

Taiwan Mobile Co., Ltd.

**Financial Statements for the
Years Ended December 31, 2018 and 2017 and
Independent Auditors' Report**

INDEPENDENT AUDITORS' REPORT

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

Opinion

We have audited the accompanying financial statements of Taiwan Mobile Co., Ltd. ("TWM"), which comprise the balance sheets as of December 31, 2018 and 2017, and the statements of comprehensive income, changes in equity and cash flows for the years then ended, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of TWM as of December 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended December 31, 2018. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

The descriptions of the key audit matters of the 2018 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 balances of property, plant and equipment and intangible assets (including goodwill) amounted to \$22,249,874 thousand and \$41,053,072 thousand, respectively, as of December 31, 2018. On each balance sheet date, TWM reviews its tangible and intangible assets for indications of impairment. If any indication thereof exists, TWM 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 TWM will determine the recoverable amount for the asset's cash-generating unit. Because the

aforementioned tangible and intangible assets amounted to \$63,302,946 thousand (47% of total 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 TWM 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.

Telecommunications and Value-added Services Revenue

The description of key audit matter:

The source of the major operating revenue of TWM is the telecommunications and value-added services revenue, totaling \$49,114,766 thousand for the year ended December 31, 2018. TWM offers more different monthly-fee plans and diversifies the business by innovating value-added services since the telecommunication industry becomes more competitive nowadays. The competitive telecommunication industry and complicated revenue calculation, which highly relies on automatic, systematic connection and implementation, lead the telecommunications and value-added services revenue to be 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 system.
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.

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

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

In preparing the financial statements, management is responsible for assessing TWM'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 TWM 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 TWM's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the auditing standards generally accepted in the 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 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 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 TWM'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 TWM's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause TWM to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient and appropriate audit evidence regarding the financial information of entities or business activities within TWM to express an opinion on the 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 financial statements for the year ended December 31, 2018 and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

Deloitte & Touche
Taipei, Taiwan
Republic of China

January 31, 2019

Notice to Readers

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

For the convenience of readers, the independent auditors' report and the accompanying financial statements have been translated into English from the original Chinese version prepared and used in the 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 financial statements shall prevail.

TAIWAN MOBILE CO., LTD.

BALANCE SHEETS

(In Thousands of New Taiwan Dollars)

ASSETS	December 31, 2018		December 31, 2017		LIABILITIES AND EQUITY	December 31, 2018		December 31, 2017	
	Amount	%	Amount	%		Amount	%	Amount	%
CURRENT ASSETS					CURRENT LIABILITIES				
Cash and cash equivalents (Notes 6 and 28)	\$ 1,419,168	1	\$ 947,354	1	Short-term borrowings (Notes 16 and 28)	\$ 19,288,000	14	\$ 17,430,000	12
Financial assets at fair value through other comprehensive income (Note 7)	245,607	-	-	-	Short-term notes and bills payable (Note 16)	1,498,992	1	5,595,892	4
Available-for-sale financial assets (Note 8)	-	-	230,392	-	Contract liabilities (Note 21)	1,152,331	1	-	-
Contract assets (Note 21)	5,460,190	4	-	-	Accounts and notes payable	1,120,379	1	3,251,335	2
Accounts and notes receivable, net (Note 9)	6,062,929	4	13,400,440	9	Accounts payable due to related parties (Note 28)	224,981	-	271,883	-
Accounts receivable due from related parties (Note 28)	136,698	-	97,230	-	Other payables (Note 28)	7,573,224	6	8,214,010	6
Other receivables (Note 28)	1,082,521	1	910,308	1	Current tax liabilities	1,684,319	1	609,514	1
Inventories (Note 10)	2,311,480	2	3,286,338	2	Provisions (Note 18)	91,836	-	153,792	-
Prepayments (Note 28)	216,712	-	258,301	-	Advance receipts	85,455	-	1,862,505	2
Assets held for sale	-	-	1,737	-	Long-term liabilities, current portion (Notes 16 and 17)	6,499,680	5	15,399,528	11
Other financial assets (Notes 28 and 29)	9,409	-	2,448,110	2	Other current liabilities (Note 28)	1,623,249	1	1,631,023	1
Other current assets (Note 30)	794,125	1	3,188	-					
Total current assets	17,738,839	13	21,583,398	15	Total current liabilities	40,842,446	30	54,419,482	39
NON-CURRENT ASSETS					NON-CURRENT LIABILITIES				
Financial assets at fair value through other comprehensive income (Note 7)	1,826,732	1	-	-	Financial liabilities at fair value through profit or loss (Note 17)	1,861	-	9,961	-
Available-for-sale financial assets (Note 8)	-	-	2,264,650	2	Bonds payable (Note 17)	24,419,137	18	14,149,407	10
Contract assets (Note 21)	3,200,610	3	-	-	Long-term borrowings (Note 16)	6,000,000	4	11,000,000	8
Financial assets at cost	-	-	7,050	-	Provisions (Note 18)	719,116	1	753,926	1
Investments accounted for using equity method (Note 11)	41,964,789	31	40,805,620	29	Deferred tax liabilities (Note 23)	569,469	1	441,600	-
Property, plant and equipment (Notes 12 and 28)	22,249,874	17	24,193,665	17	Net defined benefit liabilities (Note 19)	282,163	-	217,066	-
Investment properties, net (Note 13)	3,151,320	2	3,030,913	2	Guarantee deposits	347,488	-	346,077	-
Concessions (Note 14)	33,380,101	25	36,343,088	26	Total non-current liabilities	32,339,234	24	26,918,037	19
Goodwill (Note 14)	7,121,871	5	7,121,871	5	Total liabilities	73,181,680	54	81,337,519	58
Computer software, net (Note 14)	549,900	-	539,664	-	EQUITY (Note 20)				
Other intangible assets, net (Note 14)	1,200	-	-	-	Common stock	34,208,519	26	34,208,328	24
Deferred tax assets (Note 23)	567,543	1	628,509	1	Capital collected in advance	29,819	-	-	-
Incremental costs of obtaining a contract (Note 21)	2,884,482	2	-	-	Capital surplus	12,580,692	9	13,939,278	10
Other non-current assets (Notes 15 and 29)	425,939	-	4,450,954	3	Retained earnings				
Total non-current assets	117,324,361	87	119,385,984	85	Legal reserve	27,558,064	20	26,138,846	18
					Special reserve	362,703	-	690,034	1
					Unappropriated earnings	16,954,448	13	14,735,424	10
					Other equity interests	(95,381)	-	(362,703)	-
					Treasury stock	(29,717,344)	(22)	(29,717,344)	(21)
					Total equity	61,881,520	46	59,631,863	42
TOTAL	\$ 135,063,200	100	\$ 140,969,382	100	TOTAL	\$ 135,063,200	100	\$ 140,969,382	100

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

TAIWAN MOBILE CO., LTD.

**STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)**

	2018		2017	
	Amount	%	Amount	%
OPERATING REVENUES (Notes 21 and 28)	\$ 65,545,627	100	\$ 73,612,276	100
OPERATING COSTS (Notes 10, 28 and 32)	<u>43,017,205</u>	<u>66</u>	<u>48,473,355</u>	<u>66</u>
GROSS PROFIT FROM OPERATIONS	<u>22,528,422</u>	<u>34</u>	<u>25,138,921</u>	<u>34</u>
OPERATING EXPENSES (Notes 28 and 32)				
Marketing	9,271,668	14	10,503,440	14
Administrative	3,023,042	5	3,383,170	5
Expected credit loss	<u>404,943</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total operating expenses	<u>12,699,653</u>	<u>19</u>	<u>13,886,610</u>	<u>19</u>
NET OTHER INCOME AND EXPENSES	<u>636,938</u>	<u>1</u>	<u>841,723</u>	<u>1</u>
OPERATING INCOME	<u>10,465,707</u>	<u>16</u>	<u>12,094,034</u>	<u>16</u>
NON-OPERATING INCOME AND EXPENSES				
Other income (Notes 22 and 28)	82,033	-	249,934	-
Other gains and losses, net (Note 22)	(120,385)	-	(1,155,258)	(1)
Finance costs (Notes 22 and 28)	(597,351)	(1)	(602,689)	(1)
Share of profit (loss) of subsidiaries and associates accounted for using equity method	<u>5,707,059</u>	<u>9</u>	<u>5,180,567</u>	<u>7</u>
Total non-operating income and expenses	<u>5,071,356</u>	<u>8</u>	<u>3,672,554</u>	<u>5</u>
PROFIT BEFORE TAX	15,537,063	24	15,766,588	21
INCOME TAX EXPENSE (Note 23)	<u>1,894,891</u>	<u>3</u>	<u>1,574,412</u>	<u>2</u>
PROFIT	<u>13,642,172</u>	<u>21</u>	<u>14,192,176</u>	<u>19</u>
OTHER COMPREHENSIVE INCOME (LOSS) (Notes 11, 19, 20 and 23)				
Items that will not be reclassified subsequently to profit or loss				
Remeasurements from defined benefit plans	(55,867)	-	(40,245)	-
Unrealized gain (loss) on investments in equity instruments at fair value through other comprehensive income	(426,925)	(1)	-	-
Share of other comprehensive income (loss) of subsidiaries and associates accounted for using equity method	616,587	1	(41,921)	-
Items that may be reclassified subsequently to profit or loss				
Unrealized gain (loss) on available-for-sale financial assets	-	-	(70,874)	-
Share of other comprehensive income (loss) of subsidiaries and associates accounted for using equity method	<u>(7,899)</u>	<u>-</u>	<u>398,205</u>	<u>-</u>
Other comprehensive income (loss) (after tax)	<u>125,896</u>	<u>-</u>	<u>245,165</u>	<u>-</u>
COMPREHENSIVE INCOME	<u>\$ 13,768,068</u>	<u>21</u>	<u>\$ 14,437,341</u>	<u>19</u>
EARNINGS PER SHARE (Note 24)				
Basic earnings per share	<u>\$ 5.01</u>		<u>\$ 5.21</u>	
Diluted earnings per share	<u>\$ 4.86</u>		<u>\$ 5.06</u>	

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

TAIWAN MOBILE CO., LTD.

**STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(In Thousands of New Taiwan Dollars)**

	Common Stock	Capital Collected in Advance	Capital Surplus	Retained Earnings			Exchange Differences on Translation	Other Equity Interests		Treasury Stock	Total Equity
				Legal Reserve	Special Reserve	Unappropriated Earnings		Unrealized Gain (Loss) on Financial Assets at Fair Value Through Other Comprehensive Income	Unrealized Gain (Loss) on Available-for-sale Financial Assets		
BALANCE, JANUARY 1, 2017	\$ 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
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)
Total distribution of earnings	-	-	-	1,532,018	(483,920)	(15,224,697)	-	-	-	-	(14,176,599)
Cash dividends from capital surplus	-	-	(1,067,056)	-	-	-	-	-	-	-	(1,067,056)
Profit for the year ended December 31, 2017	-	-	-	-	-	14,192,176	-	-	-	-	14,192,176
Other comprehensive income (loss) for the year ended December 31, 2017	-	-	-	-	-	(82,166)	(7,366)	-	334,697	-	245,165
Total comprehensive income (loss) for the year ended December 31, 2017	-	-	-	-	-	14,110,010	(7,366)	-	334,697	-	14,437,341
Changes in equity of associates accounted for using equity method	-	-	3,753	-	-	-	-	-	-	-	3,753
Changes in other capital surplus	-	-	17,534	-	-	-	-	-	-	-	17,534
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
Effect of retrospective application and retrospective restatement	-	-	-	-	-	3,354,181	-	(281,785)	346,204	-	3,418,600
ADJUSTED BALANCE, JANUARY 1, 2018	34,208,328	-	13,939,278	26,138,846	690,034	18,089,605	(16,499)	(281,785)	-	(29,717,344)	63,050,463
Distribution of 2017 earnings											
Legal reserve	-	-	-	1,419,218	-	(1,419,218)	-	-	-	-	-
Reversal of special reserve	-	-	-	-	(327,331)	327,331	-	-	-	-	-
Cash dividends	-	-	-	-	-	(13,610,406)	-	-	-	-	(13,610,406)
Total distribution of earnings	-	-	-	1,419,218	(327,331)	(14,702,293)	-	-	-	-	(13,610,406)
Cash dividends from capital surplus	-	-	(1,633,249)	-	-	-	-	-	-	-	(1,633,249)
Profit for the year ended December 31, 2018	-	-	-	-	-	13,642,172	-	-	-	-	13,642,172
Other comprehensive income (loss) for the year ended December 31, 2018	-	-	-	-	-	(78,832)	(7,899)	212,627	-	-	125,896
Total comprehensive income (loss) for the year ended December 31, 2018	-	-	-	-	-	13,563,340	(7,899)	212,627	-	-	13,768,068
Convertible bonds converted to common stock	191	29,819	275,614	-	-	-	-	-	-	-	305,624
Changes in percentage of ownership interests in subsidiaries	-	-	(10,347)	-	-	-	-	-	-	-	(10,347)
Changes in equity of associates accounted for using equity method	-	-	8,380	-	-	1,971	-	-	-	-	10,351
Changes in other capital surplus	-	-	1,016	-	-	-	-	-	-	-	1,016
Disposal of investments in equity instruments designated as at fair value through other comprehensive income	-	-	-	-	-	1,825	-	(1,825)	-	-	-
BALANCE, DECEMBER 31, 2018	\$ 34,208,519	\$ 29,819	\$ 12,580,692	\$ 27,558,064	\$ 362,703	\$ 16,954,448	\$ (24,398)	\$ (70,983)	\$ -	\$(29,717,344)	\$ 61,881,520

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

TAIWAN MOBILE CO., LTD.

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017 (In Thousands of New Taiwan Dollars)

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	\$ 15,537,063	\$ 15,766,588
Adjustments		
Share of (profit) loss of subsidiaries and associates accounted for using equity method	(5,707,059)	(5,180,567)
Depreciation expense	7,020,629	7,854,909
Amortization expense	3,232,577	3,013,131
Amortization of incremental costs of obtaining contracts	3,340,003	-
Loss on disposal of property, plant and equipment, net	95,769	351,200
Loss on disposal of intangible assets, net	128,002	-
Expected credit loss	404,943	-
Provision for bad debt expense	-	330,224
Finance costs	597,351	602,689
Interest income	(12,331)	(12,176)
Dividend income	(10,424)	(10,741)
Reversal of impairment loss on property, plant and equipment	(99,064)	-
Reversal of impairment loss on investment properties	(4,522)	-
Valuation gain on financial liabilities at fair value through profit or loss	(8,061)	(32,000)
Others	17	(100)
Changes in operating assets and liabilities		
Contract assets	1,916,814	-
Accounts and notes receivable	349,950	341,752
Accounts receivable due from related parties	(42,446)	(7,605)
Other receivables	(137,849)	(60,112)
Inventories	974,858	462,631
Prepayments	41,589	6,435
Other current assets	(790,937)	963
Other financial assets	(9,299)	(45)
Incremental costs of obtaining a contract	(2,112,684)	-
Contract liabilities	(650,363)	-
Accounts and notes payable	(2,130,956)	(221,357)
Accounts payable due to related parties	(46,902)	74,212
Other payables	(491,066)	466,983
Provisions	(110,972)	(52,291)
Advance receipts	22,561	105,017
Other current liabilities	(7,774)	(370,001)
Net defined benefit liabilities	(16,358)	(17,140)
Net cash inflows generated from operating activities	21,273,059	23,412,599
Interest received	606	741
Interest paid	(390)	(409)
Income taxes paid	(1,466,643)	(2,381,664)
Net cash generated from operating activities	19,806,632	21,031,267

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TAIWAN MOBILE CO., LTD.

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017 (In Thousands of New Taiwan Dollars)

	2018	2017
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of property, plant and equipment	\$ (5,175,390)	\$ (5,039,668)
Acquisition of intangible assets	(202,839)	(8,757,993)
Increase in prepayments for equipment	(310,256)	(222,162)
Proceeds from disposal of property, plant and equipment	33,744	38,341
Acquisition of available-for-sale financial assets	-	(810,865)
Increase in refundable deposits	(108,010)	(126,163)
Decrease in refundable deposits	121,201	135,704
Increase in other financial assets	-	(9,000)
Decrease in other financial assets	2,448,000	-
Interest received	12,929	15,431
Dividend received	<u>5,172,812</u>	<u>5,460,008</u>
Net cash generated from (used in) investing activities	<u>1,992,191</u>	<u>(9,316,367)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase (decrease) in short-term borrowings	(300,000)	3,300,000
Borrowings from related parties	13,265,000	11,920,000
Repayments of borrowings from related parties	(11,107,000)	(12,410,000)
Increase (decrease) in short-term notes and bills payable	(4,096,683)	5,595,382
Proceeds from issue of bonds	14,984,564	-
Repayments of bonds payable	(7,400,000)	(2,900,000)
Proceeds from long-term borrowings	-	1,000,000
Repayment of long-term borrowings	(11,000,000)	(3,000,000)
Increase in guarantee deposits received	59,103	69,941
Decrease in guarantee deposits received	(57,044)	(80,958)
Cash dividends paid	(15,243,647)	(15,243,643)
Interest paid	<u>(431,302)</u>	<u>(502,756)</u>
Net cash used in financing activities	<u>(21,327,009)</u>	<u>(12,252,034)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	471,814	(537,134)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>947,354</u>	<u>1,484,488</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 1,419,168</u>	<u>\$ 947,354</u>

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

(Concluded)

TAIWAN MOBILE CO., LTD.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

1. ORGANIZATION AND OPERATIONS

Taiwan Mobile Co., Ltd. (“TWM”) was incorporated in Taiwan, the Republic of China (“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, e-books and games.

TWM 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 concession license had been renewed by the National Communications Commission (“NCC”) and terminated on June 30, 2017. TWM received a third-generation (“3G”) concession license issued by the DGT in March 2005, and the 3G concession license terminated on December 31, 2018. TWM participated in the fourth-generation (“4G”) mobile spectrum auctions held by NCC for the need of long-term business development and from April 2014 to June 2018 acquired the concession licenses for the mobile broadband spectrum in the 700, 1800 and 2100MHz frequency bands separately, and the aforementioned licenses are valid until December 2030 and December 2033, respectively.

2. APPROVAL DATE AND PROCEDURES OF THE FINANCIAL STATEMENTS

The Board of Directors approved the financial statements on January 31, 2019.

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”).

TWM initially applied IFRS 9 “Financial Instruments” and IFRS 15 “Revenue from Contracts with Customers” on January 1, 2018. Based on the considerations of the comparability with peer telecommunication carriers and the consistency of financial reporting for investors, TWM chose not to restate its consolidated accounts for the previous reporting periods.

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 TWM’s accounting policies:

1) IFRS 9 “Financial Instruments” and related amendment

IFRS 9 supersedes IAS 39 “Financial Instruments: Recognition and Measurement”, with consequential amendments to IFRS 7 “Financial Instruments: Disclosures” and other standards. IFRS 9 sets out the requirements for classification, measurement and impairment of financial assets and hedge accounting. Please refer to Note 4 for information relating to the relevant accounting policies.

Classification, measurement and impairment of financial assets

On the basis of the facts and circumstances that existed as at January 1, 2018, TWMM has performed an assessment on whether it would retrospectively applied those newly issued and/or amended accounting standards and interpretations.

The following table shows the measurement categories and carrying amount under IAS 39 and IFRS 9 for each class of TWMM’s financial assets and financial liabilities as at January 1, 2018.

Financial Assets	Measurement Category		Carrying Amount		Remark
	IAS 39	IFRS 9	IAS 39	IFRS 9	
Cash and cash equivalents	Loans and receivables	Amortized cost	\$ 947,354	\$ 947,354	-
Stocks	Available-for-sale/ Financial assets at cost	Fair value through other comprehensive income (“FVTOCI”) - equity instrument	1,717,027	1,717,027	(a)
Limited partnerships	Available-for-sale	FVTOCI - equity instrument	785,065	785,065	(a)
Notes receivable, trade receivables and other receivables (including related parties)	Loans and receivables	Amortized cost	18,400,013	7,838,692	(b)
Contract assets	-	-	-	10,561,321	(b)
Other financial assets	Loans and receivables	Amortized cost	2,448,830	2,448,830	-
Refundable deposits	Loans and receivables	Amortized cost	413,988	413,988	-

	IAS 39 Carrying Amount as of January 1, 2018	Reclassifications	IFRS 9 Carrying Amount as of January 1, 2018	Remark
Financial assets at FVTOCI - equity instrument	\$ -	\$ -	\$ -	-
Add: From available-for-sale (IAS 39)	-	2,495,042	2,495,042	(a)
Add: From financial assets at cost (IAS 39)	-	7,050	7,050	(a)
	<u>\$ -</u>	<u>\$ 2,502,092</u>	<u>\$ 2,502,092</u>	

- a) TWMM elected to designate stocks investments and limited partnerships previously classified as available-for-sale under IAS 39 as at FVTOCI under IFRS 9. As a result, the related other equity - unrealized loss on available-for-sale financial assets of \$1,401,869 thousand was reclassified to other equity - unrealized loss on financial assets at FVTOCI.

Investments in unlisted stocks previously measured at cost under IAS 39 have been designated as at FVTOCI under IFRS 9 and were remeasured at fair value.

- b) Notes receivable, trade receivables and other receivables that were previously classified as loans and receivables under IAS 39 were classified as measured at amortized cost of \$7,838,692 thousand and contract assets of \$10,561,321 thousand, with an assessment of expected credit losses under IFRS 9 and IFRS 15, respectively.

- c) Since investments accounted for using equity method retrospectively applied IFRS 9, TWM reclassified 1,055,665 thousand of other equity - unrealized gain (loss) on available-for-sale financial assets to other equity - unrealized gain (loss) on financial assets at FVTOCI. The application also resulted in an increase of 64,419 thousand in other equity- unrealized gain (loss) on financial assets at FVTOCI and a decrease of 39,351 thousand in retained earnings.

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

IFRS 15 establishes principles for recognizing revenue that apply to all contracts with customers, and supersedes IAS 18 “Revenue”, IAS 11 “Construction Contracts” and a number of revenue-related interpretations. Please refer to Note 4 for related accounting policies.

Incremental costs of obtaining a contract will be capitalized and recognized as an asset to the extent TWM 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.

In accordance with IFRS 15, TWM is a principal if it controls the specified good or service before that good or service is transferred to a customer.

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

TWM elected only to retrospectively apply IFRS 15 to contracts that were not completed on the transition date and recognized the cumulative effect of the change in the retained earnings on January 1, 2018.

Impact on assets, liabilities and equity for the current year

	Carrying Amount as of January 1, 2018	Adjustments Arising from Initial Application	Adjusted Carrying Amount as of January 1, 2018
<u>Current assets</u>			
Contract assets	\$ -	\$ 6,569,286	\$ 6,569,286
Accounts and notes receivable, net (including related parties)	13,497,670	(6,569,286)	6,928,384
<u>Non-current assets</u>			
Investments accounted for using equity method	40,805,620	(19,263)	40,786,357
Contract assets	-	3,992,035	3,992,035
Incremental costs of obtaining a contract	-	4,111,801	4,111,801
Other non-current assets	4,450,954	<u>(3,992,035)</u>	458,919
Total effect on assets		<u>\$ 4,092,538</u>	

(Continued)

	Carrying Amount as of January 1, 2018	Adjustments Arising from Initial Application	Adjusted Carrying Amount as of January 1, 2018
<u>Current liabilities</u>			
Contract liabilities	\$ -	\$ 1,802,694	\$ 1,802,694
Current tax liabilities	609,514	699,006	1,308,520
Advanced receipts	1,862,505	<u>(1,802,694)</u>	59,811
Total effect on liabilities		<u>\$ 699,006</u>	
<u>Equity</u>			
Unappropriated earnings	14,735,424	<u>\$ 3,393,532</u>	18,128,956
Total effect on equity		<u>\$ 3,393,532</u>	(Concluded)

The reference information, assuming TWM remains adopting IAS 18 “Revenue” as of December 31, 2018, is listed below:

	December 31, 2018
<u>Current assets</u>	
Contract assets	\$ (5,460,190)
Accounts and notes receivable, net (including related parties)	5,460,190
Prepayments	(37)
<u>Non-current assets</u>	
Contract assets	(3,200,610)
Investments accounted for using equity method	(13,421)
Incremental costs of obtaining a contract	(2,884,482)
Other non-current assets	<u>3,200,610</u>
Total effect on assets	<u>\$ (2,897,940)</u>
<u>Current liabilities</u>	
Contract liabilities	\$ (1,152,331)
Current tax liabilities	(576,904)
Advanced receipts	<u>1,152,331</u>
Total effect on liabilities	<u>\$ (576,904)</u>
<u>Equity</u>	
Unappropriated earnings	<u>\$ (2,321,036)</u>
Total effect on equity	<u>\$ (2,321,036)</u>

Impact on total comprehensive income for the current year

	For the Year Ended December 31, 2018
Operating costs	\$ 37
Operating expenses	(1,227,319)
Changes in gain (loss) of subsidiaries and associates accounted for using equity method	(32,684)
Income tax expense	<u>122,102</u>
Total effect on net profit	<u>\$ 1,072,496</u>
Impact on earnings per share:	
Basic earnings per share	<u>\$ 0.39</u>
Diluted earnings per share	<u>\$ 0.38</u>

- b. Amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the IFRSs endorsed by the FSC for application starting from 2019.

New, Amended or Revised Standards and Interpretations (the “New IFRSs”)	Effective Date Announced by International Accounting Standards Board (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)
IFRS 16 “Leases”	January 1, 2019
Amendments to IAS 19 “Plan Amendment, Curtailment or Settlement”	January 1, 2019 (Note 3)
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, Revised or Amended 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: TWM shall apply these amendments to plan amendments, curtailments or settlements occurring on or after January 1, 2019.

IFRS 16 “Leases”

IFRS 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both lessees and lessor. It supersedes IAS 17 “Leases”, IFRIC 4 “Determining whether an Arrangement contains a Lease”, and a number of related interpretations.

Definition of a lease

Upon initial application of IFRS 16, TWM will reassess whether a contract is, or contains, a lease in accordance with the definition of a lease under IFRS 16. Contracts that are reassessed as containing a lease will be accounted for in accordance with the transitional provisions under IFRS 16.

TWM as lessee

Upon initial application of IFRS 16, TWM will recognize right-of-use assets and lease liabilities for all leases on the balance sheets except for those whose payments fall under low-value and short-term leases will be recognized as expenses on a straight-line basis. On the statements of comprehensive income, TWM will present the depreciation expense charged on right-of-use assets separately from the interest expense accrued on lease liabilities; interest is computed using the effective interest method. On the statements of cash flows, cash payments for the principal portion of lease liabilities and the interest portion will be classified within financing activities. Prior to the application of IFRS 16, payments under operating lease contracts are recognized as expenses on a straight-line basis. The difference between the actual payments and the expenses, as adjusted for lease incentives, is recognized as accrued expenses. Cash flows for operating leases are classified within operating activities on the statements of cash flows.

TWM anticipates applying IFRS 16 retrospectively with the cumulative effect of the initial application of this standard recognized in retained earnings on January 1, 2019. Comparative information will not be restated.

Lease liabilities will be recognized on January 1, 2019 for leases currently classified as operating leases under IAS 17. Lease liabilities will be measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate on January 1, 2019. Right-of-use assets will be measured at an amount equal to the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments. TWM will apply IAS 36 to all right-of-use assets.

TWM expects to apply the following practical expedients: TWM will apply a single discount rate to a portfolio of leases with reasonably similar characteristics to measure lease liabilities.

TWM as lessor

Except for sublease transactions, TWM will not make any adjustments for leases in which it is a lessor and will account for those leases with the application of IFRS 16 starting from January 1, 2019.

TWM subleased its leasehold to a third party. Such sublease is classified as an operating lease under IAS 17. TWM determines the sublease is classified as a finance lease on the basis of the remaining contractual terms and conditions of the head lease and sublease on January 1, 2019, and TWM accounts for the sublease as a new finance lease entered into at that date.

Anticipated impact on assets, liabilities and equity

	Carrying Amount as of December 31, 2018	Adjustments Arising from Initial Application	Adjusted Carrying Amount as of January 1, 2019
<u>Current assets</u>			
Accounts and notes payable, net (including related parties)	\$ 6,199,627	\$ (25,649)	\$ 6,173,978
Operating lease receivables	-	29,687	29,687
Finance lease receivables	-	6,162	6,162
Other receivables	1,082,521	(4,038)	1,078,483
Prepayments	216,712	(102,736)	113,976
<u>Non-current assets</u>			
Investments accounted for using equity method	41,964,789	\$ 22,658	41,987,447
Right-of-use assets	-	8,950,168	8,950,168
Deferred tax assets	567,543	(2,487)	565,056
Other non-current assets	425,939	<u>(5,726)</u>	420,213
Total effect on assets		<u>\$ 8,868,039</u>	
<u>Current liabilities</u>			
Other payables	7,573,224	\$ (12,369)	7,560,855
Lease liabilities	-	3,019,768	3,019,768
Advanced receipts	85,455	(1,581)	83,874
<u>Non-current liabilities</u>			
Lease liabilities	-	<u>5,829,616</u>	5,829,616
Total effect on liabilities		<u>\$ 8,835,434</u>	
<u>Equity</u>			
Retained earnings	16,954,448	<u>\$ 32,605</u>	16,987,053
Total effect on equity		<u>\$ 32,605</u>	

Except for the above potential impact, as of the date the financial statements were authorized for issue, TWM had assessed that the application of other standards and interpretations would not have significant impacts on TWM'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 Announced by IASB (Note 1)
Amendments to IFRS 3 “Definition of a Business”	January 1, 2020 (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 17 “Insurance Contracts”	January 1, 2021
Amendments to IAS 1 and IAS 8 “Definition of Material”	January 1, 2020 (Note 3)

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

Note 2: TWM shall apply these amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2020 and to asset acquisitions that occur on or after the beginning of that period.

Note 3: TWM shall apply these amendments prospectively for annual reporting periods beginning on or after January 1, 2020.

As of the date the financial statements were authorized for issue, TWM is continuously assessing the possible impact that the application of other standards and interpretations will have on TWM’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 financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

Basis of Preparation

- a. Basis of measurement

The financial statements have been prepared on a historical cost basis except for financial instruments measured at fair value and net defined benefit liabilities which are measured at the present value of the defined benefit obligation less the fair value of plan assets.

- b. Functional and presentation currency

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

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. Exchange differences in the period on monetary items arising from settlement or translation are recognized in profit or loss in the period which they arise.

Non-monetary items measured at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Exchange differences arising from the retranslation of non-monetary items are included in profit or loss for the period except for exchange differences arising from the retranslation of non-monetary items in respect of which gains and losses are recognized directly in other comprehensive income; in which cases, the exchange differences are also recognized directly in other comprehensive income.

Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

When preparing 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.

Classification of Current and Non-current Assets and Liabilities

TWM 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.

TWM 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.

Financial Instruments

Financial assets and financial liabilities are recognized in balance sheets when TWM becomes a party to the contractual provisions of the instruments.

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

- a. Financial assets

TWM adopts trade-date accounting to recognize and derecognize financial assets.

1) Measurement category

2018

Financial assets are classified into the following categories: Financial assets at amortized cost and investments in equity instruments at FVTOCI.

a) Financial assets at amortized cost

Financial assets that meet the following conditions are subsequently measured at amortized cost:

- i. The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- ii. The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Subsequent to initial recognition, financial assets at amortized cost, including cash and cash equivalents, notes and accounts receivable, other receivables, other financial assets and refundable deposits are measured at amortized cost, which equal to gross carrying amount determined by the effective interest method less any impairment loss, except for short-term receivables when the recognition of interest is immaterial. Exchange differences are recognized in profit or loss.

Interest income is calculated by applying the effective interest rate to the amortized cost of the financial asset.

Cash equivalents include time deposits with original maturities within 3 months from the date of acquisition, which are highly liquid, readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These cash equivalents are held for the purpose of meeting short-term cash commitments. If they do not meet the above definition, time deposits should be recognized as other current or non-current financial assets.

b) Investments in equity instruments at FVTOCI

On initial recognition, TWM may make an irrevocable election to designate investments in equity instruments as at FVTOCI. Designation at FVTOCI is not permitted if the equity investment is held for trading or if it is contingent consideration recognized by an acquirer in a business combination.

Investments in equity instruments at FVTOCI are subsequently measured at fair value with gains and losses arising from changes in fair value recognized in other comprehensive income and accumulated in other equity. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments, instead, they will be transferred to retained earnings.

Dividends on these investments in equity instruments are recognized in profit or loss when TWM's right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investment.

2017

Financial assets are classified into the following categories: Available-for-sale financial assets and loans and receivables.

a) 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.

b) 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, notes and accounts receivable, other receivables, other financial assets, and refundable deposits.

2) Impairment of financial assets and contract assets

2018

TWM recognizes a loss allowance for expected credit losses (“ECL”) on financial assets at amortized cost (including receivables) and contract assets.

The loss allowances for receivables and contract assets are measured at an amount equal to lifetime ECL. For other financial assets, when the credit risk on the financial instrument has not increased significantly since initial recognition, a loss allowance is recognized at an amount equal to 12-month ECL. If, on the other hand, there has been a significant increase in credit risk since initial recognition, a loss allowance is recognized at an amount equal to lifetime ECL.

ECLs reflect the weighted average of credit losses with the respective risks of a default occurring as the weights. Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

TWM recognizes an impairment loss in profit or loss for aforementioned financial instruments and contract assets with a corresponding adjustment to their carrying amount through a loss allowance account.

2017

Financial assets, other than those at FVTPL, 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 TWM on terms that TWM 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.

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.

3) Derecognition of financial assets

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

2018

On derecognition of a financial asset at amortized cost in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss.

On derecognition of investments in equity instruments at FVTOCI, the cumulative gain or loss is directly transferred to retained earnings, and it is not reclassified to profit or loss.

2017

On derecognition of a financial asset in its entirety, the difference between the carrying amount and 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. Equity instruments

Equity instruments issued by TWM are recognized at the proceeds received, net of direct issue costs.

The repurchase of the company's own equity instruments is recognized in and deducted directly from equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the company's own equity instruments.

c. Financial liabilities

1) Recognition

Except for the financial liabilities measured at FVTPL, all financial liabilities, including loans and borrowings, short-term notes and bills payable, bonds payable, notes and accounts payable, other payables, and guarantee deposits received, 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 company 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 - others.

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) Derecognition of financial liabilities

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.

d. Derivative financial instruments

Derivatives are initially recognized at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognized in profit or loss immediately.

Before 2017, derivatives embedded in non-derivative host contracts were treated as separate derivatives when they met the definition of a derivative; their risks and characteristics were not closely related to those of the hybrid contracts; and the contracts were not measured at FVTPL. From 2018, derivatives embedded in hybrid contracts that contain financial asset hosts within the scope of IFRS 9 are not separated; instead, the classification is determined in accordance with the entire hybrid contract. Except for aforementioned, the derivative financial instruments accounting policy is the same as the policy adopted in 2017.

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 TWM has significant influence, but is neither a subsidiary nor an interest in a joint venture. TWM 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. Any excess of TWM's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition, after reassessment, is recognized immediately in profit or loss. The entire carrying amount of an investment (including goodwill) is tested for impairment as a single asset by comparing its recoverable amount with its carrying amount. Any impairment loss recognized is not allocated to any asset, including goodwill, which 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 financial statements include TWM'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 TWM, from the date that significant influence commences until the date that significant influence ceases.

When TWM's share of losses of an associate equals or exceeds its interest in that associate, TWM discontinues recognizing its share of further losses. Additional losses and liabilities are recognized only to the extent that TWM has incurred legal obligations, or constructive obligations, or made payments on behalf of that associate.

If TWM 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 TWM loses significant influence over an associate, it recognizes the investment retained in the former associate at its fair value at the date when significant influence is lost. The difference between the fair value of the retained investment plus any consideration received and the carrying amount of the previous investment at the date when significant influence is lost is recognized as a gain or loss in profit or loss. Besides this, TWM accounts for all amounts previously recognized in other comprehensive income in relation to that associate on the same basis as would be required if TWM had directly disposed of the related assets or liabilities. If TWM decreased the percentage of the ownership of associate due to disposal but still accounts for its investments in associate, it should reclassify the amount previously recognized in other comprehensive income to profit or loss proportionally.

When TWM transacts with its associates, profits and losses resulting from the transactions with the associates are recognized in TWM's financial statements only to the extent that interests in the associates are not related to TWM.

Investments in Subsidiaries

TWM uses the equity method to account for its investments in subsidiaries.

Under the equity method, an investment in a subsidiary is initially recognized at cost and adjusted thereafter to recognize TWM's share of the profit or loss and other comprehensive income of the subsidiary. TWM also recognizes the changes in TWM's share of equity of subsidiaries. The profit or loss and other comprehensive income presented in the parent company only financial reports will be the same as the allocations of profit or loss and of other comprehensive income attributable to owners of the parent presented in the financial reports prepared on a consolidated basis, and the owners' equity presented in the parent company only financial reports will be the same as the equity attributable to owners of the parent presented in the financial reports prepared on a consolidated basis.

Changes in TWM's ownership interest in a subsidiary that do not result in TWM losing control of the subsidiary are equity transactions. TWM recognizes directly in equity any difference between the carrying amount of the investment and the fair value of the consideration paid or received.

When TWM loses control of a subsidiary, it recognizes the investment retained in the former subsidiary at its fair value at the date when control is lost. The difference between the fair value of the retained investment plus any consideration received and the carrying amount of the previous investment at the date when control is lost is recognized as a gain or loss in profit or loss. Besides this, TWM shall account for all amounts previously recognized in other comprehensive income in relation to that subsidiary on the same basis as would be required if TWM had directly disposed of the related assets or liabilities.

Profits or losses resulting from downstream transactions are eliminated in full only in the parent company's financial statements. Profits and losses resulting from upstream transactions and transactions between subsidiaries are recognized only in the parent company's financial statements only to the extent of interests in the subsidiaries that are not related to TWM.

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 TWM 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.

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 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. Depreciation methods, useful lives, and residual values are the same as plant, property and equipment.

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.

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. 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.

c. Amortization and derecognition of intangible assets

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 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.

On derecognition of an intangible asset, the difference between the net disposal proceeds and the carrying amount of the asset is recognized in profit or loss.

Incremental Costs of Obtaining a Contract

Only when a contract is obtained, sales commissions and subsidies of telecommunication services are recognized as incremental costs of obtaining a contract to the extent the amounts are expected to be recovered, and are amortized on a straight-line basis over the life of the contract. However, TWM elects not to capitalize the incremental costs of obtaining a contract if the amortization period of the assets that TWM otherwise would have recognized is expected to be one year or less.

Impairment of Non-financial Assets

a. Goodwill

Impairment of goodwill is required to be tested at least annually. Goodwill shall be allocated to each of the acquirer's cash-generating units, or groups of cash-generating units, that are expected to benefit. If the recoverable amount of the cash-generating unit is less than its carrying amount, the difference is allocated first to reduce the carrying amount of any goodwill allocated to such cash generating unit and then to the other assets of the cash generating unit pro rata based on the carrying amount of each asset in the cash generating unit. Any impairment loss for goodwill is recognized directly in profit or loss. Any impairment loss recognized for goodwill is not reversed in subsequent periods.

b. Other tangible, intangible assets, and incremental costs of obtaining a contract

At the end of each reporting period, TWM reviews the carrying amounts of those assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. When it is not possible to estimate the recoverable amount of an individual asset, TWM estimates the recoverable amount of the cash-generating unit to which the asset belongs. Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate.

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss. When an impairment loss subsequently reverses, the carrying amount of the asset or a cash-generating unit is increased to the revised estimate of its recoverable amount, but the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

Provisions

A provision is recognized if, as a result of a past event, TWM 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 TWM 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. 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 TWM 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 TWM recognizes as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that TWM 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 TWM 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 rereasurement) 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. Rereasurement (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 TWM 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 TWM can no longer withdraw the offer of the termination benefit and when TWM 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 and research and development expenditures to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Deferred 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

2018

Where TWM enters into transactions which involve both the provision of telecommunications service bundled with products such as handsets, total consideration received from products and telecommunications service in these arrangements is allocated based on their relative stand-alone selling price. The amount of sales revenue recognized for products is not limited to the amount paid by the customer for the products at the time of purchase. When the amount of sales revenue recognized for products exceeds the amount paid by the customer for the products, the difference is recognized as a contract asset. A contract asset is derecognized and an account receivable is recognized when the amount becomes collectible from the customer subsequently. When the amount of sales revenue recognized for products is less than the amount paid by the customer for the products, the difference is recognized as contract liabilities and the revenue is recognized subsequently when the telecommunications service is provided.

Telecommunications and value-added services revenue

Service revenues from telecommunications services are billed at predetermined rates and calculated by the actual volume of voice call and data transfer. Revenues from postpaid users are accrued monthly. Revenues from prepaid users are recognized based on the actual usage. The advanced receipts obtained before services are rendered are recognized as contract liabilities and reclassified as revenues when services are rendered. Interconnection and call transfer fees from other telecommunications companies and carriers are billed and recognized based upon seconds or minutes of traffic processed when the services are provided in accordance with contract terms. The usage revenues and corresponding trade notes and accounts receivable are recognized monthly.

Revenue from sale of goods

Revenues from sale of goods are mainly generated from physical stores and e-commerce platform. Revenues are recognized when the goods are transferred or delivered to the customers. Advance receipts obtained before goods are transferred or delivered are recognized as contract liabilities, and reclassified as revenue when the goods are transferred or delivered.

Other operating income

TWM recognizes advance receipts obtained before contracts are initiated as contract liabilities, and contract liabilities are transferred into revenue after the completion of usage or over the term of the relevant lease.

Service revenues generated from contractual agreements are recognized as revenue as services are rendered based on the completion of the contracts and TWM does not have any further obligations. In addition, when TWM is acting as an agent in the transaction, proportional revenue is recognized based on the net amount in accordance with the contractual agreements proportionally.

2017

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.

Telecommunications services are billed at predetermined rates and calculated by the actual return of voice call and data transfer.

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.

- a. TWM has transferred the significant risks and rewards of ownership to the counterparty;
- b. TWM will not be involved in any control activities and will not maintain effective control over the goods sold;
- c. The amount can be reliably measured;
- d. Economic benefits relevant to the transactions will probably flow to TWM;
- e. 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.

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

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 TWM 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 TWM.

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.

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

Interest arising from financial instruments is recognized when the economic benefits will probably flow to TWM 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.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The preparation of the 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, TWM 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

	<u>December 31</u>	
	2018	2017
Cash on hand and revolving funds	\$ 153,869	\$ 156,113
Cash in banks	1,234,509	672,161
Time deposits	<u>30,790</u>	<u>119,080</u>
	<u>\$ 1,419,168</u>	<u>\$ 947,354</u>

7. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME - 2018

	December 31, 2018
<u>Investments in equity instruments - current</u>	
Domestic investments	
Listed stocks	<u>\$ 245,607</u>
<u>Investments in equity instruments - non-current</u>	
Domestic investments	
Listed stocks	\$ 1,022,960
Foreign investments	
Limited partnerships	775,385
Unlisted stocks	<u>28,387</u>
	<u>\$ 1,826,732</u>

These investments in equity instruments are held for medium to long-term strategic purposes. Accordingly, the management elected to designate these investments in equity instruments as at FVTOCI as they believed that recognizing short-term fluctuations from these investments' fair value in profit or loss would not be consistent with TWM's strategy of holding these investments for long-term purposes. These investments in equity instruments were classified as available-for-sale under IAS 39. Refer to Note 3 and Note 8 for information relating to their reclassification and comparative information for 2017.

8. AVAILABLE-FOR-SALE FINANCIAL ASSETS - 2017

	December 31, 2017
Domestic listed stocks	\$ 1,709,977
Limited partnerships	<u>785,065</u>
	<u>\$ 2,495,042</u>
Current	\$ 230,392
Non-current	<u>2,264,650</u>
	<u>\$ 2,495,042</u>

9. ACCOUNTS AND NOTES RECEIVABLE, NET

	December 31	
	2018	2017
Notes receivable	\$ 6,400	\$ 1,933
Accounts receivable	6,512,251	13,917,517
Less: Allowance for impairment loss	<u>(455,722)</u>	<u>(519,010)</u>
	<u>\$ 6,062,929</u>	<u>\$ 13,400,440</u>

For the Year Ended December 31, 2018

The main credit terms range from 30 to 90 days.

TWM serves a large consumer base for telecommunications business; therefore, the concentration of credit risk is limited. When performing transactions with customers, TWM considers the record of arrears in the past. In addition, TWM may also collect some telecommunication charges in advance to reduce the risk of payment arrears in subsequent periods.

TWM adopted a policy of dealing with counterparties with considerable scale of operations, certain credit ratings and financial conditions for project business. In addition to examining publicly available financial information and its own historical transaction experience, TWM obtains collateral where necessary to mitigate the risk of loss arising from default. TWM continues to monitor the credit exposure and financial and credit conditions of its counterparties, and spreads the total amount of the transactions among qualified counterparties.

In order to mitigate credit risk, the management of TWM has delegated a team responsible for determining credit limits, credit approvals and other monitoring procedures to ensure the recoverability of receivables. In addition, TWM reviews the recoverable amount of trade receivables at balance sheet dates to ensure that adequate allowance is provided for possible irrecoverable amounts. In this regard, the management believes TWM's credit risk could be reasonably reduced.

TWM applies the simplified approach to providing for expected credit losses prescribed by IFRS 9, which permits the use of lifetime expected credit loss provision for receivables. The expected credit losses on trade receivables are estimated using a provision matrix with reference to past default experiences of the customers and an analysis of the customers' current financial positions, as well as forward-looking indicators such as the industrial economic conditions. As TWM's historical credit loss experience does not show significantly different loss patterns for different customer segments, the provision matrix does not distinguish customer segments. As a result, the expected credit loss rate is based on the number of past due days of trade receivables.

TWM writes off a trade receivable when there are evidences indicating that the counterparty is in severe financial difficulty and the trade receivable is considered uncollectible. For trade receivables that have been written off, TWM continues to engage in enforcement activity to attempt to recover the receivables due. Where recoveries are made, these are recognized in profit or loss.

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

December 31, 2018

	Not Past Due	Overdue			Total
		1 to 120 days	121 to 365 days	Over 365 days	
Gross carrying amount	\$ 5,849,476	\$ 405,234	\$ 258,887	\$ 5,054	\$ 6,518,651
Loss allowance (Lifetime ECL)	<u>(52,287)</u>	<u>(151,659)</u>	<u>(246,722)</u>	<u>(5,054)</u>	<u>(455,722)</u>
Amortized cost	<u>\$ 5,797,189</u>	<u>\$ 253,575</u>	<u>\$ 12,165</u>	<u>\$ -</u>	<u>\$ 6,062,929</u>

Expected credit loss rate

	Not Past Due and Past Due within 120 Days	Past Due Over 120 Days
Telecommunications service	0.85%-85%	89.47%-100%

Movements of the loss allowance of notes and accounts receivable were as follows:

	For the Year Ended December 31, 2018
Beginning balance (IAS 39)	\$ 519,010
Effect of retrospective application of IFRS 9	<u>(56,318)</u>
Beginning balance (IFRS 9)	462,692
Add: Provision	421,236
Recovery	11,882
Less: Write-off	<u>(440,088)</u>
Ending balance	<u>\$ 455,722</u>

For the Year Ended December 31, 2017

TWM's credit policy in 2017 was as same as the aforementioned credit policy in 2018.

The net accounts receivable aging analysis of TWM was as follows:

	December 31, 2017
Neither past due nor impaired	\$13,182,138
Past due but not impaired	
Past due within 30 days	149,941
Past due 31-60 days	30,807
Past due 61-120 days	21,738
Past due 121-180 days	8,400
Past due over 180 days	<u>5,483</u>
	<u>\$13,398,507</u>

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

	For the Year Ended December 31, 2017
Beginning balance	\$ 599,523
Add: Provision	352,447
Recovery	19,110
Less: Write-off	<u>(452,070)</u>
Ending balance	<u>\$ 519,010</u>

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

	For the Year Ended December 31	
	2018	2017
Amount of accounts receivable sold	<u>\$ 619,249</u>	<u>\$ 724,498</u>
Proceeds of the sale of accounts receivable	<u>\$ 37,506</u>	<u>\$ 43,835</u>

10. INVENTORIES

	December 31	
	2018	2017
Merchandise	\$ 2,302,693	\$ 3,273,982
Materials for maintenance	<u>8,787</u>	<u>12,356</u>
	<u>\$ 2,311,480</u>	<u>\$ 3,286,338</u>

For the years ended December 31, 2018 and 2017, the cost of goods sold recognized in comprehensive income amounted to \$17,451,073 thousand and \$21,771,336 thousand, respectively, which included the inventory write-down, totaling \$20,690 thousand, and the reversal of inventory write-down, totaling \$113,984 thousand, respectively.

11. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

	<u>December 31</u>	
	2018	2017
Subsidiaries	\$ 41,956,153	\$ 40,791,169
Associates		
Alliance Digital Tech Co., Ltd. (ADT)	<u>8,636</u>	<u>14,451</u>
	<u>\$ 41,964,789</u>	<u>\$ 40,805,620</u>

a. Subsidiaries

Please refer to the consolidated financial statements for the years ended December 31, 2018 and 2017.

b. Associates

Aggregate information of associates that were not individually material:

	<u>December 31</u>	
	2018	2017
TWM's share of:		
Loss	<u>\$ (5,815)</u>	<u>\$ (19,417)</u>
Comprehensive loss	<u>\$ (5,815)</u>	<u>\$ (19,417)</u>

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 subscribing for new stock issued by ADT. TWM still has significant influence on ADT due to having a seat on ADT's board of directors.

12. PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings	Telecommuni- cations Equipment and Machinery	Miscellaneous Equipment	Construction in Progress and Equipment to Be Inspected	Total
<u>Cost</u>						
Balance, January 1, 2018	\$ 3,209,754	\$ 2,018,658	\$ 66,497,117	\$ 5,070,819	\$ 734,225	\$ 77,530,573
Additions	71	33	21,256	275,838	4,796,553	5,093,751
Reclassification	(12,958)	7,971	4,887,733	36,078	(4,919,710)	(886)
Disposals and retirements	<u>(4,772)</u>	<u>(2,885)</u>	<u>(3,176,389)</u>	<u>(286,465)</u>	<u>(1,025)</u>	<u>(3,471,536)</u>
Balance, December 31, 2018	<u>\$ 3,192,095</u>	<u>\$ 2,023,777</u>	<u>\$ 68,229,717</u>	<u>\$ 5,096,270</u>	<u>\$ 610,043</u>	<u>\$ 79,151,902</u>
<u>Accumulated depreciation and impairment</u>						
Balance, January 1, 2018	\$ 67,281	\$ 865,414	\$ 48,460,290	\$ 3,943,923	\$ -	\$ 53,336,908
Depreciation	-	36,001	6,599,979	363,702	-	6,999,682
Reversal of Impairment loss	(78,160)	(20,904)	-	-	-	(99,064)
Reclassification	12,541	(3,166)	-	-	-	9,375
Disposals and retirements	<u>-</u>	<u>(1,095)</u>	<u>(3,066,219)</u>	<u>(277,559)</u>	<u>-</u>	<u>(3,344,873)</u>
Balance, December 31, 2018	<u>\$ 1,662</u>	<u>\$ 876,250</u>	<u>\$ 51,994,050</u>	<u>\$ 4,030,066</u>	<u>\$ -</u>	<u>\$ 56,902,028</u>
Carrying amount, December 31, 2018	<u>\$ 3,190,433</u>	<u>\$ 1,147,527</u>	<u>\$ 16,235,667</u>	<u>\$ 1,066,204</u>	<u>\$ 610,043</u>	<u>\$ 22,249,874</u>

(Continued)

	Land	Buildings	Telecommuni- cations Equipment and Machinery	Miscellaneous Equipment	Construction in Progress and Equipment to Be Inspected	Total
<u>Cost</u>						
Balance, January 1, 2017	\$ 3,222,533	\$ 2,031,649	\$ 73,612,108	\$ 5,309,362	\$ 1,252,452	\$ 85,428,104
Additions	-	-	38,147	355,982	4,936,417	5,330,546
Reclassification	(3,055)	(3,794)	5,397,865	63,065	(5,453,477)	604
Disposals and retirements	<u>(9,724)</u>	<u>(9,197)</u>	<u>(12,551,003)</u>	<u>(657,590)</u>	<u>(1,167)</u>	<u>(13,228,681)</u>
Balance, December 31, 2017	<u>\$ 3,209,754</u>	<u>\$ 2,018,658</u>	<u>\$ 66,497,117</u>	<u>\$ 5,070,819</u>	<u>\$ 734,225</u>	<u>\$ 77,530,573</u>
<u>Accumulated depreciation and impairment</u>						
Balance, January 1, 2017	\$ 67,281	\$ 830,706	\$ 53,273,384	\$ 4,175,106	\$ -	\$ 58,346,477
Depreciation	-	39,615	7,373,698	416,413	-	7,829,726
Reclassification	-	(1,491)	-	223	-	(1,268)
Disposals and retirements	<u>-</u>	<u>(3,416)</u>	<u>(12,186,792)</u>	<u>(647,819)</u>	<u>-</u>	<u>(12,838,027)</u>
Balance, December 31, 2017	<u>\$ 67,281</u>	<u>\$ 865,414</u>	<u>\$ 48,460,290</u>	<u>\$ 3,943,923</u>	<u>\$ -</u>	<u>\$ 53,336,908</u>
Carrying amount, December 31, 2017	<u>\$ 3,142,473</u>	<u>\$ 1,153,244</u>	<u>\$ 18,036,827</u>	<u>\$ 1,126,896</u>	<u>\$ 734,225</u>	<u>\$ 24,193,665</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	50-55 years
Mechanical and electrical equipment	15 years
Telecommunications equipment and machinery	2-15 years
Miscellaneous equipment	2-20 years

- b. The fair values of parts of TWM's properties (land and buildings) were measured using Level 3 inputs using income approach and comparative approach by HomeBan Appraisers Joint Firm. As the recoverable amount, fair value less cost to sell, is higher than the carrying amount, an impairment loss is reversed to the extent of the impairment losses that have been recognized in previous years. For the year ended December 31, 2018, the reversal of impairment loss of \$99,064 thousand was included in other gains and losses in the statement of comprehensive income.

13. INVESTMENT PROPERTIES

TWM 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 income approach, comparative approach, and cost approach by HomeBan Appraisers Joint Firm. As of December 31, 2018 and 2017, the fair values of investment properties were \$7,351,306 thousand and \$6,947,634 thousand, respectively, and the capitalization rates for the years were 1.18%-4.42% and 1.35%-4.40%, respectively. As the recoverable amount, fair value less cost to sell, is higher than the carrying amount, an impairment loss is reversed to the extent of the impairment losses that have been recognized in previous years. For the year ended December 31, 2018, the reversal of impairment loss of \$4,522 thousand was included in other gains and losses in the statement of comprehensive income.

The amount of depreciation recognized for the years ended December 31, 2018 and 2017 were \$20,947 thousand and \$25,183 thousand, respectively.

14. INTANGIBLE ASSETS

	Concession Licenses	Goodwill	Computer Software	Other Intangible Assets	Total
<u>Cost</u>					
Balance, January 1, 2018	\$ 51,324,375	\$ 7,121,871	\$ 2,827,743	\$ -	\$ 61,273,989
Addition	-	-	202,239	600	202,839
Disposals and retirements	(10,281,000)	-	(102,013)	-	(10,383,013)
Reclassification	-	-	200,789	5,400	206,189
Balance, December 31, 2018	<u>\$ 41,043,375</u>	<u>\$ 7,121,871</u>	<u>\$ 3,128,758</u>	<u>\$ 6,000</u>	<u>\$ 51,300,004</u>
<u>Accumulated amortization and impairment</u>					
Balance, January 1, 2018	\$ 14,981,287	\$ -	\$ 2,288,079	\$ -	\$ 17,269,366
Amortization	2,838,369	-	389,408	4,800	3,232,577
Disposals and retirements	(10,156,382)	-	(98,629)	-	(10,255,011)
Balance, December 31, 2018	<u>\$ 7,663,274</u>	<u>\$ -</u>	<u>\$ 2,578,858</u>	<u>\$ 4,800</u>	<u>\$ 10,246,932</u>
Carrying amount, December 31, 2018	<u>\$ 33,380,101</u>	<u>\$ 7,121,871</u>	<u>\$ 549,900</u>	<u>\$ 1,200</u>	<u>\$ 41,053,072</u>
<u>Cost</u>					
Balance, January 1, 2017	\$ 42,724,375	\$ 7,121,871	\$ 2,675,574	\$ -	\$ 52,521,820
Addition	8,600,000	-	157,993	-	8,757,993
Disposals and retirements	-	-	(225,453)	-	(225,453)
Reclassification	-	-	219,629	-	219,629
Balance, December 31, 2017	<u>\$ 51,324,375</u>	<u>\$ 7,121,871</u>	<u>\$ 2,827,743</u>	<u>\$ -</u>	<u>\$ 61,273,989</u>
<u>Accumulated amortization and impairment</u>					
Balance, January 1, 2017	\$ 12,366,275	\$ -	\$ 2,115,637	\$ -	\$ 14,481,912
Amortization	2,615,012	-	398,119	-	3,013,131
Disposals and retirements	-	-	(225,453)	-	(225,453)
Reclassification	-	-	(224)	-	(224)
Balance, December 31, 2017	<u>\$ 14,981,287</u>	<u>\$ -</u>	<u>\$ 2,288,079</u>	<u>\$ -</u>	<u>\$ 17,269,366</u>
Carrying amount, December 31, 2017	<u>\$ 36,343,088</u>	<u>\$ 7,121,871</u>	<u>\$ 539,664</u>	<u>\$ -</u>	<u>\$ 44,004,623</u>

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

Concession licenses	14-17 years
Computer software	2-6 years
Other intangible assets - copyrights	Amortized over the broadcast period

a. Concession licenses

The 3G concession license terminated on December 31, 2018.

On November 15, 2017, TWM acquired the 4G concession license for the 2100 MHz frequency bands in the mobile broadband spectrum and paid \$8,600,000 thousand as the bid price.

b. Goodwill

The goodwill resulted from the merger of TransAsian Telecommunications Inc. in September 2008.

c. Impairment of assets

In conformity with IAS 36 “Impairment of Assets”, TWM identified its mobile communication service as the smallest identifiable units which can generate cash inflows independently.

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

1) 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.

2) 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.

3) 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.

4) Assumptions on discount rates

For the years ended December 31, 2018 and 2017, the discount rates used to calculate the recoverable amount for the asset’s cash-generating unit were 5.92% and 6.81%, respectively.

Based on the key assumptions of the cash-generating unit, TWM’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, 2018 and 2017.

15. OTHER NON-CURRENT ASSETS

	December 31	
	2018	2017
Long-term accounts receivable	\$ -	\$ 3,992,035
Refundable deposits	400,797	413,988
Prepayments for equipment	24,422	44,211
Others	<u>720</u>	<u>720</u>
	<u>\$ 425,939</u>	<u>\$ 4,450,954</u>

16. BORROWINGS

a. Short-term borrowings

	December 31	
	2018	2017
Unsecured loans - financing institution	\$ 9,300,000	\$ 9,600,000
Unsecured loans - related parties	<u>9,988,000</u>	<u>7,830,000</u>
	<u>\$ 19,288,000</u>	<u>\$ 17,430,000</u>
Annual interest rate - financing institution	0.7%-0.96%	0.7%-0.98%
Annual interest rate - related parties	1.09433%- 1.09511%	1.09267%- 1.09311%

For the information on related party loan, see Note 28.

b. Short-term notes and bills payable

	December 31	
	2018	2017
Short-term notes and bills payable	\$ 1,500,000	\$ 5,600,000
Less: Discounts on short-term notes and bills payable	<u>(1,008)</u>	<u>(4,108)</u>
	<u>\$ 1,498,992</u>	<u>\$ 5,595,892</u>
Annual interest rate	0.788%-0.798%	0.528%-0.75%

c. Long-term borrowings

	December 31	
	2018	2017
Unsecured loans	\$ 8,000,000	\$ 19,000,000
Less: Current portion	<u>(2,000,000)</u>	<u>(8,000,000)</u>
	<u>\$ 6,000,000</u>	<u>\$ 11,000,000</u>
Annual interest rate: Unsecured loans	0.75%-1.07%	0.72%-1.26%

TWM entered into credit facility agreements with a group of banks for mid-term requirements of operating capital 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 expiry date of the repayments is in July 2021, and some credit facilities are subject to financial covenants regarding debt ratios and interest protection multiples during the credit facility period.

17. BONDS PAYABLE

	December 31	
	2018	2017
3rd domestic unsecured straight corporate bonds	\$ 4,499,680	\$ 8,998,958
4th domestic unsecured straight corporate bonds	-	2,899,901
5th domestic unsecured straight corporate bonds	14,986,357	-
3rd domestic unsecured convertible bonds	9,432,780	9,650,076
Less: Current portion	<u>(4,499,680)</u>	<u>(7,399,528)</u>
	<u>\$ 24,419,137</u>	<u>\$ 14,149,407</u>

a. 3rd domestic unsecured straight corporate bonds

On December 20, 2012, TWM issued \$9,000,000 thousand of seven-year 3rd domestic unsecured straight corporate 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, 2018, the amount of unamortized bond issue cost was \$320 thousand. The trustee of bond holders is Hua Nan Commercial Bank.

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

Year	Amount
2019	<u>\$ 4,500,000</u>

b. 4th domestic unsecured straight corporate bonds

On April 25, 2013, TWM issued \$5,800,000 thousand of five-year 4th domestic unsecured straight corporate 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. The trustee of bond holders is Hua Nan Commercial Bank.

The above-mentioned corporate bonds were fully liquidated in April 2018.

c. 5th domestic unsecured straight corporate bonds

On April 20, 2018, TWM issued 5th domestic unsecured straight corporate bonds. The bonds included five-year and seven-year bonds, with the principal amount of \$6,000,000 thousand and \$9,000,000 thousand, each having a face value of \$10,000 thousand, and coupon rates of 0.848% and 1% per annum, respectively, with simple interest due annually. Repayment will be made in full at maturity. As of December 31, 2018, the amount of unamortized bond issue cost was \$13,643 thousand. The trustee of bond holders is Bank of Taiwan.

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

Year	Amount
2023	\$ 6,000,000
2025	<u>9,000,000</u>
	<u>\$ 15,000,000</u>

d. 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 \$104.7 per share since July 16, 2018. 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 holders 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. As of December 31, 2018, the amount of unamortized bond discount was \$253,020 thousand.

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>97,471</u>
Liability component on December 31, 2017	9,650,076
Interest charged at an effective interest rate	88,288
Convertible bonds converted into common stock	<u>(305,584)</u>
Liability component on December 31, 2018	<u>\$ 9,432,780</u>

As of December 31, 2018, the bondholders had requested to convert the bonds at face value of \$314,200 thousand.

18. PROVISIONS

	December 31		
	2018	2017	
Restoration	\$ 743,023	\$ 779,306	
Warranties	<u>67,929</u>	<u>128,412</u>	
	<u>\$ 810,952</u>	<u>\$ 907,718</u>	
Current	\$ 91,836	\$ 153,792	
Non-current	<u>719,116</u>	<u>753,926</u>	
	<u>\$ 810,952</u>	<u>\$ 907,718</u>	
	Restoration	Warranties	Total
Balance, January 1, 2018	\$ 779,306	\$ 128,412	\$ 907,718
Provision	21,673	92,463	114,137
Payment/Reversal	(59,982)	(152,946)	(212,928)
Unwinding of discount	<u>2,026</u>	<u>-</u>	<u>2,026</u>
Balance, December 31, 2018	<u>\$ 743,023</u>	<u>\$ 67,929</u>	<u>\$ 810,952</u>
Balance, January 1, 2017	\$ 768,488	\$ 161,066	\$ 929,554
Provision	39,916	157,602	197,518
Payment/Reversal	(32,039)	(190,256)	(222,295)
Unwinding of discount	<u>2,941</u>	<u>-</u>	<u>2,941</u>
Balance, December 31, 2017	<u>\$ 779,306</u>	<u>\$ 128,412</u>	<u>\$ 907,718</u>

19. RETIREMENT BENEFIT PLANS

a. Defined contribution plans

Domestic firms of TWM 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. In accordance with the above provision, TWM's contribution to the pension plan amounted to \$155,076 thousand and \$155,088 thousand for the years ended December 31, 2018 and 2017, respectively.

b. Defined benefit plans

TWM 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 "Plans"). The Plans provide defined pension benefits for the TWM's certain qualified employees, specified under the Labor Standards Law, and such benefits are determined 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, TWM 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, TWM 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, TWM does not have any right to participate in the operation of the Funds.

The defined benefit plans were as follows:

	December 31	
	2018	2017
Present value of defined benefit obligations	\$ 845,191	\$ 756,290
Fair value of plan assets	<u>(563,028)</u>	<u>(539,224)</u>
Net defined benefit liabilities	<u>\$ 282,163</u>	<u>\$ 217,066</u>

The movements in present value of defined benefit obligations for the years ended December 31, 2018 and 2017 were as follows:

	For the Year Ended December 31	
	2018	2017
Balance, January 1	\$ 756,290	\$ 708,645
Current service costs	1,363	1,259
Interest costs	11,344	10,630
Actuarial loss - changes in demographic assumptions	52,386	42,646
Actuarial loss - changes in financial assumptions	28,586	-
Actuarial loss - experience adjustments	13,873	2,964
Benefits paid from plan assets	<u>(18,651)</u>	<u>(9,854)</u>
Balance, December 31	<u>\$ 845,191</u>	<u>\$ 756,290</u>

The movements in the fair value of the plan assets for the years ended December 31, 2018 and 2017 were as follows:

	For the Year Ended December 31	
	2018	2017
Balance, January 1	\$ 539,224	\$ 522,927
Net interest income	8,250	8,007
Return on plan assets (excluding amounts included in net interest)	13,389	(2,878)
Contributions from the employer	20,816	21,022
Benefits paid from plan assets	<u>(18,651)</u>	<u>(9,854)</u>
Balance, December 31	<u>\$ 563,028</u>	<u>\$ 539,224</u>

The expenses recognized in profit or loss for the years ended December 31, 2018 and 2017 were as follows:

	For the Year Ended December 31	
	2018	2017
Current service costs	\$ 1,363	\$ 1,259
Interest costs	11,344	10,630
Net interest income	<u>(8,250)</u>	<u>(8,007)</u>
	<u>\$ 4,457</u>	<u>\$ 3,882</u>

The pre-tax remeasurements recognized in other comprehensive income (loss) for the years ended December 31, 2018 and 2017 were as follows:

	For the Year Ended December 31	
	2018	2017
Return on plan assets (excluding amounts included in net interest)	\$ (13,389)	\$ 2,878
Actuarial loss - changes in demographic assumptions	52,386	42,646
Actuarial loss - changes in financial assumptions	28,586	-
Actuarial loss - experience adjustments	<u>13,873</u>	<u>2,964</u>
	<u>\$ 81,456</u>	<u>\$ 48,488</u>

Through the defined benefit plans under the Labor Standards Law, TWM 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	
	2018	2017
Discount rate	1.25%	1.5%
Long-term average adjustment rate of salary	2.75%	2.75%

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	
	2018	2017
Discount rate		
0.25% increase	<u>\$ (30,042)</u>	<u>\$ (27,923)</u>
0.25% decrease	<u>\$ 31,392</u>	<u>\$ 29,217</u>
Long-term average adjustment rate of salary		
0.25% increase	<u>\$ 30,453</u>	<u>\$ 28,423</u>
0.25% decrease	<u>\$ (29,306)</u>	<u>\$ (27,314)</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	
	2018	2017
The expected contributions to the Plan for the following year	<u>\$ 21,293</u>	<u>\$ 21,594</u>
The average duration of the defined benefit obligation	14.2 years	14.5 years

20. EQUITY

a. Common stock

As of December 31, 2018 and 2017, the TWM's capital authorized was \$60,000,000 thousand and capital issued and outstanding was \$34,208,519 thousand and \$34,208,328 thousand, respectively. The issued capital was divided into 3,420,852 thousand shares and 3,420,833 thousand shares, respectively, which were all common stocks, at a par value of \$10.

As of December 31, 2018, the bondholders of 3rd domestic unsecured convertible bonds had requested to convert the bonds into 3,001 thousand common stocks. TWM recognized 2,982 thousand of common stocks as capital collected in advance, totaling \$29,819 thousand. TWM would complete the amendment registration after the issuance of new stocks on the record date in accordance with the regulations.

b. Capital surplus

	December 31	
	2018	2017
Additional paid-in capital from convertible corporate bonds	\$ 6,363,714	\$ 7,708,764
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	501,215	511,562
Convertible bonds payable options	387,979	400,564
Changes in equity of associates accounted for using equity method	48,147	39,767
Others	<u>33,968</u>	<u>32,952</u>
	<u>\$ 12,580,692</u>	<u>\$ 13,939,278</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 policy, TWM's profits earned in a fiscal year 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 annual general stockholders' meeting ("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 2017 and 2016 earnings appropriations having been resolved in the AGM on June 12, 2018 and June 14, 2017, respectively, were as follows:

	<u>Appropriation of Earnings</u>		<u>Dividends Per Share</u> (NT\$)	
	<u>For Fiscal</u> <u>Year 2017</u>	<u>For Fiscal</u> <u>Year 2016</u>	<u>For Fiscal</u> <u>Year 2017</u>	<u>For Fiscal</u> <u>Year 2016</u>
Appropriation of legal reserve	\$ 1,419,218	\$ 1,532,018		
Reversal from special reserve	(327,331)	(483,920)		
Cash dividends to stockholders	13,610,406	14,176,599	\$ 5	\$ 5.208

The cash dividends of \$5 and \$5.208 per share mentioned above have been distributed from unappropriated earnings for 2017 and 2016, respectively. 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 \$1,633,249 thousand and \$1,067,056 thousand, that is, \$0.6 and \$0.392 per share. Total appropriations distributed were \$5.6 per share for 2017 and 2016.

TWM's 2018 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 Financial Assets at FVTOCI	Unrealized Gain (Loss) on Available-for- sale Financial Assets	Total
Balance, January 1, 2018	\$ (16,499)	\$ -	\$ (346,204)	\$ (362,703)
Effect of retrospective application of IFRS 9	<u>-</u>	<u>(281,785)</u>	<u>346,204</u>	<u>64,419</u>
Adjusted balance, January 1, 2018	(16,499)	(281,785)	-	(298,284)
Exchange differences on translation	(7,235)	-	-	(7,235)
Changes in fair value of financial assets at FVTOCI	-	226,082	-	226,082
Changes in other comprehensive income (loss) of associates accounted for using equity method	(664)	(14,247)	-	(14,911)
Reclassification of loss on disposal of equity instruments to retained earnings	-	(1,825)	-	(1,825)
Income tax effect	<u>-</u>	<u>792</u>	<u>-</u>	<u>792</u>
Balance, December 31, 2018	<u>\$ (24,398)</u>	<u>\$ (70,983)</u>	<u>\$ -</u>	<u>\$ (95,381)</u>
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>-</u>	<u>(37,774)</u>	<u>(37,921)</u>
Balance, December 31, 2017	<u>\$ (16,499)</u>	<u>\$ -</u>	<u>\$ (346,204)</u>	<u>\$ (362,703)</u>

e. Treasury stock

As of December 31, 2018 and 2017, TWM's stocks held for the investment purposes by TCCI, TUI and TID, which are all wholly-owned by TWM, were 698,752 thousand shares, and the market values were \$74,417,046 thousand and \$75,115,797 thousand, respectively. Since TWM's stocks held by its subsidiaries are regarded as treasury stock, TWM recognized \$29,717,344 thousand, as treasury stock. For those treasury stock holders, they have the same rights as the other shareholders, except that they are not allowed to subscribe new shares issued by TWM for cash and exercise the voting rights over such treasury stock.

21. OPERATING REVENUES

	For the Year Ended December 31	
	2018	2017
Revenue from contracts with customers		
Telecommunications and value-added services	\$ 49,114,766	\$ 54,261,344
Sales revenue	16,264,875	19,350,932
Other operating revenues	<u>165,986</u>	<u>-</u>
	<u>\$ 65,545,627</u>	<u>\$ 73,612,276</u>

a. Contract information

Please refer to Note 4.

b. Contract balances

	December 31, 2018
Contract assets	
Bundle sales	\$ 8,735,048
Less: Allowance for impairment loss	<u>(74,248)</u>
	<u>\$ 8,660,800</u>
Current	\$ 5,460,190
Non-current	<u>3,200,610</u>
	<u>\$ 8,660,800</u>

For accounts and notes receivable, please refer to Note 9.

	December 31, 2018
Contract liabilities - current	
Telecommunications and value-added services	\$ 1,126,758
Sales of goods	<u>25,573</u>
	<u>\$ 1,152,331</u>

The changes in the balance of contract assets and contract liabilities primarily result from the timing difference between TWM's performance and the respective customer's payment. Other significant changes are as follows:

	December 31, 2018
Contract assets	
Transfers of beginning balance to receivables	\$ (6,230,115)

TWM applies the simplified approach to providing for expected credit losses prescribed by IFRS 9, which permits the use of a lifetime expected loss provision for the contract assets. The contract assets will be transferred to accounts receivable when the corresponding invoice is billed to the client, and the contract assets have substantially the same risk characteristics as the trade receivables for the same types of contracts. Therefore, TWM concluded that the expected loss rates for trade receivables can be applied to the contract assets. As of December 31, 2018, the gross carrying amount of the contract assets was \$8,735,048 thousand, the expected credit loss rate was 0.85%, and the allowance for impairment loss was \$74,248 thousand.

The movements of the allowance of contract assets are as follows:

	For the Year Ended December 31, 2018
Beginning balance (IAS 39)	\$ -
Effect of retrospective application of IFRS 9	<u>90,541</u>
Beginning balance (IFRS 9)	90,541
Less: Recovery	<u>(16,293)</u>
Ending balance	<u>\$ 74,248</u>

Revenue of the reporting period recognized from the beginning contract liabilities is as follows:

	For the Year Ended December 31, 2018
Contract liabilities	
Telecommunications and value-added services	\$ 1,562,257
Sales of goods	<u>21,211</u>
	<u>\$ 1,583,468</u>

c. Partially completed contracts

The transaction prices allocated to the performance obligations that are not fully satisfied and the expected timing for recognition of revenue are as follows:

	Telecommuni- cations and Value-added Services	Sales of Goods	Total
December 31, 2018			
- in 2019	\$ 18,895,312	\$ 25,248	\$ 18,920,560
- in 2020	7,174,016	191	7,174,207
- after 2020	<u>727,773</u>	<u>134</u>	<u>727,907</u>
	<u>\$ 26,797,101</u>	<u>\$ 25,573</u>	<u>\$26,822,674</u>

The above information does not include contracts with expected durations which are equal to or less than one year.

d. Incremental costs of obtaining a contract

	December 31, 2018
Incremental costs of obtaining a contract - non-current	<u>\$ 2,884,482</u>

TWM considered the past experience and the default clauses in the sale contracts and believed the commission paid for obtaining a contract is wholly recoverable. Amortization recognized for the year ended December 31, 2018 was \$3,340,003 thousand.

22. NON-OPERATING INCOME AND EXPENSES

a. Other income

	For the Year Ended December 31	
	2018	2017
Rental income	\$ 52,344	\$ 222,340
Interest income	12,331	12,176
Dividend income	10,424	10,741
Other income	<u>6,934</u>	<u>4,677</u>
	<u>\$ 82,033</u>	<u>\$ 249,934</u>

b. Other gains and losses, net

	For the Year Ended December 31	
	2018	2017
Loss on disposal of property, plant and equipment, net	\$ (95,769)	\$ (351,200)
Loss on disposal of intangible assets, net	(128,002)	-
Valuation gain on financial assets at FVTPL	8,061	32,000
Reversal of impairment loss on property, plant and equipment	99,064	-
Reversal of impairment loss on investment property	4,522	-
Loss on foreign exchange	(5,240)	(31,566)
Estimated loss from lawsuits	-	(765,779)
Others	<u>(3,021)</u>	<u>(38,713)</u>
	<u>\$ (120,385)</u>	<u>\$ (1,155,258)</u>

c. Finance costs

	For the Year Ended December 31	
	2018	2017
Interest expense		
Bank loans	\$ 159,552	\$ 223,877
Corporate bonds	319,895	258,960
Related parties	99,996	84,866
Others	<u>23,929</u>	<u>38,043</u>
	603,372	605,746
Less: Capitalized interest	<u>(6,021)</u>	<u>(3,057)</u>
	<u>\$ 597,351</u>	<u>\$ 602,689</u>
Capitalization rates	1.34%	1.34%

23. INCOME TAX

a. Income tax recognized in profit or loss

	For the Year Ended December 31	
	2018	2017
Current income tax expense		
Current period	\$ 1,715,616	\$ 1,604,491
Prior years' adjustment	3,472	(36,916)
Others	<u>(41,450)</u>	<u>-</u>
	<u>1,677,638</u>	<u>1,567,575</u>
Deferred income tax expense		
Temporary differences	241,829	6,837
Changes in tax rates	<u>(24,576)</u>	<u>-</u>
	<u>217,253</u>	<u>6,837</u>
Income tax expense	<u>\$ 1,894,891</u>	<u>\$ 1,574,412</u>

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

	For the Year Ended December 31	
	2018	2017
Profit before tax	<u>\$ 15,537,063</u>	<u>\$ 15,766,588</u>
Income tax expense at domestic statutory tax rate (20% and 17% for the years ended 2018 and 2017, respectively)	\$ 3,107,413	\$ 2,680,320
Adjustment items in determining taxable profit	(1,357,429)	(911,494)
Temporary differences	241,829	6,837
Changes in tax rates	(24,576)	-
Investment tax credits	(34,431)	(219,560)
Prior years' other adjustments	3,472	17,974
Land value increment tax	63	335
Others	<u>(41,450)</u>	<u>-</u>
	<u>\$ 1,894,891</u>	<u>\$ 1,574,412</u>

The corporate income tax rate was adjusted from 17% to 20% after the amendment of the Income Tax Law in the ROC on January 1, 2018. The effect of such tax rate change on deferred income tax was recognized in profit or loss. 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	
	2018	2017
Deferred income tax income		
Unrealized gain (loss) on financial assets at FVTOCI	\$ 2,829	\$ -
Changes in tax rates - Remeasurements from defined benefit plans	9,298	-
Remeasurements from defined benefit plans	<u>16,291</u>	<u>8,243</u>
	<u>\$ 28,418</u>	<u>\$ 8,243</u>

c. Deferred tax assets and liabilities

Changes in the amount of deferred tax assets and liabilities for the years ended December 31, 2018 and 2017 were as follows:

	Property, Plant and Equipment	Defined Benefit Plans	Others	Total
<u>Deferred tax assets</u>				
Balance, January 1, 2018	\$ 388,872	\$ 36,901	\$ 202,736	\$ 628,509
Recognized in profit or loss	(100,734)	(6,057)	17,407	(89,384)
Recognized in other comprehensive income (loss)	<u>-</u>	<u>25,589</u>	<u>2,829</u>	<u>28,418</u>
Balance, December 31, 2018	<u>\$ 288,138</u>	<u>\$ 56,433</u>	<u>\$ 222,972</u>	<u>\$ 567,543</u>
Balance, January 1, 2017	\$ 477,834	\$ 31,572	\$ 72,189	\$ 581,595
Recognized in profit or loss	(88,962)	(2,914)	130,547	38,671
Recognized in other comprehensive income (loss)	<u>-</u>	<u>8,243</u>	<u>-</u>	<u>8,243</u>
Balance, December 31, 2017	<u>\$ 388,872</u>	<u>\$ 36,901</u>	<u>\$ 202,736</u>	<u>\$ 628,509</u>
	Intangible Assets	Others	Total	
<u>Deferred tax liabilities</u>				
Balance, January 1, 2018	\$ 436,556	\$ 5,044	\$ 441,600	
Recognized in profit or loss	<u>132,067</u>	<u>(4,198)</u>	<u>127,869</u>	
Balance, December 31, 2018	<u>\$ 568,623</u>	<u>\$ 846</u>	<u>\$ 569,469</u>	
Balance, January 1, 2017	\$ 389,782	\$ 6,310	\$ 396,092	
Recognized in profit or loss	<u>46,774</u>	<u>(1,266)</u>	<u>45,508</u>	
Balance, December 31, 2017	<u>\$ 436,556</u>	<u>\$ 5,044</u>	<u>\$ 441,600</u>	

d. The income tax returns through 2015 have been examined and cleared by the tax authorities.

24. EARNINGS PER SHARE

	For the Year Ended December 31, 2018		
	Amount After Income Tax	Weighted- average Number of Common Stock	EPS
Basic EPS			
Profit attributable to stockholders	\$ 13,642,172	2,722,519	<u>\$ 5.01</u>
Effect of potential dilutive common stock:			
Employees' compensation	-	4,405	
Convertible bonds	<u>80,227</u>	<u>95,073</u>	
Diluted EPS			
Profit attributable to stockholders (adjusted for potential effect of common stock)	<u>\$ 13,722,399</u>	<u>2,821,997</u>	<u>\$ 4.86</u>
	For the Year Ended December 31, 2017		
	Amount After Income Tax	Weighted- average Number of Common Stock	EPS
Basic EPS			
Profit attributable to stockholders	\$ 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 stockholders (adjusted for potential effect of common stock)	<u>\$ 14,248,064</u>	<u>2,817,119</u>	<u>\$ 5.06</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 rental payables of operating leases are as follows:

	December 31	
	2018	2017
Less than one year	\$ 3,045,816	\$ 2,991,107
Between one and five years	5,126,162	5,004,902
More than five years	<u>15,127</u>	<u>16,246</u>
	<u>\$ 8,187,105</u>	<u>\$ 8,012,255</u>

TWM leases offices, base transceiver stations, machine rooms, stores, warehouses, 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	
	2018	2017
Minimum lease payments	\$ 3,566,474	\$ 3,503,655
Receipts from subleases	<u>(10,339)</u>	<u>(7,256)</u>
	<u>\$ 3,556,135</u>	<u>\$ 3,496,399</u>

b. Lessor

TWM leases out investment properties under operating leases. The future minimum lease payment receivables under non-cancellable leases are as follows:

	December 31	
	2018	2017
Less than one year	\$ 168,784	\$ 176,351
Between one and five years	526,774	546,649
More than five years	<u>79,298</u>	<u>157,515</u>
	<u>\$ 774,856</u>	<u>\$ 880,515</u>

26. CAPITAL MANAGEMENT

TWM maintains and manages its capital to meet the minimum paid-in capital required by the competent authority, and to optimize the balance of liabilities and equity in order to maximize shareholders' return. By periodically reviewing and measuring relative cost, risk, and rate of return to ensure profit and to maintain adequate financial ratios, TWM 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	
	2018	2017
<u>Financial assets</u>		
Financial assets at FVTOCI (including current and non-current portions)	\$ 2,072,339	\$ -
Available-for-sale financial assets (including current and non-current portions)	-	2,495,042
Financial assets at cost	-	7,050
Financial assets measured at amortized cost (including current and non-current portions) (Note 1)	9,112,242	-
Loans and receivables (including current and non-current portions) (Note 2)	<u>-</u>	<u>22,210,185</u>
Total	<u>\$ 11,184,581</u>	<u>\$ 24,712,277</u>
<u>Financial liabilities</u>		
Financial liabilities measured at amortized cost (including current and non-current portions) (Note 3)	\$ 66,971,881	\$ 75,658,132
Financial liabilities at FVTPL	<u>1,861</u>	<u>9,961</u>
Total	<u>\$ 66,973,742</u>	<u>\$ 75,668,093</u>

Note 1: The balances comprise cash and cash equivalents, notes and accounts receivable, other receivables, other financial assets and refundable deposits.

Note 2: The balances comprise cash and cash equivalents, notes and accounts receivable, other receivables, other financial assets and refundable deposits.

Note 3: The balances comprise short-term borrowings, short-term notes and bills payable, payables, bonds payable, long-term borrowings and guarantee deposits.

b. Fair value of financial instruments

1) Financial instruments not at fair value

Except for the table below, TWM 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			
	2018		2017	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<u>Financial liabilities</u>				
Bonds payable (including current portion)	\$ 28,918,817	\$ 29,495,234	\$ 21,548,935	\$ 22,151,528

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 of financial instruments that are measured at fair value on a recurring basis

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).

December 31, 2018

	Level 1	Level 2	Level 3	Total
<u>Financial assets at FVTOCI</u>				
Equity instruments				
Domestic listed stocks	\$ 1,268,567	\$ -	\$ -	\$ 1,268,567
Limited partnerships	-	-	775,385	775,385
Foreign unlisted stocks	-	-	28,387	28,387
	<u>\$ 1,268,567</u>	<u>\$ -</u>	<u>\$ 803,772</u>	<u>\$ 2,072,339</u>
Financial liabilities at FVTPL	<u>\$ -</u>	<u>\$ 1,861</u>	<u>\$ -</u>	<u>\$ 1,861</u>

December 31, 2017

	Level 1	Level 2	Level 3	Total
<u>Available-for-sale financial assets</u>				
Domestic listed stocks	\$ 1,709,977	\$ -	\$ -	\$ 1,709,977
Limited partnerships	-	-	785,065	785,065
	<u>\$ 1,709,977</u>	<u>\$ -</u>	<u>\$ 785,065</u>	<u>\$ 2,495,042</u>
Financial liabilities at FVTPL	<u>\$ -</u>	<u>\$ 9,961</u>	<u>\$ -</u>	<u>\$ 9,961</u>

There was no transfer between the fair value measurements of Levels 1 and 2 for the years ended December 31, 2018 and 2017.

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:

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:

The significant and unobservable input parameter for assessing the unlisted stocks and limited partnerships held by TWM mainly relates to liquidity discount rate. The fair value of limited partnerships investments was evaluated through the market approach and income approach. The evaluation and assumptions are mainly referenced to related information of comparable market targets and estimated future cash flows. The liquidity discount rate was estimated at 28% and 30% as of December 31, 2018 and 2017, respectively.

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

For the Year Ended December 31, 2018

	Financial Assets at FVTOCI - Equity Instruments
Balance at January 1, 2018	\$ 792,115
Recognized in other comprehensive income (unrealized gain on financial assets at FVTOCI)	<u>11,657</u>
Balance at December 31, 2018	<u>\$ 803,772</u>

For the Year Ended December 31, 2017

	Available-for- sale Financial Assets - Equity Instruments
Balance at January 1, 2017	\$ -
Purchases	810,865
Recognized in other comprehensive income (unrealized loss on available-for-sale financial assets)	<u>(25,800)</u>
Balance at December 31, 2017	<u>\$ 785,065</u>

c. Financial risk management

1) TWM 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 TWM's risk exposure and TWM'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 TWM'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 TWM 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 refers to the risk that a counterparty would default on its contractual obligations resulting in financial loss. The maximum credit exposure of the aforementioned financial instruments is equal to their carrying amounts recognized in balance sheet as of the balance sheet date. TWM has large trade receivables outstanding with its customers. A substantial majority of TWM's outstanding trade receivables are not covered by collateral or credit insurance. TWM has implemented ongoing measures including enhancing credit assessments and strengthening overall risk management to reduce its credit risk. While TWM has procedures to monitor and limit exposure to credit risk on trade receivables, there can be no assurance such procedures will effectively limit its credit risk and avoid losses. This risk is heightened during periods when economic conditions worsen.

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

4) Liquidity risk

Liquidity risk is the risk that TWM fails to meet the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. TWM'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 TWM's reputation.

TWM manages and maintains sufficient level of capital to pay the requirements of estimated operating expenditures, including financial obligations on each contract. TWM also monitors its bank credit facilities to ensure that the provisions of loan contracts are all complied with. As of December 31, 2018 and 2017, TWM had unused bank facilities of \$50,993,100 thousand and \$44,726,632 thousand, respectively.

The table below summarizes the maturity profile of TWM'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, 2018</u>				
Unsecured loans	\$ 17,399,881	\$ 11,365,871	\$ 6,034,010	\$ -
Unsecured loans - related parties	10,094,645	10,094,645	-	-
Short-term notes and bills payable	1,500,000	1,500,000	-	-
Bonds payable	<u>30,130,500</u>	<u>4,701,180</u>	<u>16,249,320</u>	<u>9,180,000</u>
	<u>\$ 59,125,026</u>	<u>\$ 27,661,696</u>	<u>\$ 22,283,330</u>	<u>\$ 9,180,000</u>
<u>December 31, 2017</u>				
Unsecured loans	\$ 28,773,082	\$ 17,756,659	\$ 11,016,423	\$ -
Unsecured loans - related parties	7,910,303	7,910,303	-	-
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>\$ 64,401,695</u>	<u>\$ 38,824,972</u>	<u>\$ 25,576,723</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 TWM'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.

TWM 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

TWM 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, TWM purchases currency at the spot rate based on the conservative principle in order to hedge exchange rate risk.

TWM's foreign currency assets and liabilities exposed to significant exchange rate risk were as follows:

	December 31, 2018		
	Foreign Currencies	Exchange Rate	New Taiwan Dollars
<u>Foreign currency assets</u>			
Monetary items			
USD	\$ 26,221	30.79	\$ 807,356
EUR	608	35.05	21,322
Non-monetary items			
USD	26,105	30.79	803,772
<u>Foreign currency liabilities</u>			
Monetary items			
USD	8,942	30.79	275,330
EUR	17	35.05	600
	December 31, 2017		
	Foreign Currencies	Exchange Rate	New Taiwan Dollars
<u>Foreign currency assets</u>			
Monetary items			
USD	\$ 22,191	29.77	\$ 660,612
EUR	654	35.55	23,265
Non-monetary items			
USD	26,371	29.77	785,065
<u>Foreign currency liabilities</u>			
Monetary items			
USD	10,438	29.77	310,744
EUR	22	35.55	791

TWM's foreign exchange losses, including realized and unrealized, for the years ended December 31, 2018 and 2017, were net exchange loss of \$5,240 thousand and \$31,566 thousand, respectively.

Sensitivity analysis

TWM'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 \$27,637 thousand and \$18,617 thousand for the years ended December 31, 2018 and 2017, respectively.

b) Interest rate risk

TWM 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 TWM significantly.

The carrying amounts of TWM's financial assets and financial liabilities exposed to interest rate risk were as follows:

	December 31	
	2018	2017
Fair value interest rate risk		
Financial assets	\$ 30,790	\$ 2,567,080
Financial liabilities	43,273,029	39,024,751
Cash flow interest rate risk		
Financial assets	1,239,663	667,116
Financial liabilities	5,000,000	14,900,000

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 \$18,802 thousand and \$71,164 thousand for the years ended December 31, 2018 and 2017, respectively.

c) Other market price risk

The exposure to equity price risk is mainly due to holding of stocks. TWM 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), profit would have decreased by \$103,617 thousand since the fair value of financial assets at FVTOCI decreased for the year ended December 31, 2018; and other comprehensive income would have decreased by \$124,752 thousand since the fair value of available-for-sale financial assets decreased for the year ended December 31, 2017.

28. RELATED-PARTY TRANSACTIONS

a. Related party name and nature of relationship

<u>Related Party</u>	<u>Nature of Relationship</u>
Taiwan Cellular Co., Ltd.	Subsidiary
Wealth Media Technology Co., Ltd. (WMT)	Subsidiary
Taipei New Horizon Co., Ltd. (TNH)	Subsidiary
Taiwan Fixed Network Co., Ltd. (TFN)	Subsidiary
Taiwan Teleservices & Technologies Co., Ltd. (TT&T)	Subsidiary
Taiwan Digital Service Co., Ltd. (TDS)	Subsidiary
momo.com Inc. (momo)	Subsidiary
Taiwan Kuro Times Co., Ltd. (TKT)	Subsidiary

(Continued)

Related Party	Nature of Relationship
TFN Union Investment Co., Ltd.	Subsidiary
TCC Investment Co., Ltd.	Subsidiary
TCCI Investment and Development Co., Ltd.	Subsidiary
Taiwan Digital Communications Co., Ltd.	Subsidiary
Taihsin Property Insurance Agent Co., Ltd.	Subsidiary
TFN Media Co., Ltd.	Subsidiary
Global Forest Media Technology Co., Ltd.	Subsidiary
Win TV Broadcasting Co., Ltd.	Subsidiary
Yeong Jia Leh Cable TV Co., Ltd.	Subsidiary
Mangrove Cable TV Co., Ltd.	Subsidiary
Phoenix Cable TV Co., Ltd.	Subsidiary
Union Cable TV Co., Ltd.	Subsidiary
Globalview Cable TV Co., Ltd.	Subsidiary
Fu Sheng Travel Service Co., Ltd.	Subsidiary
Bebe Poshe International Co., Ltd.	Subsidiary
ADT	Associates
Taiwan Pelican Express Co., Ltd. (TPE)	Associates
kbro Media Co., Ltd. (kbro Media)	Associates
Good Image Co., Ltd.	Associates (subsidiary of kbro Media)
Taipei Fubon Commercial Bank Co., Ltd. (TFCB)	Other related parties
Fubon Insurance Co., Ltd. (Fubon Ins.)	Other related parties
Fubon Sports & Entertainment Co., Ltd. (FSE)	Other related parties
Fubon Property Management Co., Ltd. (FPM)	Other related parties
Fubon Financial Holding Co., Ltd.	Other related parties
Fubon Life Insurance Co., Ltd.	Other related parties
Fubon Securities Co., Ltd.	Other related parties
Fubon Futures Co., Ltd.	Other related parties
Fubon Investment Services Co., Ltd.	Other related parties
Fubon Securities Investment Trust 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 Gymnasium Co., Ltd.	Other related parties
Fubon Asset Management Co., Ltd.	Other related parties
One Production Film 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
Fu Yi Health Management Co., Ltd.	Other related parties
Mitchiller Media Co., Ltd.	Other related parties
Taiwan Mobile Foundation (TMF)	Other related parties
Taipei New Horizon Foundation	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)

b. Significant transactions with related parties

1) Operating revenue

	For the Year Ended December 31	
	2018	2017
Subsidiaries	\$ 570,734	\$ 727,231
Associates	18,304	18,287
Other related parties	<u>476,029</u>	<u>457,430</u>
	<u>\$ 1,065,067</u>	<u>\$ 1,202,948</u>

TWM renders telecommunications, 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	
	2018	2017
Subsidiaries		
TFN	\$ 4,773,634	\$ 4,677,829
Others	486,711	392,709
Associates	2,749	1,824
Other related parties	<u>589,871</u>	<u>528,932</u>
	<u>\$ 5,852,965</u>	<u>\$ 5,601,294</u>

The entities mentioned above provide telecommunications, maintenance services and member service costs, etc., to TWM. The transaction terms with related parties were not significantly different from those with third parties.

3) Receivables due from related parties

Account	Related Party Categories	December 31	
		2018	2017
Accounts receivable	Subsidiaries	\$ 62,121	\$ 21,413
Accounts receivable	Associates	1,878	4,091
Accounts receivable	Other related parties	<u>72,699</u>	<u>71,726</u>
		<u>\$ 136,698</u>	<u>\$ 97,230</u>
Other receivables	Subsidiaries	\$ 70,316	\$ 47,205
Other receivables	Other related parties	<u>19,438</u>	<u>2,986</u>
		<u>\$ 89,754</u>	<u>\$ 50,191</u>

Receivables from related parties above were not secured with collateral, and no provisions for impairment loss were accrued.

4) Payables due to related parties

Account	Related Party Categories	December 31	
		2018	2017
Accounts payable	Subsidiaries	\$ 173,885	\$ 179,076
Accounts payable	Associates	99	-
Accounts payable	Other related parties	<u>50,997</u>	<u>92,807</u>
		<u>\$ 224,981</u>	<u>\$ 271,883</u>
Other payables	Subsidiaries	<u>\$ 551,912</u>	<u>\$ 527,347</u>

5) Prepayments

	December 31	
	2018	2017
Other related parties		
Fubon Ins.	<u>\$ 4,957</u>	<u>\$ 50,789</u>

6) Transaction of property

Disposals of property, plant and equipment

	2018		2017	
	Proceeds	Gain (Loss) on Disposal	Proceeds	Gain (Loss) on Disposal
Subsidiaries				
TKT	<u>\$ 11,094</u>	<u>\$ -</u>	<u>\$ 15,511</u>	<u>\$ -</u>

7) Borrowings from related parties

	December 31	
	2018	2017
Subsidiaries		
TFN	\$ 6,990,000	\$ 5,740,000
WMT	2,608,000	1,740,000
Others	<u>390,000</u>	<u>350,000</u>
	<u>\$ 9,988,000</u>	<u>\$ 7,830,000</u>

The rate on borrowings from related parties was equivalent to the rate in the market.

8) Bank deposits, time deposits and other financial assets

	December 31	
	2018	2017
Other related parties		
TFCB	<u>\$ 239,323</u>	<u>\$ 245,044</u>

9) Others

	December 31	
	2018	2017
Guarantee deposits		
Subsidiaries	<u>\$ 18,840</u>	<u>\$ 18,823</u>
Other current liabilities		
Subsidiaries	\$ 46,993	\$ 41,173
Other related parties	<u>69,057</u>	<u>-</u>
	<u>\$ 116,050</u>	<u>\$ 41,173</u>
	For the Year Ended December 31	
	2018	2017
Operating expenses		
Subsidiaries		
TFN	\$ 51,969	\$ 48,689
TT&T	1,047,348	1,114,432
TNH	120,487	121,232
TDS	84,439	110,494
Other related parties		
TMF	14,420	15,000
FPM	44,202	46,529
FSE	24,500	34,000
TFCB	155,992	160,637
Others	<u>63,268</u>	<u>47,037</u>
	<u>\$ 1,606,625</u>	<u>\$ 1,698,050</u>

The above operating expenses include rental expenses. The leases are conducted by referring to general market prices, and rental is paid on a monthly basis.

For the years ended December 31, 2018 and 2017, TWM's service charges received (recognized as deduction of other income and expenses) were as follows:

	For the Year Ended December 31	
	2018	2017
Amounts received		
Subsidiaries	<u>\$ 331,324</u>	<u>\$ 342,322</u>

For the years ended December 31, 2018 and 2017, TWM's service charges paid were as follows:

	For the Year Ended December 31	
	2018	2017
Amounts paid		
Subsidiaries	<u>\$ 64,968</u>	<u>\$ 70,769</u>

	For the Year Ended December 31	
	2018	2017
Non-operating income		
Subsidiaries		
TFN	\$ 803	\$ 34,222
momo	45,284	43,258
Other related parties	<u>-</u>	<u>15,403</u>
	<u>\$ 46,087</u>	<u>\$ 92,883</u>

The above non-operating income included rental income. Leases were conducted by referring to general market prices, and rentals were collected on a monthly or bimonthly basis.

	For the Year Ended December 31	
	2018	2017
Non-operating expense		
Subsidiaries		
TFN	\$ 73,340	\$ 63,124
Others	<u>26,656</u>	<u>21,742</u>
	<u>\$ 99,996</u>	<u>\$ 84,866</u>

d. Key management compensation

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

	For the Year Ended December 31	
	2018	2017
Short-term employee benefits	\$ 240,192	\$ 249,475
Termination and post-employment benefits	<u>1,698</u>	<u>13,614</u>
	<u>\$ 241,890</u>	<u>\$ 263,089</u>

29. ASSETS PLEDGED

The assets pledged as collateral for lawsuits and loan commitments were as follows:

	December 31	
	2018	2017
Other current financial assets	\$ 9,409	\$ 2,448,110
Other non-current financial assets	<u>720</u>	<u>720</u>
	<u>\$ 10,129</u>	<u>\$ 2,448,830</u>

30. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED COMMITMENTS

a. Unrecognized commitments

	<u>December 31</u>	
	<u>2018</u>	<u>2017</u>
Purchases of property, plant and equipment	<u>\$ 806,935</u>	<u>\$ 3,641,742</u>
Purchases of cellular phones	<u>\$ 1,872,470</u>	<u>\$ 3,316,989</u>

b. As of December 31, 2018 and 2017, the amounts of endorsements and guarantees (provided to TFN and TKT) were both \$21,550,000 thousand.

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 \$534,147 thousand and \$15,939 thousand, respectively, as of December 31, 2018.

d. In May 2015, Far East Tone 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, and the counter-security deposit was reclaimed in June 2018. 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") in January 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) back 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. In May 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, and the counter-security deposit was reclaimed in March 2018. 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 and FET appealed the sentence respectively. In addition, FET offered a counter-security deposit for the exemption from provisional execution of the sentence, and obtained \$791,867 thousand

according to the execution decree in May 2018. The amount was recognized under other current assets by TWM.

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, and the counter-security deposit was reclaimed in March 2018. 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

On January 31, 2019, the Board of Directors resolved that TWM will purchase mobile broadband equipment from Nokia Solutions and Networks Taiwan Co., Ltd. The total amount of the contract will not exceed \$4,682,000 thousand.

32. OTHERS

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

	For the Year Ended December 31, 2018			
	Classified as Operating Costs	Classified as Operating Expenses	Classified as Operating Costs or Expense Deduction	Total
Employee benefits				
Salary	\$ 1,093,471	\$ 2,257,804	\$ 450,171	\$ 3,801,446
Insurance expenses	74,260	189,158	27,487	290,905
Pension	44,158	98,281	17,094	159,533
Compensation of directors	-	87,636	-	87,636
Others	54,300	148,262	5,904	208,466
Depreciation	6,764,520	256,109	-	7,020,629
Amortization	2,846,481	3,726,099	-	6,572,580

For the Year Ended December 31, 2017

	Classified as Operating Costs	Classified as Operating Expenses	Classified as Operating Costs or Expense Deduction	Total
Employee benefits				
Salary	\$ 1,084,370	\$ 2,175,479	\$ 416,742	\$ 3,676,591
Insurance expenses	73,554	192,660	25,726	291,940
Pension	43,618	99,666	15,686	158,970
Compensation of directors	-	91,221	-	91,221
Others	55,290	154,948	6,532	216,770
Depreciation	7,526,924	302,802	-	7,829,726
Amortization	2,626,701	386,430	-	3,013,131

- a. For the years ended December 31, 2018 and 2017, the average numbers of TWM employees were 3,851 and 3,892, respectively, and the numbers of directors who were not employees were both 8.
- b. Information of employees' compensation and remuneration of directors

According to TWM's Articles, the estimated employees' compensation and remuneration of directors are set 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 were made by applying the rates to the aforementioned profit before income tax, for the years ended December 31, 2018 and 2017, 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 2018 and 2017 shown below were approved by the Board of Directors on January 31, 2019 and February 1, 2018, respectively. The differences with the amounts recognized in the financial statements have been adjusted in 2019 and 2018, respectively.

	For the Year Ended December 31			
	2018		2017	
	Employees' Compensation Paid in Cash	Remuneration of Directors	Employees' Compensation Paid in Cash	Remuneration of Directors
Amounts approved by the Board of Directors	<u>\$ 459,368</u>	<u>\$ 45,937</u>	<u>\$ 453,359</u>	<u>\$ 45,336</u>
Amounts recognized in the financial statements	<u>\$ 432,341</u>	<u>\$ 43,234</u>	<u>\$ 438,728</u>	<u>\$ 43,873</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.

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: None
 - 5) Acquisition of individual real estate at costs of at least NT\$300 million or 20% of the paid-in capital: Table 4 (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 5 (attached)
 - 8) Receivables from related parties of at least NT\$100 million or 20% of the paid-in capital: Table 6 (attached)
 - 9) Names, locations and related information of investees on which TWM exercised significant influence: Table 7 (attached) (excluding information on investment in Mainland China)
 - 10) Trading in derivative instruments: None
- 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 8 (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 (attached)

34. SEGMENT INFORMATION

Please refer to the consolidated financial statements for the years ended December 31, 2018 and 2017.

TAIWAN MOBILE CO., LTD.

FINANCING EXTENDED TO OTHER PARTIES
FOR THE YEAR ENDED DECEMBER 31, 2018

(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 Impairment Loss	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	\$ 390,000	1.09267%-1.09511%	Short-term financing	\$ -	Operation requirements	\$ -	-	\$ -	\$ 34,657,299	\$ 34,657,299	Note 2
2	WMT	TWM	Other receivables	Yes	3,000,000	3,000,000	2,608,000	1.09267%-1.09511%	Short-term financing	-	Operation requirements	-	-	-	8,178,623	8,178,623	Note 2
		TKT	Other receivables	Yes	100,000	100,000	-	-	Short-term financing	-	Operation requirements	-	-	-	8,178,623	8,178,623	Note 2
		TFNM	Other receivables	Yes	3,000,000	2,880,000	1,180,000	1.09311%-1.09511%	Short-term financing	-	Operation requirements	-	-	-	8,178,623	8,178,623	Note 2
		WTVB	Other receivables	Yes	600,000	600,000	325,000	1.09278%-1.09522%	Short-term financing	-	Operation requirements	-	-	-	8,178,623	8,178,623	Note 2
3	TFN	TWM	Other receivables	Yes	9,000,000	9,000,000	6,990,000	1.09267%-1.09511%	Short-term financing	-	Operation requirements	-	-	-	22,544,691	22,544,691	Note 2
4	YJCTV	TFNM	Other receivables	Yes	240,000	140,000	140,000	1.09244%-1.09522%	Transactions	462,943	-	-	-	-	462,943	462,943	Notes 3 and 4
5	PCTV	TFNM	Other receivables	Yes	520,000	520,000	520,000	1.09244%-1.09456%	Transactions	537,792	-	-	-	-	537,792	537,792	Notes 3 and 4
6	GCTV	TFNM	Other receivables	Yes	250,000	250,000	250,000	1.09244%-1.09456%	Short-term financing	-	Repayment of financing	-	-	-	274,660	274,660	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.

Note 4: Where funds are loaned for reasons of business dealings, the aggregate amount of loans and the maximum amount permitted to a single borrower shall be prescribed within the aggregate amount of business transactions.

TAIWAN MOBILE CO., LTD.

ENDORSEMENT/GUARANTEE PROVIDED TO OTHER PARTIES
FOR THE YEAR ENDED DECEMBER 31, 2018

(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	\$ 8,501,350 50,000	\$ - -	34.74 0.08	\$ 61,881,520 61,881,520	Y Y	N N	N N	Notes 3 and 4 Note 3
1	momo	FGE	Note 2	829,548	66,960	-	-	-	-	6,150,503	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.

TAIWAN MOBILE CO., LTD.

MARKETABLE SECURITIES HELD (EXCLUDING INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES)
DECEMBER 31, 2018

(In Thousands of New Taiwan Dollars)

Investing Company	Marketable Securities Type and Name	Relationship with the Securities Issuer	Financial Statement Account	December 31, 2018				Note
				Units/Shares (Thousands)	Carrying Value	Percentage of Ownership %	Fair Value	
TWM	<u>Stock</u>							
	Chunghwa Telecom Co., Ltd.	-	Current financial assets at FVTOCI	2,174	\$ 245,607	0.028	\$ 245,607	
	Asia Pacific Telecom Co., Ltd.	-	Non-current financial assets at FVTOCI	148,255	1,022,960	3.45	1,022,960	
	Bridge Mobile Pte Ltd.	-	Non-current financial assets at FVTOCI	800	28,387	10	28,387	
	<u>Limited Partnerships</u>							
	Grand Academy Investment, L.P.	-	Non-current financial assets at FVTOCI	-	603,700	21.67	603,700	Note 1
	Starview Heights Investment, L.P.	-	Non-current financial assets at FVTOCI	-	171,685	21.67	171,685	Note 1
TCC	<u>Stock</u>							
	Arcoa Communication Co., Ltd.	-	Non-current financial assets at FVTOCI	6,998	101,683	5.21	101,683	
TFN	<u>Stock</u>							
	Taiwan High Speed Rail Corporation	-	Non-current financial assets at FVTOCI	90,212	2,755,989	1.6	2,755,989	
TCCI	<u>Stock</u>							
	TWM	TWM	Non-current financial assets at FVTOCI	200,497	21,352,905	5.86	21,352,905	
	Great Taipei Broadband Co., Ltd.	-	Non-current financial assets at FVTOCI	10,000	36,915	6.67	36,915	
TUI	<u>Stock</u>							
	TWM	TWM	Non-current financial assets at FVTOCI	410,665	43,735,853	11.99	43,735,853	
TID	<u>Stock</u>							
	TWM	TWM	Non-current financial assets at FVTOCI	87,590	9,328,288	2.56	9,328,288	
TFNM	<u>Beneficiary Certificates</u>							
	Dragon Tiger Capital Partners Limited - Class B	-	Non-current financial assets at FVTOCI	0.2	-	0.33	-	
	Dragon Tiger Capital Partners Limited - Class C	-	Non-current financial assets at FVTOCI	0.0335	-	0.056	-	

(Continued)

Investing Company	Marketable Securities Type and Name	Relationship with the Securities Issuer	Financial Statement Account	December 31, 2018				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 financial assets at FVTPL	9,151	\$ 81,474	-	\$ 81,474	
	<u>Stock</u> Media Asia Group Holdings Limited	-	Current financial assets at FVTOCI	43,668	10,125	2.04	10,125	
	We Can Medicines Co., Ltd.	-	Non-current financial assets at FVTOCI	2,400	42,580	7.73	42,580	

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

Note 2: For the information on investments in subsidiaries and associates, see Table 7 and Table 8 for details.

(Concluded)

TAIWAN MOBILE CO., LTD.

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, 2018

(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	\$ 1,728,552 (Note)	Paid. (including \$193,435 thousand paid in current period)	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 1: The transaction amount increased by \$3,143 thousand to the total amount of \$1,728,552 thousand in current period.

TAIWAN MOBILE CO., LTD.

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, 2018

(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	\$ 453,293	1	Based on contract terms	-	-	\$ 19,572	-	Note 1 Note 1
			Purchase	4,825,077	(Note 2)	Based on contract terms	-	-	(467,393)	(Note 3)	
	TT&T	Subsidiary	Purchase	1,047,348	(Note 2)	Based on contract terms	-	-	(89,101)	(Note 3)	
			Purchase	331,380	(Note 2)	Based on contract terms	-	-	(76,858)	(Note 3)	
			Purchase	213,856	(Note 2)	Based on contract terms	-	-	(22,103)	(Note 3)	
			Purchase	120,902	(Note 2)	Based on contract terms	-	-	(1,283)	(Note 3)	
			Purchase	374,535	1	Based on contract terms	-	-	60,637	1	
			Purchase	561,855	1	Based on contract terms	-	-	(50,962)	4	
TNH	TWM	Parent	Sale	123,442	21	Based on contract terms	-	-	1,283	11	
TFN	TWM	Ultimate parent	Sale	4,825,077	48	Based on contract terms	-	-	467,393	39	Note 1 Note 1
			Purchase	453,293	(Note 2)	Based on contract terms	-	-	(19,572)	(Note 3)	
	TT&T	Fellow subsidiary	Purchase	109,723	(Note 2)	Based on contract terms	-	-	(8,638)	(Note 3)	
			Sale	148,803	1	Based on contract terms	-	-	24,616	2	
			Sale	133,300	1	Based on contract terms	-	-	13,663	1	
TT&T	TWM	Ultimate parent	Sale	1,047,348	90	Based on contract terms	-	-	89,101	91	
			Sale	109,723	9	Based on contract terms	-	-	8,638	9	
TKT	TWM	Ultimate parent	Sale	331,380	92	Based on contract terms	-	-	76,858	100	
TDS	TWM	Ultimate parent	Sale	213,856	92	Based on contract terms	-	-	22,013	96	
TFNM	TFN	Fellow subsidiary	Purchase	152,457	(Note 2)	Based on contract terms	-	-	(24,616)	(Note 3)	
			Channel leasing fee	425,366	13	Based on contract terms	Note 4	Note 4	-	-	
			Channel leasing fee	496,337	15	Based on contract terms	Note 4	Note 4	-	-	
			Channel leasing fee	224,932	7	Based on contract terms	Note 4	Note 4	-	-	
			Channel leasing fee	189,930	6	Based on contract terms	Note 4	Note 4	-	-	
YJCTV	TFNM	Parent	Royalty for copyright	425,366	50	Based on contract terms	Note 4	Note 4	-	-	
PCTV	TFNM	Parent	Royalty for copyright	496,337	51	Based on contract terms	Note 4	Note 4	-	-	
UCTV	TFNM	Parent	Royalty for copyright	224,932	37	Based on contract terms	Note 4	Note 4	-	-	
GCTV	TFNM	Parent	Royalty for copyright	189,930	49	Based on contract terms	Note 4	Note 4	-	-	
MCTV	Dai-Ka Ltd.	Other related party	Royalty for copyright	157,827	43	Based on contract terms	Note 4	Note 4	(52,609)	89	
momo	TPE	Associate	Purchase	406,755	1	Based on contract terms	-	-	(91,167)	2	

Note 1: Accounts receivable (payable) was the net amount after being offset.

Note 2: Including operating costs and operating expenses.

Note 3: Including accounts payable and other payables.

Note 4: The companies authorized a related party to deal with the copyright fees for cable television. As said account item is the only one, there is no comparable transaction.

TAIWAN MOBILE CO., LTD.

RECEIVABLES FROM RELATED PARTIES OF AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL
DECEMBER 31, 2018

(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 Impairment Loss	
						Amount	Action Taken			
TCC	TWM	Parent	Other receivables	\$ 391,802		\$ -	-	\$ (1,802)	\$ -	
WMT	TWM	Parent	Other receivables	2,617,618		-	-	(38,077)	-	
			TFNM	Subsidiary	Other receivables	1,182,442	-	-	-	-
			WTVB	Subsidiary	Other receivables	326,391	-	-	(1,084)	-
TFN	TWM	Ultimate parent	Accounts receivable	467,393	10.53	-	-	391,656	-	
			Other receivables	7,089,695		-	-	61,522	-	
YJCTV	TFNM	Parent	Accounts receivable	4,807	7.28	-	-	-	-	
			Other receivables	140,202		-	-	-	-	
PCTV	TFNM	Parent	Accounts receivable	5,139	6.99	-	-	-	-	
			Other receivables	522,093		-	-	-	-	
GCTV	TFNM	Parent	Accounts receivable	2,257	7.20	-	-	-	-	
			Other receivables	250,010		-	-	-	-	
momo	TPE	Associate	Accounts receivable	2,059	4.91	-	-	1,291	-	
			Other receivables	112,956		-	-	112,956	-	

TAIWAN MOBILE CO., LTD.

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, 2018

(In Thousands of New Taiwan Dollars)

Investor	Investee	Location	Main Businesses and Products	Investment Amount		Balance as of December 31, 2018			Net Income (Loss) of the Investee	Investment Income (Loss)	Note
				December 31, 2018	December 31, 2017	Shares (Thousands)	Percentage of Ownership %	Carrying Value			
TWM	TCC	Taiwan	Investment	\$ 40,397,288	\$ 40,397,288	502,970	100	\$ 19,736,769	\$ 3,584,025	\$ 3,579,668	Note 1
	WMT	Taiwan	Investment	16,802,000	16,802,000	42,065	100	20,446,559	2,082,254	2,082,254	
	TNH	Taiwan	Building and operating Songshan Cultural and Creative Park BOT project	1,918,655	1,918,655	191,866	49.9	1,772,825	102,109	50,952	
	ADT	Taiwan	Technology development of mobile payment and information processing services	60,000	60,000	6,000	14.4	8,636	(66,405)	(5,815)	
TCC	TFN	Taiwan	Fixed line service provider	21,000,000	21,000,000	2,100,000	100	56,362,690	3,465,946	-	Note 2
	TT&T	Taiwan	Call center service and telephone marketing	56,210	56,210	2,484	100	78,163	50,981	-	Note 2
	TWM Holding	British Virgin Islands	Investment	347,951	347,951	-	100	256,047	9,348	-	Notes 2 and 3
	TCCI	Taiwan	Investment	17,285,441	17,285,441	154,721	100	29,189,104	11,317	-	Note 2
	TDC	Taiwan	Mobile phone wholesaling and TV program production	112,000	112,000	11,200	100	115,816	250	-	Note 2
	TDS	Taiwan	Commissioned maintenance service	25,000	25,000	2,500	100	109,853	15,461	-	Note 2
	TPIAC	Taiwan	Property insurance agent	5,000	5,000	500	100	27,914	22,972	-	Note 2
TFC	Taiwan	Type II telecommunications business	5,000	-	500	100	4,409	(591)	-	Note 2	
WMT	TFNM	Taiwan	Type II telecommunications business	5,210,443	5,210,443	230,921	100	6,553,427	1,449,737	-	Note 2
	GFMT	Taiwan	Investment	16,984	16,984	1,500	100	16,879	(403)	-	Note 2
	GWMT	Taiwan	Investment	92,189	92,189	8,945	100	96,410	2,636	-	Note 2
	WTVB	Taiwan	TV program provider	222,417	222,417	18,177	100	332,792	77,655	-	Note 2
	momo	Taiwan	Wholesale and retail sales	8,129,394	8,129,394	63,047	45.01	9,318,968	1,449,640	-	Notes 2 and 4
TFN	TUI	Taiwan	Investment	22,314,536	22,314,536	400	100	38,298,647	(77)	-	Note 2
	TFN HK Ltd.	Hong Kong	Telecommunications service provider	2,925	2,925	1,300	100	8,228	(243)	-	Note 2
TT&T	TT&T Holdings	Samoa	Investment	-	36,284	-	-	-	(279)	-	Notes 2 and 5
TCCI	TID	Taiwan	Investment	3,602,782	3,602,782	104,712	100	8,174,055	(106)	-	Note 2
TFNM	TKT	Taiwan	Digital music service	129,900	129,900	12,000	100	225,842	21,765	-	Note 2
	YJCTV	Taiwan	Cable TV service provider	2,061,522	2,061,522	33,940	100	1,915,527	(162,988)	-	Note 2
	MCTV	Taiwan	Cable TV service provider	510,724	510,724	6,248	29.53	630,460	54,149	-	Notes 2 and 6
	PCTV	Taiwan	Cable TV service provider	3,261,073	3,261,073	68,090	100	3,355,185	74,195	-	Note 2
	UCTV	Taiwan	Cable TV service provider	1,986,250	1,986,250	169,141	99.22	1,971,165	(34,648)	-	Note 2
	GCTV	Taiwan	Cable TV service provider	1,221,002	1,221,002	51,733	92.38	1,256,853	40,993	-	Note 2
	kbro Media	Taiwan	Film distribution, arts and literature service, and entertainment	292,500	292,500	29,250	32.5	154,847	(53,875)	-	Note 2
GFMT	UCTV	Taiwan	Cable TV service provider	16,218	16,218	1,300	0.76	15,154	(34,648)	-	Note 2
GWMT	GCTV	Taiwan	Cable TV service provider	91,910	91,910	3,825	6.83	94,913	40,993	-	Note 2

(Continued)

Investor	Investee	Location	Main Businesses and Products	Investment Amount		Balance as of December 31, 2018			Net Income (Loss) of the Investee	Investment Income (Loss)	Note
				December 31, 2018	December 31, 2017	Shares (Thousands)	Percentage of Ownership %	Carrying Value			
momo	Asian Crown (BVI)	British Virgin Islands	Investment	\$ 885,285	\$ 789,864	9,735	81.99	\$ 41,494	\$ (14,417)	\$ -	Note 2
	Honest Development	Samoa	Investment	670,448	670,448	21,778	100	794,501	36,435	-	Note 2
	FLI	Taiwan	Life insurance agent	3,000	3,000	500	100	9,310	238	-	Note 2
	FPI	Taiwan	Property insurance agent	3,000	3,000	500	100	10,969	2,045	-	Note 2
	FST	Taiwan	Travel agent	6,000	6,000	3,000	100	48,535	10,243	-	Note 2
	TPE	Taiwan	Logistics industry	337,860	337,860	16,893	17.7	385,706	69,392	-	Note 2
	TVD Shopping	Thailand	Wholesale and retail sales	115,099	115,099	24,150	35	119,889	26,220	-	Note 2
	Bebe Poshe	Taiwan	Wholesale of cosmetics	85,000	-	8,500	85	82,726	(21,969)	-	Note 2
	Asian Crown (BVI)	Fortune Kingdom	Samoa	Investment	1,132,789	1,035,051	11,594	100	46,105	(14,566)	-
Fortune Kingdom	HK Fubon Multimedia	Hong Kong	Investment	1,132,789	1,035,051	11,594	100	46,105	(14,566)	-	Note 2
Honest Development	HK Yue Numerous	Hong Kong	Investment	670,448	670,448	16,600	100	794,501	36,435	-	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, 2018.

Note 4: Non-controlling interests.

Note 5: TT&T Holdings was dissolved in February 2018.

Note 6: 70.47% of stocks are held under trustee accounts.

Note 7: For information on investment in Mainland China, see Table 8 for details.

(Concluded)

TAIWAN MOBILE CO., LTD.
INVESTMENTS IN MAINLAND CHINA
FOR THE YEAR ENDED DECEMBER 31, 2018

(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, 2018	Investment Flows		Accumulated Outflow of Investment from Taiwan as of December 31, 2018	Net Income (Loss) of Investee	% Ownership through Direct or Indirect Investment	Investment Income (Loss)	Carrying Value as of December 31, 2018	Accumulated Inward Remittance of Earnings as of December 31, 2018	Note
					Outflow	Inflow							
Xiamen Taifu Teleservices & Technologies Co., Ltd.	System integration, management, analysis and development of CRM application and information consulting services	\$ -	b	\$ 40,027 (USD 1,300)	\$ -	\$ 40,027 (USD 1,300)	\$ -	\$ -	-	\$ -	\$ -	\$ 9,764 (USD 317)	Note 2
TWMC	Mobile application development and design	92,370 (USD 3,000)	b	150,006 (USD 4,872)	-	-	150,006 (USD 4,872)	1,207	100	1,207	105,667	-	
FGE	Wholesaling	345,960 (RMB 77,500)	b	742,384 (USD 14,000) (RMB 69,741)	87,164 (RMB 19,526)	-	829,548 (USD 14,000) (RMB 89,267)	(16,135)	76.7	(11,480)	30,821	-	Note 3
Haobo	Investment	49,104 (RMB 11,000)	b	-	-	-	-	36,435	100	36,435	794,501	-	
GHS	Wholesaling	223,200 (RMB 50,000)	b	-	-	-	-	277,940	20	37,226	766,529	-	

Company	Accumulated Investment in Mainland China as of December 31, 2018	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on Investment Authorized by Investment Commission, MOEA
TWM and subsidiaries	\$1,641,912 (USD18,872, RMB89,267 and HKD168,539)	\$1,641,912 (USD18,872, RMB89,267 and HKD168,539)	\$40,796,218

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 the capital was remitted to the parent company, TT&T Holdings. TT&T Holdings was dissolved in February 2018 and the capital was remitted to the parent company, TT&T. Investment Commission, MOEA approved the revocation of limited amount in March 2018.

Note 3: The extraordinary stockholders' meeting of FGE resolved to increase capital by RMB20,000 thousand in May 2018, and HK Fubon Multimedia completed the full subscription in August 2018.

Note 4: The amounts are based on audited financial statements.

TAIWAN MOBILE CO., LTD.**STATEMENT OF CASH AND CASH EQUIVALENTS****DECEMBER 31, 2018****(In Thousands of New Taiwan Dollars, Unless Specified Otherwise)**

Item	Summary	Amount
Cash on hand and revolving funds		<u>\$ 153,869</u>
Cash in banks		
Demand deposits		819,297
Foreign currency deposits		
	(US\$12,623 thousand, exchange rate of \$30.79)	388,652
	(EUR616 thousand, exchange rate at \$35.05)	21,584
Checking accounts deposits		<u>4,976</u>
		<u>1,234,509</u>
Time deposits		<u>30,790</u>
		<u>\$ 1,419,168</u>

TAIWAN MOBILE CO., LTD.

**STATEMENT OF ACCOUNTS AND NOTES RECEIVABLE, NET
DECEMBER 31, 2018**

(In Thousands of New Taiwan Dollars)

Client Name	Amount
Other (Note)	\$ 6,518,651
Less: Allowance for impairment loss	<u>(455,722)</u>
	<u>\$ 6,062,929</u>

Note: Each of the clients was less than 5% of the account balance.

TAIWAN MOBILE CO., LTD.

STATEMENT OF CHANGES IN INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD
 FOR THE YEAR ENDED DECEMBER 31, 2018
 (In Thousands of New Taiwan Dollars, Unless Specified Otherwise)

	Beginning Balance		Effect of Retrospective Application and Retrospective Restatement	Increase		Decrease		Adjustments on Equity Method Amount (Note 2)	Ending Balance			Market Value or Net Assets Value
	Thousands Shares	Amount		Thousands Shares	Amount	Thousands Shares	Amount (Note 1)		Thousands Shares	%	Amount	
TCC	502,970	\$ 18,649,968	\$ (1,501)	-	\$ -	-	\$ (3,122,012)	\$ 4,210,314	502,970	100	\$ 19,736,769	\$ 86,643,247
WMT	42,065	20,419,328	7,307	-	-	-	(2,040,376)	2,060,300	42,065	100	20,446,559	20,446,559
TNH	191,866	1,721,873	-	-	-	-	-	50,952	191,866	49.9	1,772,825	3,552,757
ADT	6,000	14,451	-	-	-	-	-	(5,815)	6,000	14.4	8,636	8,636
		<u>\$ 40,805,620</u>	<u>\$ 5,806</u>		<u>\$ -</u>		<u>\$ (5,162,388)</u>	<u>\$ 6,315,751</u>			<u>\$ 41,964,789</u>	

Note 1: The decrease in investments resulted from receiving dividends of investees.

Note 2: The adjustments of equity method include the share of the profit or loss and other comprehensive income of subsidiaries and associates, changes in equity of subsidiaries and associates accounted for using equity method and unrealized gain or loss on upstream and downstream intercompany transactions.

Note 3: None of the investments accounted for using equity method were provided as collateral.

TAIWAN MOBILE CO., LTD.

STATEMENT OF SHORT-TERM BORROWINGS
DECEMBER 31, 2018
(In Thousands of New Taiwan Dollars)

Loan Type	Amount	Financing Period	Interest Rates	Credit Line	Mortgage Guarantee
Unsecured	<u>\$ 9,300,000</u>	2018.11.26-2019.02.27	0.7%-0.96%	<u>\$ 54,318,500</u>	None
Unsecured - related parties					
TFN	6,990,000	2018.07.30-2019.07.29		9,000,000	None
WMT	2,608,000	2018.07.30-2019.07.29	1.09433%-1.09511%	3,000,000	None
TCC	<u>390,000</u>	2018.07.30-2019.07.29		<u>400,000</u>	None
	<u>9,988,000</u>			<u>12,400,000</u>	
	<u>\$ 19,288,000</u>			<u>\$ 66,718,500</u>	

TAIWAN MOBILE CO., LTD.

STATEMENT OF SHORT-TERM AND BILLS PAYABLE

DECEMBER 31, 2018

(In Thousands of New Taiwan Dollars)

Item	Institution Providing Guarantee or Acceptance	Due Date	Interest Rates	Issuing Amount	Discount on Short-term Notes and Bills Payable	Net Carrying Value
Short-term notes and bills payables	China Bills Finance Corporation	107.12.28-108.01.31		\$ 200,000	\$ 136	\$ 199,864
	International Bill Finance Corporation	107.12.19-108.01.31	0.788%-0.798%	1,000,000	669	999,331
	Mega Bill Finance Corporation	107.12.28-108.01.31		300,000	203	299,797
				<u>\$ 1,500,000</u>	<u>\$ 1,008</u>	<u>\$ 1,498,992</u>

TAIWAN MOBILE CO., LTD.

STATEMENT OF ACCOUNTS PAYABLES

DECEMBER 31, 2018

(In Thousands of New Taiwan Dollars)

Vendor Name	Amount
A Company	\$ 156,874
B Company	114,000
C Company	103,309
D Company	57,779
Other (Note)	<u>688,417</u>
	<u>\$ 1,120,379</u>

Note: Each of the suppliers was less than 5% of the total account balance.

TAIWAN MOBILE CO., LTD.

STATEMENT OF OTHER PAYABLES

DECEMBER 31, 2018

(In Thousands of New Taiwan Dollars)

Item	Amount
Equipment and construction	\$ 1,762,925
Salaries and pension	1,191,605
Repair and maintenance expense	872,049
Estimated loss from lawsuits	765,779
Rents and utilities expense	653,795
Commissions	637,413
Compensation to employees	432,341
Other (Note)	<u>1,257,317</u>
	<u>\$ 7,573,224</u>

Note: Each of the items was less than 5% of the total account balance.

TAIWAN MOBILE CO., LTD.

STATEMENT OF LONG-TERM BORROWINGS
DECEMBER 31, 2018
(In Thousands of New Taiwan Dollars)

Creditor	Amount	Financing Period	Interest Rates	Mortgage Guarantee
Mizuhou Bank, Ltd.	\$ 4,000,000	2018.04.14-2020.04.14	0.75%-1.07%	None
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	4,000,000	2016.02.26-2021.07.30		None
Less: Current portion	<u>(2,000,000)</u>			
	<u>\$ 6,000,000</u>			

TAIWAN MOBILE CO., LTD.**STATEMENT OF OPERATING REVENUES
FOR THE YEARS ENDED DECEMBER 31, 2018
(In Thousands of New Taiwan Dollars)**

Item	Amount
Telecommunication and value-added services (Note 1)	\$ 46,229,493
Sales revenue	16,264,875
Interconnecting revenue (Note 2)	2,885,273
Other operating revenues (Note 3)	<u>165,986</u>
	<u>\$ 65,545,627</u>

Note 1: This includes counter-party default revenues and service revenues, etc.

Note 2: This includes the revenues from other telecommunication operators' use of TWM's networks and IDD delivery revenues.

Note 3: Each of the items was less than 5% of the total account balance.

TAIWAN MOBILE CO., LTD.**STATEMENT OF OPERATING COSTS****DECEMBER 31, 2018****(In Thousands of New Taiwan Dollars)**

Item	Amount
Cost of goods sold	\$ 17,451,073
Interconnecting cost (Note 1)	7,021,919
Depreciation	6,764,520
Rents and utilities expenses	3,918,339
Government fees (Note 2)	3,637,591
Others (Note 3)	<u>4,223,763</u>
	<u>\$ 43,017,205</u>

Note 1: This includes dedicated line and interconnecting charges paid to other telecommunication service providers.

Note 2: This includes the NCC's frequency usage fees, number selections fees, amortization of concession fees, etc.

Note 3: Each of the items was less than 5% of the total account balance.

TAIWAN MOBILE CO., LTD.**STATEMENT OF MARKETING AND ADMINISTRATIVE EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2018
(In Thousands of New Taiwan Dollars)**

Item	Marketing	Administrative	Total
Amortization	\$ 3,345,034	\$ 381,065	\$ 3,726,099
Salaries and pension	1,484,223	959,001	2,443,224
Professional service fees	1,502,356	231,129	1,733,485
Commissions and mobile phone allowance	1,175,124	-	1,175,124
Service charges	200,915	443,625	644,540
Others (Note)	<u>1,564,016</u>	<u>1,008,222</u>	<u>2,572,238</u>
	<u>\$ 9,271,668</u>	<u>\$ 3,023,042</u>	<u>\$ 12,294,710</u>

Note: Each of the items was less than 5% of the total account balance.