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 2G license had been renewed by the National Communications Commission (“NCC”) and terminated on June 30, 2017. 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 the fourth-generation (“4G”) mobile spectrum auction held by NCC 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, and the 4G license shall be valid until December 2030. TWM participated in an auction and acquired the 4G 2100MHz frequency bands in November 2017, and the 4G license shall be valid until December 2033.

The consolidated financial statements of TWM comprise TWM and its subsidiaries (collectively, the “Group”).

2. APPROVAL DATE AND PROCEDURES OF THE CONSOLIDATED FINANCIAL STATEMENTS

The Board of Directors approved the consolidated financial statements on February 1, 2018.

3. ADOPTION OF NEW AND AMENDED STANDARDS AND INTERPRETATIONS

- a. Application of the amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the International Financial Reporting Standards (“IFRS”), International Accounting Standards (“IAS”), Interpretations of IFRS (“IFRIC”), and Interpretations of IAS (“SIC”) (collectively, the “IFRSs”) endorsed and issued into effect by the ROC Financial Supervisory Commission (“FSC”)

Except for the following, whenever applied, the initial application of the amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the IFRSs endorsed and issued into effect by the FSC would not have any material impact on the Group’s accounting policies:

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 and issued into effect by the FSC. 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 Group 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 name of the related party and the relationship with whom the Group has transaction. If the transaction amount or balance with a specific related party reaches 10% or more of the Group's respective total transaction amount 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 at the time of acquisition.

When the amendments are applied retrospectively from January 1, 2017, the disclosures of related party transactions are enhanced. Refer to Note 28 for related disclosures.

- b. The Regulations Governing the Preparation of Financial Reports by Securities Issuers and the IFRSs endorsed by the FSC for application starting from 2018

New, Revised or Amended Standards and Interpretations	Effective Date Issued by International Accounting Standards Board ("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
IFRS 15 "Revenue from Contracts with Customers"	January 1, 2018
Amendment to IFRS 15 "Clarifications to IFRS 15"	January 1, 2018
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 9 “Financial Instruments”

Classification, measurement and impairment of financial assets

With regards to financial assets, all recognized financial assets that are within the scope of IAS 39 “Financial Instruments: Recognition and Measurement” are subsequently measured at amortized cost or fair value. Under IFRS 9, the requirement for the classification of financial assets is stated below.

For the Group’s debt instruments that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, their classification and measurement are as follows:

- a) If they are held within a business model whose objective is to collect the contractual cash flows, the financial assets are measured at amortized cost and are assessed for impairment continuously with impairment loss recognized in profit or loss, if any. Interest revenue is recognized in profit or loss by using the effective interest method;
- b) If they are held within a business model whose objective is achieved by both the collecting of contractual cash flows and the selling of financial assets, the financial assets are measured at fair value through other comprehensive income (FVTOCI) and are assessed for impairment. Interest revenue is recognized in profit or loss by using the effective interest method, and other gain or loss shall be recognized in other comprehensive income, except for impairment gains or losses and foreign exchange gains and losses. When the debt instruments are derecognized or reclassified, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss.

Except for the above, all other financial assets are measured at fair value through profit or loss. However, the Group may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognized in profit or loss. No subsequent impairment assessment is required, and the cumulative gain or loss previously recognized in other comprehensive income cannot be reclassified from equity to profit or loss.

The Group analyzed the facts and circumstances of its financial assets that existed at December 31, 2017 and performed an assessment of the impact of IFRS 9 on the classification and measurement of financial assets. Under IFRS 9:

- a) Listed and unlisted, domestic and foreign, stocks and limited partnerships classified as available-for-sale will be designated as at fair value through other comprehensive income and the fair value gains or losses accumulated in other equity will be transferred directly to retained earnings instead of being reclassified to profit or loss on disposal. Besides, unlisted stocks measured at cost will be measured at fair value instead.
- b) Mutual funds classified as available-for-sale will be classified as at fair value through profit or loss because the contractual cash flows are not solely payments of principal and interest on the principal outstanding and they are not equity instruments.
- c) Investments in debt instruments, which are classified as debt instrument investment without active market and measured at amortized cost, will be classified as at fair value through profit or loss since, on its initial recognition, the contractual cash flow was not solely for repaying the outstanding principal and the interest derived from such principal.

IFRS 9 requires impairment loss on financial assets to be recognized by using the “Expected Credit Losses Model”. The credit loss allowance is required for financial assets measured at amortized cost, lease receivables, contract assets arising from IFRS 15 “Revenue from Contracts with Customers”, certain written loan commitments and financial guarantee contracts. A loss allowance for the 12-month expected credit losses is required for a financial asset if its credit risk has not increased significantly since initial recognition. A loss allowance for full lifetime expected credit losses is required for a financial asset if its credit risk has increased significantly since initial recognition and is not low. However, a loss allowance for full lifetime expected credit losses is required for trade receivables that do not constitute a financing transaction.

For purchased or originated credit-impaired financial assets, the Group takes into account the expected credit losses on initial recognition in calculating the credit-adjusted effective interest rate. Subsequently, any changes in expected losses are recognized as a loss allowance with a corresponding gain or loss recognized in profit or loss.

The Group has performed an assessment that the Group will apply the simplified approach to recognize lifetime expected credit losses for trade receivables and contract assets.

The Group elects to restate comparative information in 2017 when applying the requirements for the classification, measurement and impairment of financial assets under IFRS 9 and will provide the disclosures related to the classification and the adjustment information upon initial application of IFRS 9.

The anticipated impact of retrospective application of the requirements for the classification, measurement and impairment of financial assets is set out below:

	Carrying Amount	Adjustments Arising from Initial Application	Adjusted Carrying Amount
<u>Impact on assets, liabilities and equity</u>			
<u>December 31, 2017</u>			
<u>Current assets</u>			
Financial assets at fair value through profit or loss	\$ -	\$ 1,336,737	\$ 1,336,737
Financial assets at fair value through other comprehensive income	-	258,661	258,661
Available-for-sale financial assets	1,104,467	(1,104,467)	-
Debt instrument investment without active market	465,654	(465,654)	-
<u>Non-current assets</u>			
Financial assets at fair value through other comprehensive income	-	4,555,862	4,555,862
Available-for-sale financial assets	4,384,641	(4,384,641)	-
Financial assets at cost	171,221	(171,221)	-
Investments accounted for using equity method	1,493,852	2,752	1,496,604
Deferred tax assets	820,244	(2,960)	817,284
Total effect on assets	154,522,754	25,069	154,547,823

(Continued)

	Carrying Amount	Adjustments Arising from Initial Application	Adjusted Carrying Amount
<u>Equity</u>			
Unappropriated earnings	\$ 14,735,424	\$ (39,351)	\$ 14,696,073
Other equity interests	(362,703)	64,420	(298,283)
Total effect on equity	65,511,601	25,069	65,536,670
<u>January 1, 2017</u>			
<u>Current assets</u>			
Financial assets at fair value through profit or loss	-	965,833	965,833
Financial assets at fair value through other comprehensive income	-	266,038	266,038
Available-for-sale financial assets	1,231,871	(1,231,871)	-
<u>Non-current assets</u>			
Financial assets at fair value through profit or loss	42,030	524,973	567,003
Financial assets at fair value through other comprehensive income	-	3,382,895	3,382,895
Available-for-sale financial assets	3,194,347	(3,194,347)	-
Financial assets at cost	188,548	(188,548)	-
Debt instrument investment without active market	423,481	(423,481)	-
Investments accounted for using equity method	1,564,265	9,170	1,573,435
Deferred tax assets	708,656	28	708,684
Total effect on assets	151,377,405	110,690	151,488,095
<u>Non-current liabilities</u>			
Deferred tax liabilities	822,880	(4,112)	818,768
Total effect on liabilities	85,190,870	(4,112)	85,186,758
<u>Equity</u>			
Unappropriated earnings	15,850,111	56,616	15,906,727
Other equity interests	(690,034)	58,186	(631,848)
Total effect on equity	66,186,535	114,802	66,301,337

(Continued)

	Carrying Amount	Adjustments Arising from Initial Application	Adjusted Carrying Amount
<u>Impact on total comprehensive income for the year ended December 31, 2017</u>			
Non-operating income and expenses	\$ (1,461,129)	\$ (98,788)	\$ (1,559,917)
Income tax expense	2,682,496	7,101	2,689,597
Total effect on net profit for the year	14,948,787	(105,889)	14,842,898
Items that will not be reclassified subsequently to profit or loss:			
Unrealized gain (loss) on financial assets at fair value through other comprehensive income	-	365,872	365,872
Share of other comprehensive income (loss) of associates accounted for using equity method	(510)	(40,965)	(41,475)
Items that may be reclassified subsequently to profit or loss:			
Unrealized gain (loss) on available-for-sale financial assets	352,025	(352,025)	-
Share of other comprehensive income (loss) of associates accounted for using equity method	(41,885)	40,965	(920)
Total effect on other comprehensive income for the year	215,294	13,847	229,141
Total effect on total comprehensive income for the year	15,164,081	(92,042)	15,072,039
Impact on net profit attributable to:			
Owners of the parent	\$ 14,192,176	\$ (98,275)	\$ 14,093,901
Non-controlling interests	<u>756,611</u>	<u>(7,614)</u>	<u>748,997</u>
	<u>\$ 14,948,787</u>	<u>\$ (105,889)</u>	<u>\$ 14,842,898</u>
Impact on total comprehensive income attributable to:			
Owners of the parent	\$ 14,437,341	\$ (92,042)	\$ 14,345,299
Non-controlling interests	<u>726,740</u>	<u>-</u>	<u>726,740</u>
	<u>\$ 15,164,081</u>	<u>\$ (92,042)</u>	<u>\$ 15,072,039</u>
			(Concluded)

2) 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.

Incremental costs of obtaining a contract will be capitalized and recognized as an asset to the extent the Group expects to cover 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. Before adopting IFRS 15, related costs are recognized as expense immediately.

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.

The Group charges its clients non-refundable, set-up fees, which are related to activities involved in the execution of cable television contracts. The set-up fees will be recognized as advance receipts if the Group has not transferred the activities of the contracted services to the customers, and will be classified as revenue at the time when the related cable television service is provided in the future.

Under IFRS 15, the net effect of revenue recognized and consideration received and receivable is recognized as a contract asset or a contract liability. Currently, the receivable is recognized or the deferred revenue is reduced when revenue is recognized for the contract under IAS 18.

For a sale with a right of return, the Group will recognize a refund liability (other liability) and a right to recover a product (other asset) when recognizing revenue. Currently, return provisions are recognized when recognizing revenue.

When retrospectively applying IFRS 15 and restating comparative information in 2017, the Group will apply the following practical expedients:

The Group will identify the performance obligations in the manner that reflects the aggregate effect of all incomplete contractual modifications that occurred before December 31, 2016.

In addition, the Group will elect only to disclose the effect in 2017 of the initial application of IFRS 15.

The anticipated impact when retrospectively applying IFRS 15 is detailed below:

	Carrying Amount	Adjustments Arising from Initial Application	Adjusted Carrying Amount
<u>Impact on assets, liabilities and equity</u>			
<u>December 31, 2017</u>			
<u>Current assets</u>			
Contract assets	\$ -	\$ 6,581,745	\$ 6,581,745
Accounts and notes receivable, net (including related parties)	14,677,500	(6,590,003)	8,087,497
Costs to obtain contracts	-	2,642,495	2,642,495
Rights to recover products	-	95,778	95,778
Other current assets	45,391	1,008	46,399
<u>Non-current assets</u>			
Contract assets	-	4,003,625	4,003,625
Costs to obtain contracts	-	1,524,702	1,524,702
Other non-current assets	5,232,416	(3,995,367)	1,237,049
Total effect on assets	154,522,754	4,263,983	158,786,737
<u>Current liabilities</u>			
Contract liabilities	-	2,701,605	2,701,605
Accounts and notes payable	8,014,484	(27,058)	7,987,426
Other payables	11,224,440	6,320	11,230,760
Current tax liabilities	1,240,549	696,369	1,936,918
Advanced receipts	2,790,314	(2,705,867)	84,447
Refund liabilities	-	117,554	117,554
<u>Non-current liabilities</u>			
Contract liabilities	-	81,567	81,567
Total effect on liabilities	89,011,153	870,490	89,881,643
<u>Equity</u>			
Unappropriated earnings	14,735,424	3,393,532	18,128,956
Non-controlling interests	5,879,738	(39)	5,879,699
Total effect on equity	65,511,601	3,393,493	68,905,094

(Continued)

	Carrying Amount	Adjustments Arising from Initial Application	Adjusted Carrying Amount
<u>January 1, 2017</u>			
<u>Current assets</u>			
Contract assets	\$ -	\$ 7,011,402	\$ 7,011,402
Accounts and notes receivable, net (including related parties)	15,415,506	(7,011,402)	8,404,104
Costs to obtain contracts	-	2,717,475	2,717,475
Rights to recover products	-	69,074	69,074
Other current assets	49,874	(347)	49,527
<u>Non-current assets</u>			
Contract assets	-	4,624,568	4,624,568
Costs to obtain contracts	-	1,644,723	1,644,723
Other non-current assets	5,805,723	(4,624,568)	1,181,155
Total effect on assets	151,377,405	4,430,925	155,808,330
<u>Current liabilities</u>			
Contract liabilities	-	2,501,881	2,501,881
Accounts and notes payable	7,114,164	(19,875)	7,094,289
Other payables	9,822,578	5,906	9,828,484
Current tax liabilities	2,221,519	766,099	2,987,618
Advanced receipts	2,637,194	(2,537,255)	99,939
Refund liabilities	-	84,861	84,861
<u>Non-current liabilities</u>			
Contract liabilities	-	95,614	95,614
Total effect on liabilities	85,190,870	897,231	86,088,101
<u>Equity</u>			
Unappropriated earnings	15,850,111	3,533,751	19,383,862
Non-controlling interests	5,769,645	(57)	5,769,588
Total effect on equity	66,186,535	3,533,694	69,720,229
<u>Impact on total comprehensive income for the year ended December 31, 2017</u>			
Operating revenues	117,171,107	(17,065)	117,154,042
Operating costs	81,445,116	(7,794)	81,437,322
Operating expenses	17,502,915	202,017	17,704,932
Income tax expense	2,682,496	(71,086)	2,611,410
Total effect on net profit for the year	14,948,787	(140,202)	14,808,585
Total effect on total comprehensive income for the year	15,164,081	(140,202)	15,023,879

(Continued)

	Carrying Amount	Adjustments Arising from Initial Application	Adjusted Carrying Amount
Impact on net profit attributable to:			
Owners of the parent	\$ 14,192,176	\$ (140,219)	\$ 14,051,957
Non-controlling interests	<u>756,611</u>	<u>17</u>	<u>756,628</u>
	<u>\$ 14,948,787</u>	<u>\$ (140,202)</u>	<u>\$ 14,808,585</u>
Impact on total comprehensive income attributable to:			
Owners of the parent	\$ 14,437,341	\$ (140,219)	\$ 14,297,122
Non-controlling interests	<u>726,740</u>	<u>17</u>	<u>726,757</u>
	<u>\$ 15,164,081</u>	<u>\$ (140,202)</u>	<u>\$ 15,023,879</u> (Concluded)

The aggregate impacts of the initial application of IFRSs in 2018 is detailed below:

	Carrying Amount	Adjustments Arising from Initial Application	Adjusted Carrying Amount
<u>Impact on assets, liabilities and equity</u>			
<u>December 31, 2017</u>			
<u>Assets</u>			
Current assets	\$ 32,351,117	\$ 2,756,300	\$ 35,107,417
Non-current assets	122,171,637	1,532,752	123,704,389
Total effect on assets	154,522,754	4,289,052	158,811,806
<u>Liabilities</u>			
Current liabilities	56,479,086	788,923	57,268,009
Non-current liabilities	32,532,067	81,567	32,613,634
Total effect on liabilities	89,011,153	870,490	89,881,643
<u>Equity</u>			
Unappropriated earnings	14,735,424	3,354,181	18,089,605
Other equity interests	(362,703)	64,420	(298,283)
Non-controlling interests	5,879,738	(39)	5,879,699
Total effect on equity	65,511,601	3,418,562	68,930,163 (Continued)

	Carrying Amount	Adjustments Arising from Initial Application	Adjusted Carrying Amount
<u>January 1, 2017</u>			
<u>Assets</u>			
Current assets	\$ 34,280,112	\$ 2,786,202	\$ 37,066,314
Non-current assets	117,097,293	1,755,413	118,852,706
Total effect on assets	151,377,405	4,541,615	155,919,020
<u>Liabilities</u>			
Current liabilities	38,144,597	801,617	38,946,214
Non-current liabilities	47,046,273	91,502	47,137,775
Total effect on liabilities	85,190,870	893,119	86,083,989
<u>Equity</u>			
Unappropriated earnings	15,850,111	3,590,367	19,440,478
Other equity interests	(690,034)	58,186	(631,848)
Non-controlling interests	5,769,645	(57)	5,769,588
Total effect on equity	66,186,535	3,648,496	69,835,031
<u>Impact on total comprehensive income for the year ended December 31, 2017</u>			
Operating revenues	117,171,107	(17,065)	117,154,042
Operating costs	81,445,116	(7,794)	81,437,322
Operating expenses	17,502,915	202,017	17,704,932
Non-operating income and expenses	(1,461,129)	(98,788)	(1,559,917)
Income tax expense	2,682,496	(63,985)	2,618,511
Total effect on net profit for the year	14,948,787	(246,091)	14,702,696
Items that will not be reclassified subsequently to profit or loss:			
Unrealized gain (loss) on financial assets at fair value through other comprehensive income	-	365,872	365,872
Share of other comprehensive income (loss) of associates accounted for using equity method	(510)	(40,965)	(41,475)
Items that may be reclassified subsequently to profit or loss:			
Unrealized gain (loss) on available-for-sale financial assets	352,025	(352,025)	-
Share of other comprehensive income (loss) of associates accounted for using equity method	(41,885)	40,965	(920)
Total effect on other comprehensive income for the year	215,294	13,847	229,141
Total effect on total comprehensive income for the year	15,164,081	(232,244)	14,931,837

(Continued)

	Carrying Amount	Adjustments Arising from Initial Application	Adjusted Carrying Amount
Impact on net profit attributable to:			
Owners of the parent	\$ 14,192,176	\$ (238,494)	\$ 13,953,682
Non-controlling interests	<u>756,611</u>	<u>(7,597)</u>	<u>749,014</u>
	<u>\$ 14,948,787</u>	<u>\$ (246,091)</u>	<u>\$ 14,702,696</u>
Impact on total comprehensive income attributable to:			
Owners of the parent	\$ 14,437,341	\$ (232,261)	\$ 14,205,080
Non-controlling interests	<u>726,740</u>	<u>17</u>	<u>726,757</u>
	<u>\$ 15,164,081</u>	<u>\$ (232,244)</u>	<u>\$ 14,931,837</u>
			(Concluded)

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.

- c. New IFRSs in issue but not yet endorsed and issued into effect by the FSC:

New IFRSs	Effective Date Issued by IASB (Note 1)
Annual Improvements to IFRSs 2015-2017 Cycle	January 1, 2019
Amendments to IFRS 9 "Prepayment Features with Negative Compensation"	January 1, 2019 (Note 2)
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 16 "Leases"	January 1, 2019 (Note 3)
IFRS 17 "Insurance Contracts"	January 1, 2021
Amendments to IAS 28 "Long-term Interests in Associates and Joint Ventures"	January 1, 2019
IFRIC 23 "Uncertainty Over Income Tax Treatments"	January 1, 2019

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

Note 2: The FSC permits the election for early adoption of the amendments starting from January 1, 2018.

Note 3: On December 19, 2017, the FSC announced that IFRS 16 will take effect starting from January 1, 2019.

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 and issued into effect 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.

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
			December 31		
			2017	2016	
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%	-
	Taihsin Property Insurance Agent Co., Ltd. (TPIAC)	Property insurance agent	100.00%	-	Note 2
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%	-
	momo.com Inc. (momo)	Wholesale and retail sales	45.01%	45.01%	-
TFN	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

(Continued)

Investor	Subsidiary	Main Business and Products	Percentage of Ownership		Note
			December 31		
			2017	2016	
TFNM	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%	-
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%	-
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, 2017.

Note 2: Set up in December 2017.

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

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 attributed to the owners of TWM and non-controlling interests as appropriate.

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 holds the asset primarily for the purpose of trading;
- b. It expects to realize the asset within twelve months after the reporting period; or
- c. 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 holds the liability primarily for the purpose of trading;
- b. The liability is due to be settled within twelve months after the reporting period; or
- c. 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 or 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. The Group applies the equity method to account for its investments in associates.

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 stock 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's 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 associate.

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.

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 12 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 recognized at the acquisition date, 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 14 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 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 Stock

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

Gains on disposal of treasury stock should be recognized under "capital reserve - treasury stock transactions"; losses on disposal of treasury stock should be offset against existing capital reserves arising from similar types of treasury stock. 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 stock should be calculated using the weighted-average method for the purpose of repurchased stock.

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; or recognized as a book value deduction of the non-current assets and classified as profit or loss within their useful lives through deducting depreciation expenses of the related non-current 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 reclassified 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.

A liability for a termination benefit is recognized at the earlier of when the Group can no longer withdraw the offer of the termination benefit and when the Group recognizes any related restructuring costs.

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), as well as tax adjustments related to prior years.

An additional surtax on undistributed earnings, computed according to the ROC Income Tax Act, is recognized in current taxes in the year of approval by a stockholders' 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 basis. 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.

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 and broadband 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 Combinations

Business combinations are accounted for by the acquisition method. Goodwill is measured as an aggregation of the consideration transferred 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 assessments, the Group relies on subjective judgment to determine the individual cash flows of a specific group of assets and estimates future gains and losses according to the usage of the assets and relevant business characteristics. Alterations of estimates from any changes in economic conditions or business strategy may lead to significant impairment losses 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 the present value. Significant impairment loss may occur if actual cash flows are less than forecasted.

6. CASH AND CASH EQUIVALENTS

	December 31	
	2017	2016
Cash on hand and revolving funds	\$ 158,956	\$ 149,138
Cash in banks	1,604,849	2,098,137
Time deposits	2,458,907	2,394,640
Government bonds with repurchase rights and short-term notes and bills	<u>2,408,832</u>	<u>3,062,602</u>
	<u>\$ 6,631,544</u>	<u>\$ 7,704,517</u>

7. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	December 31	
	2017	2016
Domestic listed stock	\$ 3,829,968	\$ 3,414,959
Limited partnership	785,065	-
Beneficiary certificates	845,806	965,833
Foreign unlisted stock	<u>28,269</u>	<u>45,426</u>
	<u>\$ 5,489,108</u>	<u>\$ 4,426,218</u>
Current	\$ 1,104,467	\$ 1,231,871
Non-current	<u>4,384,641</u>	<u>3,194,347</u>
	<u>\$ 5,489,108</u>	<u>\$ 4,426,218</u>

8. ACCOUNTS AND NOTES RECEIVABLE, NET

	December 31	
	2017	2016
Notes receivable	\$ 126,321	\$ 265,974
Accounts receivable	14,969,546	15,681,563
Less: Allowance for doubtful accounts	<u>(524,842)</u>	<u>(615,572)</u>
Accounts receivable, net	<u>14,444,704</u>	<u>15,065,991</u>
	<u>\$ 14,571,025</u>	<u>\$ 15,331,965</u>

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

	December 31	
	2017	2016
Neither past due nor impaired	\$ 14,192,631	\$ 14,730,088
Past due but not impaired		
Past due within 30 days	174,746	217,750
Past due 31-60 days	35,775	77,494
Past due 61-120 days	25,785	24,391
Past due 121-180 days	10,257	9,833
Past due over 180 days	<u>5,510</u>	<u>6,435</u>
	<u>\$ 14,444,704</u>	<u>\$ 15,065,991</u>

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

	For the Year Ended December 31	
	2017	2016
Beginning balance	\$ 615,572	\$ 592,741
Add: Provision	343,796	387,597
Recovery	19,776	58,266
Less: Write-off	(454,302)	(422,947)
Effect of exchange rate changes	<u>-</u>	<u>(85)</u>
Ending balance	<u>\$ 524,842</u>	<u>\$ 615,572</u>

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

Counterparty	Amount of Accounts Receivable Sold	Proceeds from the Sale of Accounts Receivable
<u>May 2017</u>		
Long Sun Asset Management Co., Ltd.	<u>\$ 727,245</u>	<u>\$ 44,000</u>
<u>February 2016</u>		
Long Sun Asset Management Co., Ltd.	<u>\$ 845,385</u>	<u>\$ 46,644</u>

9. INVENTORIES

	December 31	
	2017	2016
Merchandise	\$ 4,319,254	\$ 4,041,274
Materials for maintenance	<u>12,555</u>	<u>30,474</u>
	<u>\$ 4,331,809</u>	<u>\$ 4,071,748</u>

For the years ended December 31, 2017 and 2016, the cost of goods sold recognized in consolidated comprehensive income amounted to \$48,658,404 thousand and \$45,749,379 thousand, respectively, which included the reversal of inventory write-down, totaling \$90,352 thousand and \$33,278 thousand, respectively.

10. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

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

	December 31			
	2017		2016	
Investee Company	Amount	% of Ownership	Amount	% of Ownership
Global Home Shopping Co., Ltd. (GHS) (Previously known as Beijing Global Gouguang Media Technology Co., Ltd.)	\$ 781,922	20.00	\$ 736,742	20.00
Taiwan Pelican Express Co., Ltd. (TPE)	401,192	17.70	402,464	17.70
Kbro Media Co., Ltd. (Kbro Media)	178,825	32.50	243,670	32.50
TVD Shopping Co., Ltd. (TVD Shopping)	117,462	35.00	147,521	35.00
Alliance Digital Tech Co., Ltd. (ADT)	<u>14,451</u>	14.40	<u>33,868</u>	14.40
	<u>\$ 1,493,852</u>		<u>\$ 1,564,265</u>	

Aggregate information of associates that are not individually material:

	December 31	
	2017	2016
The Group's share of:		
Profit	\$ 28,942	\$ 51,824
Other comprehensive income (loss)	<u>(42,395)</u>	<u>(14,531)</u>
Comprehensive income	<u>\$ (13,453)</u>	<u>\$ 37,293</u>

a. GHS

In June 2015, momo's subsidiary acquired 20% equity interests of GHS.

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%. 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.

b. TPE

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

As of December 2013, momo held 17.70% equity interests of TPE due to not subscribing for new stock issued by TPE and selling part of its stock 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.

On November 23, 2017, an extraordinary stockholders' meeting of TVD Shopping resolved to reduce capital. momo received \$32,274 thousand (THB35,000 thousand) as a proportional capital reduction in January 2018.

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 stock. In December 2016, TWM increased its percentage of ownership interests in ADT to 14.40% by paying \$30,000 thousand to subscribe for new stock 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	
	2017	2016
momo	54.99%	54.99%

For information on the principal place of business and the company's country of registration, see Table 8.

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

	December 31	
	2017	2016
Current assets	\$ 5,683,832	\$ 5,715,073
Non-current assets	13,567,528	11,869,693
Current liabilities	(5,643,907)	(4,066,357)
Non-current liabilities	<u>(266,474)</u>	<u>(265,341)</u>
Equity	<u>\$ 13,340,979</u>	<u>\$ 13,253,068</u>

(Continued)

	For the Year Ended December 31	
	2017	2016
Equity attributable to:		
Owners of the parent	\$ 9,195,737	\$ 9,152,791
Non-controlling interests of momo	4,154,476	4,102,018
Non-controlling interests of momo's subsidiaries	<u>(9,234)</u>	<u>(1,741)</u>
	<u>\$ 13,340,979</u>	<u>\$ 13,253,068</u>
Operating revenues	<u>\$ 33,238,547</u>	<u>\$ 28,080,788</u>
Profit	\$ 1,262,632	\$ 1,166,228
Other comprehensive loss	<u>(54,253)</u>	<u>(63,032)</u>
Comprehensive income	<u>\$ 1,208,379</u>	<u>\$ 1,103,196</u>
Profit (loss) attributable to:		
Owners of the parent	\$ 571,726	\$ 532,229
Non-controlling interests of momo	698,356	650,598
Non-controlling interests of momo's subsidiaries	<u>(7,450)</u>	<u>(16,599)</u>
	<u>\$ 1,262,632</u>	<u>\$ 1,166,228</u>
Comprehensive income (loss) attributable to:		
Owners of the parent	\$ 547,324	\$ 503,931
Non-controlling interests of momo	668,548	616,033
Non-controlling interests of momo's subsidiaries	<u>(7,493)</u>	<u>(16,768)</u>
	<u>\$ 1,208,379</u>	<u>\$ 1,103,196</u>
Net cash generated from operating activities	\$ 1,407,993	\$ 1,206,149
Net cash used in investing activities	(330,976)	(601,863)
Net cash used in financing activities	(1,120,759)	(987,194)
Effect of exchange rate changes	<u>(547)</u>	<u>186</u>
Net decrease in cash	<u>\$ (44,289)</u>	<u>\$ (382,722)</u>
Dividends paid to non-controlling interests	<u>\$ (616,090)</u>	<u>\$ (539,079)</u>

(Concluded)

12. 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, 2017	\$ 8,291,858	\$ 3,898,840	\$ 89,243,221	\$ 8,110,323	\$ 2,999,439	\$ 112,543,681
Additions	-	183,360	724,670	1,052,463	7,948,279	9,908,772
Reclassification	(31,277)	1,479,703	7,149,505	508,691	(9,180,204)	(73,582)
Disposals and retirements	(9,724)	(9,197)	(12,610,309)	(746,709)	(1,319)	(13,377,258)
Effect of exchange rate changes	<u>-</u>	<u>-</u>	<u>(2,024)</u>	<u>(80)</u>	<u>-</u>	<u>(2,104)</u>
Balance, December 31, 2017	<u>\$ 8,250,857</u>	<u>\$ 5,552,706</u>	<u>\$ 84,505,063</u>	<u>\$ 8,924,688</u>	<u>\$ 1,766,195</u>	<u>\$ 108,999,509</u>

(Continued)

	Land	Buildings	Telecommuni- cation Equipment and Machinery	Miscellaneous Equipment	Construction in Progress and Equipment to Be Inspected	Total
<u>Accumulated depreciation and impairment</u>						
Balance, January 1, 2017	\$ 83,426	\$ 1,272,965	\$ 62,639,823	\$ 6,132,238	\$ -	\$ 70,128,452
Depreciation	-	105,757	9,041,912	1,122,265	-	10,269,934
Reclassification	-	(5,646)	-	223	-	(5,423)
Disposals and retirements	-	(3,416)	(12,252,248)	(739,491)	-	(12,995,155)
Effect of exchange rate changes	-	-	(1,699)	(21)	-	(1,720)
Balance, December 31, 2017	<u>\$ 83,426</u>	<u>\$ 1,369,660</u>	<u>\$ 59,427,788</u>	<u>\$ 6,515,214</u>	<u>\$ -</u>	<u>\$ 67,396,088</u>
Carrying amount, December 31, 2017	<u>\$ 8,167,431</u>	<u>\$ 4,183,046</u>	<u>\$ 25,077,275</u>	<u>\$ 2,409,474</u>	<u>\$ 1,766,195</u>	<u>\$ 41,603,421</u>
<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	-	-	(12,769)	(199)	-	(12,968)
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	-	-	(8,682)	(146)	-	(8,828)
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>

(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	5-15 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, 2017 and 2016 were as follows:

	<u>For the Year Ended December 31</u>	
	<u>2017</u>	<u>2016</u>
Acquisition of property, plant and equipment	\$ 9,908,772	\$ 8,939,226
Non-cash investing activities		
Changes in other payables	(682,498)	1,037,732
Changes in provisions	<u>(44,783)</u>	<u>(44,286)</u>
Cash paid for acquisition of property, plant and equipment	<u>\$ 9,181,491</u>	<u>\$ 9,932,672</u>

13. INVESTMENT PROPERTIES

The Group leases its properties to others and thus reclassifies them from property, plant and equipment to investment property.

The fair values of investment properties were measured using Level 3 inputs, using the income approach, comparative approach, and cost approach by HomeBan Appraisers Joint Firm. As of December 31, 2017 and 2016, the fair values of investment properties were \$6,720,319 thousand and \$6,691,275 thousand, respectively, and the capitalization rates for both years were 0.94%-5.23%.

14. INTANGIBLE ASSETS

	Concessions			Other Intangible Assets				
	Concession Licenses	Service Concessions	Goodwill	Computer Software	Customer Relationships	Operating Rights	Trademarks	Total
<u>Cost</u>								
Balance, January 1, 2017	\$42,724,375	\$ 8,180,078	\$15,845,930	\$ 3,289,415	\$ 2,654,089	\$ 1,382,000	\$ 2,517,866	\$76,593,753
Addition	8,600,000	-	-	230,100	-	-	-	8,830,100
Disposals and retirements	-	-	-	(249,961)	-	-	-	(249,961)
Reclassification	-	-	-	259,854	-	-	-	259,854
Effect of exchange rate changes	-	-	-	(340)	-	-	-	(340)
Balance, December 31, 2017	<u>\$51,324,375</u>	<u>\$ 8,180,078</u>	<u>\$15,845,930</u>	<u>\$ 3,529,068</u>	<u>\$ 2,654,089</u>	<u>\$ 1,382,000</u>	<u>\$ 2,517,866</u>	<u>\$85,433,406</u>
<u>Accumulated amortization and impairment</u>								
Balance, January 1, 2017	\$12,366,275	\$ 673,867	\$ -	\$ 2,636,599	\$ 1,237,863	\$ -	\$ 1,167	\$16,915,771
Amortization	2,615,012	178,719	-	464,922	136,400	-	166	3,395,219
Disposals and retirements	-	-	-	(249,961)	-	-	-	(249,961)
Reclassification	-	-	-	(223)	-	-	-	(223)
Effect of exchange rate changes	-	-	-	(220)	-	-	-	(220)
Balance, December 31, 2017	<u>\$14,981,287</u>	<u>\$ 852,586</u>	<u>\$ -</u>	<u>\$ 2,851,117</u>	<u>\$ 1,374,263</u>	<u>\$ -</u>	<u>\$ 1,333</u>	<u>\$20,060,586</u>
Carrying amount, December 31, 2017	<u>\$36,343,088</u>	<u>\$ 7,327,492</u>	<u>\$15,845,930</u>	<u>\$ 677,951</u>	<u>\$ 1,279,826</u>	<u>\$ 1,382,000</u>	<u>\$ 2,516,533</u>	<u>\$65,372,820</u>
<u>Cost</u>								
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>\$76,593,753</u>
<u>Accumulated amortization and impairment</u>								
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>\$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>\$59,677,982</u>

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

Concession licenses	14-17 years
Service concessions	44-50 years
Computer software	2-10 years
Customer relationships	20 years
Trademarks	10 years

a. Concession licenses

On November 15, 2017, TWM acquired the concession license for the 2100 MHz frequency bands in the mobile broadband spectrum. TWM paid \$8,600,000 thousand as the bid price and classified it as a concession license.

b. Service concessions

On January 15, 2009, TNH signed a BOT contract with the Department of Cultural Affairs of Taipei City Government. Under the BOT contract, TNH obtained the right to build and operate a development project located at the 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.

c. Customer relationships, trademarks, and operating rights

The Group measures the fair value of acquired assets when acquisitions occur, 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 legal useful lives, which can be extended, the Group regards these assets as intangible assets with indefinite useful lives.

- 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 relationships 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 relationships 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.

d. Goodwill

The carrying amounts of goodwill allocated to the cash-generating units were as follows:

	December 31	
	2017	2016
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>

e. Impairment of assets

In conformity with IAS 36 “Impairment of Assets”, the Group identified its mobile communication service, fixed network service, cable television business, and 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 the 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 rate plan composition.

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 rates

For the years ended December 31, 2017 and 2016, the discount rates used to calculate TWM’s asset recoverable amounts were 6.81% and 6.31%, respectively.

2) Fixed network 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 the changes and growth of business in the telecom industry into consideration, the operating revenues were estimated on the basis of the types of data transmission and the demand for 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 rates

For the years ended December 31, 2017 and 2016, the discount rates were 7.8% and 7.06%, respectively, in calculating TFN’s asset recoverable amounts.

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 the 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 commission costs, 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 rates

The discount rates used to calculate asset recoverable amounts for each system operator ranged from 3.86% to 3.90% and from 5.84% to 6.52% for the years ended December 31, 2017 and 2016, 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 the changes in the retail business industry and the competitiveness of the market into consideration, the operating revenues were estimated on the basis of the classification and 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 rates

For the years ended December 31, 2017 and 2016, the discount rates in calculating asset recoverable amounts were 8.86% and 10.27%, 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 such assets for the years ended December 31, 2017 and 2016.

15. OTHER NON-CURRENT ASSETS

	December 31	
	2017	2016
Long-term accounts receivable	\$ 4,059,680	\$ 4,648,593
Refundable deposits	608,184	596,781
Prepayments for equipment	61,914	58,546
Others	<u>502,638</u>	<u>501,803</u>
	<u>\$ 5,232,416</u>	<u>\$ 5,805,723</u>

16. BORROWINGS

a. Short-term borrowings

	December 31	
	2017	2016
Unsecured loans	<u>\$ 9,662,318</u>	<u>\$ 7,363,005</u>
Annual interest rate	0.7%-5.44%	0.7%-5.22%

For the information on endorsements and guarantees and pledged deposits, see Note 29, Note 30 (b) and Table 2.

b. Short-term notes and bills payable

	December 31	
	2017	2016
Short-term notes and bills payable	\$ 5,600,000	\$ -
Less: Discounts on short-term notes and bills payable	<u>(4,108)</u>	<u>-</u>
	<u>\$ 5,595,892</u>	<u>\$ -</u>
Annual interest rate	0.528%-0.75%	-

c. Long-term borrowings

	December 31	
	2017	2016
Unsecured loans	\$ 19,000,000	\$ 21,828,000
Secured loans	3,395,962	2,972,582
Less: Current portion	<u>(8,203,289)</u>	<u>(3,352,891)</u>
	<u>\$ 14,192,673</u>	<u>\$ 21,447,691</u>
Annual interest rate:		
Unsecured loans	0.72%-1.26%	0.71%-1.9926%
Secured loans	2.0337%	2.2211%

1) Unsecured loans

The Group entered into credit facility agreements with a group of banks for mid-term requirements of operating capital. The credit facilities last from 2 to 3 years from the date of drawdown or contracting, and the interest is paid periodically. Under certain credit agreements, the loans are treated as revolving credit facilities, and the maturity dates of the loans are based on terms under the agreements. In addition, the loans are repayable from April 2018 to April 2019, and some credit facilities are subject to financial covenants regarding debt ratios 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 the 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 another credit agreement with Bank of Taiwan for a \$3,400,000 thousand credit amount and a \$65,000 thousand guarantee amount on September 5, 2017. The agreement started from the date of the first drawdown of the loan and would last for 7 years with interest payments made on a monthly basis. 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 29.

17. BONDS PAYABLE

	December 31	
	2017	2016
3rd domestic unsecured bonds	\$ 8,998,958	\$ 8,998,203
4th domestic unsecured bonds	2,899,901	5,799,381
3rd domestic unsecured convertible bonds	9,650,076	9,562,188
Less: Current portion	<u>(7,399,528)</u>	<u>(2,899,876)</u>
	<u>\$ 14,149,407</u>	<u>\$ 21,459,896</u>

a. 3rd domestic unsecured bonds

On December 20, 2012, TWM issued \$9,000,000 thousand of seven-year 3rd domestic unsecured bonds; each bond had 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 in equal installments, i.e., \$4,500,000 thousand. As of December 31, 2017, the amount of unamortized bond issue cost was \$1,042 thousand. The trustee of bond issuers is Hua Nan Commercial Bank.

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 issued \$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, 2017, the amount of unamortized bond issue cost was \$99 thousand. The trustee of bond issuers is Hua Nan Commercial Bank.

Future repayments of the above-mentioned corporate bonds is as follows:

Year	Amount
2018	<u>\$ 2,900,000</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. The conversion price should be adjusted according to the prescribed formula and has been adjusted to \$110.3 per share since July 17, 2017. 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. The trustee of bond issuers is Bank of Taiwan.

If the closing price of TWM's common stock 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	9,562,188
Interest charged at an effective interest rate	<u>87,888</u>
Liability component at December 31, 2017	<u>\$ 9,650,076</u>

As of December 31, 2017, the amount of unamortized bond issue cost was \$349,924 thousand.

18. PROVISIONS

		December 31	
		2017	2016
Restoration		\$ 1,208,093	\$ 1,186,572
Decommissioning		213,372	160,923
Warranties		<u>128,412</u>	<u>161,066</u>
		<u>\$ 1,549,877</u>	<u>\$ 1,508,561</u>
Current		\$ 178,008	\$ 202,873
Non-current		<u>1,371,869</u>	<u>1,305,688</u>
		<u>\$ 1,549,877</u>	<u>\$ 1,508,561</u>

	Restoration	Decommissioning	Warranties	Total
Balance, January 1, 2017	\$ 1,186,572	\$ 160,923	\$ 161,066	\$ 1,508,561
Provision	71,954	47,720	157,602	277,276
Payment/Reversal	(57,088)	(108)	(190,256)	(247,452)
Unwinding of discount	<u>6,655</u>	<u>4,837</u>	<u>-</u>	<u>11,492</u>
Balance, December 31, 2017	<u>\$ 1,208,093</u>	<u>\$ 213,372</u>	<u>\$ 128,412</u>	<u>\$ 1,549,877</u>
Balance, January 1, 2016	\$ 1,160,809	\$ 110,876	\$ 125,776	\$ 1,397,461
Provision	79,502	46,511	234,314	360,327
Payment/Reversal	(62,106)	-	(199,024)	(261,130)
Unwinding of discount	<u>8,367</u>	<u>3,536</u>	<u>-</u>	<u>11,903</u>
Balance, December 31, 2016	<u>\$ 1,186,572</u>	<u>\$ 160,923</u>	<u>\$ 161,066</u>	<u>\$ 1,508,561</u>

19. 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 \$296,209 thousand and \$286,307 thousand for the years ended December 31, 2017 and 2016, 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 the date of 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 Funds are operated and managed by the government's designated authorities; as such, the Group does not have any right to participate in the operation of the Funds.

The defined benefit plans were as follows:

	December 31	
	2017	2016
Present value of defined benefit obligations	\$ 1,284,048	\$ 1,182,705
Fair value of plan assets	<u>(841,004)</u>	<u>(813,383)</u>
Net defined benefit liabilities	<u>\$ 443,044</u>	<u>\$ 369,322</u>

The movements in present value of defined benefit obligations for the years ended December 31, 2017 and 2016 were as follows:

	For the Year Ended December 31	
	2017	2016
Balance, January 1	\$ 1,182,705	\$ 1,062,292
Current service costs	1,995	2,266
Past service costs	-	(1,416)
Interest costs	17,692	16,206
Actuarial loss - changes in demographic assumptions	56,695	64,643
Actuarial loss - changes in financial assumptions	6,759	6,511
Actuarial loss - experience adjustments	30,683	40,761
The plan assets of benefits paid	<u>(12,481)</u>	<u>(8,558)</u>
Balance, December 31	<u>\$ 1,284,048</u>	<u>\$ 1,182,705</u>

The movements in the fair value of the plan assets for the years ended December 31, 2017 and 2016 were as follows:

	For the Year Ended December 31	
	2017	2016
Balance, January 1	\$ 813,383	\$ 787,656
Net interest income	12,413	12,337
Return on plan assets (excluding amounts included in net interest)	(4,416)	(6,691)
Contributions from the employer	32,105	28,639
The plan assets of benefits paid	<u>(12,481)</u>	<u>(8,558)</u>
Balance, December 31	<u>\$ 841,004</u>	<u>\$ 813,383</u>

The expenses recognized in profit or loss for the years ended December 31, 2017 and 2016 were as follows:

	For the Year Ended December 31	
	2017	2016
Current service costs	\$ 1,995	\$ 2,266
Past service costs	-	(1,416)
Interest cost	17,692	16,206
Net interest income	<u>(12,413)</u>	<u>(12,337)</u>
	<u>\$ 7,274</u>	<u>\$ 4,719</u>

The pre-tax re-measurements recognized in other comprehensive income (loss) for the years ended December 31, 2017 and 2016 were as follows:

	For the Year Ended December 31	
	2017	2016
Return on plan assets (excluding amounts included in net interest)	\$ 4,416	\$ 6,691
Actuarial loss - changes in demographic assumptions	56,695	64,643
Actuarial loss - changes in financial assumptions	6,759	6,511
Actuarial loss - experience adjustments	<u>30,683</u>	<u>40,761</u>
	<u>\$ 98,553</u>	<u>\$ 118,606</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	
	2017	2016
Discount rate	1.25%-1.625%	1.25%-1.50%
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	
	2017	2016
Discount rate		
0.25% increase	<u>\$ (46,698)</u>	<u>\$ (44,926)</u>
0.25% decrease	<u>\$ 48,878</u>	<u>\$ 47,106</u>
Long-term average adjustment rate of salary		
0.25% increase	<u>\$ 47,655</u>	<u>\$ 45,951</u>
0.25% decrease	<u>\$ (45,780)</u>	<u>\$ (44,069)</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	
	2017	2016
The expected contributions to the plan for the next year	<u>\$ 33,293</u>	<u>\$ 33,308</u>
The average duration of the defined benefit obligation	12-18.7 years	12-20 years

20. EQUITY

a. Common stock

As of both December 31, 2017 and 2016, the TWM's capital authorized was \$60,000,000 thousand and capital issued and outstanding was \$34,208,328 thousand. The issued capital was divided into 3,420,833 thousand shares, which were all common stocks, at a par value of \$10.

b. Capital surplus

	December 31	
	2017	2016
Additional paid-in capital from convertible corporate bonds	\$ 7,708,764	\$ 8,775,820
Treasury stock transactions	5,159,704	5,159,704
Difference between consideration and carrying amount arising from the disposal of subsidiaries' stock	85,965	85,965
Changes in equity of subsidiaries	511,562	511,562
Convertible bonds payable options	400,564	400,564
Changes in equity of associates accounted for using equity method	39,767	36,014
Others	<u>32,952</u>	<u>15,418</u>
	<u>\$ 13,939,278</u>	<u>\$ 14,985,047</u>

Under the ROC 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' stock acquired or disposed of, and treasury stock 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, changes in equity of associates accounted for using equity method and the overdue unclaimed dividends 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 ROC Company Act made in May 2015, the recipients of dividends and bonuses are limited to stockholders and do not include employees. The stockholders held the annual general stockholders' meeting ("AGM") on June 15, 2016 and, in that meeting, 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 the distribution of employees' compensation and remuneration of directors.

The policy on the appropriation of earnings and dividend distribution in the amended Articles 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, and 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 laws, regulations, or 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 stockholders' meeting.

TWM adopts a dividend distribution policy whereby only surplus profits of TWM shall be distributed to stockholders. 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 of Directors, who shall, upon such approval, recommend the same to the stockholders for approval by resolution at the stockholders' meetings.

The above appropriation of earnings should be resolved in the AGM held in the following year. According to the ROC Company Act, a company shall first set aside its earning for legal reserve until it equals the paid-in capital. The legal reserve may offset losses. 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 in the stockholders' 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 2016 and 2015 earnings appropriations having been approved in the AGM on June 14, 2017 and June 15, 2016, respectively, were as follows:

	Appropriation of Earnings		Dividends Per Share (NT\$)	
	For Fiscal Year 2016	For Fiscal Year 2015	For Fiscal Year 2016	For Fiscal Year 2015
Appropriation of legal reserve	\$ 1,532,018	\$ 1,568,619		
Appropriation of special reserve	(483,920)	870,968		
Cash dividends to stockholders	14,176,599	15,243,655	\$ 5.208	\$ 5.60

The cash dividends of \$5.208 per share mentioned above will be distributed from unappropriated earnings. In addition, the AGM resolved another cash appropriation from the capital surplus generated from the excess of the issuance price over the par value of capital stock amounting to \$1,067,056 thousand, that is, \$0.392 per share. Total appropriations distributed were \$5.6 per share for 2016.

TWM's 2017 earnings appropriations will be proposed by the 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, 2017	\$ (9,133)	\$ (680,901)	\$ (690,034)
Exchange differences on translation	(7,219)	-	(7,219)
Changes in fair value of available-for-sale financial assets	-	372,471	372,471
Changes in other comprehensive income (loss) of associates accounted for using equity method	<u>(147)</u>	<u>(37,774)</u>	<u>(37,921)</u>
Balance, December 31, 2017	<u>\$ (16,499)</u>	<u>\$ (346,204)</u>	<u>\$ (362,703)</u>
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>

e. Treasury stock

As of December 31, 2017 and 2016, 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 \$75,115,797 thousand and \$72,670,167 thousand, respectively. Since TWM's stocks held by its subsidiaries are regarded as treasury stock, TWM recognized both \$29,717,344 thousand, as treasury stock. For those treasury stock holders, they have the same rights as the other stockholders, 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% stockholding owned by TWM cannot exercise the voting rights over such treasury stock.

f. Non-controlling interests

	For the Year Ended December 31	
	2017	2016
Beginning balance	\$ 5,769,645	\$ 5,736,019
Portion attributable to non-controlling interests		
Profit	756,611	608,256
Exchange differences on translation	(5,318)	(34,714)
Unrealized losses on available-for-sale financial assets	(20,446)	(813)
Re-measurements from defined benefit plans	137	(778)
Share of other comprehensive income (loss) of associates accounted for using equity method	(4,244)	1,565
Changes in equity of associates accounted for using equity method	-	(75)
Cash dividends paid to non-controlling interests of subsidiaries	(616,647)	(539,625)
Decrease in non-controlling interests	<u>-</u>	<u>(190)</u>
Ending balance	<u>\$ 5,879,738</u>	<u>\$ 5,769,645</u>

21. OPERATING REVENUES

	For the Year Ended December 31	
	2017	2016
Telecommunication and value-added services	\$ 57,877,419	\$ 61,304,462
Sales revenue	52,221,069	48,112,301
Cable TV and broadband services	6,233,601	6,391,167
Other operating revenues	<u>839,018</u>	<u>839,568</u>
	<u>\$ 117,171,107</u>	<u>\$ 116,647,498</u>

22. NON-OPERATING INCOME AND EXPENSES

a. Other income

	For the Year Ended December 31	
	2017	2016
Interest income	\$ 164,036	\$ 164,174
Rental income	152,266	78,515
Dividend income	72,407	80,168
Other income	<u>7,359</u>	<u>57,100</u>
	<u>\$ 396,068</u>	<u>\$ 379,957</u>

b. Other gains and losses, net

	For the Year Ended December 31	
	2017	2016
Loss on disposal of property, plant and equipment, net	\$ (350,074)	\$ (457,819)
Valuation loss on financial assets at fair value through profit or loss	(39,319)	(112,234)
Valuation gain (loss) on financial liabilities at fair value through profit or loss	32,000	(6,000)
Impairment losses on financial assets at cost	(6,180)	(2,209)
Gain on disposal of investments	3,000	-
Estimated loss from lawsuits	(765,779)	-
Loss on foreign exchange	(90,793)	(41,438)
Others	<u>(35,469)</u>	<u>33,064</u>
	<u>\$ (1,252,614)</u>	<u>\$ (586,636)</u>

c. Finance costs

	For the Year Ended December 31	
	2017	2016
Interest expense		
Bank loans	\$ 312,699	\$ 395,152
Corporate bonds	258,960	206,799
Others	<u>64,923</u>	<u>78,307</u>
	636,582	680,258
Less: Capitalized interest	<u>(3,057)</u>	<u>(6,819)</u>
	<u>\$ 633,525</u>	<u>\$ 673,439</u>
Capitalization rates	1.34%	1.33%

23. INCOME TAX

a. Income tax recognized in profit or loss

	For the Year Ended December 31	
	2017	2016
Current income tax expense		
Current period	\$ 2,928,230	\$ 3,698,509
Prior years' adjustment	<u>(57,806)</u>	<u>632,661</u>
	<u>2,870,424</u>	<u>4,331,170</u>
Deferred income tax expense		
Temporary differences	<u>(187,928)</u>	<u>(1,068,141)</u>
Income tax expense	<u>\$ 2,682,496</u>	<u>\$ 3,263,029</u>

The reconciliation of profit before tax to income tax expense was as follows:

	For the Year Ended December 31	
	2017	2016
Profit before tax	<u>\$ 17,631,283</u>	<u>\$ 19,191,472</u>
Income tax expense at domestic statutory tax rate (17%)	\$ 2,997,318	\$ 3,262,550
Effect of different tax rates on the Group entities	352	(4,043)
Adjustment items in determining taxable profit	101,440	417,348
Temporary differences	(187,928)	(1,068,141)
Investment tax credits	(219,560)	-
Prior years' other adjustments	(2,916)	632,661
Loss carryforwards	(6,545)	22,625
Land value increment tax	335	-
Income tax on unappropriated earnings	<u>-</u>	<u>29</u>
	<u>\$ 2,682,496</u>	<u>\$ 3,263,029</u>

The applicable tax rate used by TWM in the ROC is 17% for 2016 and 2017.

In January 2018, it was announced that the Income Tax Law in the ROC was amended and, starting from 2018, the corporate income tax rate will be adjusted from 17% to 20%. In addition, the tax rate applicable to the undistributed portion of earnings to be made in 2018 and thereafter will be reduced from 10% to 5%.

b. Income tax recognized in other comprehensive income (loss)

	For the Year Ended December 31	
	2017	2016
Deferred income tax income		
Re-measurements from defined benefit plans	<u>\$ 16,754</u>	<u>\$ 20,163</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, 2017 and 2016, were as follows:

	Property, Plant and Equipment	Defined Benefit Plans	Others	Total
<u>Deferred tax assets</u>				
Balance, January 1, 2017	\$ 528,619	\$ 81,397	\$ 98,640	\$ 708,656
Recognized in profit or loss	(86,024)	(17,110)	199,413	96,279
Recognized in other comprehensive income (loss)	<u>-</u>	<u>15,309</u>	<u>-</u>	<u>15,309</u>
Balance, December 31, 2017	<u>\$ 442,595</u>	<u>\$ 79,596</u>	<u>\$ 298,053</u>	<u>\$ 820,244</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)	<u>-</u>	<u>19,639</u>	<u>-</u>	<u>19,639</u>
Balance, December 31, 2016	<u>\$ 528,619</u>	<u>\$ 81,397</u>	<u>\$ 98,640</u>	<u>\$ 708,656</u>
	Accounts Receivable	Intangible Assets	Others	Total
<u>Deferred tax liabilities</u>				
Balance, January 1, 2017	\$ 132,903	\$ 656,167	\$ 33,810	\$ 822,880
Recognized in profit or loss	(132,903)	55,834	(14,580)	(91,649)
Recognized in other comprehensive income (loss)	<u>-</u>	<u>-</u>	<u>(1,445)</u>	<u>(1,445)</u>
Balance, December 31, 2017	<u>\$ -</u>	<u>\$ 712,001</u>	<u>\$ 17,785</u>	<u>\$ 729,786</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)	<u>-</u>	<u>-</u>	<u>(524)</u>	<u>(524)</u>
Balance, December 31, 2016	<u>\$ 132,903</u>	<u>\$ 656,167</u>	<u>\$ 33,810</u>	<u>\$ 822,880</u>

2) Unrecognized deferred tax assets items

	December 31	
	2017	2016
Loss carryforwards	<u>\$ 776,131</u>	<u>\$ 1,257,305</u>

As of December 31, 2017, the Group had not recognized the prior years' loss carryforwards as deferred tax assets. The expiry years are as follows:

Remaining Creditable Amount	Expiry Year
\$ 223,817	2018
200,633	2019
178,074	2020
49,226	2021
24,408	2022
67,631	2023
27,577	2025
4,530	2026
<u>235</u>	2027
<u>\$ 776,131</u>	

d. Integrated income tax information

As of December 31, 2017, there were no unappropriated earnings generated before 1997.

	December 31	
	2017	2016
Balance of TWM's imputation credits account (ICA)	<u>\$ 1,855,793</u>	<u>\$ 1,656,478</u>
	For the Year Ended December 31	
	2017	2016
	(Expected)	
Creditable ratio for distribution of earnings	Note	20.99%

Note: The expected creditable ratio for the distribution of earnings of TWM was 21.05%. Since the announced amended Income Tax Act in January 2018 abolished the imputation tax system, no creditable ratio for the distribution of earnings in 2018 is expected.

e. Income tax examinations

The latest years for which income tax returns have been examined and cleared by the tax authorities were as follows:

Company	Year
TWM	2015
TCC	2015
WMT	2015
TNH	2016
TFN	2015
TT&T	2015
TCCI	2015
TDC	2016
TDS	2015
TFNM	2015
GFMT	2015
GWMT	2015
WTVB	2015
TUI	2015

(Continued)

Company	Year
TID	2015
TKT	2015
YJCTV	2015
MCTV	2015
PCTV	2015
UCTV	2015
GCTV	2015
momo	2015
FLI	2016
FPI	2016
FST	2016

(Concluded)

24. EARNINGS PER SHARE

For the Year Ended December 31, 2017			
	Amount After Income Tax	Weighted- average Number of Common Stock	EPS
Basic EPS			
Profit attributable to owners of the parent	\$ 14,192,176	2,722,081	<u>\$ 5.21</u>
Effect of potential dilutive common stock:			
Employees' compensation	-	4,376	
Convertible bonds	<u>55,888</u>	<u>90,662</u>	
Diluted EPS			
Profit attributable to owners of the parent (adjusted for potential effect of common stock)	<u>\$ 14,248,064</u>	<u>2,817,119</u>	<u>\$ 5.06</u>
For the Year Ended December 31, 2016			
	Amount After Income Tax	Weighted- average Number of Common Stock	EPS
Basic EPS			
Profit attributable to owners of the parent	\$ 15,320,187	2,722,081	<u>\$ 5.63</u>
Effect of potential 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>

Since TWM has the discretion to settle the employees' compensation by cash or stock, TWM should presume that the entire amount of the compensation will be settled in stock, and the potential stock dilution should be included in the weighted-average number of stock outstanding used in the calculation of diluted EPS, provided there is a dilutive effect. Such dilutive effect of the potential stock needs to be included in the calculation of diluted EPS until employees' compensation is approved in the following year.

25. OPERATING LEASES

a. Lessee

Non-cancellable rentals payable of operating leases are as follows:

	December 31	
	2017	2016
Less than one year	\$ 3,190,293	\$ 3,138,464
Between one and five years	5,301,622	4,357,600
More than five years	<u>71,922</u>	<u>86,259</u>
	<u>\$ 8,563,837</u>	<u>\$ 7,582,323</u>

The Group leases offices, base transceiver stations, machine rooms, stores, maintenance centers etc., under operating leases. The leases typically run for a period of 1 to 5 years.

The payments of leases and subleases were as follows:

	For the Year Ended December 31	
	2017	2016
Minimum lease payment	\$ 3,726,747	\$ 3,632,814
Sublease payment	<u>(7,087)</u>	<u>(5,477)</u>
	<u>\$ 3,719,660</u>	<u>\$ 3,627,337</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	
	2017	2016
Less than one year	\$ 145,965	\$ 134,673
Between one and five years	546,723	543,754
More than five years	<u>157,515</u>	<u>285,962</u>
	<u>\$ 850,203</u>	<u>\$ 964,389</u>

26. 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 stockholders' 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 its normal course of business for the future.

27. FINANCIAL INSTRUMENTS

a. Categories of financial instruments

	December 31	
	2017	2016
<u>Financial assets</u>		
Financial assets at fair value through profit or loss	\$ -	\$ 42,030
Available-for-sale financial assets (including current and non-current portions)	5,489,108	4,426,218
Financial assets carried at cost	171,221	188,548
Loans and receivables:		
Cash and cash equivalents	6,631,544	7,704,517
Receivables (including current and non-current portions)	20,528,898	21,351,373
Debt instrument investment without active market (including current and non-current portions)	465,654	423,481
Other financial assets (including current and non-current portions)	2,923,941	4,144,717
Refundable deposits	608,184	596,781
Subtotal	31,158,221	34,220,869
Total	<u>\$ 36,818,550</u>	<u>\$ 38,877,665</u>
<u>Financial liabilities</u>		
Short-term borrowings	\$ 9,662,318	\$ 7,363,005
Short-term notes and bills payable	5,595,892	-
Payables (including current and non-current portions)	20,025,067	17,794,396
Financial liabilities at fair value through profit or loss	9,961	41,961
Bonds payable (including current portion)	21,548,935	24,359,772
Long-term borrowings (including current portion)	22,395,962	24,800,582
Guarantee deposits	978,816	887,163
Total	<u>\$ 80,216,951</u>	<u>\$ 75,246,879</u>

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			
	2017		2016	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<u>Financial liabilities</u>				

Bonds payable (including current portion)	\$ 21,548,935	\$ 22,151,528	\$ 24,359,772	\$ 24,971,227
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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, 2017

	Level 1	Level 2	Level 3	Total
Available-for-sale financial assets				
Domestic listed stock	\$ 3,829,968	\$ -	\$ -	\$ 3,829,968
Limited partnerships	-	-	785,065	785,065
Beneficiary certificates	845,806	-	-	845,806
Foreign unlisted stocks	-	28,269	-	28,269
	<u>\$ 4,675,774</u>	<u>\$ 28,269</u>	<u>\$ 785,065</u>	<u>\$ 5,489,108</u>
Financial liabilities at fair value through profit or loss	<u>\$ -</u>	<u>\$ 9,961</u>	<u>\$ -</u>	<u>\$ 9,961</u>

December 31, 2016

	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 42,030</u>	<u>\$ 42,030</u>
Available-for-sale financial assets				
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 liabilities at fair value through profit or loss	<u>\$ -</u>	<u>\$ 41,961</u>	<u>\$ -</u>	<u>\$ 41,961</u>

There was no transfer between the fair value measurements of Levels 1 and 2 for the year ended December 31, 2017. Transfer between Level 1 and Level 2 for the year ended December 31, 2016 was mainly due to the changes in the source of valuation.

Valuation techniques and assumptions used in fair value determination

a) 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 foreign unlisted stocks, the Group takes price fluctuations and risk-free rates into consideration by using the market comparison approach. Call and put options of convertible bonds that adopted 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:

i. 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, 2017 and 2016, the historical volatility of stock prices was estimated at 45.10% and 68.91%, respectively, and the liquidity discount rate was estimated at 10.53% and 30.56%, 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.

ii. The fair value of limited partnerships investments was evaluated through the market approach and income approach. The evaluation and assumptions mainly referenced related information of comparable market targets and estimated future cash flows.

3) Reconciliation of Level 3 fair value measurements of financial instruments

For the year ended December 31, 2017

	Financial Assets at Fair Value Through Profit or Loss - Derivatives Instruments	Available-for-sale Financial Assets - Limited Partnerships
Balance at January 1, 2017	\$ 42,030	\$ -
Purchases	-	810,865
Recognized in profit or loss		
Valuation loss on financial assets at fair value through profit or loss	(39,319)	-
Unrealized loss on foreign currency exchange	(2,711)	-
Recognized in other comprehensive income		
Unrealized loss on available-for-sale financial assets	-	(25,800)
Balance at December 31, 2017	<u>\$ -</u>	<u>\$ 785,065</u>

For the year ended December 31, 2016

	Financial Assets at Fair Value Through Profit or Loss - Derivatives Instruments	Available-for-sale Financial Assets - Limited Partnerships
Balance at January 1, 2016	\$ 158,322	\$ -
Recognized in profit or loss		
Valuation loss on financial assets at fair value through profit or loss	(112,234)	-
Unrealized loss on foreign currency exchange	<u>(4,058)</u>	<u>-</u>
Balance at December 31, 2016	<u>\$ 42,030</u>	<u>\$ -</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 assesses the potential risks that the Group may face and uses this information as a reference for determining its annual audit plan. The Internal Audit Office reports the results and findings of performing such procedures, and follows up the discrepancies, if any, for actions.

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. As of December 31, 2017 and 2016, the Group had unused bank facilities of \$52,113,192 thousand and \$53,599,608 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.

	Contractual Cash Flows	Within 1 Year	1-5 Years	More Than 5 Years
<u>December 31, 2017</u>				
Unsecured loans	\$ 28,838,139	\$ 17,821,716	\$ 11,016,423	\$ -
Secured loans	3,786,006	271,590	1,044,872	2,469,544
Short-term notes and bills payable	5,600,000	5,600,000	-	-
Bonds payable	<u>22,118,310</u>	<u>7,558,010</u>	<u>14,560,300</u>	<u>-</u>
	<u>\$ 60,342,455</u>	<u>\$ 31,251,316</u>	<u>\$ 26,621,595</u>	<u>\$ 2,469,544</u>
<u>December 31, 2016</u>				
Unsecured loans	\$ 29,506,748	\$ 10,709,592	\$ 18,797,156	\$ -
Secured loans	3,180,198	273,132	2,907,066	-
Bonds payable	<u>25,213,730</u>	<u>3,095,420</u>	<u>22,118,310</u>	<u>-</u>
	<u>\$ 57,900,676</u>	<u>\$ 14,078,144</u>	<u>\$ 43,822,532</u>	<u>\$ -</u>

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 assets and liabilities exposed to significant exchange rate risk were as follows:

	December 31, 2017		
	Foreign Currencies	Exchange Rate	New Taiwan Dollars
<u>Foreign currency assets</u>			
Monetary items			
RMB	\$ 10,805	4.56	\$ 49,273
USD	32,668	29.77	972,530
HKD	125,086	3.808	476,329
EUR	654	35.55	23,265
THB	33,711	0.918	30,933
Non-monetary items			
RMB	171,474	4.56	781,922
USD	26,371	29.77	785,065
HKD	7,424	3.808	28,269
THB	128,011	0.918	117,462
<u>Foreign currency liabilities</u>			
Monetary items			
RMB	4,444	4.56	20,265
USD	13,575	29.77	404,123
EUR	24	35.55	855

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

Foreign currency liabilities

Monetary items			
RMB	4,444	4.629	20,571
USD	11,330	32.28	365,710
EUR	19	33.75	651

The Group's foreign exchange gains and losses, including realized and unrealized, for the years ended December 31, 2017 and 2016, were net exchange loss of \$90,793 thousand and \$41,438 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 monetary items of foreign currencies. If there had been 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 \$56,354 thousand and \$77,305 thousand for the years ended December 31, 2017 and 2016, 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	
	2017	2016
Fair value interest rate risk		
Financial assets	\$ 7,657,551	\$ 9,384,999
Financial liabilities	31,194,752	30,897,585
Cash flow interest rate risk		
Financial assets	1,714,113	2,307,317
Financial liabilities	18,358,279	16,063,586

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 \$83,221 thousand and \$68,781 thousand for the years ended December 31, 2017 and 2016, 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), other comprehensive income would have decreased by \$274,455 thousand and \$221,311 thousand for the years ended December 31, 2017 and 2016, respectively.

28. RELATED-PARTY TRANSACTIONS

a. Parent company and ultimate controlling party

TWM is the ultimate controlling party of the Group.

b. Related party name and nature of relationship

<u>Related Party</u>	<u>Nature of Relationship</u>
GHS	Associates
TPE	Associates
Kbro Media	Associates
TVD Shopping	Associates
ADT	Associates
Beijing Global ZhiQun Enterprise Ltd.	Associates (subsidiary of GHS)
Beijing Global JiuSha Media Technology Co., Ltd.	Associates (subsidiary of GHS)
Beijing YueShih JiuSha Media Technology Co., Ltd.	Associates (subsidiary of GHS)
Beijing Pelican Express Co., Ltd.	Associates (subsidiary of TPE)
Good Image Co., Ltd.	Associates (subsidiary of Kbro Media)
Fubon Life Insurance Co., Ltd. (Fubon Life)	Other related parties
Taipei Fubon Commercial Bank Co., Ltd. (TFCB)	Other related parties
Fubon Insurance Co., Ltd. (Fubon Ins.)	Other related parties
Fubon Securities Investment Trust Co., Ltd. (FSIT)	Other related parties
Fubon Property Management Co., Ltd. (FPM)	Other related parties
Fu Yi Health Management Co. Ltd. (FYHM)	Other related parties
Fubon Financial Holding Co., Ltd.	Other related parties
Fubon Life Insurance (HK) Ltd.	Other related parties

(Continued)

Related Party	Nature of Relationship
Fubon Securities Co., Ltd.	Other related parties
Fubon Futures Co., Ltd.	Other related parties
Fubon Investment Services Co., Ltd.	Other related parties
Fubon Securities Equity Investment Co., Ltd.	Other related parties
Fubon Marketing Co., Ltd.	Other related parties
Fu-Sheng Life Insurance Agency Co., Ltd.	Other related parties
Fu-Sheng General Insurance Agency Co., Ltd.	Other related parties
Fubon Financial Venture Capital Co., Ltd.	Other related parties
Fubon Sports & Entertainment Co., Ltd.	Other related parties
Fubon Asset Management Co., Ltd.	Other related parties
Taiwan Sports Lottery Co., Ltd.	Other related parties
One Production Film Co., Ltd.	Other related parties
Fubon Bank (China) Co., Ltd.	Other related parties
Fubon Land Development Co., Ltd.	Other related parties
Fubon Real Estate Management Co., Ltd.	Other related parties
Fubon Hospitality Management Co., Ltd.	Other related parties
Chung Hsing Constructions Co., Ltd.	Other related parties
Ming Dong Co., Ltd.	Other related parties
Dao Ying Co., Ltd.	Other related parties
Fubon Xinji Investment Co., Ltd.	Other related parties
Mitchiller Media Co., Ltd.	Other related parties
Dai-Ka Ltd.	Other related parties
We Share Entertainment Co., Ltd.	Associates (subsidiary of Kbro Media, not a related party since April 1, 2016)
Taiwan Mobile Foundation (TMF)	Other related parties
Taipei New Horizon Foundation (TNHF)	Other related parties
Fubon Cultural & Educational Foundation	Other related parties
Fubon Charity Foundation	Other related parties
Fubon Art Foundation	Other related parties
Taipei Fubon Bank Charity Foundation	Other related parties
Taipei New Horizon Management Agency	Other related parties

(Concluded)

c. Significant transactions with related parties

1) Operating revenue

	For the Year Ended December 31	
	2017	2016
Associates	\$ 49,319	\$ 89,550
Other related parties	<u>851,555</u>	<u>429,484</u>
	<u>\$ 900,874</u>	<u>\$ 519,034</u>

The Group renders telecommunication, sales and maintenance services, etc., to the 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	
	2017	2016
Associates	\$ 404,277	\$ 376,218
Other related parties	<u>795,536</u>	<u>590,164</u>
	<u>\$ 1,199,813</u>	<u>\$ 966,382</u>

The entities mentioned above provide logistics, copyright and other services. The transaction terms with related parties were not significantly different from those with third parties.

3) Receivables due from related parties

		December 31	
		2017	2016
Account	Related Party Categories		
Accounts receivable	Associates	\$ 7,405	\$ 4,367
Accounts receivable	Other related parties	<u>99,070</u>	<u>79,174</u>
		<u>\$ 106,475</u>	<u>\$ 83,541</u>
Other receivables	Associates	\$ 123,781	\$ 94,873
Other receivables	Other related parties	<u>74,100</u>	<u>66,936</u>
		<u>\$ 197,881</u>	<u>\$ 161,809</u>

Receivables from related parties above were not secured with collateral, and no provisions for bad debt expenses were accrued.

4) Payables due to related parties

		December 31	
		2017	2016
Account	Related Party Categories		
Accounts payable	Associates	\$ 502	\$ 507
Accounts payable	Other related parties	<u>129,130</u>	<u>145,475</u>
		<u>\$ 129,632</u>	<u>\$ 145,982</u>
Other payables	Associates	\$ 95,714	\$ 34,402
Other payables	Other related parties	<u>67,680</u>	<u>74,203</u>
		<u>\$ 163,394</u>	<u>\$ 108,605</u>

5) Prepayments

	December 31	
	2017	2016
Other related parties		
Fubon Ins.	<u>\$ 56,138</u>	<u>\$ 36,005</u>

6) Borrowings from related parties

	December 31	
	2017	2016
Other related parties	\$ <u>-</u>	\$ <u>63,005</u>

The rate on borrowings from related parties was equivalent to the rate in the market. As of December 31, 2016, the Group had drawn \$16,250 thousand of performance bonds from the related parties.

7) Bank deposits, time deposits and other financial assets

	December 31	
	2017	2016
Other related parties		
TFCB	\$ 1,185,528	\$ 2,273,279
Others	<u>8,530</u>	<u>13,576</u>
	<u>\$ 1,194,058</u>	<u>\$ 2,286,855</u>

8) Acquisition of available-for-sale financial assets - current

The Group purchased beneficiary certificates from FSIT amounting to \$120,000 thousand in 2017.

9) Disposal of available-for-sale financial assets - current

The Group sold the beneficiary certificates to FSIT, which were originally purchased from FSIT, for \$120,012 thousand, resulting in a disposal gain of \$12 thousand in 2017.

10) Investments acquired

In December 2016, the Group acquired new shares from ADT, amounting to \$30,000 thousand.

11) Others

	December 31	
	2017	2016
Guarantee deposits		
Other related parties	\$ <u>48,459</u>	\$ <u>48,279</u>
Operating expenses		
Other related parties		
TMF	\$ 15,000	\$ 20,000
TNHF	5,000	5,000
Fubon Life	151,794	151,139
FPM	66,740	77,114
TFCB	271,397	266,541
Others	<u>86,679</u>	<u>38,355</u>
	<u>\$ 596,610</u>	<u>\$ 558,149</u>

	For the Year Ended December 31	
	2017	2016
Non-operating income		
Other related parties		
FYHM	\$ <u>15,403</u>	\$ <u>2,559</u>

Operating expenses and non-operating income include rental expenses and rental income. Leases are conducted by referring to general market prices, and rental is paid and collected on a monthly or bimonthly basis.

d. Key management compensation

The amounts of remuneration of directors and key executives were as follows:

	For the Year Ended December 31	
	2017	2016
Short-term employee benefits	\$ 309,860	\$ 313,477
Termination and post-employment benefits	<u>22,054</u>	<u>10,518</u>
	<u>\$ 331,914</u>	<u>\$ 323,995</u>

29. ASSETS PLEDGED

The assets pledged as collateral for bank borrowings and syndicated loans, lawsuits, purchases, loan commitments and performance bonds were as follows:

	December 31	
	2017	2016
Other current financial assets	\$ 2,552,383	\$ 2,650,196
Services concessions	7,327,492	7,506,211
Other non-current financial assets	<u>128,987</u>	<u>125,953</u>
	<u>\$ 10,008,862</u>	<u>\$ 10,282,360</u>

30. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED COMMITMENTS

a. Unrecognized commitments

	December 31	
	2017	2016
Purchases of property, plant and equipment	\$ <u>3,683,121</u>	\$ <u>3,983,037</u>
Purchases of cellular phones	<u>\$ 3,316,989</u>	<u>\$ 7,728,902</u>

b. As of December 31, 2017 and 2016, the amounts of endorsements and guarantees (provided to group entities) were \$21,618,400 thousand and \$21,688,870 thousand, respectively.

c. In accordance with the NCC's policy and regulations, 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 \$1,021,108 thousand and \$15,699 thousand, respectively, as of December 31, 2017.

In accordance with the NCC's policy and regulations, cable television companies should provide performance bonds based on a certain proportion of the advance receipts from their subscribers. As of December 31, 2017, the cable television companies had provided \$66,546 thousand as performance bonds, classified as other non-current financial assets.

In accordance with the Ministry of Economic Affairs' policy and regulations, momo entered into a contract with First Commercial Bank Co., Ltd., which provides a performance guarantee for advance receipts from prepaid bonuses and electronic tickets totaling \$23,397 thousand and \$13,649 thousand, respectively, as of December 31, 2017.

In accordance with the Ministry of Economic Affairs' policy and regulations, 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 \$1,773 thousand as of December 31, 2017.

- 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 fiscal year 2015. As of December 31, 2017, \$506,594 thousand (tax included) of the concession had been paid.

3) Performance guarantee:

As of December 31, 2017, 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 a request for provisional injunction with the Taipei District Court (the "Court") 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 and the use of the C1 spectrum to maintain the status quo. The rights and interests of the subscribers will not be affected. TWM filed a claim in August 2017 to revoke the aforementioned ruling; the revocation was approved by the Taiwan High Court (the "High Court") on January 15, 2018.

Besides, in August 2015, FET filed a civil statement of complaint with the Court, in which FET claims that (i) TWM shall apply for the 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 TWM's application for the return of the C4 spectrum block is approved by the NCC; and (iv) TWM shall provide \$1,005,800 thousand to FET as compensation. On May 23, 2016, the Court decided against TWM regarding claims (i), (ii), and (iii) of the lawsuit; and the Court decided against FET regarding claim (iv) of the lawsuit. FET offered a security deposit of \$320,630 thousand for the provisional execution of claims (i) to (iv). TWM offered a counter-security deposit of \$961,913 thousand in order to be exempted from the provisional execution of claims (i) to (iv). In addition, TWM offered a counter-security deposit for the exemption from provisional execution of the sentence. TWM and FET appealed the aforementioned sentences respectively. The judgment dismissed by the High Court were as follows: (1) TWM "shall apply for the return of the C4 spectrum block to the NCC immediately", "shall not use the C4 spectrum block in any way", and "TWM shall not use the C1 spectrum block before the C4 spectrum block has been returned to and approved by the NCC", and (2) the claim stated in section 2(2) below, in which the corresponding portion of FET's claimed provisional execution and litigation expenses were rejected. 2. (1) For the dismissed portion stated in the above section (1), FET's claim and motion of provisional execution in the first instance were rejected; and (2) for the dismissed portion stated in the above section 1(2), TWM shall pay FET \$765,779 thousand, as well as a 5% annual interest payment, for the period starting from September 5, 2015 to the payment date, on \$152,584 thousand of the above amount. 3. The rest of FET's appeals were rejected. 4. TWM shall bear half of the litigation expenses in the first and second instances, and FET shall bear the rest. 5. Regarding the portion of the judgment regarding TWM's payment, FET may file a provisional execution with a collateral of \$255,260 thousand or a negotiable certificate deposit (NCD) issued by Far Eastern International Bank for the equal amount; and TWM may provide a counter-security of \$765,779 thousand to be exempted from the above FET provisional execution. 6. The rest of FET's motions on provisional execution were rejected. TWM has estimated and accrued for the related compensation loss and interest expense. TWM will also consult with the lawyers for any further reactions.

FET further filed a provisional injunction in April 2016, in which FET claimed that TWM shall apply for the return of the C4 spectrum block to the NCC immediately and TWM shall not use the C1 and C4 spectrum blocks. The Court declared that after FET has provided a collateral of \$143,050 thousand, TWM shall apply for the return of the C4 spectrum block to the NCC, and TWM shall be prohibited from the use of the C4 spectrum block; the remainder of FET's claims were rejected. TWM may provide a counter-security deposit of \$547,119 thousand to be exempted from, or to move for the revocation of, the above FET provisional injunction. TWM provided the counter-security deposit so that TWM would not be required to return the C4 spectrum block and could maintain the status quo of its use of the C4 spectrum block. TWM and FET have filed an appeal against the unfavorable portion of the judgment. After the ruling declared by the High Court, TWM and FET both appealed the judgment to the Supreme Court. The Supreme Court dismissed the aforementioned ruling and remanded the cases to the High Court. The provisional injunction and aforementioned appeal filed by FET were rejected by the High Court after the remand ruling. FET re-appealed to the Supreme Court, and the Supreme Court rejected the re-appeal in January 2018; thus, the rejection of the provisional injunction filed by FET was the final judgment.

31. SIGNIFICANT EVENTS AFTER REPORTING PERIOD

In February 2018, the Board of Directors resolved that TWM would issue unsecured corporate bonds with a total amount not higher than \$15 billion.

32. OTHERS

Employee benefits, depreciation, and amortization are summarized as follows:

	For the Year Ended December 31					
	2017			2016		
	Classified as Operating Costs	Classified as Operating Expenses	Total	Classified as Operating Costs	Classified as Operating Expenses	Total
Employee benefits						
Salary	\$ 2,079,506	\$ 4,216,796	\$ 6,296,302	\$ 2,051,054	\$ 4,119,061	\$ 6,170,115
Insurance expenses	170,257	376,272	546,529	163,600	352,406	516,006
Pension	94,079	200,388	294,467	91,218	190,672	281,890
Others	105,828	260,996	366,824	101,786	245,331	347,117
Depreciation	9,884,719	385,215	10,269,934	10,169,163	468,813	10,637,976
Amortization	2,959,938	435,281	3,395,219	2,748,970	452,719	3,201,689

a. Information of employees' compensation and remuneration of 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, estimated employees' compensation and remuneration of directors are at the rates of 1% to 3% and no higher than 0.3%, respectively, of profit before income tax, employees' compensation, and remuneration of directors. Estimations for employees' compensation, and remuneration of directors were made by applying the rates to the aforementioned profit before income tax, for the years ended December 31, 2017 and 2016, respectively.

If there is a change in the approved 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 of directors of 2017 and 2016 shown below were approved by the Board of Directors on February 1, 2018 and January 25, 2017, respectively. The differences with the amounts recognized in the consolidated financial statements have been adjusted in 2018 and 2017, respectively.

	For the Year Ended December 31			
	2017		2016	
	Employees' Compensation Paid in Cash	Remuneration of Directors	Employees' Compensation Paid in Cash	Remuneration of Directors
Amounts approved by the Board of Directors	<u>\$ 453,359</u>	<u>\$ 45,336</u>	<u>\$ 468,063</u>	<u>\$ 46,806</u>
Amounts recognized in the consolidated financial statements	<u>\$ 438,728</u>	<u>\$ 43,873</u>	<u>\$ 494,483</u>	<u>\$ 49,448</u>

Information on the employees' compensation and remuneration of directors approved 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, 2017 and 2016, the depreciation expense in non-operating expenses was \$24,333 thousand and \$12,150 thousand, respectively.

33. ADDITIONAL DISCLOSURES

a. Information on significant transactions and b. Information on investees:

- 1) Financing extended to other parties: Table 1 (attached)
- 2) Endorsements/guarantees provided to other parties: Table 2 (attached)
- 3) Marketable securities held: Table 3 (attached) (excluding investments in subsidiaries and associates)
- 4) Marketable securities acquired and disposed of at costs or prices of at least NT\$300 million or 20% of the paid-in capital: Table 4 (attached)
- 5) Acquisition of individual real estate at costs of at least NT\$300 million or 20% of the paid-in capital: Table 5 (attached)
- 6) Disposal of individual real estate 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 6 (attached)
- 8) Receivables from related parties of at least NT\$100 million or 20% of the paid-in capital: Table 7 (attached)
- 9) Names, locations and related information of investees on which TWM exercised significant influence: Table 8 (attached) (excluding information on investment in Mainland China)
- 10) Trading in derivative instruments: Note 27
- 11) Business relationships between the parent and the subsidiaries and significant intercompany transactions: Table 9 (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 10 (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 9 (attached)

34. 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 online shopping, TV 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, 2017	Telecommuni- cation	Retail	Cable Television	Others	Adjustments and Eliminations	Total
Operating revenues	\$ 77,371,810	\$ 33,238,547	\$ 6,392,485	\$ 577,182	\$ (408,917)	\$ 117,171,107
Operating costs	48,326,761	29,591,202	3,348,297	353,578	(174,722)	81,445,116
Operating expenses	14,546,447	2,262,449	821,999	51,816	(179,796)	17,502,915
Other gains and losses, net	870,301	4,167	25,903	5,786	(36,821)	869,336
Profit	15,368,903	1,389,063	2,248,092	177,574	(91,220)	19,092,412
EBITDA	27,516,397	1,515,453	3,276,498	390,133	83,417	32,781,898

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	28,568,057	1,370,711	3,503,892	278,661	150,260	33,871,581

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.

TABLE 1

TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES

FINANCING EXTENDED TO OTHER PARTIES
FOR THE YEAR ENDED DECEMBER 31, 2017

(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	TCC	TWM	Other receivables	Yes	\$ 400,000	\$ 400,000	\$ 350,000	1.09033%-1.09267%	Short-term financing	\$ -	Operation requirements	\$ -	-	\$ -	\$ 34,482,965	\$ 34,482,965	Note 2
2	WMT	TWM	Other receivables	Yes	3,000,000	3,000,000	1,740,000	1.08700%-1.11733%	Short-term financing	-	Operation requirements	-	-	-	8,167,731	8,167,731	Note 2
		TKT	Other receivables	Yes	100,000	100,000	-	-	Short-term financing	-	Operation requirements	-	-	-	8,167,731	8,167,731	Note 2
		TFNM	Other receivables	Yes	3,000,000	3,000,000	1,940,000	1.09311%-1.11767%	Short-term financing	-	Operation requirements	-	-	-	8,167,731	8,167,731	Note 2
		WTVB	Other receivables	Yes	600,000	600,000	290,000	1.09278%-1.09311%	Short-term financing	-	Operation requirements	-	-	-	8,167,731	8,167,731	Note 2
3	TFN	TWM	Other receivables	Yes	9,000,000	9,000,000	5,740,000	1.09033%-1.09311%	Short-term financing	-	Operation requirements	-	-	-	22,285,232	22,285,232	Note 2
4	YJCTV	TFNM	Other receivables	Yes	370,000	240,000	200,000	1.09067%-1.09333%	Transactions	502,509	-	-	-	-	502,509	723,304	Note 3
5	PCTV	TFNM	Other receivables	Yes	520,000	520,000	520,000	1.09067%-1.09244%	Transactions	560,501	-	-	-	-	560,501	1,006,633	Note 3
6	GCTV	TFNM	Other receivables	Yes	250,000	250,000	250,000	1.09067%-1.09244%	Short-term financing	-	Repayment of financing	-	-	-	278,160	501,689	Note 3

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 and the total amount of business dealings, respectively. 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.

TABLE 2

TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES

**ENDORSEMENTS/GUARANTEES PROVIDED TO OTHER PARTIES
FOR THE YEAR ENDED DECEMBER 31, 2017**

(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	\$ 8,435,050 50,000	\$ - -	36.05 0.08	\$ 59,631,863 59,631,863	Y Y	N N	N N	Notes 3 and 4 Note 3
1	momo	FGE	Note 2	734,799	205,200	68,400	68,400	-	1.16	5,876,747	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, more than 50% ownership, and the individual amount shall be limited to the investment amount for a single subsidiary.

TABLE 3

TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES

MARKETABLE SECURITIES HELD (EXCLUDING INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES)
DECEMBER 31, 2017

(In Thousands of New Taiwan Dollars)

Investing Company	Marketable Securities Type and Name	Relationship with the Securities Issuer	Financial Statement Account	December 31, 2017				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	\$ 230,392	0.028	\$ 230,392	
	Asia Pacific Telecom Co., Ltd.	-	Non-current available-for-sale financial assets	148,255	1,479,585	3.45	1,479,585	
	Bridge Mobile Pte Ltd.	-	Non-current financial assets at cost	800	7,050	10	-	
	<u>Limited Partnerships</u>							
	Grand Academy Investment, L.P.	-	Non-current available-for-sale financial assets	-	614,513	21.67	614,513	Note 1
TCC	Starview Heights Investment, L.P.	-	Non-current available-for-sale financial assets	-	170,552	21.67	170,552	Note 1
	<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	1,312	2,993	3	-	
TFN	<u>Stock</u>							
	Taiwan High Speed Rail Corporation	-	Non-current available-for-sale financial assets	90,212	2,119,991	1.6	2,119,991	
TCCI	<u>Stock</u>							
	TWM	TWM	Non-current available-for-sale financial assets	200,497	21,553,402	5.86	21,553,402	
	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	44,146,518	12	44,146,518	
TID	<u>Stock</u>							
	TWM	TWM	Non-current available-for-sale financial assets	87,590	9,415,877	2.56	9,415,877	
TFNM	<u>Beneficiary Certificates</u>							
	Dragon Tiger Capital Partners Limited - Class B	-	Non-current financial assets at cost	0.2	-	0.33	-	Note 2
	Dragon Tiger Capital Partners Limited - Class C	-	Non-current financial assets at cost	0.0335	-	0.056	-	Note 2
	<u>Bonds</u>							
	Media Asia Group Holdings Limited - Convertible Notes		Current financial assets at fair value through profit or loss	-	-	-	-	Note 3
		-	Current debt instrument investment without active market	-	465,654	-	-	

(Continued)

Investing Company	Marketable Securities Type and Name	Relationship with the Securities Issuer	Financial Statement Account	December 31, 2017				Note
				Units/Shares (Thousands)	Carrying Value	Percentage of Ownership	Fair Value	
momo	<u>Beneficiary Certificates</u>							
	Fubon Strategic High Income Fund B	Other related party	Current available-for-sale financial assets	18,302	\$ 180,867	-	\$ 180,867	
	Fuh Hwa Emerging Market High Yield Bond Fund B	-	Current available-for-sale financial assets	10,225	64,213	-	64,213	
	PineBridge Global Multi - Strategy High Yield Bond Fund-B	-	Current available-for-sale financial assets	23,351	167,475	-	167,475	
	Eastspring Investments Global High Yield Bond Fund B	-	Current available-for-sale financial assets	19,028	161,121	-	161,121	
	JPMorgan (Taiwan) Asia High Yield Total Return Bond Fund - Monthly Distribution Share Class	-	Current available-for-sale financial assets	18,916	173,630	-	173,630	
	Eastspring Investments India Umbrella Fund - Eastspring Investments India Bond Fund B	-	Current available-for-sale financial assets	10,000	98,500	-	98,500	
	<u>Stock</u>							
	Media Asia Group Holdings Limited	-	Current available-for-sale financial assets	43,668	28,269	2.04	28,269	
	We Can Medicines Co., Ltd.	-	Non-current financial assets at cost	2,400	53,820	7.73	-	

Note 1: Percentage of ownership is the percentage of capital contribution.

Note 2: Impairment loss has been recognized, and the value has been reduced to zero.

Note 3: The conversion right is unexpired, but its fair value is measured as zero on December 31, 2017.

Note 4: For the information on investments in subsidiaries and associates, see Table 8 and Table 10 for details.

(Concluded)

TABLE 4

TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES

MARKETABLE SECURITIES ACQUIRED AND DISPOSED OF AT COSTS OR PRICES OF AT LEAST \$300 MILLION OR 20% OF THE PAID-IN CAPITAL
FOR THE YEAR ENDED DECEMBER 31, 2017

(In Thousands of New Taiwan Dollars)

Company Name	Type and Name of Marketable Securities	Financial Statement Account	Counterparty	Relationship	Beginning Balance		Acquisition		Disposal				Ending Balance	
					Units/Shares (In Thousands)	Amount	Units/Shares (In Thousands)	Amount	Units/Shares (In Thousands)	Amount	Carrying Amount	Gain (Loss) on Disposal	Units/Shares (In Thousands)	Amount
TWM	Grand Academy Investment, L.P.	Non-current available-for-sale financial assets	-	-	-	\$ -	-	\$ 643,829	-	\$ -	\$ -	\$ -	-	\$ 614,513 (Note)

Note: The ending balance includes the relevant adjustment to financial assets.

TABLE 5

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, 2017

(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	\$ 1,725,409 (Note)	The Group has paid \$1,535,117 thousand (including \$862,422 thousand paid in current period). 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

Note: The transaction amount increased to \$1,725,409 thousand by the additional amount \$70,171 thousand in current period.

TABLE 6

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, 2017

(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	\$ 632,397	1	Based on contract terms	-	-	\$ 12,004	-	Note 1
			Purchase	4,692,966	(Note 2)	Based on contract terms	-	-	(448,805)	(Note 3)	Note 1
	TT&T	Subsidiary	Purchase	1,114,477	(Note 2)	Based on contract terms	-	-	(100,988)	(Note 3)	Note 1
			Purchase	320,283	(Note 2)	Based on contract terms	-	-	(87,394)	(Note 3)	
	TDS	Subsidiary	Purchase	163,987	(Note 2)	Based on contract terms	-	-	(16,703)	(Note 3)	
	TNH	Subsidiary	Purchase	121,595	(Note 2)	Based on contract terms	-	-	(3,189)	(Note 3)	
	Fubon Ins.	Other related party	Sale	367,368	1	Based on contract terms	-	-	70,084	1	
			Purchase	499,363	1	Based on contract terms	-	-	(92,808)	3	
TNH	TWM	Parent	Sale	123,140	21	Based on contract terms			653	10	
TFN	TWM	Ultimate parent	Sale	4,692,966	47	Based on contract terms	-	-	448,805	51	Note 1
			Purchase	632,397	(Note 2)	Based on contract terms	-	-	(12,004)	(Note 3)	Note 1
	TT&T	Fellow subsidiary	Purchase	115,476	(Note 2)	Based on contract terms	-	-	(10,364)	(Note 3)	
	TFNM	Fellow subsidiary	Sale	155,666	2	Based on contract terms	-	-	28,969	3	
	Fubon Life	Other related party	Sale	240,214	2	Based on contract terms	-	-	10,996	1	
TT&T	TWM	Ultimate parent	Sale	1,114,477	91	Based on contract terms	-	-	100,988	91	
	TFN	Fellow subsidiary	Sale	115,476	9	Based on contract terms	-	-	10,364	9	
TKT	TWM	Ultimate parent	Sale	320,283	89	Based on contract terms	-	-	87,394	100	Note 1
TDS	TWM	Ultimate parent	Sale	163,987	96	Based on contract terms	-	-	16,703	95	
TFNM	TFN	Fellow subsidiary	Purchase	160,029	(Note 2)	Based on contract terms	-	-	(28,969)	(Note 3)	
	YJCTV	Subsidiary	Channel leasing fee	430,639	13	Based on contract terms	Note 4	Note 4	-	-	
	PCTV	Subsidiary	Channel leasing fee	480,909	15	Based on contract terms	Note 4	Note 4	-	-	
	UCTV	Subsidiary	Channel leasing fee	223,622	7	Based on contract terms	Note 4	Note 4	-	-	
	GCTV	Subsidiary	Channel leasing fee	189,412	6	Based on contract terms	Note 4	Note 4	-	-	
YJCTV	TFNM	Parent	Royalty for copyright	430,639	56	Based on contract terms	Note 4	Note 4	-	-	
PCTV	TFNM	Parent	Royalty for copyright	480,909	55	Based on contract terms	Note 4	Note 4	-	-	
UCTV	TFNM	Parent	Royalty for copyright	223,622	41	Based on contract terms	Note 4	Note 4	-	-	
GCTV	TFNM	Parent	Royalty for copyright	189,412	49	Based on contract terms	Note 4	Note 4	-	-	

(Continued)

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	
MCTV	Dai-Ka Ltd.	Other related party	Royalty for copyright	\$ 157,827	42	Based on contract terms	Note 4	Note 4	\$ (39,457)	88	
momo	TPE	Associate	Purchase	401,635	1	Based on contract terms	-	-	(96,055)	(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.

(Concluded)

TABLE 7

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, 2017**

(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	\$ 351,582		\$ -	-	\$ 1,582	\$ -
WMT	TWM	Parent	Other receivables	1,745,787		-	-	10,335	-
	TFNM	Subsidiary	Other receivables	1,942,599		-	-	-	-
	WTVB	Subsidiary	Other receivables	290,667		-	-	258	-
TFN	TWM	Ultimate parent	Accounts receivable	448,805	10.58	-	-	408,055	-
			Other receivables	5,826,987		-	-	48,782	-
TT&T	TWM	Ultimate parent	Accounts receivable	100,988	11.24	-	-	100,988	-
YJCTV	TFNM	Parent	Accounts receivable	4,399	10.1	-	-	-	-
			Other receivables	200,001		-	-	-	-
PCTV	TFNM	Parent	Accounts receivable	4,989	10.01	-	-	-	-
			Other receivables	520,038		-	-	-	-
GCTV	TFNM	Parent	Accounts receivable	2,158	10.44	-	-	-	-
			Other receivables	250,007		-	-	-	-
momo	TPE	Associate	Accounts receivable	280	19.19	-	-	60	-
			Other receivables	123,502		-	-	106,427	-

TABLE 8

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, 2017

(In Thousands of New Taiwan Dollars)

Investor	Investee	Location	Main Businesses and Products	Investment Amount		Balance as of December 31, 2017			Net Income (Loss) of the Investee	Investment Income (Loss)	Note
				December 31, 2017	December 31, 2016	Shares (Thousands)	Percentage of Ownership (%)	Carrying Amount			
TWM	TCC	Taiwan	Investment	\$ 40,397,288	\$ 40,397,288	502,970	100	\$ 18,649,968	\$ 3,483,830	\$ 2,840,885	Note 1
	WMT	Taiwan	Investment	16,802,000	16,802,000	42,065	100	20,419,328	2,294,077	2,294,077	
	TNH	Taiwan	Building and operating Songshan Cultural and Creative Park BOT project	1,918,655	1,918,655	191,866	49.9	1,721,873	130,304	65,022	
	ADT	Taiwan	Technology development of mobile payment and information processing services	60,000	60,000	6,000	14.4	14,451	(132,040)	(19,417)	
TCC	TFN	Taiwan	Fixed line service provider	21,000,000	21,000,000	2,100,000	100	55,714,043	3,411,929	-	Note 2
	TT&T	Taiwan	Call center service and telephone marketing	56,210	56,210	2,484	100	105,000	53,946	-	
	TWM Holding	British Virgin Islands	Investment	347,951	347,951	-	100	248,394	(8,986)	-	Notes 2 and 3
	TCCI	Taiwan	Investment	17,285,441	17,285,441	154,721	100	29,456,852	6,170	-	
	TDC	Taiwan	Mobile phone wholesaling and TV program production	112,000	112,000	11,200	100	115,566	(191)	-	Note 2
	TDS	Taiwan	Commissioned maintenance service	25,000	25,000	2,500	100	102,720	8,327	-	
WMT	TPIAC	Taiwan	Property insurance agent	5,000	-	500	100	4,942	(58)	-	Note 2
	TFNM	Taiwan	Cable broadband and value added service provider	5,210,443	5,210,443	230,921	100	6,784,414	1,748,542	-	Note 2
	GFMT	Taiwan	Investment	16,984	16,984	1,500	100	17,421	240	-	
	GWMT	Taiwan	Investment	92,189	92,189	8,945	100	97,024	3,437	-	Note 2
	WTVB	Taiwan	TV program provider	222,417	222,417	18,177	100	313,421	70,554	-	
	momo	Taiwan	Wholesale and retail sales	8,129,394	8,129,394	63,047	45.01	9,195,737	1,270,082	-	Notes 2 and 4
TFN	TUI	Taiwan	Investment	22,314,536	22,314,536	400	100	38,684,749	(83)	-	Note 2
	TFN HK Ltd.	Hong Kong	Telecommunications service provider	2,834	2,834	1,300	100	8,213	40	-	
TT&T	TT&T Holdings	Samoa	Investment	36,284	36,284	1,300	100	49,940	(3,829)	-	Note 2
TCCI	TID	Taiwan	Investment	3,602,782	3,602,782	104,712	100	8,256,496	(107)	-	Note 2
TFNM	TKT	Taiwan	Digital music service	129,900	129,900	12,000	100	204,077	(15,177)	-	Note 2
	YJCTV	Taiwan	Cable TV service provider	2,061,522	2,061,522	33,940	100	2,076,468	(14,068)	-	
	MCTV	Taiwan	Cable TV service provider	510,724	510,724	6,248	29.53	644,029	71,761	-	Notes 2 and 5
	PCTV	Taiwan	Cable TV service provider	3,261,073	3,261,073	68,090	100	3,440,114	179,855	-	
	UCTV	Taiwan	Cable TV service provider	1,986,250	1,986,250	169,141	99.22	2,039,719	49,469	-	Note 2
	GCTV	Taiwan	Cable TV service provider	1,221,002	1,221,002	51,733	92.38	1,264,936	52,716	-	
	Kbro Media	Taiwan	Film distribution, arts and literature service, and entertainment	292,500	292,500	29,250	32.5	178,825	(104,375)	-	Note 2
GFMT	UCTV	Taiwan	Cable TV service provider	16,218	16,218	1,300	0.76	15,681	49,469	-	Note 2
GWMT	GCTV	Taiwan	Cable TV service provider	91,910	91,910	3,825	6.83	95,510	52,716	-	Note 2

(Continued)

Investor	Investee	Location	Main Businesses and Products	Investment Amount		Balance as of December 31, 2017			Net Income (Loss) of the Investee	Investment Income (Loss)	Note
				December 31, 2017	December 31, 2016	Shares (Thousands)	Percentage of Ownership (%)	Carrying Amount			
momo	Asian Crown (BVI)	British Virgin Islands	Investment	\$ 789,864	\$ 789,864	26,500	76.26	\$ (20,163)	\$ (22,543)	\$ -	Note 2
	Honest Development	Samoa	Investment	670,448	670,448	21,778	100	761,814	57,713	-	Note 2
	FLI	Taiwan	Life insurance agent	3,000	3,000	500	100	10,136	1,182	-	Note 2
	FPI	Taiwan	Property insurance agent	3,000	3,000	500	100	9,165	1,771	-	Note 2
	FST	Taiwan	Travel agent	6,000	6,000	3,000	100	47,362	10,077	-	Note 2
	TPE	Taiwan	Logistics industry	337,860	337,860	16,893	17.7	401,192	118,411	-	Note 2
	TVD Shopping	Thailand	Wholesale and retail sales	110,800	142,916	24,150	35	117,462	35,387	-	Note 2
Asian Crown (BVI)	Fortune Kingdom	Samoa	Investment	1,035,051	1,035,051	33,633	100	(30,794)	(22,152)	-	Note 2
Honest Development	HK Yue Numerous	Hong Kong	Investment	670,448	670,448	16,600	100	761,814	57,713	-	Note 2
Fortune Kingdom	HK Fubon Multimedia	Hong Kong	Investment	1,035,051	1,035,051	33,633	100	(30,794)	(22,152)	-	Note 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, 2017.

Note 4: Non-controlling interests.

Note 5: 70.47% of stocks are held under trustee accounts.

Note 6: For information on investment in Mainland China, see Table 10 for details.

(Concluded)

TABLE 9

TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES
INTERCOMPANY RELATIONSHIPS AND SIGNIFICANT TRANSACTIONS
FOR THE YEAR ENDED DECEMBER 31, 2017

(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	\$ 12,004	The terms of transaction are determined in accordance with mutual agreements or general business practices	4%			
		TFN	1	Other receivables	31,585	The terms of transaction are determined in accordance with mutual agreements or general business practices				
		TFNM	1	Other receivables	15,619	The terms of transaction are determined in accordance with mutual agreements or general business practices		1%		
		TNH	1	Other non-current assets	18,823	The terms of transaction are determined in accordance with mutual agreements or general business practices				
		TFN	1	Short-term borrowings	5,740,000	The terms of transaction are determined in accordance with mutual agreements or general business practices				
		WMT	1	Short-term borrowings	1,740,000	The terms of transaction are determined in accordance with mutual agreements or general business practices				
		TCC	1	Short-term borrowings	350,000	The terms of transaction are determined in accordance with mutual agreements or general business practices				
		TFN	1	Accounts and notes payable	75,700	The terms of transaction are determined in accordance with mutual agreements or general business practices				
		TKT	1	Accounts and notes payable	87,387	The terms of transaction are determined in accordance with mutual agreements or general business practices				
		TFN	1	Other payables	426,366	The terms of transaction are determined in accordance with mutual agreements or general business practices				
		TT&T	1	Other payables	100,982	The terms of transaction are determined in accordance with mutual agreements or general business practices				
		TFN	1	Other current liabilities	33,726	The terms of transaction are determined in accordance with mutual agreements or general business practices				
		TKT	1	Disposal of property, plant and equipment	15,511	The terms of transaction are determined in accordance with mutual agreements or general business practices				
		TFN	1	Operating revenues	632,397	The terms of transaction are determined in accordance with mutual agreements or general business practices		1%		
		momo	1	Operating revenues	94,834	The terms of transaction are determined in accordance with mutual agreements or general business practices				
		TFN	1	Operating costs	4,684,079	The terms of transaction are determined in accordance with mutual agreements or general business practices		4%		
		TKT	1	Operating costs	320,276	The terms of transaction are determined in accordance with mutual agreements or general business practices				
		TDS	1	Operating costs	163,987	The terms of transaction are determined in accordance with mutual agreements or general business practices				
				TNH	1	Operating costs		31,662	The terms of transaction are determined in accordance with mutual agreements or general business practices	

(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	
0	TWM	TFNM	1	Operating costs	\$ 18,941	The terms of transaction are determined in accordance with mutual agreements or general business practices	1%
		TT&T	1	Operating expenses	1,114,432	The terms of transaction are determined in accordance with mutual agreements or general business practices	
		TNH	1	Operating expenses	89,933	The terms of transaction are determined in accordance with mutual agreements or general business practices	
		TFN	1	Operating expenses	47,132	The terms of transaction are determined in accordance with mutual agreements or general business practices	
		TFN	1	Net other income and expenses	30,200	The terms of transaction are determined in accordance with mutual agreements or general business practices	
		momo	1	Other income	43,258	The terms of transaction are determined in accordance with mutual agreements or general business practices	
		TFN	1	Other income	35,773	The terms of transaction are determined in accordance with mutual agreements or general business practices	
		TFN	1	Finance costs	63,124	The terms of transaction are determined in accordance with mutual agreements or general business practices	
		WMT	1	Finance costs	17,933	The terms of transaction are determined in accordance with mutual agreements or general business practices	
1	WMT	TFNM	1	Other receivables	1,942,599	The terms of transaction are determined in accordance with mutual agreements or general business practices	1%
		WTVB	1	Other receivables	290,667	The terms of transaction are determined in accordance with mutual agreements or general business practices	
		TFNM	1	Other income	23,478	The terms of transaction are determined in accordance with mutual agreements or general business practices	
2	momo	FST	1	Other receivables	16,372	The terms of transaction are determined in accordance with mutual agreements or general business practices	
		TFN	3	Acquisition of property, plant and equipment	17,041	The terms of transaction are determined in accordance with mutual agreements or general business practices	
		FGE	1	Acquisition of property, plant and equipment	11,918	The terms of transaction are determined in accordance with mutual agreements or general business practices	
		TFNM	3	Operating costs	77,167	The terms of transaction are determined in accordance with mutual agreements or general business practices	
		MCTV	3	Operating costs	11,560	The terms of transaction are determined in accordance with mutual agreements or general business practices	
3	TFN	TFNM	3	Accounts and notes receivable, net	28,969	The terms of transaction are determined in accordance with mutual agreements or general business practices	
		momo	3	Advanced receipts	15,846	The terms of transaction are determined in accordance with mutual agreements or general business practices	
		TT&T	3	Other payables	10,364	The terms of transaction are determined in accordance with mutual agreements or general business practices	
		TFNM	3	Operating revenues	155,666	The terms of transaction are determined in accordance with mutual agreements or general business practices	
		momo	3	Operating revenues	16,383	The terms of transaction are determined in accordance with mutual agreements or general business practices	

(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	
3	TFN	TT&T	3	Operating expenses	\$ 115,476	The terms of transaction are determined in accordance with mutual agreements or general business practices	
4	TFNM	PCTV	1	Other receivables	37,959	The terms of transaction are determined in accordance with mutual agreements or general business practices	
		YJCTV	1	Other receivables	35,252	The terms of transaction are determined in accordance with mutual agreements or general business practices	
		UCTV	1	Other receivables	24,207	The terms of transaction are determined in accordance with mutual agreements or general business practices	
		GCTV	1	Other receivables	16,103	The terms of transaction are determined in accordance with mutual agreements or general business practices	
		MCTV	1	Other receivables	14,633	The terms of transaction are determined in accordance with mutual agreements or general business practices	
		PCTV	1	Short-term borrowings	520,000	The terms of transaction are determined in accordance with mutual agreements or general business practices	
		YJCTV	1	Short-term borrowings	200,000	The terms of transaction are determined in accordance with mutual agreements or general business practices	
		GCTV	1	Short-term borrowings	250,000	The terms of transaction are determined in accordance with mutual agreements or general business practices	
		WTVB	3	Accounts and notes payable	17,621	The terms of transaction are determined in accordance with mutual agreements or general business practices	
		PCTV	1	Operating revenues	522,749	The terms of transaction are determined in accordance with mutual agreements or general business practices	
		YJCTV	1	Operating revenues	468,216	The terms of transaction are determined in accordance with mutual agreements or general business practices	
		UCTV	1	Operating revenues	223,622	The terms of transaction are determined in accordance with mutual agreements or general business practices	
		GCTV	1	Operating revenues	206,178	The terms of transaction are determined in accordance with mutual agreements or general business practices	
		MCTV	1	Operating revenues	18,619	The terms of transaction are determined in accordance with mutual agreements or general business practices	
		WTVB	3	Operating costs	67,128	The terms of transaction are determined in accordance with mutual agreements or general business practices	
		PCTV	1	Operating costs	35,207	The terms of transaction are determined in accordance with mutual agreements or general business practices	
		YJCTV	1	Operating costs	31,022	The terms of transaction are determined in accordance with mutual agreements or general business practices	
		UCTV	1	Operating costs	23,330	The terms of transaction are determined in accordance with mutual agreements or general business practices	
		GCTV	1	Operating costs	15,435	The terms of transaction are determined in accordance with mutual agreements or general business practices	

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)

TABLE 10

TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES

**INVESTMENTS IN MAINLAND CHINA
FOR THE YEAR ENDED DECEMBER 31, 2017**

(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, 2017	Investment Flows		Accumulated Outflow of Investment from Taiwan as of December 31, 2017	Net (Loss) Income of Investee	% Ownership through Direct or Indirect Investment	Investment Income (Loss)	Carrying Amount as of December 31, 2017	Accumulated Inward Remittance of Earnings as of December 31, 2017	Note
					Outflow	Inflow							
Xiamen Taifu Teleservices & Technologies Co., Ltd.	System integration, management, analysis and development of CRM application and information consulting services	\$ -	b	\$ 38,701 (USD 1,300)	\$ -	\$ -	\$ 38,701 (USD 1,300)	\$ -	100	\$ -	\$ -	\$ -	Note 2
TWMC	Mobile application development and design	89,310 (USD 3,000)	b	145,036 (USD 4,872)	-	-	145,036 (USD 4,872)	673	100	673	106,155	-	
FGE	Wholesaling	262,200 (RMB 57,500)	b	734,799 (USD 14,000) (RMB 69,741)	-	-	734,799 (USD 14,000) (RMB 69,741)	(24,121)	69.63	(16,795)	(23,677)	-	
Haobo	Investment	50,160 (RMB 11,000)	b	-	-	-	-	57,713	100	57,713	761,814	-	
GHS	Wholesaling	228,000 (RMB 50,000)	b	-	-	-	-	288,075	20	57,412	781,922	-	

Company	Accumulated Investment in Mainland China as of December 31, 2017	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on Investment Authorized by Investment Commission, MOEA
TWM and subsidiaries	\$1,560,332 (USD20,172, RMB69,741 and HKD168,539)	\$1,560,332 (USD20,172, RMB69,741 and HKD168,539)	\$39,306,961

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: The amounts are based on audited financial statements.