

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 | Guo-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 | | |
| June 14, 2017 | 1st meeting of the eighth BOD | Removal of non-competition restrictions on members of the eighth BOD | Approved as proposed | Not applicable |
| | | Compensation contracts with members of the eighth BOD | | |
| 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 | 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: <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> |
| | <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> | <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. |
| | <p>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?</p> | <p>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.</p> |
| | <p>Has the Company outsourced its AGM management?</p> | <p>The Company has engaged the Transfer Agency and Registry Department of Fubon Securities Co., Ltd. to manage its annual general meeting.</p> |
| Information disclosure | <p>Disclosure of information on financial status, operations and corporate governance</p> | <p>Disclosure of financial-related and corporate governance information is posted periodically on the Company's website.</p> |
| | <p>Other ways of disclosing information</p> | <p>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.</p> |

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 |

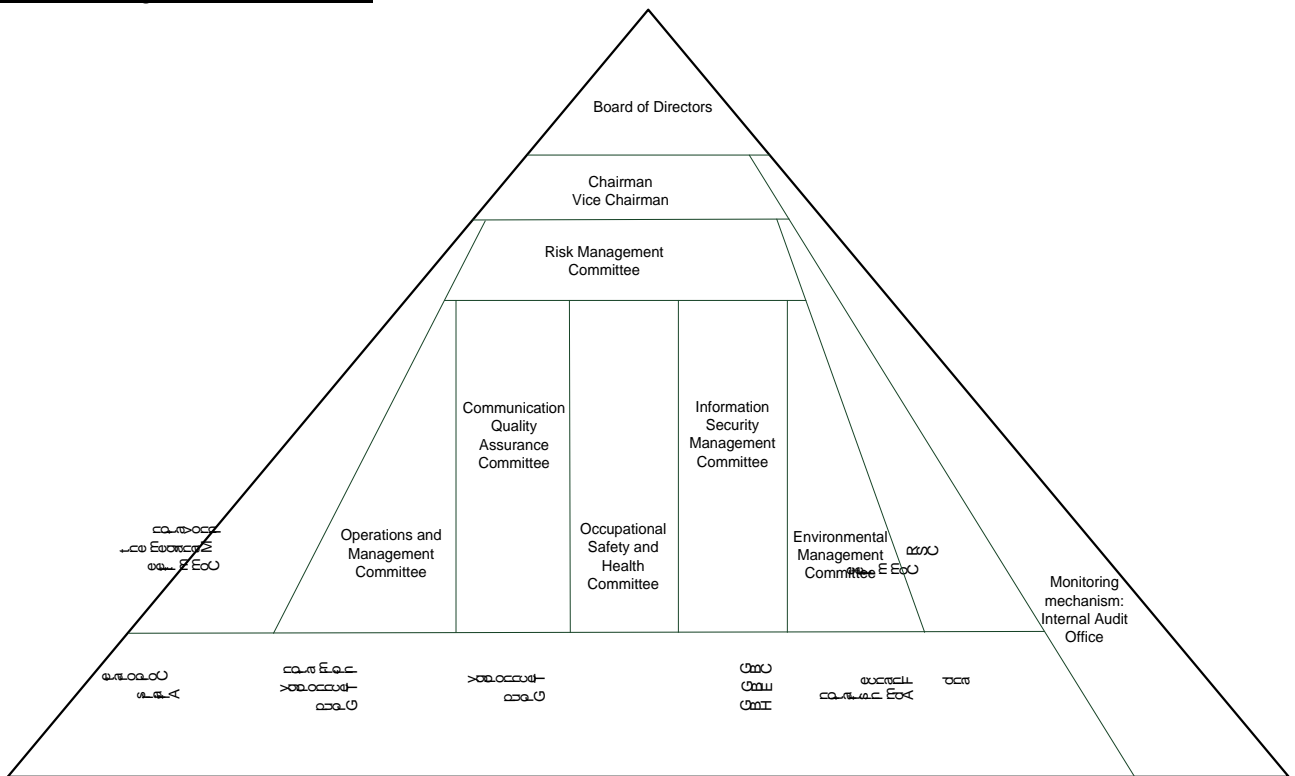
| | | | | |
|--|------------------------------------|------------|-----|--------------------------------|
| Digital transformation for global sustainability | Global e-Sustainability Initiative | 2017.12.04 | 3.5 | Jay Hong, David Lin |
| Corporate social responsibility | In-house training | 2017.12.26 | 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 | Innovation Management Committee | Integrate the Company's innovation strategies and establish a management mechanism. |
| | Board of Directors | 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 |
|--|---|
| <p>Corporate governance</p> <ol style="list-style-type: none"> 1. Establishing a CSR policy or system and review mechanism 2. CSR course training 3. Setting up a unit to carry out this policy or system 4. Establishing a reward-and-punishment system as part of the Company's employee performance evaluation system and CSR policy | <ol style="list-style-type: none"> 1. The Company set up the "Corporate Social Responsibility Policy" 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 is held periodically. 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. 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. |

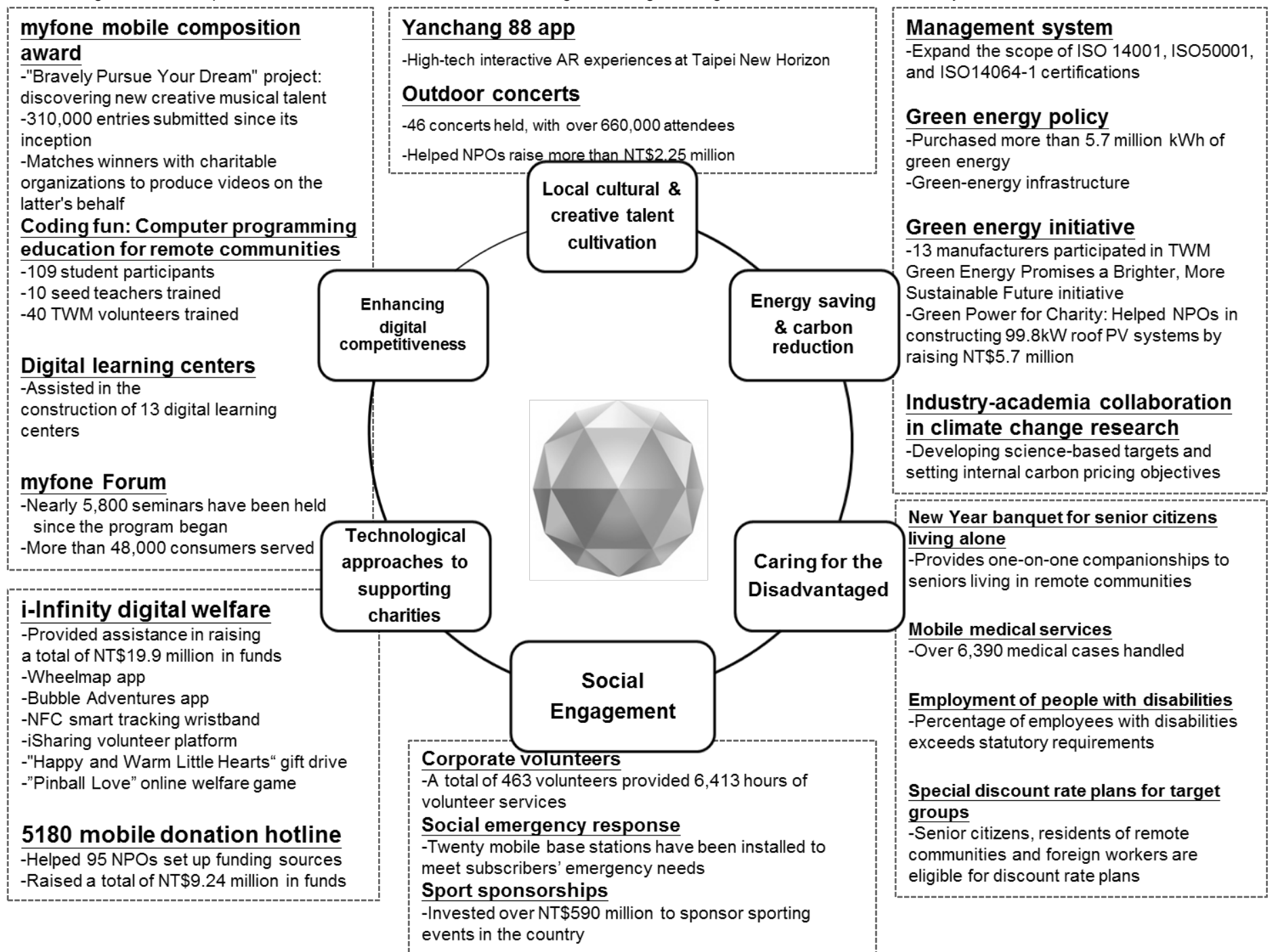
| Item | Current Practices | | | | | | | | | | | | | | | | |
|---|---|---------|---------|-------|--------|----------------------------|-------|-------|-------|------------------------------|---------|---------|---------|---------------------|---------|---------|---------|
| <p>Environmental sustainability</p> <p>1. Promoting advanced and efficient use of renewable resources to reduce their impact on the environment</p> <p>2. Establishing an environmental management system in line with the nature of the Company's business operations</p> <p>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</p> | <p>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).</p> <p>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.</p> <p>3. TWM's operating management practices, including communications technology deployment, are designed to reduce energy consumption and GHG emissions. These measures include:</p> <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 <p style="text-align: right;">Unit: tCO₂e</p> <table border="1" data-bbox="632 1133 1414 1339"> <thead> <tr> <th></th> <th>2015</th> <th>2016*</th> <th>2017**</th> </tr> </thead> <tbody> <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> </tbody> </table> <p>* The increase in emissions was due to the updated electricity emission factor, expansion of TWM's internet data center business and 4G services.</p> <p>** A significant decline in emissions was due to the promotion of carbon reduction</p> | | 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 |
| | 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 | | | | | | | | | | | | | | |

| 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 mandatary 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.

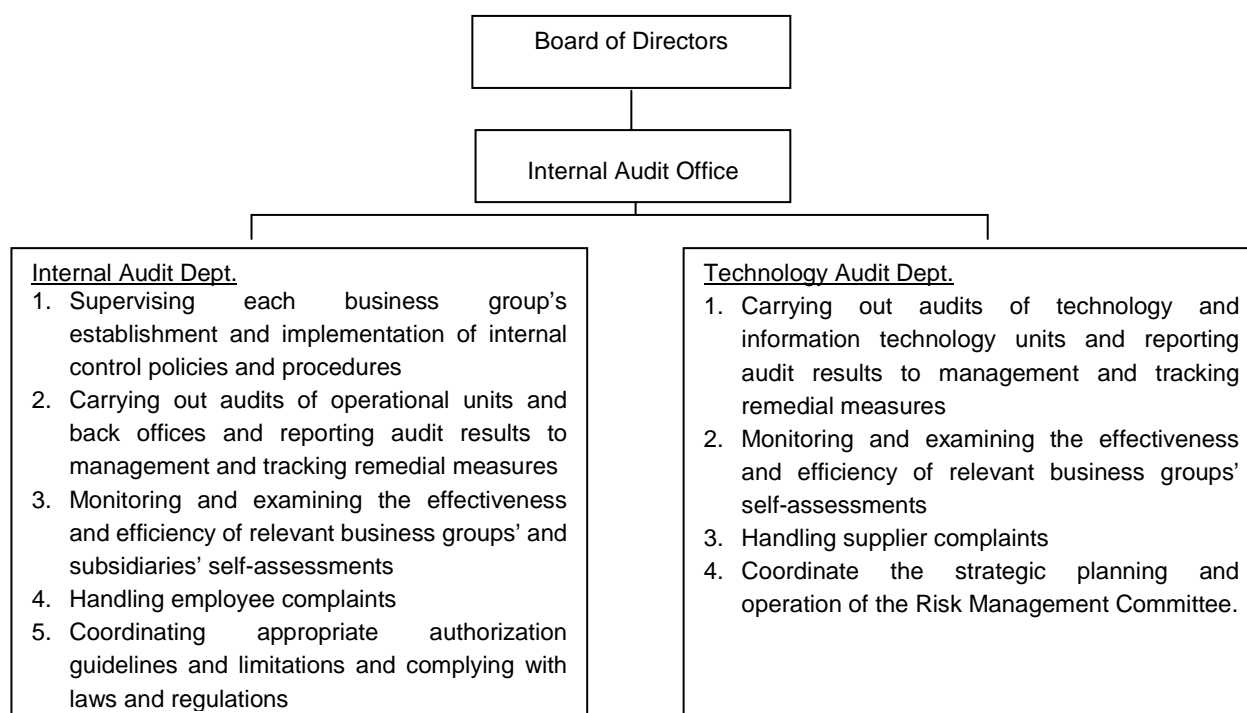
Internal control system

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