

Chap. 5 Operating Results |

Macro Environment

Consumer spending in communication and broadcasting related services is largely influenced by the macroeconomic environment. Statistics released by the Directorate General of Budget, Accounting and Statistics (DGBAS) showed that private consumption contracted to a decline of 0.3% in 2008, compared with a growth of 2.3% in 2007, as the global financial crisis sent stock markets plunging and reduced personal wealth. Despite rising unemployment and shrinking personal income, the DGBAS expects private consumption to remain flat with marginal growth of 0.8% in Taiwan in 2009, supported by various official measures, such as the distribution of consumer vouchers and job assistance programs, to boost consumption. The revenues of the communications and broadcasting industries will face downward pressures inevitably.

Overall Operating Results

On top of providing premium voice service, the Company completed its acquisition of Taiwan Fixed Network (TFN) and Taiwan Telecommunication Network in 2007 to expand its product scope from pure mobile to multiple converged services to strengthen its position in the digital content and telecom services market.

In 2008, the group's total revenue rose 5%, thanks to rising contributions from its fixed-line and cable businesses. Operating income climbed 2% from a year ago, aided by lower depreciation expenses. Stripping out non-operating items, i.e., losses from assets write-offs and disposal gains from stocks, recurring net income was up 2% YoY.

The Company's business is divided into three main groups: Consumer Business Group (CBG), Enterprise Business Group (EBG) and Home Business Group (HBG).

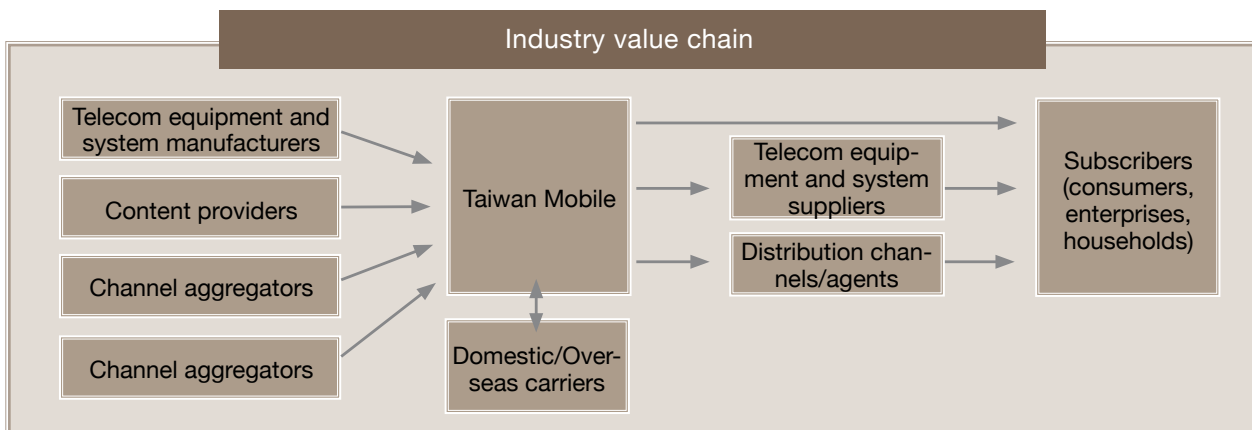
Unit: NT\$m

Numbers as of 2008 year end

	CBG	EBG	HBG
Services	<ul style="list-style-type: none"> Mobile services for consumers: voice & data Mobile to IDD (International direct dialing) services 	<ul style="list-style-type: none"> Mobile services for enterprises: voice & data Fixed-line services ISR (International Simple Resale) services 	<ul style="list-style-type: none"> Pay-TV services Cable broadband services Others
Subscriber base	<ul style="list-style-type: none"> 6,107K consumer mobile subscribers 	<ul style="list-style-type: none"> 164K enterprise mobile subscribers Over 200K ADSL/FTTx internet access users 	<ul style="list-style-type: none"> 538K CATV subscribers 88K cable broadband subscribers
2008 Revenue breakdown by business group	55,149	9,768	4,237
As a % of group revenue	79%	15%	6%
2008 EBITDA margin	47.0%	19.3%	51.2%

The market positions for each of the Company's business are summarized as follows:

	Mobile	Fixed-line	Cable
Market position	One of the big three mobile operators, with around 30% market share in terms of mobile revenue and subscriber numbers	Second-largest ISP (Internet Service Provider) operator with 6% market share (TFN+TTN+cable broadband) in the CHT dominated market	Fourth-largest multi-system operator (MSO), covering 11% households in Taiwan



Consumer Business Group

Products and Services

The Company holds a Type I license to operate mobile phone services nationwide, covering Taiwan, Kinmen, Matsu and other outlying islands.

Target customers	Service category	Description	Highlights
Individual consumers	Mobile services	Voice	Basic telecommunication voice services including calling and receiving calls from local fixed line, domestic long distance, mobile phones.
		Data	Value-added services including voice mail, call forwarding, call waiting, conferencing, short messaging service (SMS), roaming, call barring, video calls, and multimedia & content services (e.g., ringtones, games, screensavers, MP3, video clips, video streaming), and mobile internet through GPRS/3G/HSDPA transmission
	IDD services	International direct dialing from mobile phones	

Operating Status

1. Postpaid products and services

The Company continues to lead in offering postpaid rate plans aimed at meeting customers' needs and maximizing shareholder value. Following the launch of "myfone" rate plans in 2004 and "My Zone" rate plans in 2006, the Company introduced its ground-breaking "New Line 299" in October 2008 with its low NT\$1.50 per 3-minute mobile-to-fixed-line call rate. The tariff, which is even lower than fixed-to-fixed-line calls, not only attracted frequent fixed-line users but also encouraged subscribers to shift from fixed line to mobile calls.

Besides product variety and innovation, the company is focused on attracting high-end users. The percentage of mid-to-high rate plan subscribers to the total number of new subscribers held steady at over 60% in 2008 despite the global economic slowdown.

The Company also has excellent loyalty programs in place to help secure its customer base and minimize churn rates. For high average revenue per user (ARPU) customers, the Company has an exclusive program called "my VIP." It also offers a credit card program that allows customers to earn rebates based on their phone bills.



- Two employees, one from EBG and the other from CBG, were awarded the "Super Sales Award" in the technology category from Business Weekly for their outstanding achievements in service quality.



- Held a concert of famous singers from South-East Asia specifically for foreign laborers in Taiwan

2. Prepaid products and services

As part of its commitment to offering premium services and boosting usage, the Company was the first in 2008 to introduce 3G prepaid services, dubbed “3G Fun Heart Prepaid Card,” enabling prepaid users to enjoy 3G high-speed transmission and instantly accessible video calls. This was followed by the launch of its “Tri-Service

Hotline”, which extended discount rates for intra-net voice calls to include mobile-to-fixed calls and intra-net video calls. Prepaid users benefit from enjoying discounted rates in various frequently used services. The Company also continued cultivating the youth market to maintain its leadership.

In 2008, the Company introduced an innovative hybrid rate plan called “Zero Monthly Fee,” which combines the features of prepaid and postpaid services. Pre-paid users are only charged based on the calls they made, and the unused balance can be carried forward to the following month. By giving users more flexibility in managing their phone bills, this plan attracted a wide range of users.

Year 2008 saw the Company further expand its lead in the Thai and Vietnamese workers’ market. At the same time, to better serve Filipino and Indonesian workers, the company teamed up with Telkomsel

Telecom of Indonesia and Globe Telecom of the Philippines, both of which are members of the Bridge Mobile Alliance — the biggest mobile telecommunications alliance in the Asia-Pacific region. Highly competitive new products were introduced — the first transnational co-brands prepaid cards in Taiwan, called “OK Simpati-Kagen Card” and “OK Kababayan Card.” The quality and capacity of international calling services were also enhanced, surpassing TWM’s peers in offering the best user’s experience. Furthermore, the Company was ahead of its rivals in promoting “International Video Call” services and took the lead in market share in the foreign workers’ segment.

With the continuous introduction of new products and more flexible promotional plans in the prepaid card market, TWM managed to grow and stand out amid fierce competition in a declining market. The Company achieved strong year-on-year growth in the number of prepaid subscribers and revenue in 2008.



- Launch a rate plan - New Line 299- that broke an implicit industry condition by offering a mobile to fixed-line call rate that is lower than fixed-line to fixed-line calls



- Took the industry lead in launching mobile comic book services

3. Value-added services

The Company posted a sharp increase in VAS revenue, with a 69% YoY rise in mobile internet revenue, aided by the bundling of competitive data tariffs with customized handsets and 3.5G data cards with notebooks and netbooks, to cater to the rising demand for internet access and value-added services.

VAS revenue also got a boost from the consolidation of TWM, Mobitai and TAT's value-added service platform, which lifted operating efficiency. The Company launched a number of innovative products and set several milestones in 2008, including: 1) the first Taiwanese operator to introduce mobile comics, 2) personalized music referral system, 3) mobile TV, 4) data rate plans charged on a daily basis, 5) premium netbook/internet access packages, and 6) mobile navigation services in partnership with the leading GPS device provider, Garmin.

Opportunities and Challenges

The overall macroeconomic environment remains favorable for growth in the telecommunications industry with the major positive and negative factors as well as countermeasures outlined below:

1. Positive factors:

- (1) 3G and 3.5G technologies enable high-speed and better quality transmission of mobile content. With the prices of mobile internet devices and data rates falling, demand from enterprise users and general subscribers has risen, driving up revenues for telecom operators.
- (2) The digital era has contributed to the convergence of information, communication and media industries, and companies play an increasingly crucial role in the delivery of multimedia content to customers.
- (3) Along with the rapid development of the internet, many innovative technologies and business models have been extended to mobile internet.

2. Negative factors:

- (1) Regulatory changes as proposed in the draft Communication Administration Act by the National Communications Commission have increased the uncertainty of future operations and profitability.
- (2) WiMAX technology offers comparable high-speed broadband access that can rival other wireless communication technologies. However, the technology has yet to take off, because of delays in infrastructure development and service launch.
- (3) Affected by the economic crisis, consumers have become more cautious in spending on telecom services. Voice revenue posted an annual decline in 2008.

3. Countermeasures:

- (1) The Company takes part in the promulgation of any regulations and closely monitors the direction of changes and developments in regulatory policies to formulate countermeasures in advance.
- (2) In addition to an all-out effort in deploying 3.5G network to provide high-speed broadband access, the Company is closely monitoring developments in long-term evolution (LTE) technology.
- (3) The Company will introduce more advanced technologies, such as Near Field Communication (NFC) and Location-based Services (LBS), to promote value-added services and make up for the decline in voice revenue.

4. Competitive Edge

- (1) Improving client profile
Due to the macroeconomic slowdown, gross adds in new subscribers in 2008 were slightly lower than in 2007.

However, strategies to improve client portfolio helped raised the ratio of mid to high-usage customers as a percentage of gross adds and kept the churn rate of mid to high-end customers low. As a result, the ratio of mid to high-usage customers grew steadily, while that of low-usage customers dropped by 3.5% slightly from 2007.

(2) **Leading wireless broadband services**

The Company took the lead in launching 3G services in 2005 and 3.5G services at the beginning of 2007. The Company provided customers with flexible rate plans, exclusive handsets, and extensive value-added services. As of the end of 2008, the company had a 3G subscriber base of 2.44 million, with data ARPU significantly surpassing that of 2G subscribers. This could further spur demand for its value-added services.

(3) **Outperforming its peers in consumer satisfaction**

In line with its core belief in creating the best experience for customers, the Company focused its efforts on maintaining high customer information security, protecting their rights and providing premium service quality. These efforts won the trust of users, who gave the Company top marks among its peers in a survey on customer

satisfaction by the Consumers' Foundation in 2008. The Company remains committed to delivering the best in customer satisfaction by providing quality and efficient services.

Operating Results Review

Affected by the NCC ruling on mandatory price cuts on certain mobile rate plans for the second year in a row and the contraction in private consumption, mobile communication industry revenues dropped 2% YoY in 2008. Faced with a slowing industry, the Company focused on businesses with strong revenue growth momentum, such as prepaid voice services (including mobile to IDD calls) and mobile data services (bundling data cards and netbooks). Aided by double-digit growth in these businesses, the Company's mobile operation results were in line with our expectations.

Short and Long-term Business Development Plan

For 2009, Taiwan Mobile will continue to promote 3G/3.5G businesses through network expansion and the launch of innovative products. The Company plans to fully maximize the potential of new technologies such as LBS and NFC to enhance its mobile navigation services and mobile payment services, respectively.

The Company's marketing thrust will be



- Provided a complete product line with flexible data rate plans and premium services to meet customers' needs of mobile internet

to enhance quality of life by promoting personalized services and multimedia entertainment. To this end, Taiwan Mobile plans to take the following initiatives:

- Establishing its leadership in mobile broadband access with high speed HSPA and advanced optical IP networks
- Developing innovative products, services or business models to grow Web 2.0 and mobile internet business
- Providing segmented service packages that are more varied and cater to different customer needs

Enterprise Business Group

Products and Services

Leveraging off TWM and TFN/TTN's years of experience, market leadership and resources, the Company offers enterprise customers integrated information and communication technologies (ICT) solutions and services under the name "TWM Solution."



- Partnered with Garmin to introduce mobile navigation services

Target customers	Service category	Description	Highlights
Enterprise customers	Fixed-line data	Circuit service	EBG offers different types of circuits for information transmission, including fixed-rate circuits and dedicated bandwidth for data transmission between two terminals. The Company offers the best transmission environment for various applications, including voice, data and multimedia information.
		VPN service	A virtual private network (VPN) is a communications network tunneled through another network and dedicated for a specific network. TWM offers VPN service to enhance communications security for popular applications such as POS systems, credit card transactions and ATMs. The Company also delivers total solutions, including Layer 2 VPN and IP VPN, to expand customers' business opportunities.
		Internet service	EBG offers Internet access via fiber optics, copper wires or Metro Ethernet. The Company also provides Internet Data Center (IDC) services, including co-location, web hosting, super mail and domain name registration. TWM's hosting services not only cover carrier-level facilities, but also managing/maintenance services for customers. Enterprise customers are thus able to lower their IT expense and focus on their own core competence.
	Fixed-line voice	EBG provides integrated voice solutions, including VoIP, ISR and intelligent network service (e.g., 080 domestic toll-free service), enabling users to save on huge calling costs. TWM Solution continues to develop advanced technologies to enhance reliability and provide instant response to ensure customer satisfaction.	
	Mobile service	EBG offers enterprise customers with the following mobile services: regular voice services, MVPN (Mobile virtual private network), ITS (Intelligent transportation system), BlackBerry enterprise solution, Business SMS (Short messaging service) and advertising short messaging service.	
	System Integration (SI) service	TWM provides sales, implementation, monitoring and maintenance services for PBX (Private branch exchange), VoIP CPE (Customer premises equipment), WAN and LAN CPE for customers.	

Operating Status

TWM designed a comprehensive enterprise solution package, which comprised of voice, mobile, data, internet and ICT integration services, in 2008 in line with the growing demand for integrated telecom services. The Company launched "Optical Fiber mylife" in early 2008 to meet the rising need for high-speed internet access. It was also the first to introduce the Chinese BlackBerry handset in November 2008 to satisfy and strengthen customer loyalty by providing one-stop shopping services.

Opportunities and Challenges

The Company believes that the overall macro environment remains neutral in terms of growth for the fixed line industry. The major positive and negative factors as well as countermeasures are outlined as follows:

1. Positive factors:

- (1) The demand for integrated information and communication services for enterprise clients is rising. Future convergent products are aimed at consolidating intranet, broadband management, and information security into a one-stop shop for customers. The Company has the advantage of possessing resources for both mobile and fixed line services.
- (2) Enterprises trading in the Greater China area will boost demand for integrated telecommunications and network efficiency.
- (3) NCC ordered Chunghwa Telecom (CHT) to provide local loop services at cost to new telecom entrants in order to lower costs and resolve a service bottleneck.

2. Negative factors:

- (1) The local loop bottleneck is a major obstacle to fixed line operators' business expansion.
- (2) VoIP penetration has cannibalized fixed line operators' traditional voice revenue.
- (3) NCC pushed for rationalization of telecom tariffs and demanded all telecom operators lower retail rates gradually, but this only added to the difficulties of new players.
- (4) Due to the recession, enterprises are cutting budgets for ICT investment and telecommunication expense.

3. Countermeasures:

- (1) Raising ARPU: Target high-usage customers by providing services such as "Information and Communications Integrated Solution" that meet

customers' varying needs, establish partnership with customers to enhance customer loyalty.

- (2) Targeting high-quality services: Focus on IP VPN and Metro Ethernet solution to provide high-quality integrated platform infrastructure and voice/network CPE and take the lead in technology advancement. Provide device-monitoring service, CPE maintenance and customer network management service, as well as trouble shooting and immediate status response.
- (3) Expanding cost and operation synergy: Strengthen internal controls and segregation of responsibilities, upgrade IT system and support, revise IP policy and submarine cable strategy to ensure short, mid and long-term benefits and improve core competence.
- (4) Providing integrated services: Closely monitor industry developments to combine voice, image, data, mobile and IT services. Through the Next Generation Network (NGN) framework, the Company aims to provide customers with premium service and stable network quality and synergize the resources of the group to the benefit and satisfaction of its customers.



- Similar to doubles partners in tennis, "TWM Solution" works closely with its clients.

4. Competitive Edge

- (1) Premium Brand Equity
Utilizing its extensive experience and expertise in broadband technology, the Company insists on providing customer-centric quality services to its customers. A new service, called "TWM Solution," was launched at the end of 2007.
- (2) Professional management team and efficient support group
The Company leads the competition in achieving synergies from the integration of group resources, including mobile telephony, fixed network and cable TV network, with integrated back-office functions, e.g., network planning, operation and maintenance, information technology and procurement, to support its frontline operations and provide enterprise customers with exclusive integrated information and communication technology for business expansion.
- (3) Effective sales teams and channels
Expand services through direct sales teams, channel partners, and retail chains across the nation.
- (4) Expanding resources from international alliances

The Company is the sole Taiwanese member of the Bridge Alliance, the largest mobile alliance in Asia Pacific. The alliance consolidates the region's leading telecommunication operators – SingTel in Singapore, Maxis in Malaysia, CSL in Hong Kong, Bharti in India, Telkomsel in Indonesia, AIS in Thailand, Globe in Philippines, Optus in Australia, CTM in Macau, SKT in South Korea, and Taiwan Mobile in Taiwan – with a combined customer base exceeding 225 million. With its economies of scale



- Exclusively launched BlackBerry email service, a service particularly popular with global business professionals, and further introduced Chinese BlackBerry handset in 2008

and regional-based service platform, the Company leads the market via its access to ample resources in procurement, content and new technologies.

In 2008, the Bridge Traveler Program was launched to reward frequent travelers with a wide array of exclusive privileges and benefits across the Asia-Pacific region. The Company will continue leveraging off these regional resources to develop more innovative services to meet customers' needs.

Operating Results Review

Revenue from enterprise customers outside the group grew 7% YoY in 2008, mainly due to increasing mobile phone usage from enterprise users and from in leased line, IP transit and international simple resale (ISR) businesses. All these services saw double-digit revenue growth last year.

Short and Long-term Business Development Plans

In 2009, the Company will continue developing integrated telecom applications to provide enterprises with a

Target customers	Service category	Description	Highlights
Households in licensed area	Pay TV	Cable TV	Using coaxial cables as the media, diverse and multifaceted data content such as TV programs as well as video services are transmitted to customer terminals.
	Broadband internet access	Cable broadband	With the cable system operators paving the way for hybrid fiber/coaxial (HFC) networks, the Company will utilize this new cable modem technology of DOCSIS 3.0 to offer broadband internet services to customers.
		Optical fiber	Utilize optical fibers already installed in buildings to provide subscribers with FTTx broadband Internet services.

new customer network management system, fixed-mobile short code service, data-voice integrated service and advanced Metro Ethernet services to help them reduce their expense and enhance operating efficiency.

TWM's vision is to expand its enterprise services from network-centric to ICT-centric solutions and services by taking the following directions:

- Speed up revenue growth of selective products by providing enterprises with end-to-end managed services
- Raise the productivity of key accounts. Develop network-centric enterprise solutions. Expand small-and-medium enterprise segment by improving service quality and network management
- Raise the international business division's operating efficiency by improving local direct peering and end-to-end network services

Home Business Group

Products and Services

TFN Media (TFNM), a subsidiary of the Company, holds a Type II telecommunications business license. TFNM has six subsidiaries that hold CATV licenses and offer a range of products and services, including pay TV and internet access services through cable broadband and fiber optic broadband. Their main

areas of operations are Sinjhuang, Sijih and Tamshui in Taipei County; Ilan County; and Fengshan in Kaohsiung County.

Operating Status

"TWM Broadband" brand was launched in late 2007, targeting home subscribers. It integrates the resources of Taiwan Fixed Network (TFN), TFN Media (including its CATV subsidiaries) and Taiwan Mobile, to enrich subscribers' lifestyle. Taking customers' real need as a starting point, the Company has introduced a range of user-friendly digital convergence services that include broadband internet access, digital interactive audio and visual entertainment and a wide choice of value-added services. By linking mobile phones, internet and cable TV together, the Company has created a digital lifestyle that the whole family can share.

In 2008, the Company introduced a "TWM Family" membership program that was open to anyone who simultaneously applies for mobile, CATV and broadband Internet access services. Members receive exclusive premium services, including a welcome pack, a birthday present, invitation to special activities, a quarterly newsletter and a dedicated service hotline.

While continuing to crack down on cable TV piracy and working to boost the broadband penetration rate, the Company has also been developing

new DTV services, including sports lottery, high-definition channels and electronic program guide service. The overall goal is to provide home subscribers with a wealth of high-quality digital convergence services, creating a new digital lifestyle that the whole family can share.

Opportunities and Challenges

The Company believes that the CATV industry will continue to evolve. Factors, both advantageous and disadvantageous, which may affect the CATV industry are outlined below:

1. Positive factors:

- (1) The adoption of a performance guarantee mechanism and measures to reduce cable operator debt levels will contribute to the healthy development of the CATV industry as a whole: Starting in September 2008, the NCC began examining multisystem operators' (MSO) financial structure when reviewing their applications for license extensions. To qualify for license renewals, operators are required to provide performance guarantees, such as bank guarantees or reserves. This is to protect consumers, improve financial transparency and lower financial leverage. Backed by Taiwan Mobile Group's vast resources, TWM

has healthy, sound and transparent finances. The government's new strategy should therefore have a significant positive impact on the Company's expansion of its digital and multimedia entertainment services.

- (2) Encouraging free competition will help expand the scale of operation: The NCC has begun studying the feasibility of expanding CATV operators' licensing zones to facilitate multi-zone CATV network operation and create a level playing field for CATV and MOD operators. This strategy could break the barriers of current limitation on regional operation, benefiting the Company's expansion of cable footprint and operating scale to provide consumers with more diversified premium services.
- (3) CATV operators still benefit from local monopolies and rich content: CATV operators in Taiwan still enjoy a virtual monopoly. NCC statistics show that CATV penetration rate in Taiwan as of the fourth quarter of 2008 was a high 63.81%, underlining local consumers' heavy reliance on CATV service. Although Chunghwa Telecom secured the rights to broadcast coverage of the 2008 Beijing Olympics and used this to market its MOD service, it still suffered from lack of content in comparison

with CATV operators, which are able to offer a wider range of programs. Adding to the fact that Chunghwa Telecom's MOD service is bundled with its broadband service, the take-up rate for MOD has remained low. MOD's limited bandwidth also restricts its capacity to accommodate multiple devices simultaneously within the same household. Overall, MOD does not yet pose a serious competitive threat to CATV.

- (4) CATV operators enjoy the advantage of "last mile" access, which facilitates the promotion of converged services: Within the media/broadcasting value chain, the CATV industry plays an important role both as a content provider and a transmission platform. In the new era of video-data convergence, CATV operators possess a significant advantage because of their "last mile" access to the subscriber's home. Operators can use their fiber and coaxial cable connection to the subscriber to provide a wide range of converged services.

2. Negative factors:

- (1) The CATV market in Taiwan is saturated. With analog transmission still dominant, it is hard to crack down on piracy. Subscriber growth is thus expected to remain slow in the

short run.

- (2) There's risk that local governments will cut the CATV price cap when they conduct annual reviews of tariffs.

3. Countermeasures:

- (1) The ongoing deployment of two-way fiber-optic networks will help improve connection quality and signal stability, facilitating the adoption of integrated technical solutions and the development of new products and value-added services, thereby boosting ARPU and overall revenue.
- (2) The Company will monitor changes in CATV policy and other relevant laws and regulations through continuous communication and lobbying and will map out appropriate plans and countermeasures.
- (3) Conscious of its corporate responsibility, the Company will continue to strengthen communication with local government authorities and communities as it expands its network. Using Taiwan Mobile Foundation's resources, it has built and provided network access for low-income households and people living in remote areas. The group will also continue sponsoring local activities through collaborations between its CATV operations and cultural and charity events.



- TWM and TWM Foundation sponsored Paper Windmill to perform free-of-charge for locals in Kaohsiung and Ilan.

- (4) The Company is developing DTV encryption technology in line with the government's CATV digitalization timetable by region to stem piracy and boost industry growth.

4. Competitive Edge

- (1) Building brand value through a customer-focused approach
Reflecting on its commitment to the local community and to maintaining a going concern, the Company launched Excel Customer Experience (ECE) for its enterprise customers in 2008. ECE embraces three key aspects: products and services, service flow and process, and personnel. Every important point of contact with the customer is re-examined from a customer-centric perspective. The Company's objective is to ensure enthusiastic and friendly services and provide subscribers with the best customer experience. Through the philosophy that ECE embodies, the Company aims to continue improving customer satisfaction to boost subscriber retention.
- (2) Early mover advantage in terms of internet access speed and quality
To enhance network stability and facilitate the provision of a wide range of digital products and services, the Company has over the last few years gradually replaced its old network with a dual-way HFC fiber-optic network. Two-way fiber-optic network deployment has already been completed in the districts of Sinjhuang, Taishan and Linkou in Taipei County, throughout Ilan County, and Fengshan District in Kaohsiung County, enabling the provision of a wide range of interactive services to subscribers.
In June 2008, the Company

embarked on an aggressive program of FTTB network deployment using Ethernet passive optical network and Ethernet over coaxial cable technology. This has been followed around February by the introduction of cutting-edge DOCSIS 3.0 technology for non-FTTB access. TWM's deployment of this new technology – which is already being used in North America as a weapon for CATV system operators to compete effectively against telecommunications operators with its fast 100MB download speed – will be the first in Taiwan. Compared with xDSL technology offered by other telecommunications operators, DOCSIS 3.0 provides not only higher bandwidth, but also better transmission range and quality with significant cost advantages. With a single coaxial cable connection, consumers can gain access to cable TV, high-speed broadband and multimedia entertainment services (including interactive services) in the comfort of their own home.

(3) Integration of group resources
The Taiwan Mobile Group provides mobile, fixed network, CATV and content services. By integrating the group's marketing resources and its strong technological support, the Company has become a formidable presence in this intensely competitive industry.

Operating Results Review

HBG's revenue largely came from CATV and cable broadband services. Despite a mandatory 5% price cut by the Taipei County Government, CATV revenue still rose 2% YoY due to steady growth in subscriber numbers and rising advertisement and channel leasing revenue from a year ago. Cable broadband also saw continued strong



- "TWM Broadband" provided broadband internet and digital interactive services such as video and audio entertainment to create a user-friendly digital experience specifically for the home.

growth momentum in 2008 with a 43% annual growth rate in revenue and subscriber numbers, boosting total cable revenue by 5% YoY.

Short and Long-term Business Development Plan

For 2009, HBG aims to increase its market share by offering converged services to increase household ARPU and build up its quadruple play (data, voice, video, and mobile) business through the following measures:

- Expand CATV market share by merging or acquiring other MSOs or cable operators
- Promote tailor-made broadband services through campaigns targeting different markets
- Negotiate and aggregate content from popular channels providers
- Enhance new acquisition and customer stickiness via service convergence
- Develop DTV trial and strategy & interactive video entertainment services
- Introduce DOCSIS 3.0 technology and deploy FTTB optical fiber network to provide households with multimedia applications and more IP-based equipment (including portable multimedia display, handsets and PDA)

Major Contracts

Nature	Counterpart	Contract period	Description	Restriction clauses
Sales & distribution	Synnex Technology International Corp.	2005.02.01 ~ (under negotiation)(Note 3)	Synnex is authorized to distribute TWM's mobile subscription services	Non-disclosure
	Aurora Telecom Corp.	2008.07.01 ~2009.06.30	Aurora is authorized to distribute TWM's mobile subscription services	Non-disclosure
Communication service agency agreement	TransAsia Telecommunications Inc.(TAT)	2006.01.01 ~2010.12.31	Provides TransAsia telecommunication-related services	Non-disclosure
Network inter-connection	Chunghwa Telecom Co., Ltd.	2005.01.01 ~2005.12.31 (under negotiation)(Note 1)	Network interconnection contract	Non-disclosure
	New Century InfoComm Tech Co., Ltd.	2005.05.01 ~2006.04.30 (under negotiation)(Note 1)	Network interconnection contract	Non-disclosure
	Taiwan Fixed Network Co., Ltd.	2007.07.01 ~2008.06.30 (under negotiation)(Note 1)	Network interconnection contract	Non-disclosure
	Asia Pacific Broadband Telecom Co., Ltd.	2005.10.15 ~2006.10.14 (under negotiation)(Note 1)	Network interconnection contract	Non-disclosure
	VIBO Telecom Co., Ltd.	2006.01.16 ~2007.01.15 (under negotiation)(Note 2)	Voice and short messaging service contract	Non-disclosure
	Asia Pacific Broadband Wireless Communications, Inc.	2003.07.23 ~2004.07.22 (under negotiation)(Note 2)	Voice and short messaging service contract	Non-disclosure
	TransAsia Telecommunications Inc.	2004.03.15 ~2005.03.14 (under negotiation)(Note 2)	Voice and short messaging service contract	Non-disclosure
	Far EasTone Telecommunications Co., Ltd.	2004.02.10 ~2005.02.09 (under negotiation)(Note 2)	Voice and short messaging service contract	Non-disclosure
	KG Telecommunications Co., Ltd.	2004.03.01 ~2005.02.28 (under negotiation)(Note 2)	Voice and short messaging service contract	Non-disclosure
Handset sales consignment	Synnex Technology International Corp.	2005.05.01 ~2006.04.30(under negotiation)(Note 2)	Voice and short messaging service contract	Non-disclosure
		2008.01.01~2008.12.31 (Contract can be extended if neither party has any objections.)	TWM sells Synnex's consignment of handsets and other communication products	Non-disclosure
Syndicated loan	Chinatrust Commercial Bank and 8 other banks	2008.02.21~2011.02.21	Syndicated credit line of NT\$13.5 billion	Certain restrictions on debt ratios, interest coverage ratio, net value of tangible assets
Corporate bonds	Chinatrust Securities and 9 other securities companies	2008.11.14~2013.11.14	Total amount for the second unsecured corporate bond issue is NT\$8 billion.	Non-disclosure
Equipment purchase	Nokia Corp.	2006.09.26 ~2009.12.31	Equipment contract for installation of 3G system	Non-disclosure
Customer service	Taiwan Teleservices & Technologies Co., Ltd.	2006.01.01 ~2010.12.31	TT&T to handle TWM and TAT customer service and product sales	Non-disclosure

Note 1: When the network interconnection contract expires, should the two parties not be able to conclude their negotiations within three months after their commencement, the process shall be as follows:

- (1) If the two parties agree to continue negotiations, the contract terms will be the same as the originally negotiated terms or such other terms agreed by both parties, until a new agreement is reached.
- (2) Either party can appeal to the Directorate General of Telecommunications (now to National Communications Commission) for a ruling. Prior to the date of such a ruling, the contract terms shall be the same as those originally negotiated. Following the ruling, the new contract terms will be formed based on the ruling.

Note 2: Negotiations for an agreement for the following year shall commence three months prior to the expiry date of the original agreement. If negotiations are not finalized prior to the said expiry date, the parties agree to perform their obligations based on the original agreement until such time when negotiations are finalized.

Note 3: If the contract expires before both parties have finalized a new one, the old contract shall remain valid.