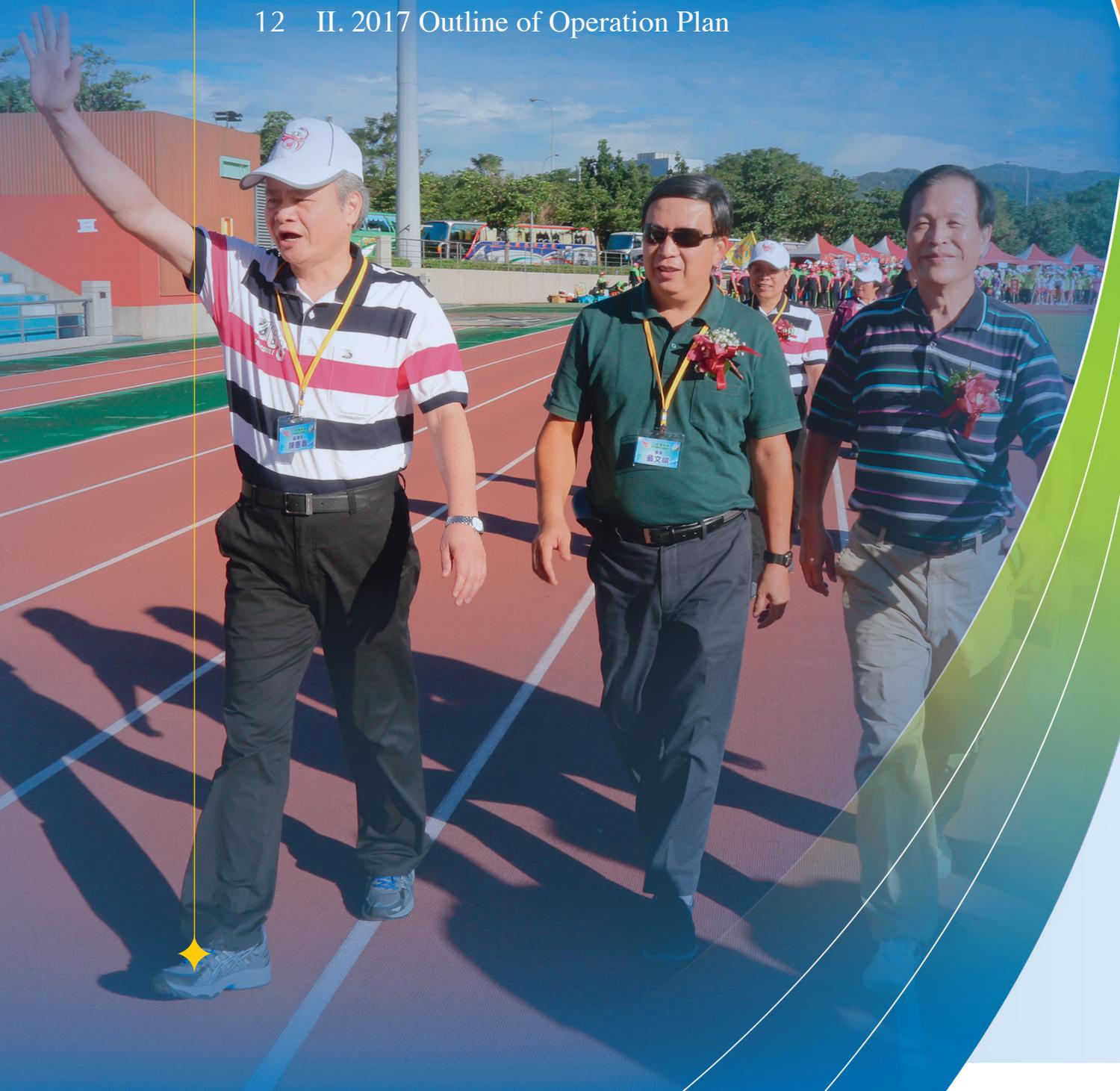


II

Business Report

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President
Shian-Juh Chen

Throughout last year, the global economy was under the impact of the slowdown in world trade, the Middle East refugee crisis, the growing geopolitical risk and so on, and this resulted in the slow recovery of advanced economies and slow growth in emerging markets. Fortunately, the global economy stabilized in the second half of the year. The domestic economy boosted with the global market demand, which allowed a gentle pickup in private consumption and private investment. The economic growth rate (YOY) is approximately 1.40%. In the year 2017, the world economic growth will benefit from the rebounding of exports as expected and gradually recover. Besides, the government will speed up the structural transformation of Taiwan's economy and expand infrastructure investment, and this helps find new sources of economic growth. According to the latest forecasts made by domestic and foreign major institutions, Taiwan's economic growth rate in 2017 is expected to surpass that in 2016.

Since the restructuring of our company in 1993, we have run the existing businesses of mails, savings and remittances, and insurance actively to offer comprehensive and quality customer care for people across the country, meeting their basic needs and thus becoming their most-trusted state-owned business institution.

In the harsh and ever-changing economic environment, we are facing challenges in our management with the policy-based duties we undertake. Thanks to the unflinching commitment of our employees to their assigned duties, the operation goals of 2016 have been accomplished. What follows is the graphic presentations of our results in 2016, followed by the planned goals for 2017.

I. 2016 Operation Results

(I) Major Operation Items: Estimation and Execution

Items	Units	Result this year	Estimation	Result previous year	Estimation accomplished (%)	Increase over previous year (%)
Mail Operations	Thousand pcs.	2,537,847	2,615,859	2,645,146	97.02%	-4.06%
Philately	Thousand NT\$	820,751	683,000	795,577	120.17%	3.16%
Savings (Average daily balance)	100 Million NT\$	59,964.82	58,300.00	57,639.21	102.86%	4.03%
Domestic Remittances (Total amount)	100 Million NT\$	16,708.66	16,043.20	16,728.24	104.15%	-0.12%
Simple Life Insurance (Premium income)	100 Million NT\$	1,461.61	1,430.00	1,508.54	102.21%	-3.11%
Agential Services (Total amount)	100 Million NT\$	179.92	185.42	249.67	97.03%	-27.94%

- Notes:
1. The slight reduction in the number of mail pieces processed and delivered, compared with that in the previous year, mainly resulted from the development of electronic communications and social networking services and the governmental policies of going paperless, adopting electronic official documents, electronic bills and so on.
 2. The reduction in premium income of Simple Life Insurance, compared with that in the previous year, is due to the adjustments we made to the product structure, promoting sales of the endowment insurance products and other life insurance products, with the aim of creating steady growth of our insurance business.
 3. The decrease in the total amount of agential services, compared to that in the same period in the previous year, resulted from multiple causes. First, to adapt to the fraud liability shift pushed through by international card issuers, we must either replace or upgrade the old ATMs year by year, and this affected our agential services. Besides, the drop in the number of Chinese tourists affected the number of ATM cash advance transactions and UnionPay transactions. As for the Uniform-Invoice Prize agential service, the number of sets of the additional sixth prize is six sets less than those in the same period of the previous year, and this affected the amount of agential services.



(II) Capital Utilization

Postal capital utilization is institutionalized in accordance with Article 18 of the Postal Remittances and Savings Act and Article 27 of Postal Simple Life Insurance Act. Below is the tabular presentation of the postal capital utilization as of the end of December 2016:

2016 Postal Capital Utilization

Unit: NT\$ 100 Million

Items	As of the end of December of 2016	Percentage in Postal Capital (%)	As of the end of December of 2015	Increase/ Decrease (%)
Demand deposits (including reserves against deposits in the Central Bank of the ROC and the revolving funds in all branch offices.)	2,448	3.64%	2,276	7.56%
Time deposits (including time savings deposits)	18,174	27.03%	18,311	-0.75%
Interbank Call Loans and Short Term Notes and Bills	16,669	24.79%	15,194	9.71%
Bonds (including government bonds, corporate bonds, and financial bonds)	20,255	30.13%	20,145	0.55%
Overseas Investment	7,925	11.79%	7,994	-0.86%
Stocks and Mutual Funds (including investment outsourcing)	1,226	1.82%	1,399	-12.37%
Mortgage loans on Certificates of Deposit, Insurance Policies and Real Estate	507	0.76%	510	-0.59%
Real Estate Investment	24	0.04%	18	33.33%
Total	67,228	100%	65,847	2.10%

(III) Financial Status and Profitability Analysis

In fiscal year 2016, the total revenue (including operating revenue and non-operating revenue) amounted to NT\$272,120.20 million and total expenditure (including operating costs, operating expenses and non-operating expenses) totaled NT\$259,803.12 million. Profit before tax was NT\$12,317.08 million, and the income tax payable was NT\$2,510.48 million, and the net profit was NT\$9,806.60 million, with an increase of NT\$1,248.61 million over the estimated NT\$8,557.99 million. The ROA (return on assets), ROE (return on equity) after tax and net profit margin for the year were 0.14%, 6.44%, and 3.61% respectively.

(M) Research and Development

The relevant business units of our company conducted analyses of financial situations and investigations on industrial dynamics and trends, both at home and abroad, on a regular and irregular basis, and compiled referential business reports for the benefit of operation. What follows is a list of major research developments in 2016 that deserves our mention:

1. 352 reports done regularly on the analyses of domestic and international financial situations.

- (1) Analytical reports on domestic and international macroeconomics (monthly).
- (2) Analytical reports on domestic fixed income market (weekly).
- (3) Analytical reports on domestic stock market (weekly).
- (4) Analytical reports on international investments (weekly and monthly).

2. 14 overseas study reports.

3. Four research projects commissioned to experts and academic institutes, with each project listed as follows:

- (1) A 2016 Customer Satisfaction Investigation of Postal Services.
- (2) A Research Project on the Operational Advancements of Postal Customer Service Center.
- (3) A Research Study on the Channeling System of Postal Life Insurance.
- (4) A Research Project on the Advancements of the Executive Performance Reviews of Postal Services and Operation.

II. 2017 Outline of Operation Plan

(I) Strategy

We aim to offer comprehensive and quality services of mails, savings and remittances, and insurance to meet people's everyday needs; to boost core postal services, integrate logistics, cash flow, and informational flow, and to expand services of electronic commerce; to enhance the utilization of postal capital and to boost the effectiveness of asset activation to enlarge operational capacity.

(II) Policy

1. Related to implementing government policies

- (1) To be in line with cross-strait policies, enhance the interaction and cooperation so as to offer convenient services to people.
- (2) To be in line with economic policies, expand investments in public construction plans and support investment plans of the private sectors.
- (3) To be in line with financial policies, offer basic economic protection for our people and help construct a social security network.
- (4) To be in line with the asset policies, enhance asset management and utilization to enlarge operational capacity.

2. Related to Management

- (1) Develop cross-strait postal service business by integrating our advantages of cash flow, logistics, and information flow so as to strengthen the competitive edge of our corporation.
- (2) Enhance human resource management and actively foster diverse talents to satisfy the needs for business development.
- (3) Increase our equity capital, strengthen company governance and risk management, and guarantee the disclosure of information.
- (4) Make good use of our information technology, enhance information security, improve the operating procedures, and strengthen the overall effectiveness of our service.
- (5) Re-integrate resources of postal service and diversify products so as to offer comprehensive and quality mails, savings and remittances, and insurance services.
- (6) Allocate assets properly, enhance the effectiveness of capital utilization, activate asset utilization, and promote the effectiveness of such developments.
- (7) Actively host charity activities and fulfill social responsibilities with the aim of creating an excellent corporate image.

3. Related to Coordinating Supply and Demand

- (1) To enhance service quality and work effectiveness, relocate and renovate branch offices, improve facilities, and create a bright, comfortable and friendly postal environment for clients.
- (2) To enhance operational efficiency, expand information appliances and upgrade operating systems to meet clients' diverse needs.
- (3) To be in line with business developments, construct postal logistics park, offer supporting services for related businesses, and strengthen our corporate competitiveness.

(III) Operation Goals

1. Mail: Estimate to handle 2,539.54 million pieces.
2. Philately: Estimate a revenue of NT\$689.83 million.
3. Savings: Estimate an average daily balance of NT\$6,156.3 billion year-round.
4. Remittances: Estimate a total amount of NT\$1,605 billion year-round.
5. Simple Life Insurance: Estimate a total amount of premium income of NT\$142 billion year-round.
6. Agential Services: Estimate to handle a total amount of NT\$15,483 million year-round.

(M) Surplus Goal

Estimate to generate a profit before tax of NT\$10,546.58 million.