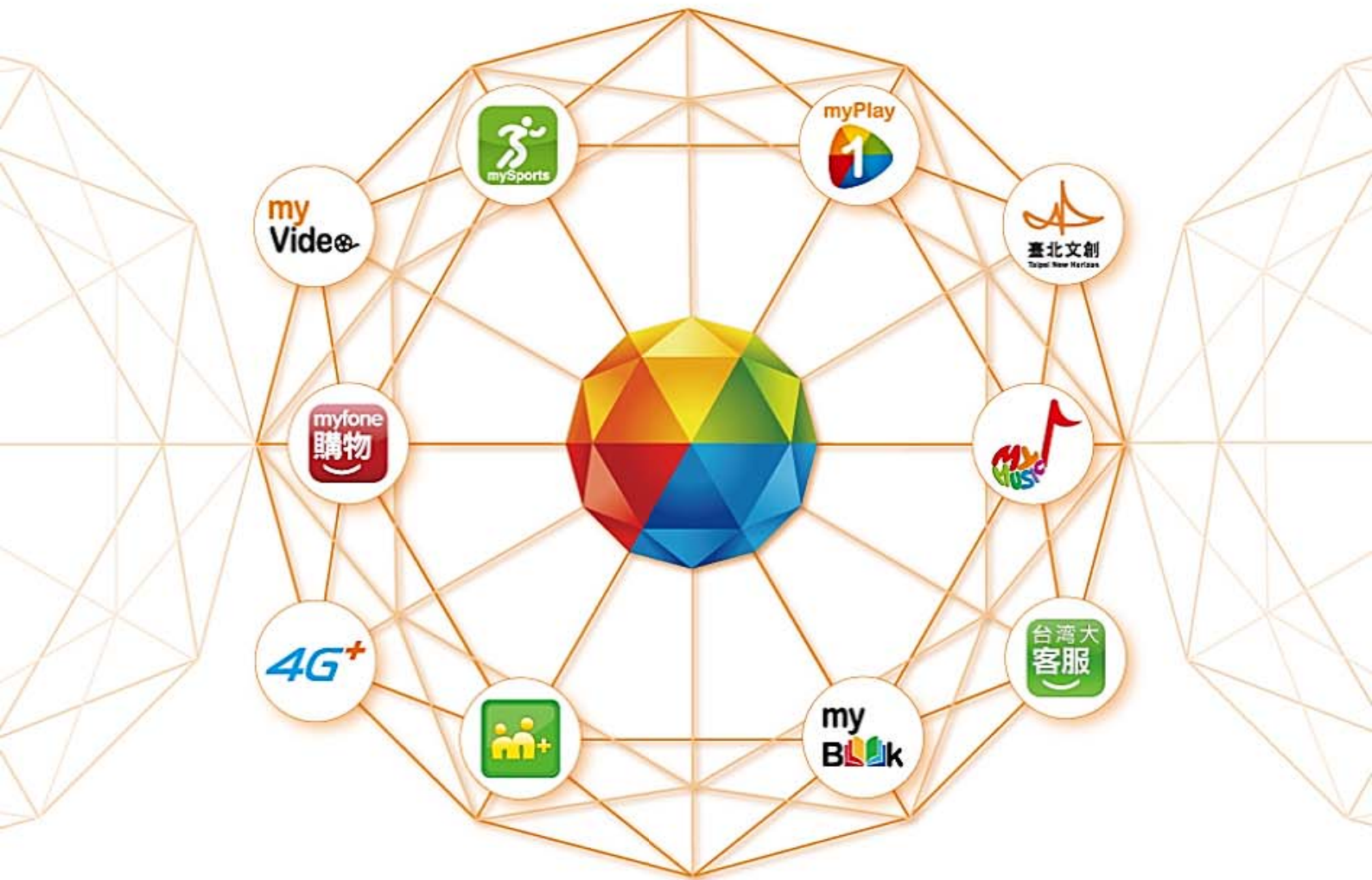


Ticker: 3045



**Taiwan Mobile**

2014 Annual Report

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Listing of Foreign Securities	None	

Disclaimer

*Please note that this English annual report is not a word-for-word translation of the Chinese version.*

*In the event of any variance, the Chinese text shall prevail.*

## Contents

<b>【Letter to Shareholders】</b>	<b>1</b>
<b>【Chapter 1. Company Highlights】</b>	<b>3</b>
VISION	3
CORE COMPETENCY	3
BRAND IMAGE	3
DATE OF INCORPORATION	3
MILESTONES	4
<b>【Chapter 2. Organization and Corporate Governance】</b>	<b>7</b>
ORGANIZATION	7
BOARD OF DIRECTORS AND EXECUTIVE MANAGEMENT	11
CORPORATE GOVERNANCE	25
CERTIFIED PUBLIC ACCOUNTANT (CPA) INFORMATION	48
DIRECT AND INDIRECT INVESTMENTS IN AFFILIATED COMPANIES	49
CHANGES IN SHAREHOLDINGS OF DIRECTORS, MANAGERS AND MAJOR SHAREHOLDERS	49
<b>【Chapter 3. Financial Information】</b>	<b>54</b>
CAPITAL AND SHARES	54
CORPORATE BOND ISSUANCE	58
PREFERRED SHARES	58
DEPOSITARY RECEIPT ISSUANCE	58
EMPLOYEE STOCK OPTIONS AND NEW RESTRICTED EMPLOYEE SHARES	58
SHARES ISSUED FOR MERGERS AND ACQUISITIONS	58
USE OF PROCEEDS FROM RIGHTS ISSUE	58
<b>【Chapter 4. Operational Highlights】</b>	<b>59</b>
MACRO ENVIRONMENT	59
OVERALL OPERATING RESULTS	59
OPERATING RESULTS REVIEW	60
SCOPE OF BUSINESS	61
MARKET AND SALES OVERVIEW	73
HUMAN RESOURCES	82
ENVIRONMENTAL PROTECTION EXPENDITURE	82
EMPLOYEE RELATIONS	82
MAJOR CONTRACTS	87
<b>【Chapter 5. Financial Highlights】</b>	<b>90</b>
CONDENSED BALANCE SHEETS AND STATEMENTS OF COMPREHENSIVE INCOME	90
FINANCIAL ANALYSIS	96
AUDIT COMMITTEE REPORT	101
2014 CONSOLIDATED FINANCIAL STATEMENTS	101
2014 STAND-ALONE FINANCIAL STATEMENTS	101
FINANCIAL DIFFICULTIES FOR THE COMPANY AND ITS AFFILIATES	101
<b>【Chapter 6. Review and Analysis of Financial Conditions, Operating Results and Risk Management】</b>	<b>102</b>
BALANCE SHEET ANALYSIS	102
STATEMENTS OF COMPREHENSIVE INCOME ANALYSIS	104
CASH FLOW ANALYSIS	105
ANALYSIS OF MAJOR CAPEX AND ITS IMPACT ON FINANCE AND OPERATIONS	106
INVESTMENT POLICIES, REASONS FOR PROFIT/LOSS, PLANS FOR IMPROVEMENT, AND FUTURE INVESTMENT PLAN	106
RISK MANAGEMENT	107
<b>【Chapter 7. Special Notes】</b>	<b>115</b>
AFFILIATES	115
PRIVATE PLACEMENT OF COMPANY SHARES	120
TWM SHARES HELD / SOLD BY SUBSIDIARIES	120
OTHER SUPPLEMENTARY INFORMATION	120
OTHER SIGNIFICANT EVENTS AFFECTING SHAREHOLDERS' EQUITY OR STOCK PRICE	120

# Letter to Shareholders

Dear Shareholders,

As Taiwan moved into the 4G era in 2014, Taiwan Mobile (“TWM” or “the Company”) poured its resources into rolling out its Long Term Evolution (LTE) network at full speed nationwide. It was the first operator to adopt carrier aggregation, allowing it to integrate high- and low-frequency bands to achieve the best spectrum combination. With wider network coverage, deeper indoor penetration and faster download speed, TWM was able to offer 4G users the best service quality.

On March 20, 2015, the National Communications Commission granted TWM an additional license for a 5MHz x 2 spectrum, making the Company the sole proprietor of the largest contiguous 20MHz on the 700 frequency band. With a total 4G spectrum holding of 35MHz, TWM not only boasts one of the largest holdings in the nation, but its licensing cost is also NT\$6.6 billion lower than its comparable rivals’. Both demonstrate TWM’s commitment to maximizing shareholders’ interests and solidifying its leadership in the 4G field.

Taiwan Mobile’s consolidated revenue rose 4% YoY to NT\$112.6bn in 2014. EBITDA also grew 1% YoY to NT\$31.3bn. Net income was NT\$15bn, while earnings per share came in at NT\$5.56, surpassing the Company’s target. Mobile broadband services remained the main revenue growth driver, as using handheld devices to surf the internet became virtually a necessity. Leveraging its superior network performance, excellent service quality, innovative value-added products and world-class information security, TWM was able to attract a large number of mobile internet users. Following the launch of the Company’s 4G services, coupled with popular demand for Apple’s iPhone 6, TWM’s 4G user numbers surged in just a little over six months to more than 1 million by the end of 2014. The Company also saw impressive profit growth in its investments, including cable TV and e-commerce retail businesses.

As the Company steadily expanded its core business, it continued to gain recognitions for its commitment to enhancing corporate value, which included:

1. World-class corporate governance

Taiwan Mobile is committed to maintaining integrity as its core value and promoting corporate governance. The Company’s compliance with global standards has won not only the trust of investors, but also numerous awards and recognitions from domestic and international rating institutions. Last year, it received honors in the categories of Taiwan’s “Best Managed Public Companies”, “Best Corporate Governance”, “Best Investor Relations” and “Best Corporate Committed to Paying Good Dividend” in *FinanceAsia* magazine’s 2015 Asia’s Best Companies Poll. TWM was selected for the third time as a member of the Dow Jones Sustainability Indices’ (the world’s first and most widely used global sustainability benchmarks) Emerging Markets Index. The Company was also a recipient for the second year in a row of “The Best of Asia: Icon on Corporate Governance, Taiwan region,” the highest honor given by *Corporate Governance Asia* magazine in recognition of TWM’s continuous excellent performance in winning

corporate governance awards for the last eight years. Furthermore, TWM received an “A++” rating and was ranked among the top five listed companies in “Transparency and Information Disclosure” by the Securities and Futures Institute for the ninth consecutive year.

2. A role model for corporate social responsibility

TWM’s efforts to employ its corporate and financial resources to assist non-profit organizations in promoting social welfare have gained wide recognitions, the “Corporate Social Responsibility Award” from *Global Views Monthly* for the seventh time last year and “Taiwan’s Top 10 Role Model Company for Sustainability,” the “Integrity and Transparency Award,” the “Role Model Award for Community Service and Outreach” and the “2014 Taiwan’s Top 50 Corporate Sustainability Report Award – Gold Award in Telecom Sector” from the Taiwan Institute for Sustainable Energy Research included. In addition, the Company’s 2013 corporate social responsibility report received the International Standards on Assurance Engagements’ 3000 certification, the first for a telecom operator in Taiwan. TWM also received the “Promoting and Deploying High-speed Broadband in Rural Areas” award from the NCC for supporting the government’s policy of narrowing the digital gap between urban and rural areas.

3. Premium services and customer satisfaction

With customer care as its core value, TWM offers premium customer services, which earned the following recognitions: Swiss SGS Qualicert certification for its direct store channels and customer service system and the “Trusted Brand Gold Award” from *Reader’s Digest* for the eleventh consecutive year. In addition, TWM’s cloud internet data center (IDC) received the “Brill Awards for Efficient IT” for its energy-saving and green design from the Uptime Institute, the world’s largest third party data center analysis institute, making it the first and the only recipient of the award in Taiwan.

Looking forward, with the extra spectrum acquired on the 700 frequency band and more spectrum slated to be released on the 1800 frequency band, TWM is confident in well positioning itself to provide excellent 4G mobile broadband services. The Company will seek to expand its 4G business by introducing even higher-speed mobile internet services, a wider variety of handset selections and innovative rate plans. In addition to improving its operating leverage and EBITDA in telecom segment, Taiwan Mobile expects to see further earnings growth from its cable TV and e-commerce retail businesses to maximize shareholders’ value in 2015.



Richard Tsai  
Chairman

# Chapter 1 Company Highlights

## Vision

The Company's core vision is to provide customers with the best user experience and become a leader in digital convergence. Maintaining integrity as a core value of the Company ensures that corporate social responsibility takes root, thereby enhancing its ability to maximize the interests of its shareholders as it strives to become a top-tier company globally.

## Core Competency

The Company has established a cross-media platform, integrating mobile communications, fixed-line, cable TV and broadband services. Through integration, the Company is able to provide seamless digital convergence services across "multiple screens and a cloud" to meet the demands of the consumers, household and enterprise markets for excellent service and information security. TWM has become a leading player in TIME: telecommunications, internet, media and entertainment.

## Brand Image

### *Changing the way we live and embracing a better future*

Technology empowers us with the courage and impetus to move forward. Faced with a rapidly changing world, Taiwan Mobile has always striven to stay a step ahead of the competition. With this in mind, the Company has rapidly built out its 4G network, leading the industry in developing various digital applications and changing the way people connect with the world. The Company's goal is not only to create a rich mobile experience, but also to provide total solutions for its customers as it seeks to transform the face of communication and help consumers embrace a better future.

With its customer-centric approach, Taiwan Mobile has simplified complex technologies into simple, practical, user-friendly services to give customers the most satisfying mobile lifestyle possible. By providing top-notch localized but world-class quality service, Taiwan Mobile has become an integral part of each user's daily life.

## Date of Incorporation

The Company was founded on February 25, 1997.

## Milestones

March	2015	Granted an additional license for a 5MHz x 2 spectrum in the 700MHz band by the National Communications Commission (NCC), making TWM the sole proprietor of the largest contiguous 20MHz on the 700 frequency band.
August	2014	Awarded 1800MHz license and was the first to adopt carrier aggregation on the 700/1800 frequency bands for LTE services.
June	2014	Launched 4G services on the 700MHz band.

June	2014	Richard Tsai and Daniel Tsai were re-elected Chairman and Vice Chairman, respectively, at the first meeting of the seventh Board of Directors.
April	2014	Received approval from the NCC to apply for 4G network roll-out.
January	2014	James Jeng was appointed President at the 16 <sup>th</sup> meeting of the sixth Board of Directors.
November	2013	Internet Data Center (IDC), which received an Uptime Institute Tier III certification for design and construction, began operations.
October	2013	Won two 15MHz x 2 blocks on the 700MHz (spectrum A4) and 1800MHz (spectrum C1) bands in the 4G auction.
November	2012	Launched mobile video service, myVideo.
May	2012	Launched an instant messaging service, M+ messenger.
August	2011	Company's capital was down to NT\$34.2bn after a capital reduction of NT\$3.8bn.
June	2011	Richard Tsai and Daniel Tsai were re-elected Chairman and Vice Chairman, respectively, at the first meeting of the sixth Board of Directors.
April	2011	The Board of Directors approved the acquisition of a 51% stake in Fubon Multimedia Technology (also known as momo) for NT\$8.35bn through TWM's 100%-owned subsidiary Wealth Media Technology.
October	2010	Cliff Lai and Vivien Hsu were appointed Co-Presidents at the 17 <sup>th</sup> meeting of the fifth Board of Directors, effective January 1, 2011.
May	2010	TFN Media Co., Ltd. (TFNM), a TWM affiliate, acquired a 45% stake in Taiwan Kuro Times Co., Ltd. TFNM raised its stake to 100% in August 2011.
January	2009	Founded Taipei New Horizon Co., Ltd. (a 49.9% holding) with Fubon Land Development Co., Ltd. to develop a cultural park at the site of the old Songshan tobacco plant under a 50-year BOT contract with the Taipei City Government.
June	2008	Richard Tsai and Daniel Tsai were re-elected Chairman and Vice Chairman, respectively, at the first meeting of the fifth Board of Directors.
February	2008	Introduced three new brands – Taiwan Mobile, TWM Broadband and TWM Solution – to provide consumers, households and enterprises with integrated telecommunication services, including wireless communication, cable TV and fixed-line services.
December	2007	Company's capital was down to NT\$38bn after a capital reduction of NT\$12bn.
August	2007	Acquired a 45% stake in Taiwan Telecommunication Network Services Co., Ltd. (TTN). TWM raised its stake to 100% in August 2008 and merged it into Taiwan Fixed Network Co., Ltd. (TFN).
April	2007	Acquired an 84% stake in TFN. TWM acquired full ownership of TFN in December 2007.
January	2007	Launched 3.5G (HSDPA) services.

August	2006	Richard Tsai and Daniel Tsai were re-elected Chairman and Vice Chairman, respectively, at the 10 <sup>th</sup> meeting of the fourth Board of Directors.
June	2005	Richard Tsai and Daniel Tsai were re-elected Chairman and Vice Chairman, respectively, at the first meeting of the fourth Board of Managing Directors.
May	2005	First in Taiwan to launch 3G (WCDMA) services.
November	2004	Joined the Bridge Mobile Alliance, the largest mobile alliance in Asia.
August	2004	Acquired a 67% stake in Mobitai, increasing its subscriber base to 8.2 million. TWM acquired full ownership of Mobitai In January 2006 and merged it into TransAsia Telecommunications (TAT) in December 2007.
July	2003	Harvey Chang was appointed President and CEO at the 15 <sup>th</sup> meeting of the third Board of Directors.
July	2003	Daniel Tsai and Richard Tsai were elected Chairman and Vice Chairman, respectively, at the 2 <sup>nd</sup> meeting of the third Board of Directors.
August	2002	Listed on the Taiwan Stock Exchange.
May	2002	C. S. Chen was appointed President at the 2 <sup>nd</sup> meeting of the third Board of Directors.
April	2002	Jack T. Sun and Joseph Lee were re-elected Chairman and Vice Chairman, respectively, at the 1 <sup>st</sup> meeting of the third Board of Directors.
February	2002	Granted a 3G license.
July	2001	Acquired a 95.62% stake in TransAsia Telecommunications (TAT), boosting its subscriber base to 6.42 million. TWM acquired full ownership of TAT in June 2006 and merged it into TWM in September 2008.
November	2000	Ray-Ying Fan was appointed President at the 8 <sup>th</sup> meeting of the second Board of Directors.
September	2000	First private telecom operator to trade on Taiwan's OTC market.
June	1999	Jack T. Sun and Joseph Lee were re-elected Chairman and Vice Chairman, respectively, at the 1 <sup>st</sup> meeting of the second Board of Directors.
January	1998	Started commercial operations.
December	1997	First nationwide private operator to obtain a GSM 1800 network operating license.
February	1997	Company was incorporated.
January	1997	Jack T. Sun and Joseph Lee were elected Chairman and Vice Chairman, respectively, while Lai-Ting Zou was appointed President at the 1 <sup>st</sup> meeting of the first Board of Directors.
May	1996	Prepared for the Company's incorporation.



## Awards and recognitions from 2014 up to the publication date in 2015

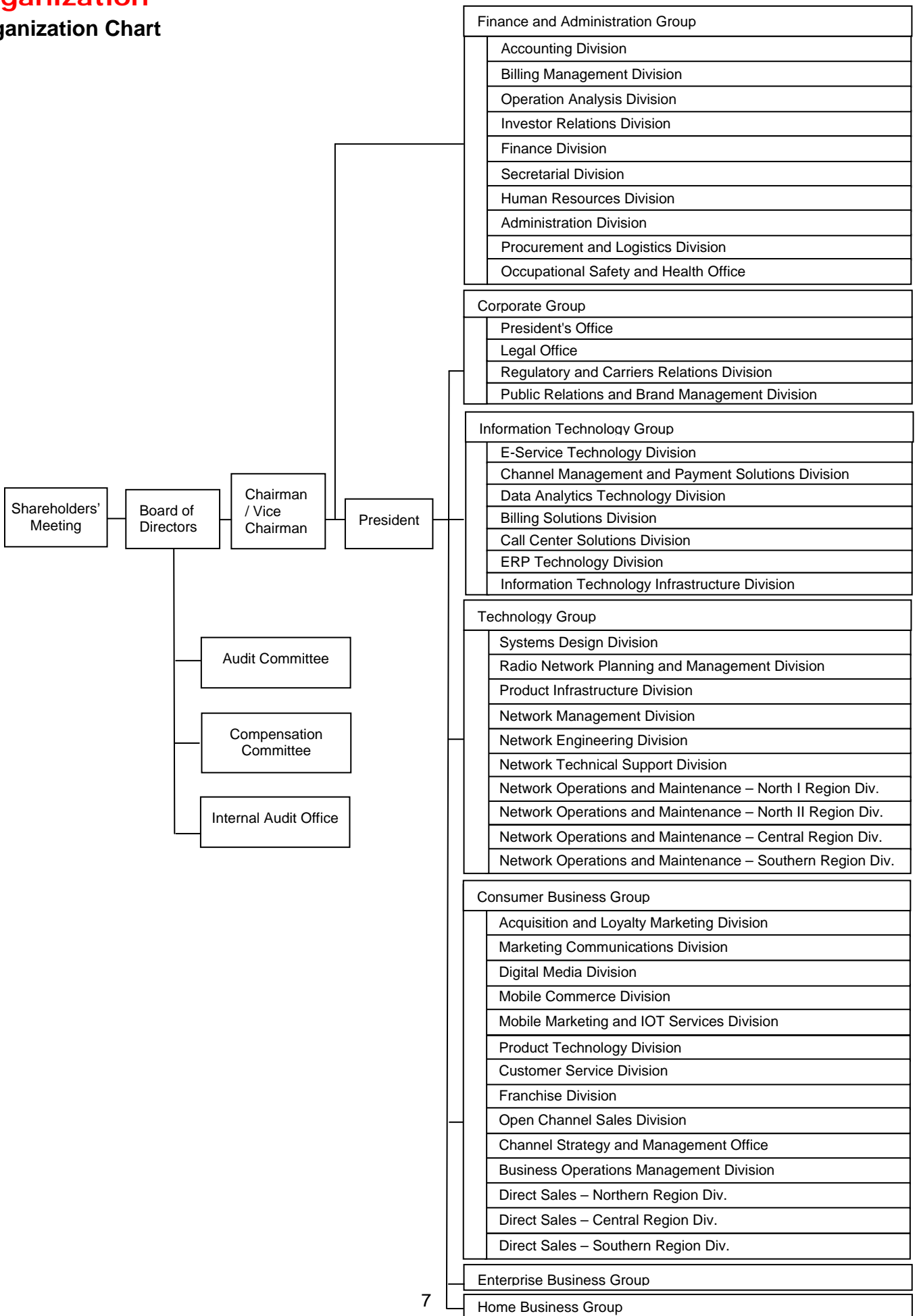
March	2015	Received honors in the categories of Taiwan's Best Managed Public Companies, Best Corporate Governance, Best Investor Relations and Best Committed to Paying Good Dividends in <i>FinanceAsia</i> magazine's 2015 Asia's Best Companies Poll.
December	2014	Received the internationally renowned Swiss SGS Qualicert certification for its quality direct stores channel, myfone, for the second time.
November	2014	Received the following awards from the Taiwan Institute for Sustainable Energy Research: "Taiwan's Top 10 Role Model Company for Sustainability," the "Integrity and Transparency Award," the "Role Model Award for Community Service and Outreach" and the "2014 Taiwan's Top 50 Corporate Sustainability Report Award – Gold Award in Telecom Sector".
October	2014	Received "The Best of Asia: Icon on Corporate Governance, Taiwan region" award for the second consecutive year, making it eight years in a row that TWM has received an award from <i>Corporate Governance Asia</i> magazine.
September	2014	TWM's internet data center (IDC) received an ISO 27001 certification on information security management.
September	2014	TWM's cloud computing service received the EuroCloud Star Audit IaaS 4-star certificate.
September	2014	Selected as a member of the Dow Jones Sustainability Indices' Emerging Markets Index for the third year in a row.
August	2014	First telecom operator in Taiwan to receive the International Standards on Assurance Engagements (ISAE) 3000 certification for its 2013 CSR report.
July	2014	Received the highest "A++" rating and ranked as one of the top five listed companies in "Transparency and Information Disclosure" from Taiwan's Securities and Futures Institute for the ninth year in a row.
June	2014	Received the "Trusted Brand Gold Award" for the eleventh consecutive year from <i>Reader's Digest</i> .
May	2014	Winner of the "Corporate Social Responsibility Award" by <i>Global Views Monthly</i> for the seventh time.
April	2014	Sole Taiwanese recipient of the "Brill Awards for Efficient IT" for its IDC's green and energy-saving design.
January	2014	Received ISO 50001 certification for its IDC's energy-efficient management.



# Chapter 2 Organization and Corporate Governance

March 25, 2015

## Organization Organization Chart



## Divisional Scope of Responsibilities

Division		Scope of responsibilities
Internal Audit Office		<p>Audit of the Company and its subsidiaries</p> <p>Handling employees' and suppliers' complaints</p> <p>Develop, manage and oversee information security management</p>
Corporate Group	President's Office	<p>Corporate strategy and investment evaluation</p> <p>Develop new businesses and strategic alliances</p> <p>Enhance corporate management mechanism and cross-department project management</p> <p>Ensure customer satisfaction with Taiwan Mobile's network quality</p>
	Legal Office	Legal counsel, company litigation and legal document review
	Regulatory and Carriers Relations Division	Regulatory matters, government relations and inter-carrier relations
	Public Relations and Brand Management Division	<p>Corporate image promotion and management</p> <p>Media communication and sponsorship marketing</p> <p>Corporate social responsibility strategy planning and execution</p> <p>Website maintenance for the Company and TWM Foundation</p>
Finance & Administration Group	Accounting Division	<p>Accounting information management</p> <p>Tax planning and compliance</p> <p>Preparation of financial reports</p>
	Billing Management Division	<p>Billing, receivables collection and settlement</p> <p>Credit check and risk management</p>
	Operation Analysis Division	Operating performance analysis, financial forecasts/annual budget review, and capex/opex cost & benefit analysis
	Investor Relations Division	<p>Timely disclosure of the Company's operating and financial status, management strategy, future business plans and developments to investors</p> <p>Communication between the Company and investors</p>
	Finance Division	<p>Treasury management</p> <p>Monitoring investments and subsidiaries' business activities</p> <p>Finance-related project evaluation, planning and execution</p>
	Secretarial Division	<p>Board meeting and shareholders' meeting facilitation</p> <p>Corporate registration affairs and corporate share registrar management</p> <p>Company seal custodian and receipt/transmission of corporate documents</p>
	Human Resources Division	<p>Human resources planning and management</p> <p>Staffing, compensation/benefits and employee relations</p> <p>Employee training and development</p>
	Administration Division	<p>Office machinery and equipment management</p> <p>General and administrative affairs coordination</p> <p>Base station administration and related expense payments</p>
	Procurement and Logistics Division	<p>Procurement policy and system planning</p> <p>Handling procurement-related activities, contract negotiations and signing</p> <p>Suppliers evaluation and management</p>
Occupational Safety and Health Office	<p>Occupational safety and health management</p> <p>Environmental protection and site area safety management</p> <p>Workplace health promotion</p>	

Information Technology Group	E-Service Technology Division	Corporate website, e-service systems (e-store/myfone shopping) and fixed-network application systems Service-oriented architecture and enterprise service bus (SOA/ESB) IT governance, enterprise architecture, software development process and basic architecture software/tools development and management
	Channel Management and Payment Solutions Division	Sales, channel services and commission system solutions Enterprise management information system solutions Member center and payment service solutions
	Data Analytics Technology Division	Data analytics system solutions, including data warehouse, big data and business intelligence solutions System solutions for management of network assets, warehousing, maintenance and repair and customer experience
	Billing Solutions Division	Billing systems operation and development
	Call Center Solutions Division	Call center infrastructure and operational management solutions Taiwan Fixed Network IT server operation and management
	ERP Technology Division	TWM's customer care application systems Enterprise resource planning (ERP) and human resources solutions Front-end customer management, sales management, and order and provision solutions for fixed-line business
	Information Technology Infrastructure Division	Data center, systems and network infrastructure construction and operations management Implementation of information security policy
Technology Group	Systems Design Division	Plan and design core, IP and transmission network systems for mobile and fixed networks Verification testing of network elements
	Radio Network Planning and Management	Radio network strategy development and planning. Site planning and performance management Radio network quality management
	Product Infrastructure Division	Design, build, operate and manage: - Cloud internet data center (IDC) - Infrastructure as a service (IaaS) - Value-added services and innovative products
	Network Management Division	24-hour supervision of mobile/fixed network management Technical support for customers with network issues Network security management of Technology Group
	Network Engineering Division	Mobile telecom and fixed-network business' infrastructure budget and outsourced engineering and construction projects Applications for base station co-location, technical approvals and cable/conduit management for government agencies Fixed-network service management, project evaluation and coordination
	Network Technical Support Division	Mobile-network technical support Fixed-network technical support IP-based network technical support
	Network Operations and Maintenance – North I, North II, Central and Southern Regions	2G/3G/4G and fixed-network construction, expansion, operation, maintenance and optimization including core, transmission and radio networks Network construction management and technical support

Consumer Business Group	Acquisition and Loyalty Marketing Division	Develop and execute strategies to acquire new customers, increase customer loyalty and lower churn rates Strategy development for prepaid business
	Marketing Communications Division	Manage TWM Group brand identity, strategic development, integrated marketing communication and implement advertising campaigns Execute store signage / interior design and customer retention plans Integrate and operate company website, including e-marketing, online sales and customer service
	Digital Media Division	Product planning, development, management, quality assurance and strategy setting for online music, online bookstore, cloud video, mobile gaming and legacy value-added services (VAS)
	Mobile Commerce Division	Development and management of mobile commerce business Merchandise and supplier management, marketing, member recruiting and system development Product planning, merchant acquisition and end-user promotion of mobile wallet, O2O target marketing and smart business district
	Mobile Marketing and IOT Services Division	Provide mobile advertising solutions based on big data analysis Monitor and analyze IOT industry development to define proposition and form implementation plan for TWM
	Product Technology Division	Technical consultation and solution analysis for VAS products and CPE (Customer-Premises Equipment) technologies Solutions design, systems development and delivery for VAS products and marketing promotions
	Customer Service Division	Customer service and call center management Telemarketing sales and customer retention
	Franchise Division	Supervision of franchisees' product promotion, distribution and customer service
	Open Channel Sales Division	Open channel development, distribution and management of postpaid, prepaid products and agency/sales of mobile phones
	Channel Strategy and Management Office	Channel strategy development and performance management Channel sales support, store display design, and in-store activities planning and execution Sales training program planning and service quality management
	Business Operations Management Division	Store operating system optimization and formulating standards Channel operation quality assurance to minimize corporate business risk Sale channel resources management and commission/awards calculation
	Direct Sales Division – Northern, Central and Southern Regions	Product sales, customer service and execution of projects at company stores
	Enterprise Business Group	Strategy development and business analysis Direct sales and channel development, and customer relationship management Inter-carrier relations and international business (including international roaming) planning and implementation
Home Business Group	Implementation of integrated technology solutions for the development of new products and VAS to increase video and broadband internet access penetration rates and overall revenue Expansion of two-way optical network to broaden coverage and ensure better internet access quality and stable cable signals	

## Board of Directors and Executive Management

### Board of Directors

The board of directors, acting on behalf of the Company's shareholders, is charged with the task of supervising the management team. The board, elected and approved during the AGM on June 12, 2014, includes four independent directors, which more than fulfill current regulations requiring public companies to have at least two independent directors. The Audit Committee, composed entirely of independent directors, replaced board supervisors. Information on the Company's Seventh Board of Directors is detailed below:

As of March 25, 2015

Title	Name	Date elected	Term expires	Shareholding when elected		Current shareholding		Spouse/minor's shareholdings		Education and experience	Current position(s) in the Company and other companies	Officer or director is a spouse or consanguineous within two degrees		
				Shares	%	Shares	%	Shares	%			Title	Name	Relationship
Chairman	Fu-Chi Venture Corp. Representative: Richard Tsai	2014.06.12	2017.06.11	5,748,763	0.168	5,748,763 *90,257,938	0.168 *2.638	5,986,496	0.175	MBA, Stern School, New York University BA, National Taiwan University Chairman, Fubon Life Insurance Co., Ltd. Chairman, Fubon Securities Co., Ltd.	Vice Chairman, Fubon Financial Holding Co., Ltd. Vice Chairman, Taipei Fubon Commercial Bank Co., Ltd. Chairman, Taiwan Fixed Network Co., Ltd.	Vice Chairman	Daniel Tsai	Brother
Vice Chairman	Fu-Chi Venture Corp. Representative: Daniel Tsai	2014.06.12	2017.06.11	5,748,763	0.168	5,748,763 *92,109,990	0.168 *2.693	4,580,070	0.134	LL.M., Georgetown University LL.B., National Taiwan University Chairman, Fubon Land Development Co., Ltd. Chairman, Fubon Insurance Co., Ltd.	Chairman, Fubon Financial Holding Co., Ltd. Chairman, Taipei Fubon Commercial Bank Co., Ltd.	Chairman	Richard Tsai	Brother
Director	TCC Investment Co., Ltd. Representative: James Jeng	2014.06.12	2017.06.11	200,496,761	5.861	200,496,761 *None	5.861 *None	—	—	PhD and MS in Electrical and Computer Engineering, New York State University BS in Electrical Engineering, National Cheng Kung University Chairman and CEO, Kbro Co., Ltd. Chief Technology Officer and Chief Operating Officer of Home Business Group, Taiwan Mobile Co., Ltd. President, Asia Pacific Online CEO, Asia Pacific Broadband Telecom Co., Ltd. CEO, Asia Pacific Broadband and Wireless Communications Inc. CEO, Asia Pacific Telecom Group Executive Vice President, United Fiber Optic Communication Inc. Member of Technical Staff, AT&T Bell Labs, USA	President, Taiwan Mobile Co., Ltd. Director and President, Taiwan Cellular Co., Ltd. Director and President, Taiwan Fixed Network Co., Ltd. Chairman and President, Taiwan Digital Service Co., Ltd. Director and President, Wealth Media Technology Co., Ltd. Director and President, TFN Media Co., Ltd. Chairman, Win TV Broadcasting Co., Ltd. Chairman, Globalview Cable TV Co., Ltd. Chairman, Union Cable TV Co., Ltd. Chairman, Yeong Jia Leh Cable TV Co., Ltd. Chairman, Phoenix Cable TV Co., Ltd. Director, Taipei New Horizon Co., Ltd. Chairman, Taiwan Kuro Times Co., Ltd. Chairman, Taiwan Teleservices & Technologies Co., Ltd. Chairman and President, TWM Communications (Beijing) Co., Ltd. Director, momo.com Inc.	—	—	—
Director	TCC Investment Co., Ltd. Representative: Howard Lin (Note 1)	2014.06.12	2017.06.11	200,496,761	5.861	200,496,761 *None	5.861 *None	—	—	PhD in Chemical Engineering, National Taiwan University Senior Vice President, Fubon Financial Holding Co., Ltd. President, Fubon Asset Management Co., Ltd. Director, Technical & Development Dept., Grand Pacific Petrochemical Corp.	Chief Investment Officer, Fubon Financial Holding Co., Ltd. Vice Chairman, Fubon Life Insurance Co., Ltd. Vice Chairman, Fubon Financial Holding Venture Capital Corp. Chairman, momo.com Inc. Chairman, Sinostar Capital Inc. Director, Fu Sheng Travel Service Co., Ltd. Director, Hong Kong Fubon Multimedia Technology Co., Ltd. Director, Fubon Asset Management Co., Ltd.	—	—	—

Title	Name	Date elected	Term expires	Shareholding when elected		Current shareholding		Spouse/minor's shareholdings		Education and experience	Current position(s) in the Company and other companies	Officer or director is a spouse or consanguineous within two degrees		
				Shares	%	Shares	%	Shares	%			Title	Name	Relationship
Director	Fu-Chi Venture Corp. Representative: Vivien Hsu	2014.06.12	2017.06.11	5,748,763	0.168	5,748,763 *8,377	0.168 *0.000	—	—	MBA, University of New South Wales, Sydney, Australia MBA, National Chengchi University Co-President, Taiwan Mobile Co., Ltd. Senior Vice President and Chief Financial Officer, Taiwan Mobile Co., Ltd. Chairman, Win TV Broadcasting Co., Ltd. Senior Consultant and Acting President, Taiwan Fixed Network Co., Ltd. Chairman, Taiwan Tele-Shop Co., Ltd. Senior Vice President and Chief of Staff, Taiwan Mobile Co., Ltd. Chief Financial Officer, Cathay Financial Holding Co., Ltd.	President, Fubon Financial Holding Co., Ltd. Director, Fubon Bank (China) Co., Ltd. Non-Executive Director, Fubon Bank (Hong Kong) Ltd. Director, Taipei Fubon Commercial Bank Co., Ltd. Director, Social Enterprise Commitment Foundation Supervisor, Commerce Development Research Institute	—	—	—
Independent Director	Jack J.T. Huang	2014.06.12	2017.06.11	—	—	—	—	—	—	S.J.D., Harvard University LL.M., Northwestern University LL.B., National Taiwan University	Partner-in-charge, Jones Day Taipei Independent Director, World Peace Holding Independent Director, Systex Corp. Independent Director, CTCI Corp. Director, Yulon Motor Co., Ltd.	—	—	—
Independent Director	Tsung-Ming Chung	2014.06.12	2017.06.11	—	—	—	—	—	—	MBA, National Chengchi University BBA, National Taiwan University CPA, ROC CPA, Connecticut, USA Instructor, Department of Accounting, National Taiwan University Lecturer, Department of Accounting, National Chengchi University Partner, T.N. Soong & Co.	Chairman, Dynapack Technology Corp. Independent Director, Chroma ATE Inc. Director, Far Eastern International Commercial Bank Director, Unity Opto Technology Co., Ltd. Supervisor, Chien Kuo Construction Co., Ltd.	—	—	—
Independent Director	Hsueh-Jen Sung	2014.06.12	2017.06.11	—	—	—	—	—	—	MBA, Harvard University Master of Commerce, National Chengchi University Bachelor of Science, National Chiao Tung University Vice Chairman and member of Global Partnership Committee and Asian Management Committee, Goldman Sachs (Asia) Ltd. President and CEO, Grand Cathay Securities Corp. Country Manager, Westpac Banking Corp.	Chairman, Vauclose Capital Management Ltd. Chairman, Shi Chiuan Capital Management Ltd.	—	—	—
Independent Director	Guu-Chang Yang	2014.06.12	2017.06.11	—	—	—	—	—	—	PhD in Electrical Engineering, University of Maryland at College Park Distinguished Professor, Department of Electrical Engineering / Institute of Communications Engineering, National Chung Hsing University Chairman, Department of Electrical Engineering, National Chung Hsing University Professor, Department of Electrical Engineering, National Chung Hsing University	Chair Professor, Department of Electrical Engineering / Institute of Communications Engineering, National Chung Hsing University	—	—	—

\* Personal shareholdings

Note 1: Howard Lin had served as a representative of an institutional director of TWM from June 13, 2008 to September 18, 2009.

Note 2: Shareholdings of less than 0.001% are denoted as "0.000" and zero shareholdings are denoted as "None".



## 1. Major shareholders of TWM's institutional investors

As of March 25, 2015

Institutional investor	Major shareholders
Fu-Chi Venture Corp.	Richard Tsai (50.20%), Mei-Hui Ueng Tsai (49.75%), Cheng-Ru Tsai (0.05%)
TCC Investment Co., Ltd.	Taiwan Cellular Co., Ltd. (100%)

## 2. Major shareholders of companies mentioned on the right hand side of the table above

As of March 25, 2015

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

## 3. Qualifications and independence criteria of directors

As of March 25, 2015

Name	Over five years of experience in business, finance, legal and/or other areas related to the Company's business	Independence criteria (Notes)										No. of public companies in which he or she also serves as an independent director
		1	2	3	4	5	6	7	8	9	10	
Richard Tsai	V	V					V	V		V		0
Daniel Tsai	V	V					V	V		V		0
James Jeng	V			V	V		V	V	V	V		0
Howard Lin	V	V		V	V		V	V	V	V		0
Vivien Hsu	V			V	V		V	V	V	V		0
Jack J.T. Huang	V	V	V	V	V	V	V	V	V	V	V	3
Tsung-Ming Chung	V	V	V	V	V	V	V	V	V	V	V	1
Hsueh-Jen Sung	V	V	V	V	V	V	V	V	V	V	V	0
Guu-Chang Yang	V	V	V	V	V	V	V	V	V	V	V	0

"V" denotes meeting the conditions specified above

Criterion 1: Not an employee of the Company or its affiliated companies

Criterion 2: Not a director or supervisor of the Company's affiliated companies (unless the person is an independent director of the Company, the Company's parent company or any subsidiary in which the Company holds, directly or indirectly, more than 50 percent of the voting shares)

Criterion 3: Not a shareholder whose total holdings, including that of his/her spouse and minor children, or shares held under others' names reach or exceed 1 percent of the total outstanding shares of the Company or rank among the top 10 individual shareholders

Criterion 4: Not a spouse or relative within second degree by affinity, or within five degrees by consanguinity to any person specified in criteria 1 to 3

Criterion 5: Neither a director, supervisor, or employee of an entity that directly and/or indirectly holds more than 5% of the Company's shares, nor one of the Company's top five shareholders

Criterion 6: Not a director, supervisor, manager, or shareholder owning more than 5% of the outstanding shares of any company that has financial or business relations with the Company

Criterion 7: Not an owner, partner, director, supervisor, manager, or spouse of any of the aforementioned, of any sole proprietorship, partnership, company, or institution that provides commercial, legal, financial or accounting services or consultations to the Company or its affiliates. However, members of the Compensation Committee are not covered by this restriction per Article 7 of the Regulations Governing the Appointment and Exercise of Powers by the Remuneration Committee of a Company Whose Stock is Listed on the Stock Exchange or Traded Over the Counter

Criterion 8: Not a spouse or relative within second degree by affinity to other directors

Criterion 9: Not in contravention of Article 30 of the Company Act

Criterion 10: Not an institutional shareholder or its representative pursuant to Article 27 of the Company Act

## Management Team

As of March 25, 2015

Title / Division	Name	Effective date	Shareholding / %	Spouse/ minor's shareholding / %	Education and experience	Current position(s) in other companies	Manager or director is a spouse or consanguineous within two degrees		
							Title	Name	Relationship
President/ President's Office	James Jeng	2014.01.06	–	–	PhD and MS in Electrical and Computer Engineering, New York State University BS in Electrical Engineering, National Cheng Kung University Chairman and CEO, Kbro Co., Ltd. Chief Technology Officer and Chief Operating Officer of Home Business Group, Taiwan Mobile Co., Ltd. President, Asia Pacific Online CEO, Asia Pacific Broadband Telecom Co., Ltd. CEO, Asia Pacific Broadband and Wireless Communications Inc. CEO, Asia Pacific Telecom Group Executive Vice President, United Fiber Optic Communication Inc. Member of Technical Staff, AT&T Bell Labs, USA	Director and President, Taiwan Cellular Co., Ltd. Director and President, Taiwan Fixed Network Co., Ltd. Chairman and President, Taiwan Digital Service Co., Ltd. Director and President, Wealth Media Technology Co., Ltd. Director and President, TFN Media Co., Ltd. Chairman, Win TV Broadcasting Co., Ltd. Chairman, Globalview Cable TV Co., Ltd. Chairman, Union Cable TV Co., Ltd. Chairman, Yeong Jia Leh Cable TV Co., Ltd. Chairman, Phoenix Cable TV Co., Ltd. Director, Taipei New Horizon Co., Ltd. Chairman, Taiwan Kuro Times Co., Ltd. Chairman, Taiwan Teleservices & Technologies Co., Ltd. Chairman and President, TWM Communications (Beijing) Co., Ltd. Director, momo.com Inc.	–	–	–

Title / Division	Name	Effective date	Shareholding / %	Spouse/ minor's shareholding / %	Education and experience	Current position(s) in other companies	Manager or director is a spouse or consanguineous within two degrees		
							Title	Name	Relationship
Executive Vice President and Chief Financial Officer / Finance and Administration Group	Rosie Yu	2014.02.10	–	–	BA, National Taiwan University Senior Vice President and Chief Financial Officer, Taiwan Mobile Co., Ltd. Chairman, Global Investment Advisory (HK) Ltd. President, Global Investment Holdings Co., Ltd. General Manager, Credit Lyonnais Securities (Asia) Ltd., Taipei Branch General Manager, Citicorp International Securities Ltd., Taipei Branch Executive Vice President, China Securities Co., Ltd.	Director, Globalview Cable TV Co., Ltd. Director, Union Cable TV Co., Ltd. Director, Yeong Jia Leh Cable TV Co., Ltd. Director, Phoenix Cable TV Co., Ltd. Director, Taiwan Kuro Times Co., Ltd. Director, Taiwan Pelican Express Co., Ltd. Supervisor, Taiwan Cellular Co., Ltd. Supervisor, Taiwan Fixed Network Co., Ltd. Supervisor, Taiwan Digital Service Co., Ltd. Supervisor, Wealth Media Technology Co. Ltd. Supervisor, TFN Media Co. Ltd. Supervisor, Win TV Broadcasting Co., Ltd. Supervisor, Taiwan Teleservices & Technologies Co., Ltd. Supervisor, TWM Communications (Beijing) Co., Ltd.	–	–	–
Vice President / Finance and Administration Group	Jay Hong	2004.05.06	5,000/0.000	–	EMBA, National Sun Yat-sen University Vice President, Taiwan Mobile Co., Ltd. President, Taiwan Teleservices & Technologies Co., Ltd. Vice President, Direct Store Division, Taiwan Mobile Co., Ltd. Vice President, Customer Service Division, TransAsia Telecommunications Inc. Director, Procurement Division, TransAsia Telecommunications Inc.	Supervisor, Globalview Cable TV Co., Ltd. Supervisor, Union Cable TV Co., Ltd. Supervisor, Yeong Jia Leh Cable TV Co., Ltd. Supervisor, Phoenix Cable TV Co., Ltd.	–	–	–

Title / Division	Name	Effective date	Shareholding / %	Spouse/ minor's shareholding / %	Education and experience	Current position(s) in other companies	Manager or director is a spouse or consanguineous within two degrees		
							Title	Name	Relationship
Vice President / Corporate Group	Ariel Hwang	2004.03.01	-	-	EMBA, National Taiwan University LL.M., National Chung Hsing University LL.B., National Taiwan University Judge, Taiwan High Court Judge, Taiwan Taipei District Court Judge, Taiwan New Taipei District Court Judge, Taiwan Taoyuan District Court	Supervisor, Globalview Cable TV Co., Ltd. Supervisor, Union Cable TV Co., Ltd. Supervisor, Yeong Jia Leh Cable TV Co., Ltd. Supervisor, Phoenix Cable TV Co., Ltd. Supervisor, Taipei New Horizon Co., Ltd. Legal Consultant, Fubon Financial Holding Co., Ltd. Legal Consultant, Taiwan Fixed Network Co., Ltd.	-	-	-
Vice President / Corporate Group	Joseph Yang	2007.11.09	-	-	BS in Transportation Management, National Chiao Tung University Product Director, Asia Region, HTC Corp. Chief Marketing Officer, Asia Pacific Telecom Group Chief Operating Officer, Eastern Broadband Telecom Sales Director, Finance Industry, IBM Taiwan Solutions Director, Finance Industry, IBM Taiwan	None	-	-	-
Vice President / Corporate Group	Iris Liu	2014.07.14			MBA, National Chengchi University Vice President, Taiwan Television Enterprise Ltd. Chairman, TTV Cultural Enterprise Ltd.	Vice President, Taipei New Horizon Co., Ltd.	-	-	-
Vice President / Information Technology Group	James Chang	2004.09.17	163,084/0.005	-	MS in Computer Science, University of Illinois at Chicago Director, AT&T Laboratories Senior Director, TBCommerce Network Corp. Senior Delivery Manager, IBM Global Services District Manager, AT&T Laboratories	None	-	-	-

Title / Division	Name	Effective date	Shareholding / %	Spouse/ minor's shareholding / %	Education and experience	Current position(s) in other companies	Manager or director is a spouse or consanguineous within two degrees		
							Title	Name	Relationship
Senior Vice President and Chief Technology Officer / Technology Group	C.H. Jih	2014.02.10	–	–	Electronics Engineering, National Taipei Industry of Technology Institute Chief Technology Officer, Kbro Co., Ltd. Vice President, TFN Media Co., Ltd. Vice President, Taiwan Fixed Network Co., Ltd. Engineering Vice President, Taiwan Cellular Corp. Vice President, Suretone Telecom Inc. Project Manager, Siemens Telecom, Vietnam Region	Director, Globalview Cable TV Co., Ltd. Director, Union Cable TV Co., Ltd. Director, Yeong Jia Leh Cable TV Co., Ltd. Director, Phoenix Cable TV Co., Ltd. Director, TWM Communications (Beijing) Co., Ltd. Independent Director, ACTi Corp. Supervisor, Taiwan Kuro Times Co., Ltd.	–	–	–
Vice President / Technology Group	Egon Chen	2004.02.16	55,158/0.002	–	EMBA, National Taiwan University BS in Electrical Engineering, Tamkang University Vice President, Howin Technologies Corp. Senior Director, Taiwan Fixed Network Co., Ltd. Director, Suretone Telecom Inc.	None	–	–	–
Vice President / Technology Group	Chien Chen	2004.02.16	–	–	EMBA, National Taiwan University Vice President, Howin Technologies Corp. Vice President, Taiwan Fixed Network Co., Ltd. Director, Suretone Telecom Inc. Manager, Siemens Telecom Systems Ltd.	None	–	–	–

Title / Division	Name	Effective date	Shareholding / %	Spouse/ minor's shareholding / %	Education and experience	Current position(s) in other companies	Manager or director is a spouse or consanguineous within two degrees		
							Title	Name	Relationship
Vice President / Technology Group	Tom Koh	2011.10.17	-	-	PhD in Electrical and Computer Engineering, Johns Hopkins University Senior Director, Qualcomm Senior Technical Marketing Engineer, Cisco-Linksys Senior Sales Engineer, Ensemble Communications Senior Technologist, Motorola Member of Tech Staff, Bellcore	None	-	-	-
Senior Vice President and Acting Chief Business Officer / Consumer Business Group	Jeff Ku	2014.02.10	2,243/0.000	-	EMBA, National Taiwan University MBA, University of Wollongong, Australia Vice President, Taiwan High Speed Rail Corp. Director, Far EasTone Telecommunications Co., Ltd.	Director, Globalview Cable TV Co., Ltd. Director, Union Cable TV Co., Ltd. Director, Yeong Jia Leh Cable TV Co., Ltd. Director, Phoenix Cable TV Co., Ltd. Director and President, Taiwan Kuro Times Co., Ltd. Director, TWM Communications (Beijing) Co., Ltd. Director, Alliance Digital Tech Ltd.	-	-	-
Vice President / Consumer Business Group	Sean Hsieh	2003.12.08	131,396/0.004	-	University of Texas, Austin BS in Business Administration and Sociology, Fu Jen Catholic University Vice President, Enterprise Solution and Channel Sales, Taiwan Mobile Co., Ltd. Vice President and Marketing Director, TransAsia Telecommunications Inc. Marketing and Sales Manager, PUMA North Asia Ltd., Taiwan Branch Group Account Director, Series DMB&B Communications Account Supervisor, Bozell CCAA	None	-	-	-

Title / Division	Name	Effective date	Shareholding / %	Spouse/ minor's shareholding / %	Education and experience	Current position(s) in other companies	Manager or director is a spouse or consanguineous within two degrees		
							Title	Name	Relationship
Vice President / Consumer Business Group	Paul Huang	2008.01.21	199,338/0.006	–	MS in Computer Science, Bradley University, USA Vice President, Business and Operation, Far Eastern Electronic Toll Collection Co., Ltd. Vice President, Sales and Services, Far EasTone Telecommunications Co., Ltd. Vice President, Business Development, Hong Kong Telecom, Taiwan Branch Account and Project Manager, Nortel, Taiwan Branch Supervisor, Siemens Telecommunication Systems Ltd.	None	–	–	–
Vice President / Consumer Business Group	Steve Chou	2011.04.25	–	–	MBA, Southern Methodist University, USA Senior Vice President, Customer Service, HSBC Bank (Taiwan) Ltd. General Manager, Secured Lending, Standard Chartered Bank, Taiwan Vice President, Customer Service, Sparq Telecom Vice President, Customer Service, TransAsia Telecommunications Inc. Assistant Vice President, Credit Card, Citibank, N.A., Taiwan	Director and President, Taiwan Teleservices & Technologies Co., Ltd.	–	–	–
Vice President / Consumer Business Group	Daphne Lee	2014.07.07	–	–	MBA, National Chengchi University Director, Alibaba Group Director, Yahoo! Taiwan Vice President, Citibank Taiwan	None	–	–	–

Note: Shareholdings of less than 0.001% are denoted as "0.000" and zero shareholdings are denoted as "None".

## Compensation to directors and management executives

### 1. Compensation to directors

Unit: NT\$

Title		Chairman	Vice Chairman	Director	Director	Director	Independent Director					
Name		Fu-Chi Venture Corp.	Fu-Chi Venture Corp.	TCC Investment Co., Ltd.	TCC Investment Co., Ltd.	Fu-Chi Venture Corp.	Jack J.T. Huang	Tsung-Ming Chung	Hsueh-Jen Sung (Note 3)	Guu-Chang Yang (Note 3)		
Representative		Richard Tsai	Daniel Tsai	James Jeng (Note 1)	Howard Lin (Note 2)	Vivien Hsu						
Director's compensation	Cash compensation (A)	Stand-alone					50,402,699					
		Consolidated					61,712,603					
	Pension (B)	Stand-alone					—					
		Consolidated					—					
	Earnings paid as compensation to directors (C)	Stand-alone					33,845,697					
		Consolidated					33,845,697					
	Professional fee (D)	Stand-alone					2,090,000					
		Consolidated					3,083,000					
A+B+C+D as a % of net profit		Stand-alone					0.5754%					
		Consolidated					0.6574%					
Employee profit sharing	Performance-based salary (E)	Stand-alone					36,080,974					
		Consolidated					36,080,974					
	Retirement pay of employees (F)	Stand-alone					108,000					
		Consolidated					108,000					
	Earnings paid as bonus to employees (G)	Stand-alone	Cash bonus					6,145,429				
			Stock bonus					—				
		Consolidated	Cash bonus					6,145,429				
			Stock bonus					—				
	Employee stock option granted (H)	Stand-alone					—					
		Consolidated					—					
New restricted employee shares (I)	Stand-alone					—						
	Consolidated					—						
A+B+C+D+E+F+G as a % of net profit		Stand-alone					0.8575%					
		Consolidated					0.9395%					
Compensation from investees other than subsidiaries						—						
Other allowances		Stand-alone					1,100,886					
		Consolidated					1,100,886					

Note 1: TCC Investment Co., Ltd. appointed James Jeng as its representative, taking over Cliff Lai's duties on January 6, 2014.

Note 2: Howard Lin took over Benny Chen's duties as TCC Investment Co., Ltd.'s representative after the board election on June 12, 2014.

Note 3: Hsueh-Jen Sung and Guu-Chang Yang were elected on June 12, 2014, replacing Wen-Li Yen and J. Carol Hsu.



## 2. Range of compensation to directors

Range of compensation to directors	Name of directors			
	Director's compensation		Director's compensation + employee profit sharing	
	On a stand-alone basis	On a consolidated basis	On a stand-alone basis	On a consolidated basis
NT\$0~NT\$1,999,999	James Jeng, Vivien Hsu, Howard Lin, Cliff Lai	James Jeng, Vivien Hsu, Cliff Lai	Vivien Hsu	Vivien Hsu
NT\$2,000,000~NT\$4,999,999	Hsueh-Jen Sung, Guu-Chang Yang, Wen-Li Yeh, J. Carl Hsu, Benny Chen	Hsueh-Jen Sung, Guu-Chang Yang, Wen-Li Yeh, J. Carl Hsu, Benny Chen	Hsueh-Jen Sung, Guu-Chang Yang, Wen-Li Yeh, J. Carl Hsu, Benny Chen	Hsueh-Jen Sung, Guu-Chang Yang, Wen-Li Yeh, J. Carl Hsu, Benny Chen
NT\$5,000,000~NT\$9,999,999	TCC Investment Co., Ltd., Jack J.T. Huang, Tsung-Ming Chung	TCC Investment Co., Ltd., Jack J.T. Huang, Tsung-Ming Chung, Howard Lin	TCC Investment Co., Ltd., Jack J.T. Huang, Tsung-Ming Chung, Howard Lin	TCC Investment Co., Ltd., Jack J.T. Huang, Tsung-Ming Chung, Howard Lin
NT\$10,000,000~NT\$14,999,999	Fu-Chi Venture Corp.	Fu-Chi Venture Corp.	Fu-Chi Venture Corp.	Fu-Chi Venture Corp.
NT\$15,000,000~NT\$29,999,999	Richard Tsai, Daniel Tsai	Richard Tsai, Daniel Tsai	Richard Tsai, Daniel Tsai, James Jeng, Cliff Lai	Richard Tsai, Daniel Tsai, James Jeng, Cliff Lai
NT\$30,000,000~NT\$49,999,999	—	—	—	—
NT\$50,000,000~NT\$99,999,999	—	—	—	—
NT\$100,000,000 and above	—	—	—	—
Total	15	15	15	15

### 3. Compensation to management executives

Unit: NT\$

<b>Title and name</b>	President, James Jeng; Executive Vice President and Chief Financial Officer, Rosie Yu; Senior Vice President and Chief Technology Officer, C.H. Jih; Senior Vice President and Acting Chief Business Officer, Jeff Ku; Vice President, Jay Hong; Vice President, Ariel Hwang; Vice President, Joseph Yang; Vice President, Iris Liu; Vice President, James Chang; Vice President, Egon Chen; Vice President, Chien Chen; Vice President, Tom Koh; Vice President, Sean Hsieh; Vice President, Paul Huang; Vice President, Steve Chou ; Vice President, Daphne Lee <u>Resigned managers:</u> Co-President, Cliff Lai; Vice President and Acting Chief Technology Officer, H.S. Wang	Total	
<b>Salary (A)</b>	Stand-alone	99,491,716	
	Consolidated	99,491,716	
<b>Pension (B) (Note)</b>	Stand-alone	1,614,300	
	Consolidated	1,614,300	
<b>Performance-based salary (C)</b>	Stand-alone	37,504,021	
	Consolidated	37,504,021	
<b>Employee profit sharing (D)</b>	Stand-alone	Cash	35,224,260
		Stock	—
	Consolidated	Cash	35,224,260
		Stock	—
<b>A+B+C+D as a % of net profit</b>	Stand-alone	1.1585%	
	Consolidated	1.1585%	
<b>Employee stock options</b>	Stand-alone	—	
	Consolidated	—	
<b>New restricted employee shares</b>	Stand-alone	—	
	Consolidated	—	
<b>Compensation from investees other than subsidiaries</b>		35,000	
<b>Transportation allowance</b>	Stand-alone	3,030,942	
	Consolidated	3,030,942	

Note: The Company's contribution to employee's pension account, not actual amount paid.

### 4. Range of compensation to management executives

Range of compensation to executives	Name of management executives	
	On a stand-alone basis	On a consolidated basis
NT\$0~NT\$1,999,999	—	—
NT\$2,000,000~NT\$4,999,999	Iris Liu, Daphne Lee	Iris Liu, Daphne Lee
NT\$5,000,000~NT\$9,999,999	C.H. Jih, Jay Hong, Ariel Hwang, Joseph Yang, Egon Chen, Chien Chen, Tom Koh, Sean Hsieh, Paul Huang, Steve Chou, H.S. Wang	C.H. Jih, Jay Hong, Ariel Hwang, Joseph Yang, Egon Chen, Chien Chen, Tom Koh, Sean Hsieh, Paul Huang, Steve Chou, H.S. Wang
NT\$10,000,000~NT\$14,999,999	Rosie Yu, Jeff Ku, James Chang	Rosie Yu, Jeff Ku, James Chang
NT\$15,000,000~NT\$29,999,999	James Jeng, Cliff Lai	James Jeng, Cliff Lai
NT\$30,000,000~NT\$49,999,999	—	—
NT\$50,000,000~NT\$99,999,999	—	—
NT\$100,000,000 and above	—	—
Total	18	18

Note: Compensation paid to managers in the above table was based on tenure. Compensation paid to managers who also served as directors is detailed in the "Compensation to directors" table.

## 5. Managers and employee bonuses

Unit: NT\$  
As of March 25, 2015

Title and name of managers	Stock bonus	Cash bonus	Total	As a % of net profit
President, James Jeng Executive Vice President and Chief Financial Officer, Rosie Yu Senior Vice President and Chief Technology Officer, C.H. Jih Senior Vice President and Acting Chief Business Officer, Jeff Ku Vice President, Jay Hong Vice President, Ariel Hwang Vice President, Joseph Yang Vice President, Iris Liu Vice President, James Chang Vice President, Egon Chen Vice President, Chien Chen Vice President, Tom Koh Vice President, Sean Hsieh Vice President, Paul Huang Vice President, Steve Chou Vice President, Daphne Lee	—	35,224,260	35,224,260	0.2347%

## Compensation to directors and management executives as a percentage of net income over the past two years and guiding principles

### 1. Compensation to directors

Unit: NT\$

Type	Year	Compensation to directors	As a % of net income	Net income
On a stand-alone basis	2013	131,765,616	0.8455%	15,583,447,479
	2014	128,672,799	0.8575%	15,005,428,205
On a consolidated basis	2013	132,780,616	0.8521%	15,583,447,479
	2014	140,975,703	0.9395%	15,005,428,205

### Guiding principles for compensation to directors

#### Remuneration policies, standards and package

- (1) The board is authorized to decide the remuneration for the chairman and vice chairman, but it should not be higher than the remuneration payable to the president of the Company. Independent directors are paid according to the Company's Articles of Incorporation and the "Rules for Setting Director's Remuneration" as approved by the board.
- (2) Other directors are paid according to the resolution on earnings distribution approved at the annual general shareholders' meeting. Remuneration or other equivalent allowance for directors is based on their involvement in the Company's operations and contribution to the Company, the "Rules for Setting Director's Remuneration" and industry norms.
- (3) Transportation allowances are paid quarterly based on attendance in board meetings and for services rendered as the chairman of or a member of the Audit Committee or Compensation Committee.

### Procedure for setting remuneration

- (1) In accordance with the Company's Articles of Incorporation, compensation to directors shall not exceed 0.3% of the Company's annual net income after deducting applicable taxes and losses from previous years, appropriating legal reserves, and setting aside or reversal of special reserves for business needs.
- (2) Directors' remuneration and transportation allowances are determined in accordance with the "Rules for Setting Director's Remuneration."

### Performance factor

Compensation to each director is assessed based on his/her contribution to the operations of the Company and the board. The Compensation Committee reviews the compensation mechanism periodically, taking future operating risks, environmental conservation and corporate social responsibility into consideration.

## 2. Compensation to management executives

Unit: NT\$

Type	Year	Compensation to management executives	As a % of net profit	Net profit
On a stand-alone basis	2013	185,841,182	1.1926%	15,583,447,479
	2014	173,834,297	1.1585%	15,005,428,205
On a consolidated basis	2013	185,904,182	1.1930%	15,583,447,479
	2014	173,869,297	1.1587%	15,005,428,205

### Guiding principles for compensation to management executives

#### Remuneration policies, standards and package

- (1) Compensation to the president and vice presidents comprises a fixed monthly salary and performance bonus.
- (2) Performance bonuses are determined based on the president's or the vice president's contribution to the Company and the results of an annual performance appraisal. The above-mentioned bonuses have been proposed by the Compensation Committee for approval at the board meeting.

#### Procedure for setting performance bonus

- (1) In accordance with the Company's Articles of Incorporation, employee profit sharing comes from the pool of 1% to 3% of the Company's annual net income after deducting applicable taxes and losses from previous years, appropriating legal reserves, and setting aside or reversal of special reserves for business needs.
- (2) Year-end bonuses are set based on the Company's performance and the annual budget approved by the board and the chairman.

#### Performance factor

- (1) Variable compensations in the form of employee profit sharing and performance-based bonuses account for approximately 50% of the remuneration and are determined based on the president's or vice president's contribution to the Company's operations. The Company shall review the compensation mechanism periodically, taking future operating risks, environmental conservation and corporate social responsibility into consideration.
- (2) The Human Resources Department is tasked with preparing the annual compensation for the president and vice presidents and submitting a report to the Compensation Committee.

## Corporate Governance

### Board of Directors attendance

#### 1. The Board of Directors convened eight times in 2014

Title	Name	Attendance in person	By proxy	Attendance ratio	Remarks
Chairman	Fu-Chi Venture Corp. Representative: Richard Tsai	5	3	63%	None
Vice Chairman	Fu-Chi Venture Corp. Representative: Daniel Tsai	8	0	100%	None
Director	TCC Investment Co., Ltd. Representative: James Jeng / Cliff Lai	8	0	100%	James Jeng took over Cliff Lai's duties on January 6, 2014. Mr. Jeng and Mr. Lai attended seven and one board meeting(s) respectively during their tenure.
Director	TCC Investment Co., Ltd. Representative: Howard Lin / Benny Chen	8	0	100%	Howard Lin took over Benny Chen's duties after the board election on June 12, 2014. Mr. Lin and Mr. Chen each attended four board meetings during their tenure.
Director	Fu-Chi Venture Corp. Representative: Vivien Hsu	6	2	75%	None
Independent Director	Jack J.T. Huang	6	1	75%	None
Independent Director	Tsung-Ming Chung	7	1	88%	None
Independent Director	Hsueh-Jen Sung	4	0	100%	Mr. Sung was elected on June 12, 2014 and required to attend four board meetings.
Independent Director	Guu-Chang Yang	4	0	100%	Mr. Yang was elected on June 12, 2014 and required to attend four board meetings.
Independent Director	Wen-Li Yeh	4	0	100%	Mr. Yeh, who completed his tenure on June 12, 2014, was required to attend four board meetings.
Independent Director	J. Carl Hsu	1	2	25%	Mr. Hsu, who completed his tenure on June 12, 2014, was required to attend four board meetings.

#### 2. Any objections or issues raised by independent directors against resolutions passed by the Board of Directors pursuant to Article 14-3 of the Securities and Exchange Act: None

#### 3. Any conflict of interest among directors: None

#### 4. Other BOD objectives:

- (1) Performance evaluation and enhancement: The board approved the "Rules and Procedures Governing Board of Directors' Meetings," which were modeled after the "Regulations Governing Procedures for Meetings of Listed Companies' Board of Directors."
- (2) Training programs for directors: Since 2008, the Company has conducted annual in-house seminars to facilitate interactions between lecturers and directors and to fulfill the required training hours.
- (3) Information transparency: Committed to upholding transparency in operations and protecting shareholders' interests, the Company regularly discloses resolutions by the Board of Directors in a timely and consistent manner. In addition, the Company holds institutional investors' conferences on a quarterly basis.
- (4) Liability insurance: The Company purchases annual liability insurance for its directors and managers to cover risks as they carry out their duties.

## Audit Committee attendance

The Audit Committee was set up in June 2008 to replace board supervisors, pursuant to provisions in the Securities and Exchange Act. The committee's operations are bound by the Audit Committee Charter and its main responsibility is to assist the board in overseeing the following:

- (1) Integrity of the Company's financial statements
- (2) Independent auditors' appointment (termination) and integrity/performance
- (3) Internal risk controls
- (4) Company's compliance with legal and regulatory requirements
- (5) Company's existing and potential risks

### 1. The Audit Committee convened six times in 2014

Title	Name	Attendance in person	By proxy	Attendance ratio	Remarks
Independent Director	Tsung-Ming Chung	6	0	100%	Appointed committee chairman
Independent Director	Jack J.T. Huang	5	1	83%	None
Independent Director	Hsueh-Jen Sung	3	0	100%	Mr. Sung was elected on June 12, 2014 and required to attend three committee meetings.
Independent Director	Guu-Chang Yang	3	0	100%	Mr. Yang was elected on June 12, 2014 and required to attend three committee meetings.
Independent Director	Wen-Li Yeh	3	0	100%	Mr. Yeh, who completed his tenure on June 12, 2014, was required to attend three committee meetings.
Independent Director	J. Carl Hsu	1	2	33%	Mr. Hsu, who completed his tenure on June 12, 2014, was required to attend three committee meetings.

### 2. Any objections or issues raised by the Audit Committee against resolutions, pursuant to Article 14-5 of the Securities and Exchange Act, that were approved by over two-thirds of the directors: None

### 3. Any conflict of interest among independent directors: None

### 4. Communication between independent directors and the Internal Audit Chief Officer and CPAs:

- (1) In addition to presenting monthly reports to the independent directors, the Internal Audit Chief Officer met with the independent directors at the quarterly Audit Committee meetings, bringing communication into full play.
- (2) The CPAs presented audit reports and findings to the independent directors during the committee's quarterly meetings.
- (3) The Internal Audit Chief Officer and CPAs also communicated directly with the independent directors when needed.

## Corporate governance practices

Item		Current practice
Has the Company established principles based on the “Corporate Governance Best Practice Principles for TWSE/GTSM Listed Companies”?		The Company has established said “Corporate Governance Best Practice Principles” and published them on the Company’s official website and MOPS (Market Observation Post System).
Shareholding structure and shareholders’ interests	Handling of shareholders’ suggestions and disputes	The spokesperson or Secretarial Division handles all non-legal issues; the legal division handles all legal issues.
	Identification of major shareholders and investors with controlling interests	The Secretarial Division submits a monthly report listing the shareholdings of directors, managers and major shareholders (over 10% shareholding) to the authorities.
	Risk control mechanisms and firewalls between the Company and its subsidiaries	The Company’s internal control system set up the “Rules and Procedures on Conducting Transactions between Group Companies and Related Parties” and the “Rules and Procedures on Monitoring Subsidiaries” as risk control mechanisms.
	Prohibitions on insider trading	The Company has established “Rules and Procedures on Handling Internal Material Information.”
Board of directors and its responsibilities	Board diversity and execution	The board appointments and member qualifications are both regulated in the Company’s “Rules for Election of Directors.”
	Establishing a Compensation Committee and an Audit Committee in accordance with the law and voluntarily setting up other functional committees	The Company has established a Compensation Committee and an Audit Committee in accordance with the law. All corporate governance functions were executed by the Board, the Audit Committee and the Compensation Committee.
	Board performance evaluation	The Company passed the “Rules and Procedures on Evaluating Board of Directors’ Performance” to enhance efficiency, under which the Compensation Committee evaluates the board’s performance and submit a report on proposed improvements to the board. (All members participated in a self-evaluation on individual performances for 2014 during the board meeting on January 29, 2015.)
	Periodic review of CPA’s independence	The Audit Committee is authorized to evaluate the independence of the CPAs according to the “Bulletin of Norm of Professional Ethics for Certified Public Accountants of the Republic of China” and “Corporate Governance Best Practice Principles for TWSE/GTSM Listed Companies” on an annual basis based on the following criteria: <ol style="list-style-type: none"> <li>1. Review of the CPA’s resumes.</li> <li>2. The CPAs neither serve as a director/supervisor/ manager nor hold a position with major influence in the Company or its subsidiaries. They have no interests that conflict with the Company’s.</li> <li>3. The Company has not engaged the services of the</li> </ol>

Item		Current practice
		<p>same CPA for seven consecutive years.</p> <p>4. The CPAs should provide the Company with a Declaration of Independence on a quarterly basis.</p> <p>5. Quality and efficiency of the audit, taxes and other professional services.</p> <p>6. The CPAs are not involved in any lawsuit or litigation and have never been censured by the authorities.</p> <p>7. Scale and reputation of the CPA firm.</p> <p>8. Interactions with management and internal audit officer.</p> <p>All CPAs engaged by the Company have fulfilled the aforementioned criteria.</p>
	Has the Company established communication channels with stakeholders, including setting up a stakeholders' section on the Company's website?	Sections of investor relations, procurement and CSR have been set up on the Company's official website and will be integrated into one comprehensive stakeholders' section by the end of 2015.
	Has the Company outsourced its AGM management?	The Company has engaged the Transfer Agency and Registry Department of Fubon Securities Co., Ltd. to manage its annual general meeting.
Information disclosure	Disclosure of information on financial status, operations and corporate governance	Disclosure of financial-related and corporate governance information is posted periodically on the Company's website.
	Other ways of disclosing information	Aside from having a spokesperson, the Company has a dedicated department, the Investor Relations Division, to handle information disclosure. It also has an English website and a team working on gathering and releasing relevant Company information.

## Additional information

### 1. Employee rights

The Company's human resources policies comply with provisions prescribed under the law, such as the Labor Standards Act, in safeguarding employee rights.

### 2. Employee care

The Company provides different communication channels to facilitate communication within the firm. These include holding regular employee and managerial meetings to accommodate suggestions for improvement and conducting surveys to gather employees' views and opinions.

### 3. Investor relations

The Company posts financial, operational and material information on the Company website and the market observation post system (MOPS) in a timely manner to keep investors abreast of Company developments and strategies and, thus, maximize shareholders' interests.

### 4. Supplier relations

The Company holds procurement bids based on the "Procedures Governing Procurement" and suppliers deliver products in accordance with the contract.



## 5. Stakeholders' rights

To protect the interests of stakeholders, the Company has established various free and open communication channels to promote trust and corporate social responsibility.

## 6. Training program for directors in 2014

Training program	Organization	Date	Hours	Name
Third-party payment service: opportunities and challenges	Corporate Governance Association	2014/12/26	3	Richard Tsai, Daniel Tsai, James Jeng, Vivien Hsu, Hsueh-Jen Sung, Guu-Chang Yang
Corporate social responsibility and sustainable management	Corporate Governance Association	2014/12/22	3	Tsung-Ming Chung
Advanced practice seminar for directors and supervisors (including independent officials)	Securities and Futures Institute	2014/12/4	3	Hsueh-Jen Sung
Audit and internal control from the perspective of directors and supervisors	Corporate Governance Association	2014/12/2	3	Hsueh-Jen Sung
Sustainable thinking and practices	Corporate Governance Association	2014/11/25	3	Richard Tsai, Daniel Tsai, Vivien Hsu
Practical business operations for independent directors	Corporate Governance Association	2014/10/21	3	Hsueh-Jen Sung
The battle to protect trade secrets	Corporate Governance Association	2014/8/19	3	James Jeng
Building a competitive capital structure	Accounting Research and Development Foundation	2014/8/6	3	Guu-Chang Yang
Supervising and auditing subsidiaries	Accounting Research and Development Foundation	2014/7/10	6	Guu-Chang Yang
Legal liabilities of insider trading (including securities regulation)	Corporate Governance Association	2014/7/9	3	James Jeng, Howard Lin
Corporate governance and securities regulation (including disclosure of internal material information)	Corporate Governance Association	2014/6/19	3	James Jeng
Directors and BOD performance evaluation	Corporate Governance Association	2014/5/27	3	Jack J.T. Huang
Items that need attention at board meetings and AGM	Corporate Governance Association	2014/3/26	3	James Jeng

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

## 7. Corporate governance related training program for management in 2014

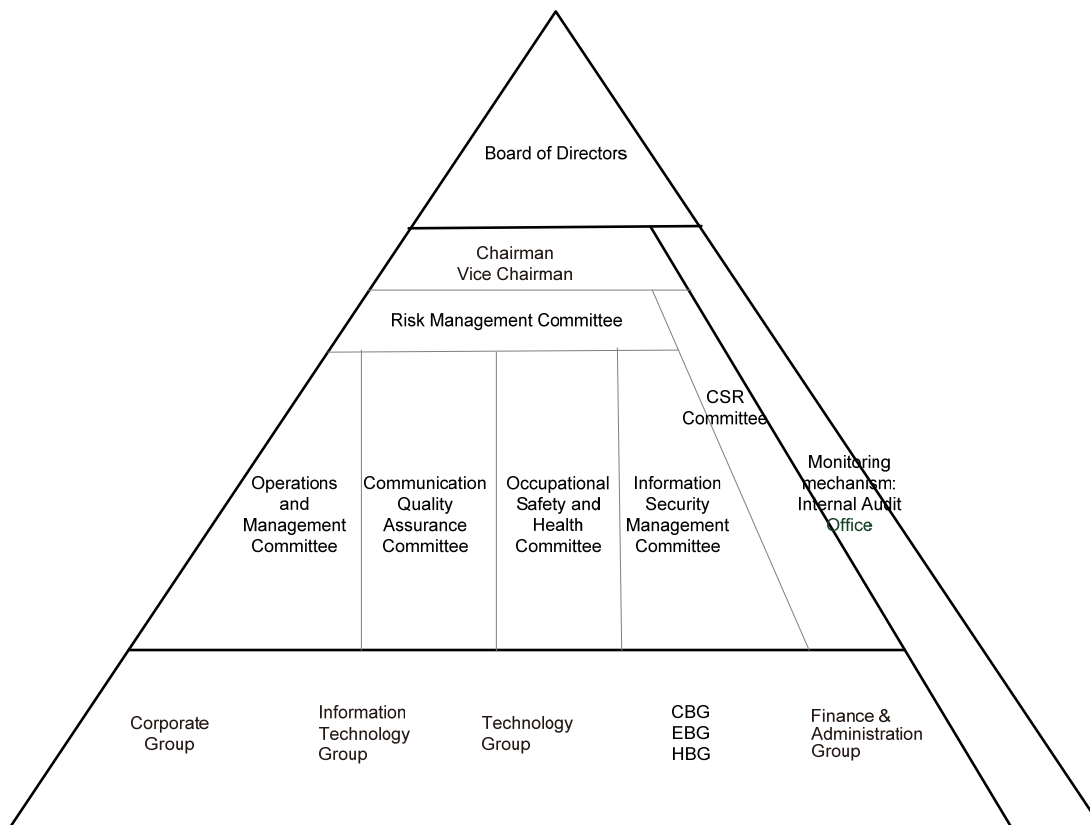
Training program	Organizer	Date	Hours	Participants
Information security (advanced): Practice of personal data protection law	TWM Internal Audit Office	2014/12-2015/1	1	James Jeng, Rosie Yu, C.H. Jih, Jeff Ku, Joseph Yang, James Chang, Jay Hong, Ariel Hwang, Egon Chen, Chien Chen, Tom Koh, Sean Hsieh, Paul Huang, Steve Chou, Daphne Lee, Iris Liu
Continually adding values: Disruptive innovation	TWM HR Division	2014/11/07	4	C.H. Jih, Tom Koh, Steve Chou
Seminars for listed companies to advocate good faith management and corporate social responsibility	Securities & Futures Institute	2014/09/09	3	Iris Liu
Co-opetition strategy: Application of game theory	TWM HR Division	2014/08/22	4	C.H. Jih, Jeff Ku, Joseph Yang, James Chang, Chien Chen, Tom Koh, Sean Hsieh, Paul Huang, Iris Liu
Information security (basic): Preventing information leakage and hacking	TWM Internal Audit Office	2014/07/25	0.5	Iris Liu
Benchmarking to good practices at IBM and GE	TWM HR Division	2014/05/20	3	C.H. Jih, Joseph Yang, James Chang, Egon Chen
Relativity theory of business management	NTU EMBA	2014/03/15	2	Egon Chen
Corporate social responsibility	Chunghwa Negotiation Management Society	2014/03/08	4	Egon Chen

## 8. Risk management

### Risk management policies

- (1) Promote a risk management-based business model
- (2) Establish a risk management mechanism that can effectively cite, evaluate, supervise and control risks
- (3) Create a company-wide risk management structure that can limit risks to an acceptable level
- (4) Introduce best risk management practices and continue to seek improvements

Risk management structure



The Company's risk management structure is made up of three levels of control mechanism and the monitoring mechanism:

	<b>Responsible unit</b>	<b>Function</b>
Ground	Corporate Group, Information Technology Group, Technology Group, Consumer Business Group, Enterprise Business Group, Home Business Group, Finance and Administration Group	Risk factors are analyzed and assigned to responsible units to monitor and ensure timely and effective detection.  Each unit shall ensure, on a daily basis, that risks are kept under acceptable levels. Should there be any changes in condition or other factors, the responsible unit shall report these to the Company for an appropriate course of action.
Middle	Corporate Social Responsibility Committee	Promote corporate social responsibility and implement sustainable management within the company.
	Risk Management Committee (Note)	Integrate the company's risk management framework and internal control mechanism.  Execute risk management strategies and conduct a regular review of the structure, development and efficiency of the overall risk management mechanism.  Exercise control over the four following committees:
	Operations and Management Committee	Conduct periodic review of each business group's operating target and performance to meet the Company's guidance and budget.

	Information Security Management Committee	Supervise important information assets for confidentiality, integrity, availability and regulatory compliance in order to control and reduce operational risks to an effective and reasonable level.
	Occupational Safety and Health Committee	Supervise and minimize potential risks to workers' safety and health.
	Communication Quality Assurance Committee	Ensure and manage network communication quality.
Top	Board of Directors	Responsible for assessing material risks, designating actions to control these risks and keeping track of their execution.
Monitoring mechanism	Internal Audit Office	Regularly monitor and assess potential and varying levels of risks that the Company may face and use this information as a reference for drafting an annual audit plan.  Report any discrepancy to the concerned unit chief and ensure that remediation efforts are completed.

Note: The Risk Management Committee exercises control over four units/systems: Operations and Management Committee, Information Security Management Committee, Occupational Safety and Health Committee, and Communication Quality Assurance Committee. Should any material event or situation arise, the responsible unit shall report it to the Operations and Management Committee or other committee(s) to undertake any necessary measures.

## Risk factors and management structure

	Important risk factors	Responsible unit	Examining committee	Decisionmaking and supervision
1	Operating risk	Technology Group / IT Group	Operations and Management Committee	The highest decisionmaking body: Board of Directors  Monitoring mechanism: Internal Audit Office
2	Market risk A. Competition B. New products C. Channel management D. Inventory management	CBG, EBG and HBG		
3	Credit and collection risk	Business Operations Management Division and Billing Management Division		
4	Government policies and regulatory compliance	Regulatory and Carrier Relations Division		
5	M&A and investments	President's Office		
6	Volatility of interest rates, exchange rates and financial risks	Finance Division		
7	Financing and endorsements/ guarantees provided to others, derivatives transaction and working capital management	Finance Division		
8	Financial report disclosure	Accounting Division		
9	Litigious and non-litigious matters	Legal Office		
10	Changes in shareholding of directors and major shareholders	Secretarial Division		
11	Board meeting facilitation	Secretarial Division		
12	Employee behavior, code and ethics	Human Resources Division		
13	Corporate image	Public Relations and Brand Management Division	CSR Committee	
14	Employee safety	Occupational Safety and Health Office and Administration Division	Occupational Safety and Health Committee	
15	Risks related to information security	Internal Audit Office - Information Security Management Department	Information Security Management Committee	
16	Technology and maintenance risk	President's Office - Communication Quality Assurance Department	Communication Quality Assurance Committee	

### 9. Implementation of customer policy

With the mission of "creating the best user experience," the Company is continuously striving to improve its products, services and operations to win clients' trust and raise the quality of customer care.

### 10. The Company has purchased liability insurance for its directors on a yearly basis.

### 11. Employee certifications relating to financial transparency

- (1) Certified Internal Auditor (CIA): eight employees in the Internal Audit Office; one in the Finance Division; and one in the Accounting Division
- (2) First-level examiner of internal controls (Securities and Futures Institute): three employees in the Secretarial Division
- (3) Qualified Internal Auditor (QIA): eight employees in the Internal Audit Office; one in the Finance Division; two in the Accounting Division; and one in the Procurement and Logistics Division
- (4) Certified Public Accountant (CPA): one in the Finance Division; two in the Accounting Division; five in the Operation Analysis Division; and one in the Procurement and Logistics Division

**12. Any internal evaluation or third party assessment reports on corporate governance. If yes, specify results, major flaws or recommendations for improvements:** None

**Compensation Committee operations**

The Compensation Committee, composed entirely of independent directors, is bound by the Compensation Committee Charter. The committee is responsible for evaluation of the following matters:

- (1) Establish a policy, system, standard and structure for directors and managers' compensation and review them periodically.
- (2) Decide compensation for directors and managers and carry out periodic evaluations.

**Qualifications and independence criteria of members of the Compensation Committee**

Identity (Note 1)	Name	Over five years of experience in business, finance, legal and/or other areas related to the Company's business	Independence criteria (Note 2)								No. of public companies in which he or she also serves as a member of the Compensation Committee
			1	2	3	4	5	6	7	8	
Independent Director	Jack J.T. Huang	V	V	V	V	V	V	V	V	V	3
Independent Director	Tsung-Ming Chung	V	V	V	V	V	V	V	V	V	1
Independent Director	Hsueh-Jen Sung	V	V	V	V	V	V	V	V	V	0
Independent Director	Guu-Chang Yang	V	V	V	V	V	V	V	V	V	0

Note 1: The identities of the members of the Compensation Committee all meet the requirements stipulated in Item 5, Article 6 of the "Regulations Governing the Appointment and Exercise of Powers by the Remuneration Committee of a Company Whose Stock is Listed on the Stock Exchange or Traded Over the Counter."

Note 2: "V" denotes meeting the conditions during the tenure and a two-year duration prior to the tenure specified below:

- Criterion 1: Not an employee of the Company or its affiliated companies
- Criterion 2: Not a director or supervisor of the Company or its affiliated companies (unless the person is an independent director of the Company, the Company's parent company or of any subsidiary in which the Company holds, directly or indirectly, more than 50 percent of the voting shares)
- Criterion 3: Not a shareholder whose total holdings, including that of his/her spouse and minor children, or shares held under others' names reach or exceed 1 percent of the total outstanding shares of the Company or rank among the top 10 individual shareholders
- Criterion 4: Not a spouse or a relative within second degree of affinity, or within five degrees of consanguinity to any person specified in criteria 1 to 3
- Criterion 5: Neither a director, supervisor, or employee of an entity that directly or indirectly holds more than 5% of the Company's shares, nor one of the Company's top five shareholders
- Criterion 6: Not a director, supervisor, manager, or shareholder owning more than 5% of the outstanding shares of any company that has financial or business relations with the Company
- Criterion 7: Not an owner, partner, director, supervisor, manager, or spouse of any of the aforementioned, of any sole proprietorship, partnership, company, or institution that provides commercial, legal, financial or accounting services or consultations to the Company or its affiliates.
- Criterion 8: Not in contravention of Article 30 of the Company Act

## Compensation Committee attendance

(1) The Compensation Committee consists of four members.

(2) Tenure: June 12, 2014 to June 11, 2017. The Compensation Committee convened three times in 2014:

Title	Name	Attendance in person	By proxy	Attendance ratio	Remarks
Independent Director	Jack J.T. Huang	2	1	67%	Appointed committee chairman
Independent Director	Tsung-Ming Chung	3	0	100%	None
Independent Director	Hsueh-Jen Sung	1	0	100%	Mr. Sung was elected on June 12, 2014 and required to attend one committee meeting.
Independent Director	Guu-Chang Yang	1	0	100%	Mr. Yang was elected on June 12, 2014 and required to attend one committee meeting.
Independent Director	Wen-Li Yeh	2	0	100%	Mr. Yeh, who completed his tenure on June 12, 2014, was required to attend two committee meetings.
Independent Director	J. Carl Hsu	1	0	50%	Mr. Hsu, who ended his tenure on June 12, 2014, was required to attend two committee meetings.

1. **Any suggestion made by the Compensation Committee that was not accepted or revised by the Board of Directors:** None
2. **Any written objections or issues raised by a member of the Compensation Committee against resolutions passed by the committee:** None

## Corporate social responsibility (CSR)

Item	Current Practices												
<p><b>Corporate governance</b></p> <ol style="list-style-type: none"> <li>1. Establishing a CSR policy or system and review mechanism</li> <li>2. CSR course training</li> <li>3. Setting up a unit to carry out this policy or system</li> <li>4. Establishing a reward-and-punishment system as part of the Company's employee performance evaluation system and CSR policy</li> </ol>	<ol style="list-style-type: none"> <li>1. The Company set up the "Corporate Social Responsibility Policy" to ensure effective execution of corporate social responsibility in January 2011 and the "Corporate Social Responsibility Best Practice Principles" in January 2015. The Corporate Social Responsibility Committee reviews and tracks the execution of CSR related projects on a quarterly basis. A year-end review showed that all projects' targets were achieved in 2014. To bring more synergy in 2015, the Company will focus on integrating and optimizing resources to maximize efficiency.</li> <li>2. CSR course training is held periodically.</li> <li>3. In 2007, TWM established a Social Responsibility Department under the Public Relations and Brand Management Division to draft and carry out CSR initiatives. With designated personnel and a separate budget, the department provides planning, execution and coordination across different divisions. The Corporate Social Responsibility Committee was established in 2014, with the Company chairman and president serving as committee chairman and vice chairman respectively. The committee reports to the board on a quarterly basis.</li> <li>4. The Company's compensation policy is to reward employees commensurate with their performance. Evaluation meetings are held at the end of the year for supervisors and staff to discuss their performance over the past year and set objectives for the following year, including core functions and corporate social responsibility. Performance is graded based on employees' fulfillment of the annual objectives and accordingly rewarded with bonuses and/or salary increases.</li> </ol>												
<p><b>Environmental sustainability</b></p> <ol style="list-style-type: none"> <li>1. Promoting advanced and efficient use of renewable resources to reduce their impact on the environment</li> <li>2. Establishing an environmental management system in line with the nature of the Company's business operations</li> <li>3. Monitoring the impact of climate change on operating activities and adopting measures to reduce greenhouse gas emissions and minimize their impact on the environment</li> </ol>	<ol style="list-style-type: none"> <li>1. The Company has continuously worked to improve the efficient use of resources, including paper, water and electricity, as well as to promote recycling of cables and battery modules.</li> <li>2. TWM established an internal Sustainable Development Committee in 2011 that is responsible for monitoring energy management activities and environment-related indexes, promoting efforts to reduce carbon emissions, and planning, promoting and integrating all of the Company's environmental protection-related activities. The committee is also tasked with incorporating the Company's environmental management rules and sustainable management roadmap into its CSR policies.</li> <li>3. TWM's operating management practices, including communications technology deployment, are designed to reduce energy consumption and greenhouse gas (GHG) emissions. These measures include: <ul style="list-style-type: none"> <li>● Energy-saving program for data centers</li> <li>● Base station equipment upgrading</li> <li>● Energy management program for TWM's office buildings and direct stores</li> <li>● Telepresence service</li> <li>● Green value-added services</li> <li>● e-service and mobile services</li> </ul> </li> </ol> <p style="text-align: right;">Unit: tCO<sub>2</sub>e</p> <table border="1" data-bbox="632 1787 1378 1984"> <thead> <tr> <th></th> <th>2013</th> <th>2014*</th> </tr> </thead> <tbody> <tr> <td>Direct emissions</td> <td>3,147</td> <td>7,118</td> </tr> <tr> <td>Indirect emissions</td> <td>170,978</td> <td>201,209</td> </tr> <tr> <td>Total GHG emissions</td> <td>174,124</td> <td>208,327</td> </tr> </tbody> </table> <p>* Emissions saw sharp annual increases due to the inclusion of TFN Media and its five system operator subsidiaries and the expansion of TWM's internet data center business and 4G services.</p>		2013	2014*	Direct emissions	3,147	7,118	Indirect emissions	170,978	201,209	Total GHG emissions	174,124	208,327
	2013	2014*											
Direct emissions	3,147	7,118											
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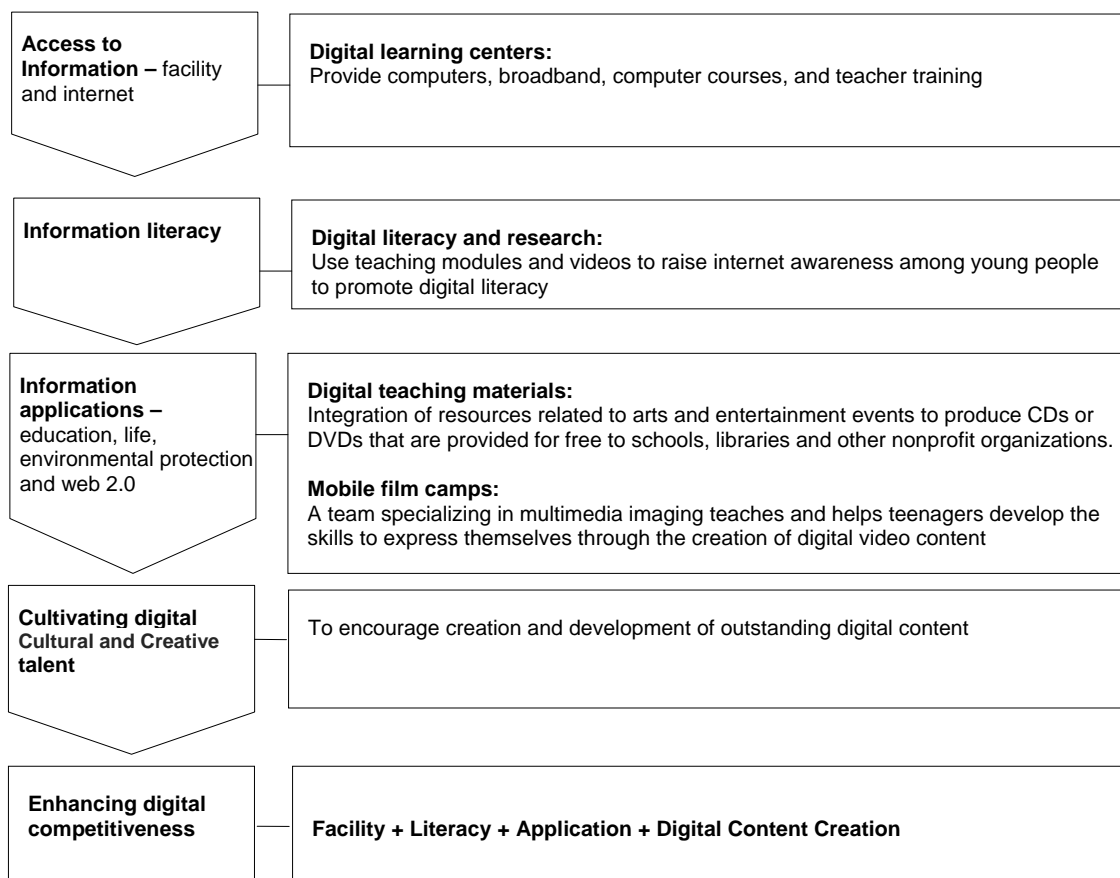
Item	Current Practices
<b>Commitment to corporate social responsibility</b>	
1. Complying with domestic and international labor laws to safeguard and uphold the rights of workers, following a non-discriminatory hiring policy and establishing appropriate management practices, procedures and execution	1. Pursuant to related national regulations, including the Labor Standards Act, Employment Services Act and Gender Equality in Employment Act, the Company has never employed child workers, discriminated against any employee or ethnic group, or forced its employees to work.
2. Setting up an employee appeals process	2. The Company has set up an "Employee Appeals Process" and designated the internal audit office to handle employee petitions and complaints through an exclusive e-mail or fax hotline. The complainant's name and identity are kept confidential and proper action shall be taken subject to verification of the case.
3. Providing employees with a safe and healthy working environment, as well as regular training on safety and health education	3. The Company aims to provide a safe and healthy working environment for employees and has implemented related measures to promote employee health and mental well-being. It also conducts periodic evaluations of the working environment and programs on promoting workers' safety and health education. Related information on employee safety and health is posted on the Company's intranet.
4. Building a regular communication mechanism and notifying employees about potential operating changes that may have a significant impact on them	4. The Company has set up multiple channels to communicate with employees on a regular basis about the company's operational decisions. <ol style="list-style-type: none"> <li>(1) Dialogue between employees and management: Managerial meetings are held every three months to reinforce the company's vision and convey recent critical developments to all employees.</li> <li>(2) Labor-management meetings are held quarterly to enhance communication between employees and management for consensus building and to promote cooperation.</li> <li>(3) A forum is held twice a year for newcomers to familiarize them with Company policies and practices and help them adapt to the new environment.</li> <li>(4) A President's Mailbox has been set up for employees to submit recommendations to the Company.</li> <li>(5) Employee opinion surveys: A survey is conducted every two to three years to gauge job satisfaction rates and employees' views about the workplace and management practices. Additional surveys are conducted after company activities such as the year-end party and medical checkup to gather employee opinions.</li> <li>(6) Information disclosure: All information is posted on the company's intranet, where employees can view the company's press releases, product information and management measures.</li> </ol>
5. Developing Individual Training Plans (ITP) for career development	5. Based on individual career interests, strengths and weaknesses, supervisors help their staff draw up individual training plans at the annual performance review to give them systematic guidance on enhancing their skills and abilities for career development.
6. Developing consumer rights protection policies and appeals procedures related to R&D, procurement, production, operations and service processes	6. The Company is committed to enhancing its service quality to help customers navigate the complex network of telecom offerings in the 4G era. In 2014, TWM was again awarded an SGS Qualicert and SGS ISO 10002 certification for its customer service system. To protect personal data security, a committee was established to guide the Company through the formulation of its information security policy and supervise its implementation of the "ISO/IEC 27001 information security management system," which aims to protect every aspect of customer information linkage by adopting a professional management system and promoting personal awareness. Information on customers' rights and how personal information is collected, processed and utilized are available on the Company's website, service contracts, customer hotlines and stores. Customers can also provide feedback or file complaints through these channels or a special mobile app.

Item	Current Practices
<p>7. Complying with relevant regulations and international standards on marketing and labeling of products and services</p> <p>8. Evaluating prospective suppliers' track record on environmental and social issues</p> <p>9. Right to terminate a contract if supplier violates its social responsibility, causing a significant impact on the environment and society</p>	<p>7. TWM's mobile base stations were constructed in accordance with relevant laws and regulations and passed base station electromagnetic checks by the National Communications Commission (NCC), having fully complied with the International Commission on Non-Ionizing Radiation Protection (ICNIRP) standards.</p> <p>8. Before entering into a contract with a supplier, TWM requires that the supplier comply with rules and regulations on protecting workers and the environment to avoid any incidents deemed harmful to society or the environment.</p> <p>9. TWM believes that ethics serves as the moral foundation of a well-managed enterprise. To promote a fair and just system, the Company set up an open procurement system to select suppliers and required that all suppliers comply with the "Environmental and Occupational Health and Safety Policy for Contractors" and "Guidelines on Corporate Social Responsibility for Suppliers." Should a supplier violate its social responsibility and adversely impact the environment and society, the Company has the right to suspend its account. Furthermore, TWM provides first bargaining rights to green-product and conflict-free product suppliers to encourage others to likewise produce environmentally friendly products.</p> <p>(1) TWM does not use any product from conflict material/product suppliers.</p> <p>(2) TWM requests its suppliers investigate their supply chains to ensure that no products are from conflict areas.</p>
<p><b>Information disclosure</b>  <b>Disclosing relevant and reliable information on corporate social responsibility</b></p>	<p>CSR-related information is updated on the websites of the Company and the Taiwan Mobile Foundation in a timely manner. All information and data contained in the CSR reports are compiled internally and verified by an external party to ensure their reliability and accuracy. All information (subject and content) are deemed to be materially important and designed to meet stakeholders' expectations.</p>
<p><b>The Company's CSR policy and practices fully comply with the "Corporate Social Responsibility Best-Practice Principles for TWSE/GTSM Listed Companies."</b></p> <p>The concept of corporate social responsibility is embedded in the strategic decisions and daily operations of all departments. TWM's Board of Directors passed the "Taiwan Mobile CSR Policy" in January 2011 to serve as a long-term guideline for promoting corporate social responsibility and the "Taiwan Mobile CSR Guideline" in January 2015 to ensure effective execution of the Company's commitment to society.</p> <p>With underlying corporate philosophy and core values serving as the foundation, the Company emphasizes corporate governance, stakeholders' interests and full disclosure, and leverages off the Company's core competence and services to promote environmental conservation and public welfare.</p>	

**Additional information on CSR-related matters:**

TWM leverages its core competence in telecommunications, network and digital convergence to generate wider benefits for society.

**1. Enhancing digital competitiveness**



- TWM continued to set up broadband services in remote areas in 2014. The Company also collaborated with local nonprofit organizations (NPOs) and was operating 17 digital learning centers as of the end of 2014.
- TWM has published 27 sets of digital teaching materials since 2009, whose content ranges from live concerts to raising internet literacy among young adults and children, creating digital videos, digital music composition, environmental education and human care.
- TWM has hosted the “Mobile Film Creation Camp for Teenagers” since 2009 to teach imaging techniques and applications, helping teenagers learn how to express their ideas through the creation of video content in order to cultivate future multimedia talent. As of the end of 2014, 133 short films had been made with 1,005 students participating.
- TWM launched the “myfone Mobile Awards” to encourage the creation of new types of literature and music in 2007. As of the end of 2014, the contest had attracted nearly 240,000 entries since 2007.

**2. Environmental protection**

Aside from compliance and reducing pollution, TWM has also taken the initiative to help build an intelligent low-carbon society by leveraging its key resources in the ICT service industry. The Company (i.e., its office buildings, server rooms, base stations and company stores) met ISO 14064-1 standards for greenhouse gas emissions and removals, as well as received an ISO 50001 certification for energy management.

**3. Digital social welfare “i-Infinity”**

In 2012, TWM started integrating its core competencies and resources to help nonprofit organizations develop the ability to harness the power of digital applications, help disadvantaged groups that other public or private institutions are not able to assist, and enhance these NPOs’ operating efficiency and fundraising capabilities. In 2014, TWM proposed five mobile application programs to aid these organizations’ digital application development and cater to their digital marketing and training needs. Since its inception, 181 social welfare groups had attended 59 seminars on these programs.

- “Wheelmap (Taiwan) App” enables the elderly, people with disabilities, and parents with small children to search for information regarding low-floor buses and attractions, hotels, restaurants and shopping centers in Taiwan that have barrier-free facilities.
- “Bubble Adventures App” is a tablet game application that appeals to children in need of early intervention and provides assistance in the rehabilitation process. The game process is designed in a way to promote rehabilitation in such areas as cognition, memory, social adaptation, and hand-eye coordination. The therapy process is extended to home care and the application serves as a reference for the observation of the child rehabilitation process by doctors, teachers and parents.
- “NFC Smart Tracking Wristband” was the first smart tracking wristband developed in Taiwan to help people with dementia who are lost when attempting to return home. The wristband, which employs NFC technology, transmits information to keep track of the wearer’s location.
- “iSharing Volunteer Platform,” the first cross-website and cross-application volunteer platform in Taiwan, provides a solution to the problem of matching volunteers, encouraging 17.3 million prospective volunteers aged 15 to 65 to sign up for volunteer services. This platform is looking to align with the government’s 12-year compulsory education program by establishing a volunteers’ database.
- Three social-welfare short films have helped NPOs raise fundraising income since they were posted online.
- Teleconferencing service: TWM had helped 13 NPOs install video conference equipment as of the end of 2014. The teleconferencing service has helped these NPOs save more than NT\$3.57 million in travel expenses and more than 105 tons in carbon emissions. Close to 18,000 participants have been trained using the service.
- E-books: TWM has assisted 27 NPOs in developing electronic books. As of the end of 2014, the e-book service had helped reduce mailing costs by 30%, which translates into savings of around NT\$720,000 in annual printing expenses.

#### 4. Community participation and social care

- TWM introduced the “5180 Mobile Donation Hotline,” a micro-donation platform, to provide a long-term fundraising channel for 67 NPOs.
- TWM works with the Canlove Social Services Association to provide professional counseling services to people with depression and to promote suicide prevention awareness. More than 46,000 participants took part in these activities in 2014.

#### 5. Cultural promotions:

- TWM introduced the “909 Mobile Phone Audio Guide,” which employs mobile communications technology and cloud database to promote art and culture. This mobile audio guide system has been used a total of 273,146 times for a total of over 32,520 hours.
- To promote cultural literacy, TWM has since 2005 held 41 large outdoor concerts throughout the country, with more than 560,000 people attending these events.

#### 6. Supporting sports in Taiwan:

TWM is committed to providing consumers with a relaxed, pleasant and user-friendly mobile lifestyle and delivering its brand spirit — “Accompanying our Customers in Their Daily Lives” — through various efforts, including continuous sponsorships of major sporting events, such as golf, baseball, tennis and basketball, as well as athletes. TWM invested more than NT\$450 million accumulatively in sports sponsorships from 2003 to the end of 2014.

#### **Has the Company issued CSR reports that have been verified by an independent third-party assurance organization?**

Since 2009, TWM’s CSR reports have been verified by an independent third-party organization, the British Standards Institute, in accordance with its AA1000 assurance standards and GRI guidelines.

In addition, Taiwan Mobile published its 2014 CSR report based on the limited assurance engagement conducted by KPMG in accordance with ISAE 3000, with the information disclosed complying with the latest GRI G3.1 application level of A+. Taiwan Mobile is proud to be the first Taiwanese telecom company to pass ISAE3000, demonstrating the company’s commitment to integrity management.

## Ethical corporate management

Item	Current Practice
<p>1. Establishing a policy on ethical corporate management:</p> <p>(1) Specifying the Company's policy on ethical corporate management in its official charter and material documents, including the board and management's commitment to its implementation</p> <p>(2) Setting up a system including operation, guidelines, punishment of violations and reporting system to prevent dishonest behavior</p> <p>(3) Adopting measures to prevent high-risk unethical conduct as specified in Article 7 Paragraph 2 of "Ethical Corporate Management for TWSE/GTSM-listed Companies"</p>	<p>(1) The Company has promulgated its Ethical Corporate Management Best Practice Principles and reinforces them on an annual basis to ensure that employees, management and the board comply with the principles. Moreover, the principles have been incorporated into the Company's internal control system.</p> <p>(2) The Company's Ethical Corporate Management Best Practice Principles details preventive measures against the following:</p> <ul style="list-style-type: none"> <li>a. offering and accepting bribes</li> <li>b. illegal political donations</li> <li>c. improper charitable donations or sponsorship</li> <li>d. offering or accepting unreasonable gifts or hospitality, or other inappropriate benefits</li> </ul> <p>The aforementioned principles and related regulations have been announced and disseminated to board directors, managers, employees and appointees to enhance integrity and self-discipline.</p> <p>Employees and suppliers are required to sign a "Declaration of Integrity" or "Declaration of Integrity in Business Conduct" to ensure that they fully understand the Company's determination to enforce ethical management and the consequences of behaving in a dishonest manner.</p> <p>(3) The Company has set up an accounting system and internal control system for business activities that are at a higher risk of dishonest behavior. The aforementioned systems are reviewed periodically to ensure that they are working and measures are implemented.</p> <p>The Company avoids contact with dubious traders. Its business contracts specify that suppliers or vendors must observe ethical corporate management, and failing that, the Company reserves the right to terminate or cancel the contract.</p>
<p>2. Implementation of ethical corporate management</p> <p>(1) Avoiding transactions with parties that have a record of dishonest behavior, stipulating in all contracts what constitute unacceptable behavior</p> <p>(2) Establishing a full-time or part-time unit to promote the Ethical Corporate Management Best Practice Principles under the supervision of the board of directors</p> <p>(3) Setting up policies to prevent conflict of interest and providing channels to report such conflict</p>	<p>(1) The Company provides "Guidelines on Social Responsibility for Suppliers" and requires all suppliers to sign a "Declaration of Ethical Corporate Management," which states that suppliers must not engage in bribery; otherwise, the Company has the right to suspend their account and terminate or rescind the contract at any time.</p> <p>(2) The Internal Audit Office is responsible for promulgating and overseeing policies and programs relating to ethical corporate management and tasked with reporting to the board of directors.</p> <p>(3) The Company has promulgated policies to prevent conflict of interest. Should there be a conflict of interest, directors should recuse themselves from discussing or voting on the issue. Any board director, manager, employee and appointee must not use his or her position or influence in the Company to obtain improper benefits.</p> <p>Any breach of ethical corporate management practices can be reported via email or fax hotline to the Company.</p>

Item	Current Practice
<p>(4) Building an effective accounting system and internal control system to carry out ethical corporate management, with internal/external auditors auditing the process</p> <p>(5) Conducting regular internal and external training courses on ethical corporate management</p>	<p>(4) The Company has established an effective accounting system and internal control system. In addition, internal auditors schedule regular audits according to the level of risks and report the findings to the board on a periodic basis.</p> <p>The Company periodically delegates independent accountants to audit its financial statements and to verify the effectiveness of the internal control system.</p> <p>(5) The Company promotes the importance of Ethical Corporate Management Best Practice Principles to directors, managers, employees and appointees on an annual basis to help them fully understand the need to comply with ethical corporate management practices.</p>
<p>3. Reporting ethical violations</p> <p>(1) Establishing a reporting and incentive system to facilitate the processing of complaints and assigning a person or unit to deal with the cases</p> <p>(2) Setting up investigation and confidentiality procedures</p> <p>(3) Protecting whistle-blower from harm</p>	<p>(1) The Company has established procedures for dealing with complaints about employees or suppliers, with the internal audit office tasked with dealing with the cases.</p> <p>(2) The internal audit office must immediately launch an investigation upon receipt of the complaint and ensure that the name and identity of the complainant are kept confidential.</p> <p>(3) The internal audit office must be objective and fair in its investigation. It must report the results of its investigation directly to a higher supervisor and ensure that the whistle-blower does not come to harm.</p>
<p>4. Strengthening information disclosure</p> <p>Disclosing related information on ethical corporate management on the Company's website</p>	<p>The Company has posted its Ethical Corporate Management Best Practice Principles on its official website and MOPS. Its annual report and corporate social responsibility report further shed light on its execution and enhance corporate transparency.</p>
<p>5. Has the company promulgated its own ethical corporate management principles in accordance with the "Ethical Corporate Management for TWSE/GTSM-listed Companies"? If yes, describe the differences between the principles and current practices: No difference.</p>	
<p>6. Other important information to facilitate the understanding of the Company's implementation of ethical corporate management practices:</p> <p>(1) The Company's electronic procurement system mandatorily requires suppliers to sign a "Declaration of Integrity in Business Conduct" every year; otherwise, they are allowed to participate in the bidding process.</p> <p>(2) The Company regularly monitors developments in domestic and international ethical corporate management standards and reviews its performance to ensure compliance.</p>	

## Corporate governance rules and procedures

The Company has implemented a number of rules and procedures to enhance its corporate governance practices: Corporate Governance Best Practice Principles, Audit Committee Charter, Compensation Committee Charter, Rules and Procedures Governing Board of Directors' Meetings, Rules and Procedures Governing Shareholders' Meetings, Regulations Governing Internal Material Information, Code of Ethics, Ethical Corporate Management Best Practice Principles, Corporate Social Responsibility Policy, Corporate Social Responsibility Best Practice Principles, and Rules and Procedures on Conducting Transactions between Group Companies and Related Parties. With these efforts, not only does the Company's corporate governance mechanism comply with Taiwan's Securities and Exchange Act, but it also adheres to the highest international standards. The aforementioned charters and rules are available on the Company's website: [www.taiwanmobile.com](http://www.taiwanmobile.com).

## **Additional information on corporate governance operations:**

### **Corporate governance principles**

- Timely disclosure of material information
- Checks and balances between the board and management
- Fair representation of independent board members
- Audit Committee was established to ensure fair and independent financial oversight.
- Compensation Committee was established to strengthen corporate governance practices and promote a sound compensation system.
- Adoption of a high cash dividend payout policy
- Shareholders' rights are guaranteed with the right to vote on all proposals at the annual general shareholders' meeting or through an electronic voting system.
- Strict compliance with the Code of Ethics and Ethical Corporate Management Best Practice Principles and establishment of an internal audit mechanism

To ensure that employees, managers and directors promote information transparency and timely disclosure, the Company disseminates its "Regulations Governing Internal Material Information" (approved by the Board on January 22, 2009) on an annual basis and has incorporated them into its internal control system to avoid risks of insider trading.

## Internal control system

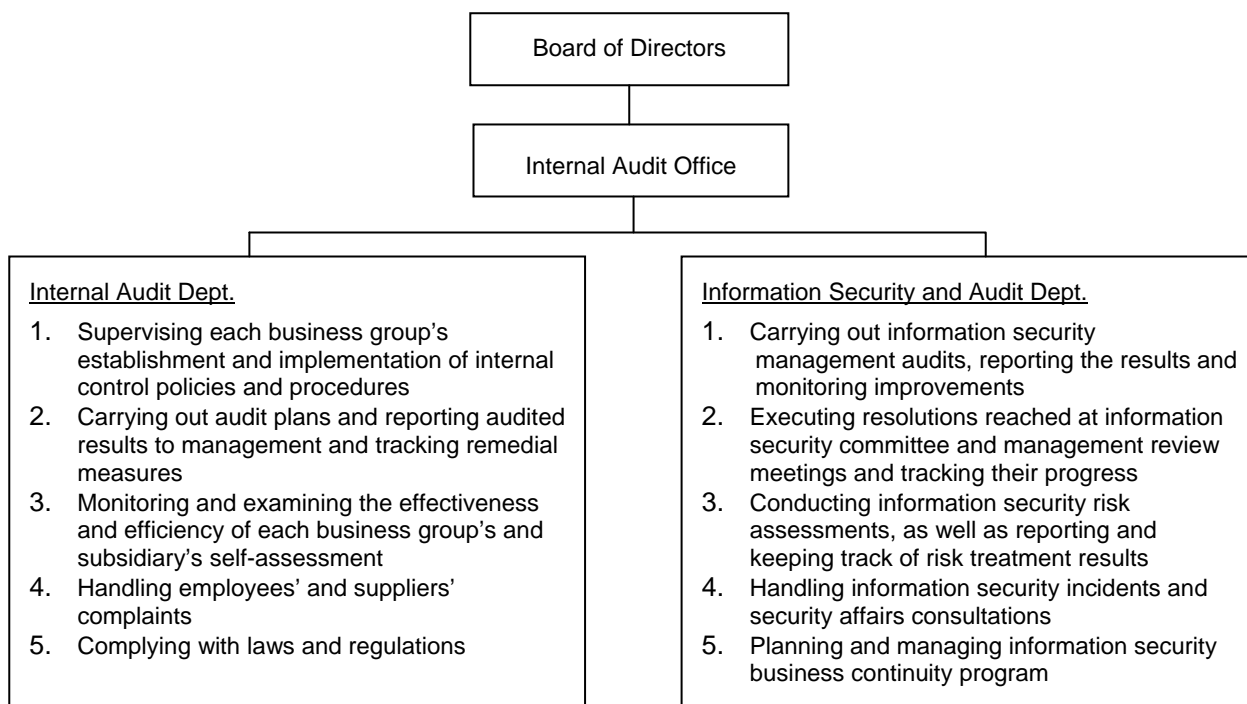
### 1. Internal control mechanism

The Internal Audit Office is an independent unit with designated personnel who report directly to the Board of Directors. It is responsible for the examination and assessment of the internal controls of the Company's financial, sales, operations and management departments. All departments, including those of the subsidiaries, are subject to its audit.

Regular internal audits are executed according to an annual audit plan. Special audit projects are implemented as needed. These audits enhance internal control and provide timely recommendations for future improvements. In accordance with corporate governance, audit reports are submitted on a regular basis and reviewed by the Chairman, as well as presented to the Audit Committee and the Board of Directors by the Chief Internal Auditor.

The Internal Audit Office also examines the mechanisms and results of self-evaluations by departments and subsidiaries to ensure strict implementation. In addition, it generates and consolidates related inspection reports for the President and the Board of Directors to evaluate the overall efficiency of existing internal control systems before generating an internal control system statement.

There are 15 dedicated internal audit staff members, including one supervisor in charge of the Internal Audit Office, whose responsibilities are detailed below:



### 2. Has the Company delegated CPAs to review its internal audit system and issued an audit report?

No.



### 3. Internal control statement

Taiwan Mobile Co., Ltd.  
Internal Control Statement

Date: January 29, 2015

Taiwan Mobile (TWM) states the following with regard to its internal control system for the year 2014:

1. TWM is fully aware that establishing, operating and maintaining an internal control system are the responsibilities of its Board of Directors and management. TWM has established such a system to provide reasonable assurance in achieving objectives related to the effectiveness and efficiency of operations (including profits, performance and safeguarding of assets), reliability of financial reporting, and compliance with applicable laws and regulations.
2. An internal control system has inherent limitations. An effective internal control system, no matter how perfectly designed, can provide only a reasonable assurance in the accomplishment of the three goals mentioned above. Furthermore, the effectiveness of an internal control system may change along with changes in the environment or circumstances. The internal control system of the Company contains self-monitoring mechanisms and the Company takes corrective actions as soon as a deficiency is identified.
3. TWM evaluates the design and operating effectiveness of its internal control system based on the criteria provided in the "Regulations Governing the Establishment of Internal Control Systems" by public companies promulgated by the Securities and Futures Bureau, the Financial Supervisory Commission and the Executive Yuan (herein referred to as the "Regulations"). The internal control system evaluation criteria stated in the Regulations classify internal control into five key elements based on the process of management control: 1. Control environment, 2. Risk assessment and response, 3. Control activities, 4. Information and communications, and 5. Monitoring. Please refer to the Regulations for details on these five key elements.
4. TWM has evaluated the design and operating effectiveness of its internal control system according to the aforesaid criteria.
5. Based on the findings of the evaluation mentioned in the third paragraph, TWM believes that as of Dec. 31, 2014, its internal control system (including its supervision of subsidiaries), which encompasses internal controls to achieve effective and efficient operations, reliable financial reporting, and compliance with applicable laws and regulations, was effectively designed and operating, and is reasonably assured of achieving the above-stated objectives.
6. This statement will form a major part of the Company's Annual Report and Prospectus and will be made public. Any falsehood, concealment, or other illegality in the content made public will entail legal liability under Articles 20, 32, 171 and 174 of the Securities and Exchange Act.
7. This statement has been passed by the TWM Board of Directors' Meeting on January 29, 2015, where all of the nine attending directors did not express any dissenting opinion and affirmed the content of the same.

Taiwan Mobile Co., Ltd.



Richard Tsai  
Chairman



James Jeng  
President

**Violation of regulations and internal policies:** None

## **Major resolutions at the shareholders' meeting and board meetings**

### **1. Major resolutions at the 2014 shareholders' meeting**

Issues approved and subsequent execution:

(1) The 2013 business report and financial statements

(2) The 2013 earnings distribution proposal

Execution: Set record date of ex-dividend for July 5, 2014, cash payment on July 18, 2014.

(3) Amendments to the Company's "Articles of Incorporation"

Execution: Already approved by the Ministry of Economic Affairs on September 5, 2014 and disclosed on the Company website

(4) Amendments to the Company's "Rules and Procedures on Lending and Making Endorsements/Guarantees"

Execution: implemented in accordance with the revised rules

(5) Election of the seventh Board of Directors (including independent directors)

Directors: Fu-Chi Venture Corp. (representatives: Richard Tsai, Daniel Tsai and Vivien Hsu)

TCC Investment Co., Ltd. (representatives: James Jeng and Howard Lin)

Independent Directors: Jack J.T. Huang, Tsung-Ming Chung, Hsueh-Jen Sung and Guu-Chang Yang

(6) Removal of non-competition restrictions for the aforementioned directors

### **2. Major resolutions by the board (from 2014 up to publication date in 2015)**

1. 16th meeting of the sixth BOD on January 6, 2014

(1) Approved the appointment of a new President and his exemption from non-competition restrictions

2. 17th meeting of the sixth BOD on January 28, 2014

(1) Approved the 2013 business report and financial statements

(2) Approved the 1Q14 consolidated financial forecasts

(3) Approved the 2014 capital expenditure plan

(4) Approved the procurement of mobile broadband equipment from Nokia Siemens Networks Taiwan Co., Ltd.

(5) Approved the schedule for the 2014 general shareholders' meeting

3. 18th meeting of the sixth BOD on April 29, 2014

(1) Approved the 2013 earnings distribution proposal

(2) Approved the 2Q14 consolidated financial forecasts

(3) Approved the appointment of new managers and internal auditor and their exemption from non-competition restrictions

(4) Approved the resignation of the Managing Director

(5) Approved the revision of the 2014 capex of TWM and its subsidiaries

4. 1st meeting of the seventh BOD on June 12, 2014

(1) Elected Richard Tsai and Daniel Tsai, representatives of Fu-Chi Venture Corp., as Chairman and Vice Chairman, respectively

5. 2nd meeting of the seventh BOD on July 28, 2014

- (1) Approved the proposal to participate in Wealth Media Technology Co., Ltd.'s rights issue
  - (2) Approved the 3Q14 consolidated financial forecasts
  - (3) Approved the issuance of the 1st euro-convertible bond (ECB)
  - (4) Approved the revision of the 2014 capex of TWM and its subsidiaries
  - (5) Approved the new vice presidents' exemption from non-competition restrictions
6. 3rd meeting of the seventh BOD on September 25, 2014
- (1) Approved the proposal to participate in Ambit Microsystems Corp.'s rights issue
  - (2) Approved the acquisition of 5MHz x 2 spectrum in the 700 frequency band from Ambit
7. 4th meeting of the seventh BOD on October 31, 2014
- (1) Approved the 4Q14 consolidated financial forecasts
  - (2) Approved the revision of the 2014 capex of TWM and its subsidiaries
8. 5th meeting of the seventh BOD on January 29, 2015
- (1) Approved the 2014 business report and financial statements
  - (2) Approved the 2015 consolidated financial forecasts
  - (3) Approved the 2015 capital expenditure plan
  - (4) Approved the schedule for the 2015 general shareholders' meeting

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

**Major dissenting comments among directors over board meeting resolutions from 2014 up to publication date in 2015:** None

**Resigned/discharged chairman, president, chief accounting officer, chief financial officer, chief internal audit officer and chief research officer:**

As of March 25, 2015

Title	Name	Date of taking office	Date of resignation	Reason for resignation/discharge
President	Cliff Lai	2011.01.01	2014.01.06	Resignation
Internal Auditor	Christine Yang	2013.01.31	2014.02.17	Position adjustment

## Certified Public Accountant (CPA) Information

### 1. CPA service fees

Unit: NT\$'000

Accounting firm	Name of CPA	Audit fee	Non-audit fee			Period covered by CPA's audit	Remarks
			Company registration	Others	Total		
KPMG	Simon Chen Leo Chi	8,400	-	976	976	2014.01.01~2014.12.31	Fees for other non-audit services were for CSR report related consultation services.

Range of CPA service fee	Audit fee	Non-audit fee	Total
NT\$0~NT\$1,999,999	-	✓	-
NT\$2,000,000~NT\$3,999,999	-	-	-
NT\$4,000,000~NT\$5,999,999	-	-	-
NT\$6,000,000~NT\$7,999,999	-	-	-
NT\$8,000,000~NT\$9,999,999	✓	-	✓
NT\$10,000,000 and above	-	-	-

### 2. Other information

- (1) If non-audit fees paid to CPAs, their accounting firm and its affiliates are more than one-fourth of audit fees, specify the amount of audit and non-audit fees, as well as the scope of non-audit services: Not applicable
- (2) For CPA changes, if the audit fee in the first year is lower than that of the prior year, specify the audit fee before and after the change and the reasons: Not applicable
- (3) If audit fees dropped by more than 15%, specify the amount and percentage of decline and reasons: Not applicable

**3. Information on CPA changes:** Change on July 1, 2013 was due to job rotations at KPMG.

**4. Company Chairman, President or finance/accounting manager held positions in the Company's audit firm or its affiliates within the past year:** None

## Direct and indirect investments in affiliated companies

As of December 31, 2014

Unit: shares, %

Long-term investments under equity method	Investment by TWM		Direct and indirect investment by TWM's directors and management		Total investment	
	Shares	Holding (%)	Shares	Holding (%)	Shares	Holding (%)
Taiwan Cellular Co., Ltd.	371,195,800	100.00%	–	–	371,195,800	100.00%
Wealth Media Technology Co., Ltd.	42,065,000	100.00%	–	–	42,065,000	100.00%
Taipei New Horizon Co., Ltd.	191,865,500	49.90%	–	–	191,865,500	49.90%
Alliance Digital Technology Co., Ltd.	3,000,000	13.33%	–	–	3,000,000	13.33%

## Changes in shareholdings of directors, managers and major shareholders

### 1. Minor changes in shareholder structure

Unit: shares

Title	Name	2014		2015 (as of March 25)	
		Net change in shareholding	Net change in shares pledged	Net change in shareholding <sup>1</sup>	Net change in shares pledged
Chairman	Fu-Chi Venture Corp. Representative: Richard Tsai				
Vice Chairman	Fu-Chi Venture Corp. Representative: Daniel Tsai	0	0	0	0
Director	Fu-Chi Venture Corp. Representative: Vivien Hsu				
Director	TCC Investment Co., Ltd. Representative: James Jeng	0	0	0	0
Director	TCC Investment Co., Ltd. Representative: Howard Lin				
Independent Director	Jack J.T. Huang	0	0	0	0
Independent Director	Tsung-Ming Chung	0	0	0	0
Independent Director	Hsueh-Jen Sung (took office on June 12, 2014)	0	0	0	0
Independent Director	Guu-Chang Yan (took office on June 12, 2014)	0	0	0	0

Title	Name	2014		2015 (as of March 25)	
		Net change in shareholding	Net change in shares pledged	Net change in shareholding <sup>1</sup>	Net change in shares pledged
Major Shareholder (shareholding of more than 10%)	TFN Union Investment Co., Ltd.	0	0	0	0
President	James Jeng (took office on January 6, 2014)	0	0	0	0
EVP and Chief Financial Officer	Rosie Yu	0	0	0	0
SVP and Chief Technology Officer	C.H. Jih (took office on February 10, 2014)	0	0	0	0
SVP and Acting Chief Business Officer	Jeff Ku	0	0	0	0
Vice President	Jay Hong	0	0	0	0
Vice President	Ariel Hwang	0	0	0	0
Vice President	Joseph Yang	0	0	0	0
Vice President	Iris Liu (took office on July 14, 2014)	0	0	0	0
Vice President	James Chang	0	0	0	0
Vice President	Egon Chen	0	0	0	0
Vice President	Chien Chen	0	0	0	0
Vice President	Tom Koh	0	0	0	0
Vice President	Sean Hsieh	(10,000)	0	(10,000)	0
Vice President	Paul Huang	0	0	0	0
Vice President	Steve Chou	0	0	0	0
Vice President	Daphne Lee (took office on July 7, 2014)	8,000		(8,000)	
Chief Accounting Officer	Darren Shih	0	0	0	0
Independent Director	Wen-Li Yeh (tenure due on June 12, 2014)	0	0	NA	NA
Independent Director	J. Carl Hsu (tenure due on June 12, 2014)	0	0	NA	NA
President	Cliff Lai (resigned on January 6, 2014)	0	0	NA	NA
Vice President and Acting Chief Technology Officer	HS Wang (resigned on February 10, 2014)	0	0	NA	NA

**2. Shareholding transferred with related party:** None

**3. Stock pledged with related party:** None

## Relationship between TWM's top 10 shareholders

As of July 5, 2014

Name (A)	Current shareholding		Spouse's/minor's shareholding		Name and relationship between TWM's shareholders who are defined as related parties, spouse or relatives within two degrees	
	Shares	%	Shares	%	Name (B)	Relationship
TFN Union Investment Co., Ltd.	410,665,284	12.00%	-	-	TCC Investment Co., Ltd. Ming Dong Co., Ltd. Fubon Life Insurance Co., Ltd. TCCI Investment & Development Co., Ltd. Dao Ying Co., Ltd. Daniel Tsai Richard Tsai	A and B have the same chairman A and B have the same chairman Related party A and B have the same chairman A and B have the same chairman B is a director at A B is A's chairman
Chairman: Richard Tsai	-	-	-	-	TFN Union Investment Co., Ltd. TCC Investment Co., Ltd. Ming Dong Co., Ltd. Fubon Life Insurance Co., Ltd. TCCI Investment & Development Co., Ltd. Dao Ying Co., Ltd. Daniel Tsai	A is B's chairman A is B's chairman A is B's chairman A is a director at B A is B's chairman A is B's chairman B is A's relative within two degrees
TCC Investment Co., Ltd.	200,496,761	5.86%	-	-	TFN Union Investment Co., Ltd. Ming Dong Co., Ltd. Fubon Life Insurance Co., Ltd. TCCI Investment & Development Co., Ltd. Dao Ying Co., Ltd. Daniel Tsai Richard Tsai	A and B have the same chairman A and B have the same chairman Related party A and B have the same chairman A and B have the same chairman B is a director at A B is A's chairman
Chairman: Richard Tsai	-	-	-	-	TFN Union Investment Co., Ltd. TCC Investment Co., Ltd. Ming Dong Co., Ltd. Fubon Life Insurance Co., Ltd. TCCI Investment & Development Co., Ltd. Dao Ying Co., Ltd. Daniel Tsai	A is B's chairman A is B's chairman A is B's chairman A is a director at B A is B's chairman A is B's chairman B is A's relative within two degrees
Ming Dong Co., Ltd.	184,736,452	5.40%	-	-	TFN Union Investment Co., Ltd. TCC Investment Co., Ltd. Fubon Life Insurance Co., Ltd. TCCI Investment & Development Co., Ltd.	A and B have the same chairman A and B have the same chairman Related party A and B have the same chairman

Name (A)	Current shareholding		Spouse's/minor's shareholding		Name and relationship between TWM's shareholders who are defined as related parties, spouse or relatives within two degrees	
	Shares	%	Shares	%	Name (B)	Relationship
					Dao Ying Co., Ltd. Daniel Tsai Richard Tsai	A and B have the same chairman B is a director at A B is A's chairman
Chairman: Richard Tsai	-	-	-	-	TFN Union Investment Co., Ltd. TCC Investment Co., Ltd. Ming Dong Co., Ltd. Fubon Life Insurance Co., Ltd. TCCI Investment & Development Co., Ltd. Dao Ying Co., Ltd. Daniel Tsai	A is B's chairman A is B's chairman A is B's chairman A is a director at B A is B's chairman A is B's chairman B is A's relative within two degrees
Fubon Life Insurance Co., Ltd.	124,997,400	3.65%	-	-	TFN Union Investment Co., Ltd. TCC Investment Co., Ltd. Ming Dong Co., Ltd. TCCI Investment & Development Co., Ltd. Dao Ying Co., Ltd. Daniel Tsai Richard Tsai	Related party Related party Related party Related party Related party Related party B is a director at A
Chairman: Oliver Cheng	-	-	-	-	None	None
Shin Kong Life Insurance Co., Ltd.	124,653,000	3.64%	-	-	None	None
Chairman: Tung-Chin Wu	-	-	-	-	None	None
TCCI Investment & Development Co., Ltd. (Note)	119,563,804	3.50%	-	-	TFN Union Investment Co., Ltd. TCC Investment Co., Ltd. Ming Dong Co., Ltd. Fubon Life Insurance Co., Ltd. Dao Ying Co., Ltd. Daniel Tsai Richard Tsai	A and B have the same chairman A and B have the same chairman A and B have the same chairman Related party A and B have the same chairman B is a director at A B is A's chairman
Chairman: Richard Tsai	-	-	-	-	TFN Union Investment Co., Ltd. TCC Investment Co., Ltd. Ming Dong Co., Ltd. Fubon Life Insurance Co., Ltd. TCCI Investment & Development Co., Ltd.	A is B's chairman A is B's chairman A is B's chairman A is a director at B A is B's chairman



Name (A)	Current shareholding		Spouse's/minor's shareholding		Name and relationship between TWM's shareholders who are defined as related parties, spouse or relatives within two degrees	
	Shares	%	Shares	%	Name (B)	Relationship
					Dao Ying Co., Ltd. Daniel Tsai	A is B's chairman B is A's relative within two degrees
Dao Ying Co., Ltd.	113,609,742	3.32%	–	–	TFN Union Investment Co., Ltd. TCC Investment Co., Ltd. Ming Dong Co., Ltd. Fubon Life Insurance Co., Ltd. TCCI Investment & Development Co., Ltd. Daniel Tsai Richard Tsai	A and B have the same chairman A and B have the same chairman A and B have the same chairman Related party A and B have the same chairman B is a director at A B is a A's chairman
Chairman: Richard Tsai	–	–	–	–	TFN Union Investment Co., Ltd. TCC Investment Co., Ltd. Ming Dong Co., Ltd. Fubon Life Insurance Co., Ltd. TCCI Investment & Development Co., Ltd. Dao Ying Co., Ltd. Daniel Tsai	A is B's chairman A is B's chairman A is B's chairman A is a director at B A is B's chairman A is B's chairman B is A's relative within two degrees
Daniel Tsai	92,109,990	2.69%	4,580,070	0.13%	TFN Union Investment Co., Ltd. TCC Investment Co., Ltd. Ming Dong Co., Ltd. Fubon Life Insurance Co., Ltd. TCCI Investment & Development Co., Ltd. Dao Ying Co., Ltd. Richard Tsai	A is a director at B A is a director at B A is a director at B Related party A is a director at B A is a director at B B is A's relative within two degrees
Richard Tsai	90,257,938	2.64%	5,986,496	0.18%	TFN Union Investment Co., Ltd. TCC Investment Co., Ltd. Ming Dong Co., Ltd. Fubon Life Insurance Co., Ltd. TCCI Investment & Development Co., Ltd. Dao Ying Co., Ltd. Daniel Tsai	A is B's chairman A is B's chairman A is B's chairman A is a director at B A is B's chairman A is B's chairman B is A's relative within two degrees
Nan Shan Life Insurance Co., Ltd.	83,289,500	2.43%	–	–	None	None
Chairman: Boon-Teik Koay	–	–	–	–	None	None

Note: TCCI Investment & Development Co., Ltd. disposed of 31,974,248 TWM's shares on October 6, 2014.

## Chapter 3 Financial Information

### Capital and shares

#### Source of capital

As of March 25, 2015

Unit: shares / NT\$

Date	Par value (NT\$)	Authorized capital		Paid-in capital		Remarks		
		Shares	Amount (NT\$)	Shares	Amount (NT\$)	Source of capital (NT\$)	In a form other than cash	Cert. No. & effective date
Oct. 2011	10	6,000,000,000	60,000,000,000	3,420,832,827	34,208,328,270	Cash capital reduction: NT\$ 3,800,925,360	--	Authorization No. 1000031760 July 15, 2011

As of March 25, 2015

Unit: shares

	Authorized capital			Remarks
	Listed shares	Unissued shares	Total	
Common stock	3,420,832,827	2,579,167,173	6,000,000,000	None

Information related to shelf registration: None

#### Shareholder structure

As of July 5, 2014

	Government agencies	Financial institutions	Other institutions	Individuals	Foreign institutions & individuals	Total
No. of shareholders	7	19	281	43,817	772	44,896
Total shares owned	136,774,656	425,927,913	1,397,229,694	383,828,193	1,077,072,371	3,420,832,827
Holding percentage (%)	4.00	12.45	40.84	11.22	31.49	100.00

#### Shareholding distribution

As of July 5, 2014

##### 1. Common shares

Shareholding range	No. of shareholders	Total shares owned	Holding percentage
1 ~ 999	16,078	5,792,349	0.17%
1,000 ~ 5,000	22,313	45,213,058	1.32%
5,001 ~ 10,000	3,245	24,513,177	0.72%
10,001 ~ 15,000	938	11,709,559	0.34%
15,001 ~ 20,000	569	10,264,039	0.30%
20,001 ~ 30,000	444	11,129,738	0.33%
30,001 ~ 50,000	365	14,242,776	0.42%
50,001 ~ 100,000	285	20,321,623	0.59%
100,001 ~ 200,000	176	25,457,202	0.74%
200,001 ~ 400,000	116	32,780,665	0.96%
400,001 ~ 600,000	58	28,644,872	0.84%
600,001 ~ 800,000	38	26,495,219	0.77%
800,001 ~ 1,000,000	35	31,271,329	0.91%
1,000,001 and above	236	3,132,997,221	91.59%
Total	44,896	3,420,832,827	100.00%

##### 2. Preferred shares: None

## Major shareholders

As of July 5, 2014

Name	Total shares owned	Holding percentage
TFN Union Investment Co., Ltd.	410,665,284	12.00%
TCC Investment Co., Ltd.	200,496,761	5.86%
Ming Dong Co., Ltd.	184,736,452	5.40%
Fubon Life Insurance Co., Ltd.	124,997,400	3.65%
Shin Kong Life Insurance Co., Ltd.	124,653,000	3.64%
TCCI Investment & Development Co., Ltd. (Note)	119,563,804	3.50%
Dao Ying Co., Ltd.	113,609,742	3.32%
Daniel Tsai	92,109,990	2.69%
Richard Tsai	90,257,938	2.64%
Nan Shan Life Insurance Co., Ltd.	83,289,500	2.43%

Note: TCCI Investment & Development Co., Ltd. disposed of 31,974,248 TWM's shares on October 6, 2014.

## Major shareholders of TWM's institutional investors

Institutional investors	Major shareholders
TFN Union Investment Co., Ltd.	Taiwan Fixed Network Co., Ltd. (100%)
TCC Investment Co., Ltd.	Taiwan Cellular Co., Ltd. (100%)
Ming Dong Co., Ltd.	Fubon Land Development Co., Ltd. (16.36%), Fubon Construction Co., Ltd. (13.89%), Fu-Chi Investment Co., Ltd. (12.63%), Ru Chi Investment Co., Ltd. (12.63%), Dao Chi Investment Co., Ltd. (12.63%), Chung Shing Development Co., Ltd. (11.76%), Dao Ying Co., Ltd. (9.60%), Fubon Charity Foundation (3.43%), Fubon Cultural and Education Foundation (2.53%), Daniel Tsai (1.31%)
Fubon Life Insurance Co., Ltd.	Fubon Financial Holding Co., Ltd. (100%)
Shin Kong Life Insurance Co., Ltd.	Shin Kong Financial Holding Co., Ltd. (100%)
TCCI Investment & Development Co., Ltd.	TCC Investment Co., Ltd. (100%)
Dao Ying Co., Ltd.	Fubon Land Development Co., Ltd. (17.67%), Fubon Construction Co., Ltd. (17.67%), Fu-Chi Investment Co., Ltd. (13.13%), Ru Chi Investment Co., Ltd. (13.13%), Dao Chi Investment Co., Ltd. (13.13%), Ming Dong Co., Ltd. (9.60%), Chung Shing Development Co., Ltd. (8.84%), Fubon Charity Foundation (1.01%), Wan-Tsai Tsai (1.01%), Shiang-Shun Yang Tsai (1.01%)
Nan Shan Life Insurance Co., Ltd.	Dedicated investment account managed by First Bank on behalf of Ruen Chen Investment Holding Co., Ltd. (83.11%), Ruen Chen Investment Holding Co., Ltd. (7.52%), Ying Tsung Tu (3.25%), Dedicated stock trust property account managed by Taishin International Bank on behalf of Nan Shan Life Insurance (0.88%), Ruen Hua Dyeing & Weaving Co., Ltd. (0.28%), Ruentex Leasing Co., Ltd. (0.15%), Chi Pin Investment Co., Ltd. (0.11%), Wen Te Kuo (0.11%), Pao Huang Investment Co., Ltd. (0.05%), Pao Hui Investment Co., Ltd. (0.05%), Pao Yi Investment Co., Ltd. (0.05%), Pao Chih Investment Co., Ltd. (0.05%)

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

Unit: NT\$, '000 shares

		2013	2014	As of March 25, 2015	
Share price (NT\$)	High	121.50	104.50	113.00	
	Low	87.20	85.00	100.00	
	Average	104.50	94.78	107.61	
Net worth per share (NT\$)	Before earnings appropriation	21.35	22.34	—	
	After earnings appropriation	15.75	Note 1	—	
Earnings per share (NT\$)	Adjusted weighted average outstanding shares	2,690,107	2,697,728	2,722,081	
	Earnings per share	5.79	5.56	—	
Dividends per share (NT\$)	Cash dividends	5.6	Note 1	—	
	Stock dividends	Retained earnings	—	Note 1	—
		Capital surplus	—	—	—
	Accumulated unpaid dividends	—	—	—	
PE and dividend yield (Note 2)	Price earnings ratio (x)	18.05	17.05	—	
	Price to cash dividend (x)	18.66	—	—	
	Cash dividend yield (%)	5.36	—	—	

Note 1: The appropriation amount indicated above is based on resolutions approved at the annual shareholders' meetings in the subsequent year. The appropriation amount for 2014 has yet to be approved at an AGM.

Note 2: Price earnings ratio = Average closing price / earnings per share  
 Price to cash dividend = Average closing price / cash dividend per share  
 Cash dividend yield = Cash dividend per share / average closing price

## Dividend policy

### 1. Dividend policy under Articles of Incorporation

The dividend policy in general is to distribute earnings from retained earnings in the form of cash after deducting forecasted capital expenditure. Should there be a stock dividend distribution, it should not exceed 80% of the total dividends distributed in a single year. The dividend payout proposed by the board of directors (BOD) has to be approved at the annual shareholders' meeting.

### 2. Proposed dividend allocation for approval at the annual shareholders' meeting

The BOD has not yet approved the proposal for dividend allocation of the 2014 earnings as of the publication date. The board expects to approve the proposal 40 days prior to the AGM, and any resolution will be announced on the Company's website and MOPS.

3. The Company maintains a dividend policy with a high payout ratio. Historically, dividends distributed to shareholders were no less than 80% of net income for that year and composed of over 80% cash. A historical listing of dividends distributed is listed on TWM's official website.

## Impact of stock dividend distribution on business performance and EPS

The BOD has not yet approved the proposal for dividend allocation of the 2014 earnings as of the publication date.

## **Employee bonuses and compensation to directors**

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

According to the Company's Articles of Incorporation, annual net income after deducting losses from previous years, appropriating 10% thereof for legal reserves and setting aside special reserves, shall be distributed in the following order:

- 1) Maximum of 0.3% as compensation to directors;
- 2) 1% to 3% as bonuses to employees;
- 3) Remainder thereafter to be set aside for stock/cash dividends to shareholders as determined in the annual shareholders' meeting.

The board of directors is empowered to decide the allocation of stock bonuses to employees. Recipients are to include qualified employees of the subsidiaries.

### **2. Accounting treatment for the deviation between the estimated and actual distribution amount of employee bonuses and compensation to directors**

Should there be a significant adjustment to the distribution amount approved by the BOD from the previous accrual after year-end, the accrued amount should be revised accordingly. However, should there be another change in the amount approved at the annual shareholders' meeting, the adjustment should be treated as a "change in accounting estimation," and the difference from the BOD resolution should be booked in the year the AGM is held.

### **3. 2014 proposal on employee bonuses and compensation to directors adopted by the board of directors**

The BOD has not yet approved the proposal for dividend allocation of the 2014 earnings as of the publication date. The BOD expects to approve the proposal 40 days prior to the AGM, and any resolution will be announced on the Company's website and MOPS.

### **4. Earnings distributed as employee bonuses and compensation to directors in the previous year**

An employee cash bonus of NT\$420,753,082 and compensation to directors of NT\$42,075,308 from the 2013 earnings, as approved at the 2014 board of directors' and shareholders' meetings, were duly paid in 2014.

**Share buyback: None.**

## Corporate bond issuance

### Corporate bonds

Issuance	Third unsecured corporate bonds	Fourth unsecured corporate bonds
Issue date	December 20, 2012	April 25, 2013
Denomination	NT\$10,000,000	NT\$10,000,000
Issuance and listing	Not applicable	Not applicable
Issue price	100%	100%
Total amount	NT\$9,000,000,000	NT\$5,800,000,000
Coupon	1.34% p.a.	1.29% p.a.
Term	7 years, maturing on Dec. 20, 2019	5 years, maturing on Apr. 25, 2018
Guarantor	None	None
Trustee	Hua Nan Bank, Trust Division	Hua Nan Bank, Trust Division
Underwriter	None	None
Legal counsel	Bang Shang Lin, Attorney	Bang Shang Lin , Attorney
Auditor	Simon Chen, CPA KPMG	Simon Chen, CPA KPMG
Repayment	Repayment of 50% of the principal in the 6th year and the remaining 50% in the 7th year	Repayment of 50% of the principal in the 4th year and the remaining 50% in the 5th year
Outstanding balance	NT\$9,000,000,000	NT\$5,800,000,000
Early repayment clause	None	None
Covenants	None	None
Credit rating agency, rating date, company credit rating	TRC, 2012.11.12, twAA TRC, 2013.06.04, twAA TRC, 2014.05.13, twAA	TRC, 2013.01.30, twAA TRC, 2013.06.04, twAA TRC, 2014.05.13, twAA
Ancillary rights	Amount converted/ exchanged into common shares, ADRs or other securities	Not applicable
	Rules governing issuance or conversion (exchanged or subscription)	Not applicable
Dilution and other effects on shareholders' equity	Not applicable	Not applicable
Custodian	Not applicable	Not applicable

**Convertible bond information:** None

**Exchangeable bond:** None

**Shelf registration issuance:** None

**Bond with warrant:** None

**Preferred shares:** None

**Depository receipt issuance:** None

**Employee stock options and new restricted employee shares:** None

**Shares issued for mergers and acquisitions:** None

**Use of proceeds from rights issue:** None

## Chapter 4 Operational Highlights

### Macro Environment

Consumer spending on communication and broadcasting related services is largely influenced by the macroeconomic environment. According to the Directorate-General of Budget, Accounting and Statistics (DGBAS), private consumption grew a steady 2.73% in 2014 from 2.35% a year ago, as the local economy further picked up momentum on the back of falling global crude oil prices and monetary easing by major economies. Going forward, private consumption sentiment might be overshadowed by food safety issues, but consumer confidence is expected to improve due to rising employment and wages, helping private consumption grow by 2.74% in 2015.

### Overall Operating Results

The Company's consolidated revenue expanded 4% YoY in 2014, as its telecom business benefited from the launch of 4G services and robust smartphone sales, cable revenue increased 5% and revenue from online shopping business of its subsidiary surged more than 30%. Profit-wise, 4G revenue has yet to reach a scale to cover higher operating expenses from the rapid rollout of new LTE services to boost 4G takeup. Nonetheless, consolidated EBITDA still grew 1% YoY, because of increased contributions from its other business lines: CATV and retail. Quarterly operating income and net profit both beat the Company's guidance.

### Performance by division

	<b>Consumer Business Group</b>	<b>Enterprise Business Group</b>	<b>Home Business Group</b>	<b>Retail Business</b>
Brand name	Taiwan Mobile	TWM Business Solution	TWM Broadband	momo
Services	<ul style="list-style-type: none"> <li>● Voice and data mobile services for consumers</li> <li>● Mobile to international direct dialing (IDD) services</li> </ul>	<ul style="list-style-type: none"> <li>● Voice and data mobile services for enterprises</li> <li>● Fixed-line services</li> <li>● International simple resale (ISR) services</li> </ul>	<ul style="list-style-type: none"> <li>● Pay TV services</li> <li>● Cable broadband services</li> <li>● Others</li> </ul>	<ul style="list-style-type: none"> <li>● Online shopping</li> <li>● TV home shopping</li> <li>● Mail order</li> </ul>

	Telecom business		Cable business	Retail business
	Mobile business	Fixed-line business		
Market position	Second-largest mobile operator in a five-player market, with a market share of around 29% in terms of mobile service revenue	A market share of around 1% for ADSL/FTTx business. One of the top three internet service providers (ISP), with a market share of 3.5% (including 190K cable broadband subscribers from its cable business)	Fourth-largest multisystem operator (MSO), covering about 11% of households in Taiwan	Ranked among the top three in both online shopping and TV home shopping businesses
Subscriber base	● 7,430K mobile subscribers	● Around 70K ADSL/FTTx internet access users	● 588K CATV subscribers ● 190K cable broadband subscribers	Not applicable
2014 revenue*	82,356		6,380	23,897
As a % of group revenue	73%		6%	21%
2014 EBITDA*	26,106		3,438	1,562
As a % of group EBITDA	83%		11%	5%

\* Source: 2014 financial reports. The difference between the sum of each division and consolidated number was due to inter-division adjustments and eliminations.

## Operating Results Review

### Telecom Business

Benefiting from a continuous increase in mobile data subscriptions bundled with smartphones, the Company's mobile internet adoption rate among postpaid subscribers hit 62% by the end of 2014, compared with 54% a year ago, boosting its mobile broadband revenue by 24% YoY, while wireless data revenue as a percentage of mobile service revenue rose to 51%. As a result, total telecom revenue, including handset sales, expanded 1% YoY.

### Cable Business

Revenue in 2014 rose 2% from a year ago, driven by growth in digital TV and cable broadband businesses. Growth was attributed to a successful bundling strategy, which lifted the Company's digital TV penetration rate and cable broadband service adoption rate. Accordingly, EBITDA from the cable TV business rose 5% YoY.



## Retail Business

The main growth driver came from the continuous expansion of the online shopping business, which surged 30% YoY in 2014. Full-year EBITDA from the retail business jumped 50% YoY in 2014 due to cost savings from the disposal of cosmetic chain store operation and reductions in the number of channels broadcasting TV shopping programs.

## Scope of Business

### Business overview

#### Telecom Business

##### 1. Telecom products and services

###### Consumer Business Group (CBG)

The Consumer Business Group is mainly engaged in providing mobile communication services to individual users. The Company offers a wide range of products, including SIM cards for postpaid subscribers, as well as SIM and reloadable cards for prepaid subscribers that can be used for making/receiving calls and other services, such as short messaging service (SMS), data, multimedia and other value-added services.

Target customers	Service category	Description	Highlights
Individual consumers	Mobile	Voice	Basic telecommunication voice services, including calling and receiving calls from fixed-line and mobile phones
		Data	Value-added services, including voice mail, call forwarding, call waiting, conferencing, SMS, roaming, call barring, video calls, multimedia and content (e.g. mobile TV, music, games, financial information, online bookstore, messaging apps, video clips, video streaming), and internet access using 4G/HSDPA/3G transmission
	IDD	International direct dialing services	

## Enterprise Business Group (EBG)

The Enterprise Business Group offers enterprise customers integrated mobile/fixed and cloud services.

Service category	Description
Mobile	<ul style="list-style-type: none"> <li>● Mobile virtual private network (MVPN)</li> <li>● Mobile data virtual private network (MDVPN)</li> <li>● Mobile broadband service</li> <li>● Business mobility services, including financial, logistics, medical and retail apps, mobile device management, instant messaging (M+ Messages, enterprise edition)</li> <li>● International roaming</li> </ul>
Fixed-line voice	<ul style="list-style-type: none"> <li>● Integrated voice solutions, including multi-port residential gateway (MRG), local calls, long-distance calls, international calls and fixed mobile convergence (FMC)</li> <li>● 080 domestic toll-free service, audio conference, intelligent network services (e.g., 0209 services) and international simple resale (ISR)</li> </ul>
Fixed-line data	<ul style="list-style-type: none"> <li>● Domestic leased line, Metro Ethernet, IP virtual private network</li> <li>● International private leased circuit (IPLC) and ADSL VPN</li> </ul>
Internet	<ul style="list-style-type: none"> <li>● Internet access via leased line, Metro Ethernet, ADSL and FTTx</li> </ul>
Cloud	<ul style="list-style-type: none"> <li>● The only operator in Taiwan awarded UPTIME Tier III certification for its internet data center (IDC) co-location and management services</li> <li>● Infrastructure as a service (IaaS)</li> <li>● Software as a service (SaaS), including web hosting, mail hosting, domain name system (DNS) management, security operations center (SOC) and video conference</li> </ul>

## 2. Telecom revenue breakdown (including CBG and EBG)

Unit: NT\$m

Item	Year	2014	
		Revenue	% of total
Mobile service		54,074	66%
Handset sales		21,001	25%
Fixed-line service and others		7,281	9%
Total		82,356	100%

## 3. Telecom new products and services

### Consumer Business Group

- (1) Voice services: Continue to roll out innovative rate plans to better meet different calling patterns and personal demands of the consumers.
- (2) Value-added services: Focus on mainstream smart devices; develop a diverse range of services and digital content to better meet various mobile needs of the consumers.

### Enterprise Business Group

- (1) 4G mobile data virtual private network:

TWM Solution provides reliable, high-speed and secure 4G MDVPN, an ideal substitute for ADSL/FTTx

networks for enterprises to meet their need for rapid deployment. .

(2) Enterprise mobility services:

Steadily develop enterprise mobility applications and Internet of Things (IoT) services with partners in the medical/financial/utility industries.

#### **4. Mobile business operating status**

(1) Postpaid products and services

In response to keen market competition and declines in voice minutes, the Company focused on boosting handset sales and the migration of 3G/4G clients to raise its average revenue per user (ARPU). As of January 2015, 3G/4G client ratio reached 94%.

The Company also has excellent loyalty programs in place to secure its client base and minimize churn rates. With the aid of business intelligence tools and its direct marketing network, the Company uses market segmentation to target and provide customers with services that better match their needs. For instance, the Company provides discounts on handsets or phone bills as incentives for clients renewing their contracts. For high ARPU customers, the Company has an exclusive program called “myVIP”. The Company also offers a credit card program that allows customers to earn rebates based on their phone bills.

(2) Prepaid products and services

The Company was ahead of its peers in launching 4G prepaid cards and competitively priced 4G internet packages (1.2GB for only NT\$180) in 2014, allowing prepaid users to enjoy higher-speed internet services at a low price.

To boost internet usage, the Company promoted different types of internet tariffs, such as charging by usage or by day, which helped lift its value-added service (VAS) revenue excluding text messages from prepaid users by 46% in 2014.

(3) Value-added services

The Company saw a significant increase in VAS revenue in 2014, surging 20% from a year ago. In particular, revenue from mobile internet access rose 24%, thanks to high-quality mobile internet services and flexible data rate plans, as well as the growing popularity of smartphones, tablets, 3.5G data cards and netbooks. These helped attract a large number of mobile internet users and encouraged existing subscribers to use value-added services.

## Home Business Group (HBG)

### 1. CATV products and services

TFN Media (TFNM), a subsidiary of the Company, holds a cable television system operator's license and a Type II telecommunication license. Combining the group's resources – from mobile and fixed-line to innovative cloud technology – HBG provides digital convergence services across “four screens and a cloud” to home users. Its subsidiary, TV production company Win TV Broadcasting, operates the “momo family channel” and owns distribution rights to a large number of outstanding domestic and foreign TV content, enabling it to provide subscribers with a wide range of digital audiovisual entertainment services.

Service category	Products / Services	Description
Pay TV	Analog cable TV	Uses high bandwidth coaxial cable to transmit a wide range of TV channels and programs to home TVs.
	High-definition Digital TV	TWM Broadband's CATV networks transmit domestic and international digital TV channels to subscribers' homes; subscribers can use the set-top box provided by TWM Broadband to view high-definition digital video content.
Broadband internet access	Cable fiber-optic broadband internet access	Provides high-speed internet access service via a hybrid fiber/coaxial (HFC) network deployed by the CATV system operator in combination with new-generation DOCSIS 3.0 broadband internet access technology.
Content distribution	Analog and digital TV channels	Distributes high-quality domestic and foreign TV content on both analog and digital TV services by licensing the broadcasting rights of these channels to other CATV system operators and video service platforms.
Digital home service	SuperMOD service	The first in Taiwan to provide high-definition on-demand video, audio and interactive applications/content by combining video on demand, internet TV and digital TV onto a single platform. Subscribers can access SuperMOD content on their TVs, computers, smartphones and tablets anytime, anywhere.
	HomePlay service	A multi-screen sharing service that enables subscribers to share and watch TV programs, HD video on demand and internet video content via multiple screens such as TVs, tablets and smartphones. Subscribers can access any content through any device via HomePlay's user-friendly application at home.
	HomeSecurity service	A multi-screen monitoring and cloud storage service that sends out alerts via apps from smart devices, SuperMOD, SMS and e-mails, providing round-the-clock protection for home subscribers.

## 2. CATV revenue breakdown

Unit: NT\$mn

Item \ Year	2014	
	Revenue	% of total
Pay TV service	4,391	69%
Cable broadband service	1,224	19%
TV content distribution and others	765	12%
Total	6,380	100%

## 3. CATV new products and services

### (1) High-definition digital TV services:

With the government pushing for a 100% digital cable TV penetration rate by the end of 2016, TWM Broadband has positioned itself to maximize the opportunity by expanding the economic scale of HDTV and digitizing audio-visual home entertainment.

### (2) High-speed fiber-optic internet access services:

Consumer demand for high-speed Internet access has soared with the fast-growing popularity of online videos and social media. TWM Broadband was ahead of the trend in upgrading its fiber-optic network, enabling it to provide 120M and 200M high-speed broadband access services in the past and even faster 300M services in the near future.

### (3) Digital home services:

In 2012, TWM Broadband ushered in the digital home 1.0 era with the launch of its SuperMOD service. The following year, TWM Broadband introduced digital home 2.0 by launching a multi-screen sharing service called "HomePlay," giving users a true "TV Everywhere" experience. In 2014, TWM Broadband again led the industry in introducing digital home 3.0 with the launch of a multi-screen monitoring service called "HomeSecurity", giving users a new form of round-the-clock home protection service.

## Retail Business (momo.com Inc. known as "momo")

### 1. Retail products and services

momo offers TV home shopping, online shopping, mail order service, travel services, and property and life insurance sales.

### 2. Retail revenue breakdown

Unit: NT\$mn

Item \ Year	2014	
	Revenue	% of total
Online shopping	14,979	63%

TV home shopping and mail order service	8,448	35%
Others	470	2%
Total	23,897	100%

### 3. Retail new products and services

- (1) Develop new product categories: As online shopping takes off, offering product variety is critical to maintaining view rates and targeting the right customers. momo has successfully explored and introduced new product categories including jade, gemstones and leisure appliances to sustain buyers' interest.
- (2) Introduce new brands: Backed by its rich marketing resources and a stable supply chain, momo has launched new quality brands such as SKII, IOPE, Arden, Corning Ware, DECOBA, L'OCCITANE, L'OREAL, Quaker, Pfizer and Abbott. momo aims to continue this strategy of introducing famous local and foreign brands.
- (3) Expand business platforms: With CATV penetration nearly saturated and traditional TV viewership falling while digital TV and mobile devices rise in popularity, TV home shopping is adapting to changes in consumer lifestyle and trends by expanding into other broadcasting platforms. momo is focusing on consumer behavior and new mobile digital trends to keep pace with these changes. The first move was to operate and aggressively promote an online TV app. It will also team up with other MSOs in Taiwan to explore new interactive shopping platforms.

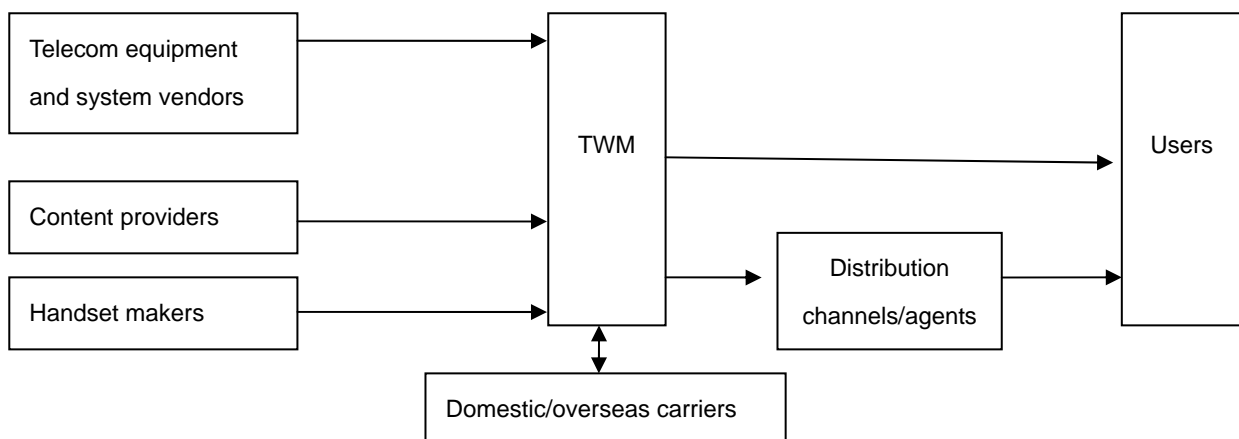
## Industry overview

### Consumer Business Group

#### 1. Industry status and development

Telecom operators started launching their 4G services one after the other in 2014. As smaller players are constrained by a lack of 4G spectrum or 3G network infrastructure to support voice service for LTE users, the three major operators are still likely to dominate the market. New 4G entrants looking for opportunities to form alliances or mergers and acquisitions bodes well for benign competition in the market.

#### 2. Industry value chain



### 3. Product development trends and competitive landscape

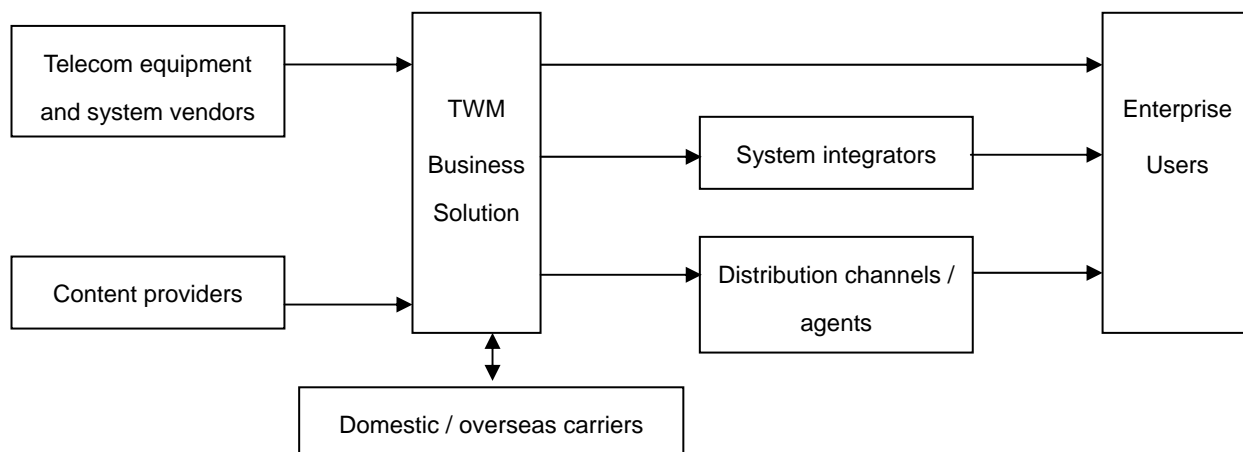
The operators are seeking to further expand the mobile broadband market in the 4G era. A variety of new rate plans for data services, combined with new terminal devices and new value-added services, has been introduced to stimulate subscriber take-up. This should be an important future revenue growth driver. As for the prepaid segment, pricing competition is intensifying.

## Enterprise Business Group

### 1. Industry status and development

According to NCC statistics, there were 80 Type I telecommunication providers, including four fixed-line operators, six mobile operators and other circuit leasing operators; and 433 Type II telecommunication providers, including international simple resale (ISR), internet service providers (ISP), VoIP and other value-added service providers. All these have resulted in keen competition. And, as the trend toward digital convergence expands, the boundaries between phone, TV and PC are getting blurred, leading to intensified cross-industry competition.

### 2. Industry value chain



### 3. Product development trends and competitive landscape

Data provided by the National Communications Commission (NCC) show that Chunghwa Telecom (CHT) has a virtual monopoly of the telecom market, accounting for over 90% of local network service revenue, about 75% of long-distance network service revenue and about 50% of international network service revenue. FTTx is the most popular type of broadband internet access in Taiwan, with an increasing number of users choosing higher-speed services. Since CHT has the “last mile” advantage, other internet service providers (ISP) find it hard to effectively compete with the firm, except for cable broadband operators.

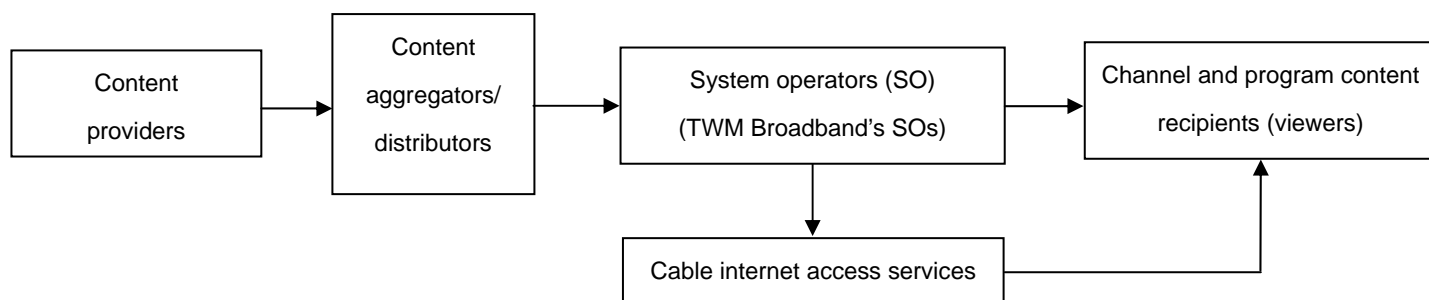
Along with the rising popularity of smart devices and as network infrastructure matures, the government is planning to invest in the transformation of the information/telecommunication industry into a cloud computing industry. Carriers promoting enterprise customer applications will contribute to the building of this cloud center and provide various cloud application services. Hence, cloud, mobile apps and integrated mobile data services will be the main revenue growth drivers in the future.

## Home Business Group

### 1. Industry status and development

Cable TV has become a must-have video platform, but it faces challenges from alternative services such as IPTV, digital terrestrial TV and other emerging media that have successively entered the market. The cable TV industry must digitalize aggressively and continue to provide innovative digital TV value-added services to attract traditional cable TV subscribers to switch to digital TV.

### 2. Industry value chain



TWM Broadband has the advantage of controlling “last mile” access to customers. TWM Broadband aims to take the lead in vertical integration to build up its core competitiveness and explore new business opportunities in the age of digitalization.

### 3. Product development trends and competitive landscape

Despite a saturated market that is dominated by Chunghwa Telecom, HBG managed to grow its subscriber numbers in the cable internet business by bundling cable broadband products with HD DTV services in its cable TV service areas, following the example of leading global operators such as PCCW in Hong Kong, as well as AT&T and Comcast in the US. To fend off competition, TWM Broadband will provide high-speed broadband internet access service, increase the number of high-definition programs and develop more innovative digital value-added services to let subscribers enjoy a whole new experience in home entertainment.

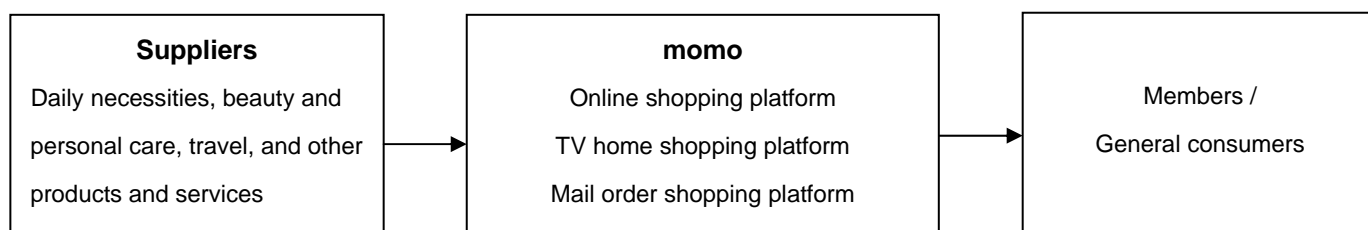
## Retail Business

### 1. Industry status and development

The proliferation of cable TV, digital TV and smart devices has given rise to a new breed of home shoppers. Consumers can order a product by telephone or through virtual shopping platforms, choose from a host of convenient payment systems and receive the product in a short period.



## 2. Industry value chain



momo sources its products from suppliers of daily necessities, beauty and personal care, travel services, and other products and services, and sell them through its TV home shopping networks, online shopping sites and mail-order catalogues for members and general consumers.

## 3. Product development trends and competitive landscape

- (1) Online shopping: Although momo entered the market later than peers Yahoo! Taiwan and PChome Online, it has made major strides as a comprehensive business-to-consumer (B2C) e-commerce player, growing rapidly by leveraging its know-how in TV home shopping.
- (2) TV home shopping: The rise of virtual shopping platforms has helped e-commerce and mobile commerce gain a foothold in Taiwan's TV home shopping market. And as digital TVs become more popular, TV home shopping programs are finding greater opportunities to reach out to consumers. Aside from momo, leading players in the field are Easter Home Shopping (EHS), U-Life and viva. momo aims to provide better broadcasting programs that cater to consumers' needs in a timely manner.
- (3) Mail order: The mail order business attracts different types of players, from TV home shopping operators (e.g., momo, EHS, U-Life and viva) to multi-level marketing players (e.g., Amway, Avon, Herbalife and Nu Skin), and Japanese mail order companies (e.g. DHC and Orbis). momo's main rivals in terms of mail order service are the above mentioned multi-level marketing players and Japanese mail order companies.

## Research and development expenditure

Investment in research and development and its ratio as a percentage of total revenue are shown in the table below. For 2015, the Company plans to spend NT\$801mn on the research and development of more advanced technologies to increase customer satisfaction, which in turn should boost value-added service revenue and overall operations growth.

Year	2014	2015 (As of February 28)
R&D expense (NT\$'000)	776,232	117,702
As a % of total revenue	0.69%	0.59%

## Major research and development achievements

Project name	Description
LTE new technology research	<ul style="list-style-type: none"> <li>• 4G broadband service spectrum evaluation</li> <li>• Frequency planning and resource management mechanisms for LTE Advanced (LTE-A) system deployment</li> <li>• 3D multiple-input and multiple-output (MIMO) for LTE Advanced</li> <li>• Designed an integrated group mobility mechanism for LTE Advanced networks</li> </ul>
4G LTE billing system enhancement	Enhanced TWM billing system to cope with the launch of the Company's 4G LTE services and marketing strategies
Sales incentive and sales performance evaluation system for repair and logistics	Developed an automated sales incentive and performance evaluation system to replace manual processing in order to enhance channel management and boost sales efficiency
TWM customer care mobile app	Provided 4G service subscription, inquiry, payment and user feedback functions to improve customer service satisfaction
M+ Messages	Provided enterprise instant messaging functions, such as employee contacts, automatic synchronization of organizational groups and group bulletin boards to improve communication efficiency and productivity
TAMedia mobile advertisement platform	Supported rich media (expandable and interstitial) and video ad content to provide interactive advertisement. Adopted big data technology to optimize advertising engine and provide real time reports
myVideo	Developed support for Google Chromecast, allowing customers to use their handsets or tablets to view movies, photo and other entertainment features on their TVs. Supported flexible sales packages providing news channels, live coverage of the Asian Games and other real-time broadcasts

## Sales development plans

### Consumer Business Group

#### 1. Short-term plan

- (1) Continue to expand 4G LTE services and provide faster and more stable mobile internet services to attract more subscribers and encourage existing users to upgrade in order to increase 4G LTE penetration and user contribution.
- (2) Develop various rate plans to meet the needs of different client segments and optimize customer service flows and service quality to provide the best customer experience.
- (3) Strengthen channel performance and competitiveness through deployment and management.
- (4) Leverage 4G LTE to extend value-added services, including digital music, video and mobile commerce. Integrate virtual and physical channels to offer more instant and convenient consumption options.

#### 2. Long-term plan

The Company aims to provide subscribers with a variety of digital convergence services through 4G's faster transmission speed. The focus will be on the following:

- (1) Establishing a "quadruple-play" platform that integrates mobile communication, fixed-line, broadband internet access and cable TV services to give the Company a lead over its competitors in offering digital convergence services in Taiwan.

- (2) Leveraging Internet of Things (IoT) technology to integrate mobile phone, network and cloud-computing technologies to expand the Company's service range and support development of innovative, profitable business models.

## **Enterprise Business Group**

### **1. Short-term plan**

- (1) Complete phase II construction of the cloud data center by 2015 and promote this center to international clients to maximize its global visibility and increase capacity utilization.
- (2) Continue to provide tailor-made enterprise mobility and IoT services for corporate clients, aiding them in transforming their business models and lifting the Company's 4G subscriber numbers and ARPU.

### **2. Long-term plan**

EBG's vision is to expand enterprise services from network-centric to IP solutions, mobile applications and cloud services through steady investments in the following:

- (1) Cloud computing and enterprise mobility
- (2) Raise sales productivity and expand the small-and-medium enterprise market segment by integrating channels.
- (3) Fixed mobile convergence (FMC), improve bandwidth and quality of fixed broadband to serve as a mobile backhaul to increase the competitiveness of EBG's mobile services
- (4) Develop IoT integrated solutions for enterprise clients

## **Home Business Group**

### **1. Short-term plan**

- (1) TWM Broadband will continue to optimize its network infrastructure in regions where it is already operating cable TV systems, and provide high-definition digital content and video on demand to set the foundation for its digital services.
- (2) TWM Broadband has commercially launched its 200Mbps super high-speed internet access service bundled with high-definition digital TV to boost its cable broadband and digital TV service penetration rates in hopes of raising its subscriber mix of high-speed broadband service users and DTV customer numbers.

### **2. Long-term plan**

In line with the Executive Yuan's goal of raising the digital TV penetration rate to 100% by the end of 2016, TWM Broadband aims to become a one-stop shop for home digital services by integrating high-definition digital content, multiple-viewing terminal devices, high-speed fiber-optic broadband services and cloud technology, allowing families and individual subscribers to enjoy the benefits of "four screens and a cloud" (i.e., mobile phones, PCs, tablets and TVs).

## **Retail Business**

## 1. Short-term plan

- (1) Online shopping: Provide differentiated value-added services, enhance competitive advantages in the mobile market, perform big data analytics and recommend more individualized products to clients. Make use of social shopping platforms and profit-sharing mechanisms to create a bigger impact on community websites. Develop B2B2C business model to introduce more leading brands as well as mid-and-big physical suppliers to provide customers with more diverse product choices.
- (2) TV home shopping: Increase scale of products, expand mobile and digital platforms, and incorporate main suppliers into the company's supply chain management system.
- (3) Mail order: Strengthen visual editing to refine the design of momo catalogs and develop e-catalog services to expand touch points with customers.

## 2. Long-term plan

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

## Customer satisfaction

To create the best experience for customers, TWM conducts annual customer satisfaction surveys by telephone to better understand their needs and expectations. Customers are asked to evaluate call quality, rates, bills, customer hotline service, store service, value-added services, and the Company's website among others. The findings from these polls are used as a reference to set new objectives and improve service quality.

Customer satisfaction key indicators	2012	2013	2014
Overall satisfaction	3.8	3.7	3.7
Call quality	3.7	3.7	3.7
Customer hotline service	4.5	4.4	4.3
Store service	4.1	4.2	4.1

Note: Customer satisfaction is rated based on the following scores: Very satisfied (5), Satisfied (4), Neither satisfied nor dissatisfied (3), Dissatisfied (2) and Very dissatisfied (1).

## Market and Sales Overview

### Market analysis

#### Consumer Business Group

##### 1. Main products and service areas

The Company provides mobile services nationwide, covering Taiwan and the outlying islands of Kinmen and Matsu.

##### 2. Market status

By the end of 2014, the penetration rate for mobile subscribers had reached 128%, implying a saturated market. However, the launch of 4G services, rapid innovations in mobile devices and rising demand for mobile internet and value-added services all suggest a growing market, encouraging new entrants to venture into the market.

##### 3. Competitive advantages

###### (1) Better customer mix

In 2014, the Company succeeded in improving its subscriber base structure. The percentage of 3G/4G subscriber reached 94% and is still rising.

###### (2) Market leader in wireless broadband

In 2005, the Company became the first mobile communication operator in Taiwan to launch 3G services, and in 2007, it rolled out the nation's first 3.5G services. In 2014, 4G services were launched. By the end of 2014, the Company had a 3G/4G subscriber base of about 7 million users, who contributed more significantly to value-added service ARPU than 2G subscribers and have become the main driver of VAS revenue growth.

##### 4. Opportunities and challenges

###### Positive factors

- (1) With the introduction of 4G services, lower prices for smart devices and data rate plans, and the emergence of new, varied applications, mobile internet access has rapidly spread from entrepreneurs and professionals to ordinary consumers, contributing to the rapid growth in non-voice revenue.
- (2) With information technology, communication and media trends converging, mobile operators play a pivotal role in the supply chain.

###### Negative factors

- (1) The NCC's implementation of mobile termination rate (MTR) cuts from 2013 to 2016 is expected to weigh on mobile voice revenue.
- (2) The increasing popularity of IP messaging apps has affected mobile voice revenue.

## Countermeasures

- (1) The Company continues to expand its 4G network coverage at full speed to satisfy customers' needs for high-speed internet access.
- (2) The Company maps out strategies in response to government policy changes and new laws and regulations.
- (3) The Company will continue to introduce innovative value-added services for smartphones to stimulate data service revenue growth and offset the impact of falling voice revenue.

## **Enterprise Business Group**

### **1. Main products and service areas**

EBG mainly offers its products and services in Taiwan, but also provides international services in 262 countries. As of the end of 2014, the company's roaming services covered the following: GSM: 206 countries, 390 networks; 3G: 110 countries, 234 networks; 4G: 21 countries, 32 networks; GPRS: 164 countries, 317 networks.

### **2. Market status**

EBG offers enterprise customers voice, internet and data services. Given the rising demand for ICT solutions and services, IP-based applications have become more popular, resulting in steady growth for the domestic telecommunication market.

- (1) Voice service: Fixed lines' talk minutes for local and international calls as well as unit price for fixed-to-mobile calls are expected to continue declining because of rising competition from VoIP and mobile services and the NCC's introduction of mobile termination rate cuts.
- (2) Data service: Given stable demand for enterprise data access, revenue from IP VPN and Metro Ethernet will remain the main revenue contributor.
- (3) Internet service: As internet content services boom, enterprise demand for high-speed internet access service has been rising. However, fierce competition will result in moderate revenue growth.
- (4) Mobile service: As the demand for office mobility increases, TWM Solution is helping enterprise customers incorporate various mobile applications – including electronic workflow, commercial intelligence, mobile device management (MDM) and ERP – into their mobile devices through high-speed 4G services. With enterprise users increasingly accessing internet information via their smart devices, mobile data revenue should benefit from the rising demand for mobile internet services.
- (5) Cloud computing service: As cloud computing technology gradually matures and benefits from government support, operators are actively venturing into cloud computing services and strengthening the software and hardware supply chain. The diverse range of mobile devices and digital content should also boost demand for cloud services, underpinning growth in cloud app subscriber numbers and revenue.

### 3. Competitive advantages

- (1) Premium brand equity: The Company provides customer-centric quality services. TWM Business Solution is readily associated with Taiwan Mobile and has won recognition among major enterprises.
- (2) Professional management team and efficient support group: 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 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: The Company's direct sales teams and retail chains across the nation are an effective channel for developing and expanding services.
- (4) Expanding resources from international alliances: The Company is the sole Taiwanese member of the Bridge Alliance, the largest mobile alliance in the Asia-Pacific region with a combined customer base of about 340 million.

### 4. Opportunities and challenges

#### Positive factors

- (1) The introduction of 4G LTE services in Taiwan is fundamentally changing the way enterprises engage in their daily work. Mobilization capability is critical to staying competitive, spurring demand for integrated mobile cloud computing services. Taiwan Mobile facilitates this with its industry-leading 4G network quality.
- (2) Information security and storage are key concerns when transmitting important corporate data via mobile networks. EBG provides solid mobile, cloud and fixed-line resources, as well as professional integration capabilities, allowing it to play a key role in this market.

#### Negative factors

The local loop bottleneck is a major obstacle to fixed-line operators' business expansion, as market leader Chunghwa Telecom continues to dominate with its last mile advantage.

#### Countermeasures

As a result of trends in innovative communication technology, decreasing tariffs of telecom service, multi-platform cloud service and mobilization capability, the Company provides an excellent enterprise mobile integration program, a new cloud center and cloud management services to maintain its long-term partnership with enterprise customers and help them to simplify their network management and reduce operating costs.

## **Home Business Group**

### **1. Main products and service areas**

TWM Broadband provides cable TV, high-definition digital cable TV, and fiber-optic broadband internet access services. Its main service areas are New Taipei City's Sinjhuang and Sijhih districts, Yilan County and Greater Kaohsiung's Fongshan District.

### **2. Market status**

#### **(1) Cable TV**

Taiwan's cable TV penetration rate has reached over 60% of households, according to NCC data. Watching TV is a major leisure activity in Taiwan – one that is relatively unaffected by fluctuations in the economy, ensuring stable market demand.

#### **(2) High-definition digital cable TV**

Digitalization is the future trend for CATV. With the Executive Yuan setting a target of 100% digital TV penetration rate by the end of 2016, business opportunities abound in this market of 8 million households nationwide. TWM Broadband is tapping into this digitalization value chain by offering rich HD content, stable and quality signals, various platforms for viewing TV programs and an affordable TV set promo package to boost digital TV's penetration rate.

#### **(3) Broadband internet access**

With the broadband internet access market moving toward higher-speed services, the migration of mid-to-low speed users to faster speeds will be the main growth driver for the market. TWM Broadband expects to gain share in this market by offering competitive prices, around the clock customer service and superior quality for its up to 200Mbps internet access services.

### **3. Competitive advantages**

#### **(1) Optimize broadband network quality**

TWM Broadband introduced network quality assurance management (QAM) to optimize management of its network system and bandwidth to ensure that customers get premium broadband access and the best user experience. Aside from lowering the group's broadband costs, this has helped strengthen TWM's competitiveness in the broadband access market and in facilitating digital convergence.

#### **(2) Strengthen fiber-optic broadband cable networks**

TWM Broadband will continue to deploy a dense, ring-type fiber-optic backbone network and provide back-up systems for its bi-directional network with advanced DOCSIS 3.0 network technology. TWM Broadband is able to provide up to 200Mbps high-speed internet access services. Unlike ADSL with its range constraints, cable internet provides lower cost, but premium quality super high-speed broadband services. To cope with the rising number of customers and their increasing usage of internet access, the Company will deploy more and denser fiber nodes to provide users with higher-speed and more stable broadband services.

#### **(3) Enrich digital content and VAS to increase digital TV service ARPU**



TWM Broadband aims to increase the variety and quantity of value-added services such as HomeSecurity, PVR (personal video recorder), HomePlay and SuperMOD to offer bundled services (i.e., broadband access, digital TV and VAS) to increase its subscriber base and ARPU.

- (4) Leverage off Taiwan Mobile Group's integrated resources to develop innovative digital convergence products and services

TWM Broadband's resources cover mobile communication, fixed network, CATV, ISP and channel content. The integration of these resources, together with Taiwan Mobile Group's extensive technical support, as well as sales and marketing resources, forms the core of TWM Broadband's competitive advantage in the home market.

- (5) Form strategic alliances with core industry players to create business opportunities

TWM Broadband formed an innovative strategic alliance in November 2012 with the world's most advanced producer of large-sized LCD panels – Sakai SIO International Holdings – to offer 60-inch TVs made by the Hon Hai Group. The initiative gave consumers a complete package of digital TV services, including nearly 30 HD channels and SuperMOD, bundled with an extremely competitively priced large TV. TWM Broadband will continue to seek alliances with other partners to generate more revenue effectively.

## **4. Opportunities and challenges**

### Positive factors

- (1) Government speeding up digitization policy to promote the development of digital TV

Riding on the government's digitization policy push and the launch of its SuperMOD, HomePlay and HomeSecurity services, TWM Broadband promoted its CATV services and facilitated its analog TV customers' switch to digital services, thereby raising its digital TV subscriber numbers and penetration rate. TWM Broadband will further increase its digital TV value-added services to boost its revenue stream.

- (2) High-speed cable internet service has become the mainstream

Consumer demand for downloading, uploading and sharing high-definition videos are increasing and 60Mbps high-speed cable internet service has become the mainstream. TWM Broadband has finished upgrading its ring-type fiber-optic backbone network and infrastructure in its operating areas and adopted the latest high-speed DOCSIS 3.0 cable internet technology. It can provide high-speed broadband internet access speeds of 200Mbps to help expand its market share, as well as increase customer loyalty and ARPU.

### Negative factors

- (1) There is still a risk that local governments might lower the cap on cable TV fees during their annual review.
- (2) The NCC might support the airing of CATV content on Chunghwa Telecom's MOD, posing a threat to other CATV operators.
- (3) The NCC plans to make it mandatory that CATV operators provide customers with at least two free set-top boxes, which, if passed, would increase operating costs.

- (4) The NCC has introduced CATV service area rezoning and competition is expected to intensify as new entrants compete for market share.

### Countermeasures

- (1) TWM Broadband has been able to utilize its parent company's extensive resources (e.g., technology, marketing, sales and distribution) to promote high-speed internet access services and market digital convergence services with Taiwan Mobile Group's telecommunication, information and media content services. TWM Broadband aims to provide a "one-stop shopping" service that meets all of its customers' needs in order to boost its cable TV, high-speed broadband internet access and high-definition digital TV subscriber numbers and their contribution to revenue.
- (2) TWM Broadband is using its digital cable TV platform to cultivate Taiwan's cultural and creative industries, enrich the nation's digital channel and connected TV content, and stimulate the development of digital content and innovative connected TV services.
- (3) TWM Broadband seeks to maintain good relations with local governments and communities. With the help of Taiwan Mobile Group's extensive resources – such as the Taiwan Mobile Foundation – TWM Broadband sponsors local artistic, cultural and charitable activities, while also subsidizing the cost of network deployment in remote areas, working to bridge the digital divide, and fulfilling its responsibilities as a good corporate citizen, thereby strengthening its corporate image of "community-based growth and giving back to the community."
- (4) TWM Broadband is closely monitoring developments in the regulatory authorities' policies on digitization and relevant laws and regulations. TWM Broadband will take the initiative in formulating countermeasures to deal with changes in the market.

## **Retail Business**

### **1. Main products and service areas**

momo mainly provides TV home shopping and online shopping services in Taiwan and mainland China.

### **2. Market status**

Despite a saturated CATV penetration rate in Taiwan, the number of households signing up for digital TV services is increasing as digital TV uptake rises. Digital TV programs are set to become a two-way interactive platform between the Company and consumers. Social media marketing allows immediate feedback from customers and strengthens communication between members, thereby increasing their sense of loyalty. New types of marketing platforms such as shopping via mobile devices are also growing alongside the uptake of 4G services. Mobile platforms attract younger groups and could lead them back to cable or digital TV channels, allowing these sales channels to continue growing.

### **3. Competitive advantages**

- (1) A solid reputation: Backed by years of experience, momo has built a solid reputation among suppliers and buyers in

the TV home shopping field. Aside from winning customers' confidence, momo has enhanced suppliers' willingness to entrust their brands to the Company, allowing it to offer a diverse range of products.

- (2) Strong support: momo is able to seize the initiative by leveraging off the resources of affiliates – including TWM's mobile, fixed-line and cable TV businesses and Fubon Group – to set up digital convergence, mobile platforms and mobile payment mechanisms.
- (3) Broad product mix: Consumers can book domestic or international trips with momo's 100%-owned subsidiary Fu Sheng Travel Service Co., Ltd. through momo's shopping website. Compared with its rivals, momo offers a wider and more competitive range of products, covering beauty and personal care; food, beverages and groceries; home necessities and household appliances; health, fitness and wellbeing, to cater to modern shoppers' demand for practical rather than trendy goods.

#### **4. Opportunities and challenges**

##### Positive factors

- (1) A rising mobile device penetration rate should foster rapid growth in the mobile shopping market.
- (2) E-commerce should benefit from the government's move to accelerate the rollout of fiber-optic and 4G wireless broadband networks.
- (3) A low birthrate and an aging population are creating a new social trend that is worth tapping into.

##### Negative factors

- (1) Some products featured on home shopping networks have been fined for deceptive and exaggerated advertising claims.
- (2) Substitution from competitors and keen market competition
- (3) High product homogeneity and cutthroat pricing competition lead to lower product gross margins
- (4) Food safety risks

##### Countermeasures

- (1) Having started in TV home shopping, momo has an extensive system of suppliers and a professional product development team. This facilitated its expansion into online shopping, as it already has a trove of best-selling products to tap into this new field, which not only prolonged their product life cycle, but also increased sales volumes and distinguished themselves from competitors.
- (2) momo launched an online shopping mobile app to tap into the mobile market and increase customer stickiness. By promoting group buying and limited time promotions, momo is able to reach more consumers and stimulate buying willingness. The mobile platform also offers a more convenient shopping environment, encouraging consumers to increase the frequency of their purchases.
- (3) momo has a quality control team that visits factories to ensure that suppliers meet manufacturing safety standards. It also outsources product testings and examinations to ensure that product ingredients as well as

labels comply with safety standards to minimize food safety hazards.

(4) momo will continue to develop new display platforms, such as mobile apps, shopping via remote control and digital TV interactive shopping, to meet changes in consumer buying behavior.

(5) momo has enforced measures to filter out controversial or risky products and clearly define obligations between supplier and the company if and when fined.

**Main features and production process of major products:** Not applicable as the Company is not a manufacturer.

**Supply of raw materials:** Not applicable as the Company is not a manufacturer.

## Major suppliers and customers in the past two years

- A supplier/customer that accounts for at least 10% of consolidated procurement/revenue

### Major suppliers

Unit: NT\$'000

	2013				2014			
	Company	Procurement amount	% of consolidated procurement	Nature of relationship	Company	Procurement amount	% of consolidated procurement	Nature of relationship
1	Company A	7,512,911	15	Third party	Company B	6,235,758	12	Third party
2	Company B	6,150,331	12	Third party	Company C	6,093,374	11	Third party
3	Company C	5,440,115	11	Third party	Company A	5,798,408	11	Third party
	Others	32,566,649	62		Others	34,989,292	66	
	Total	51,670,006	100		Total	53,116,832	100	

**Major customers:** Not applicable as the Company's revenue from a single customer does not exceed 10% of its total operating revenue.

### Reasons for variation

Procurements from suppliers varied as the Company purchased handsets and other 3C products from different vendors to meet its business development needs and market demand.

**Production volume in the past two years:** Not applicable as the Company is not a manufacturer.

### Sales volume in the past two years

Services		2013		2014	
		Sales volume	Revenue (NT\$'000)	Sales volume	Revenue (NT\$'000)
Mobile	Mobile ('000 subs)	7,225	52,577,783	7,430	51,945,586
Domestic Fixed-line	Local network ('000 subs)	168	1,609,890	171	1,544,834
	Domestic long distance ('000 minutes)	120,098	119,157	113,009	111,702
	Internet service ('000 subs)	158	1,016,758	145	1,019,505
International Fixed-line	International network ('000 minutes) <sup>1</sup>	513,041	4,268,363	432,667	3,752,418
Sales revenue <sup>2</sup>		NA	40,473,850	NA	44,752,181
Others		NA	8,342,130	NA	9,497,653
Total			108,407,931		112,623,879

Note 1: Outgoing minutes only.

Note 2: Including retail sales of handsets, accessories, information products, 3C home appliances, daily necessities and cosmetic products.

## Human Resources

### Employee statistics in the past two years up to publication date

Year		2013	2014	2015 (as of March 25)
Number of employees	Consolidated	7,309	7,107	7,150
	Stand-alone	2,379	2,311	3,621
Education level *	Ph.D.	0.10%	0.11%	0.12%
	Master's	13.82%	14.04%	14.15%
	University	58.31%	53.44%	53.71%
	College	21.49%	21.93%	21.71%
	Others	6.28%	10.48%	10.31%
Average age		35.06	35.63	35.84
Average years of service		5.82	6.30	6.41

## Environmental Protection Expenditure

### Loss or penalty due to environmental pollution in 2014 up to publication date in 2015: None

#### Countermeasures:

The Company has taken into consideration any potential risks or violation of environmental regulations in formulating its environmental management system. TWM also closely monitors developments in the government's environmental policies or regulations to be able to design precautionary measures. The Company does not expect any expenditure arising from environmental pollution in the future.

The Company is committed to protecting the environment and has adopted various measures such as promoting "green" procurement, establishing energy-efficient base stations and data centers, minimizing the use of paper in offices and stores, recycling waste cables, batteries and handsets, and encouraging users to switch to e-billing and online services.

## Employee Relations

### Employee behavior/ethical standards

The Company has established policies and rules as a guide for employee conduct, rights, responsibilities and ethical standards.

#### Delegation of authority

1. Authorization guidelines and limitations: Aimed at streamlining business processes, strengthening distribution of responsibility, and detailing management authority at each job level.
2. Empowerment and delegation rules: Designed to ensure smooth and normal business operations.

3. Job ranking, title and organizational structure policy: Formulated to correspond to employees' career plans.

### **Work rules**

The Company's work rules clearly define the rights and obligations of management and labor. The Company's modern management approach has promoted cooperation among employees and benefited the Company.

### **Divisional responsibilities**

The Company's major divisions are separated by functions. Each division is tasked with specific job responsibilities and this separation of functions has strengthened the core competency of the Company.

### **Reward and punishment policies**

The Company has drawn up a number of policies on rewards and punishments to encourage employees who have made special contributions to the Company, as well as discourage employees from behaving in a manner deemed damaging to the Company. These policies are stated in the Company's "Work Rules."

### **Employee assessment policy**

Supervisors provide feedback, assistance and map out individual development plans based on employee performance.

### **Attendance and leave policy**

Enforcement of this policy – designed to serve as a guideline for employees – helps enhance work quality.

### **Business confidentiality policy**

To maintain the Company's competitiveness, employees are required to sign a "Confidentiality and Intellectual Property Rights Statement" and an "Employment Contract" as safeguards against potential damage arising from the disclosure of trade secrets. The Company provides employees with the required information and training courses to strengthen their understanding of information security.

### **Sexual harassment prevention and handling procedures**

The Company's "Work Rules" include rules on preventing sexual harassment in the workplace and promoting gender equality. The Company disseminates information on laws and procedures for filing complaints on sexual harassment on the intranet to serve as a guideline for employees.

### **Code of Conduct**

The Company and its affiliates have a Code of Conduct that all directors, managers and employees are expected to adhere to and advocate in accordance with the highest ethical standards.

## **Employee benefits program**

1. All employees are entitled to labor insurance, national health insurance and group insurance coverage starting from the first day of work.

2. The Company has an Employee Stock Ownership Trust (ESOT) and an employee profit-sharing plan.
3. The Company and its subsidiaries had established Employee Welfare Committees to handle and implement employee benefits programs. They were replaced in 2006 by a Joint Welfare Committee integrating all the committees set up by TWM and affiliates TAT, Mobitai, TFN and TFNM into a single unit. The committee is in charge of a number of benefits designed to raise employees' quality of life and promote physical and mental well-being, including club activities, company outings, family day, and benefits for special occasions such as weddings, festivals and funerals.

## **Employee training and education program**

1. Training expense in 2014 and up to February 28, 2015 totaled NT\$102,324,103 (including NT\$89,460,000 for technical training), with 45,234 participants and 80,522.5 in training hours..
2. Orientation for new employees includes introduction to the corporate culture, company organization, telecommunication market, IT and network systems, labor safety, as well as information security training.
3. Core competency development: Focus on basic competencies, including problem solving, decision-making, communication, project management, basic legal knowledge of the telecommunication market, team building and service skills.
4. Management training and development: Separate training programs for entry-level management, middle management and senior management. Training courses include performance management, leadership, motivation skills, strategy management, innovative thinking, team dynamics and organizational development skills.
5. The Company sends large numbers of employees to local and international telecommunication conferences, management forums, consulting seminars, and vendor training programs every year. These activities have a profound impact on upgrading the Company's technologies, developing new products, introducing new and innovative ideas, and improving managerial skills.
6. The Company has a scholarship program for employees to develop their expertise in telecommunication technologies and business administration.
7. The Company sponsors external training courses for all employees annually. Employees can select courses that combine their personal interests and job needs to reap the maximum benefits from these training sessions.

## **Retirement plan and implementation**

1. The Company has published Employee Retirement Guidelines according to regulations.
2. The Company has a Labor Pension Supervisory Committee, which was approved by the Taipei City Government. In addition, the Company retains the services of an actuary to assess and calculate labor pension reserves and provide a detailed report.
3. The Company implemented the New Labor Pension System in July 2005.



## **Employee safety and sanitary policy**

To fulfill the Company's social responsibility in providing its employees with a safe, healthy and comfortable working environment, the Company endeavors to:

1. Abide by and comply with regulations on environmental protection, safety and sanitation.
2. Be on constant lookout for potential hazards in the work environment to minimize accidents.
3. Promote health education, conduct physical examinations, and implement health management programs.
4. Promote and instill energy-saving consciousness to help reduce waste of resources.

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

1. A unit dedicated to conducting environmental inspections and carrying out employee sanitary training courses was established in accordance with regulations.
2. A Health and Safety Committee was set up to draft a plan to prevent job injuries, ensure compliance and conduct periodic reviews of related rules on employee health and sanitary improvement solutions.
3. Full-time professional nursing personnel are employed to perform health checks, track the progress of staff who failed their health examinations, and hold talks on health promotion. Staffers who are able to administer first aid treatment have been placed in each work area.
4. Each office site is equipped with an automated external defibrillator and staffed with a sufficient number of first-aid personnel.
5. Fire/flood protection exercises are held periodically to reduce risks of employee injury and property loss from natural disasters.
6. Guards and security systems have been installed at all main base stations and work offices to protect staff, property and information security.
7. Energy-saving policies have been established to reduce carbon emissions.

## **Labor negotiations and protection of employee benefits**

The Company, working under the management and labor as one concept and the belief that a win-win situation can be achieved when the two sides work together, has followed relevant labor laws and regulations, held quarterly employee communication forums hosted by the President and management/labor meetings to facilitate communication, and promoted employee benefits to build a harmonious and satisfactory management/labor relationship.

**Losses caused by labor disputes in 2014 up to publication date in 2015:** The Company maintains a harmonious management/labor relationship and there were no material disputes.

**Number of disabilities due to on-the-job injuries/fatalities in 2014 up to publication date in 2015**

Year	2013	2014
Number of disabilities	2	0
Disabling Frequency Rate (FR, Note 1)	0.38	0
Disabling Severity Rate (SR, Note 2)	2.58	0

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

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

## Major Contracts

Nature	Counterpart	Contract period	Description	Restriction clauses
Sales and distribution	Tecom Co., Ltd.	2014.04.01~2015.03.31	Tecom is authorized to distribute TWM's mobile services.	Non-disclosure
	Aurora Telecom Corp.	2013.07.01~2015.06.30	Aurora is authorized to distribute TWM's mobile services.	Non-disclosure
	Tsann Kuen Enterprise Co., Ltd.	2014.06.01~2015.12.31	Tsann Kuen is authorized to distribute TWM's mobile services.	Non-disclosure
Network interconnection	Chunghwa Telecom Co., Ltd.	2011.06.01~2012.05.31 (Note 1)	Network interconnection	Non-disclosure
	New Century InfoComm Tech Co., Ltd.	2005.05.01~2006.04.30 (Note 1)	Network interconnection	Non-disclosure
	Taiwan Fixed Network Co., Ltd.	2011.01.01~2011.12.31 (Note 1)	Network interconnection	Non-disclosure
	VIBO Telecom Inc.	2006.01.16~2007.01.15 (Note 2)	Voice and SMS interconnection	Non-disclosure
	Asia Pacific Telecom Co., Ltd.	2011.08.01~2012.07.31 (Note 1)	Network interconnection	Non-disclosure
	Far EasTone Telecommunications Co., Ltd.	2014.03.25~2015.03.24 (Note 3)	Voice and SMS interconnection	Non-disclosure
	First International Telecom Corp.	2013.12.20~2014.12.20 (Note 1)	Voice and SMS interconnection	Non-disclosure
	Global Mobile Corp.	2011.05.01~2012.04.30 (Note 1)	Network interconnection	Non-disclosure
	Vee Time Corp.	2010.03.01~2011.02.28 (Note 1)	Network interconnection	Non-disclosure

Nature	Counterpart	Contract period	Description	Restriction clauses
Corporate bond offering	KGI Securities Co., Ltd. and Grand Cathay Securities Corp.	2012.12.20~2019.12.20	Third unsecured straight corporate bond issue of NT\$9 billion	Non-disclosure
	Yuanta Securities, MasterLink Securities, Sinopac Securities and Cathay Securities Corp.	2013.04.25~2018.04.25	Fourth unsecured straight corporate bond issue of NT\$5.8 billion	Non-disclosure
Long-term credit facility	The Bank of Tokyo-Mitsubishi UFJ, Ltd., Taipei Branch	2013.12.31~2015.12.31	Long-term loan of NT\$3 billion	Non-disclosure
	Sumitomo Mitsui Banking Corp., Taipei Branch	2014.02.27~2016.02.26	Long-term loan of NT\$3 billion	Non-disclosure
	Mizuho Bank, Ltd., Taipei Branch	2014.04.14~2016.04.14	Long-term loan of NT\$7 billion.	Non-disclosure
Mobile phone purchase	HTC Corp.	2012.11.12~2013.11.11 (Note 3)	Mobile phone purchase agreement	Non-disclosure
Equipment purchase	Nokia Solutions and Networks Taiwan Co., Ltd. (former name: Nokia Siemens Networks Taiwan Co., Ltd.)	2011.02.01~2014.12.31	NT\$6.65 billion contract for 3G equipment supply. Procurement contract ceiling for 2011-2014 increased to NT\$14.6 billion in September 2012.	Non-disclosure
		2014.01.01~2016.12.31	4G equipment supply contract for 2014-2016 set at NT\$11.564 billion	Non-disclosure
Customer service	Taiwan Teleservices & Technologies Co., Ltd. (TT&T)	2006.01.01~2010.12.31 (Note 3)	TT&T was consigned to manage TWM's customer services and product sales.	Non-disclosure
Operation consignment	Taiwan Digital Service Co., Ltd. (TDS)	2013.07.01~2014.06.30 (Note 3)	TDS was consigned to manage TWM's direct sales channel and other related businesses.	Non-disclosure

<b>Affiliates</b>				
<b>Nature</b>	<b>Counterpart</b>	<b>Contract period</b>	<b>Description</b>	<b>Restriction clauses</b>
TFN project construction	MiTAC Information Technology Corp.	2012.11.30~expiry date of warranty period	The construction of Taiwan Fixed Network Co., Ltd.'s cloud IDC amounted to NT\$443 million.	Non-disclosure
TDS mobile phone purchase	Taiwan Mobile Co., Ltd. (TWM)	2013.07.01~2014.06.30 (Note 3)	TWM was consigned to manage TDS' mobile phone purchase business.	Non-disclosure
Land purchase by momo	Individual (not a related party to the Company)	2014.05.15	momo purchased a plot of land at NT\$1.7billion in Taoyuan.	None

Note 1: When any 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 concur to continue their negotiations, the terms and conditions of the current contract or such other conditions agreed by both parties will apply during the negotiation period.
- (2) Either party can appeal to the NCC for a ruling. Prior to the date of such a ruling, the terms and conditions of the current contract shall apply until the NCC makes a decision. The new contract will be made based on the NCC's ruling.

Note 2: Negotiations for the following year's contract shall commence three months prior to the contract expiry date. If negotiations are not finalized prior to the expiry date, the parties shall agree to perform their obligations based on the current contract until such time when negotiations are finalized.

Note 3: The contract shall remain valid past its expiration date if both parties do not issue any objection to the continuation of the contract.

## Chapter 5 Financial Highlights

### Condensed Balance Sheets and Statements of Comprehensive Income

#### Consolidated condensed balance sheet (2012-2014) – Based on IFRS

Unit: NT\$'000

		2012	2013	2014
Current assets		23,772,918	29,493,868	32,834,704
Investments		3,057,545	4,194,570	5,070,051
Property, plant and equipment (PP&E)		40,737,678	42,985,801	47,066,319
Intangible assets		26,654,154	54,837,271	61,168,844
Other assets		6,167,930	6,840,869	7,397,334
<b>Total assets</b>		<b>100,390,225</b>	<b>138,352,379</b>	<b>153,537,252</b>
Current liabilities	Before appropriation	29,930,393	58,605,638	53,468,928
	After appropriation	44,725,981	73,670,237	(Note1)
Non-current liabilities		12,816,539	21,226,100	33,556,074
Total liabilities	Before appropriation	42,746,932	79,831,738	87,025,002
	After appropriation	57,542,520	94,896,337	(Note1)
Equity attributable to owners of the parent company		56,571,089	57,433,894	60,259,352
Paid-in capital		34,208,328	34,208,328	34,208,328
Capital surplus		12,431,851	12,456,891	14,715,830
Retained earnings	Before appropriation	40,668,067	41,433,176	41,355,524
	After appropriation	25,872,479	26,368,577	(Note1)
Other equity interest		340,026	412,682	(302,986)
Treasury shares		(31,077,183)	(31,077,183)	(29,717,344)
Non-controlling interest		1,072,204	1,086,747	6,252,898
Total equity	Before appropriation	57,643,293	58,520,641	66,512,250
	After appropriation	42,847,705	43,456,042	(Note1)

Note 1: The appropriation amount for the 2014 earnings has to be approved at the AGM.

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

## Stand-alone condensed balance sheet (2012-2014) – Based on IFRS

Unit: NT\$'000

		2012	2013	2014
Current assets		16,467,066	19,819,698	15,251,167
Investments		33,717,978	39,563,373	49,879,231
Property, plant and equipment (PP&E)		29,799,766	28,975,365	32,294,190
Intangible assets		11,932,848	40,247,043	39,117,370
Other assets		6,647,558	5,571,753	4,080,948
Total assets		98,565,216	134,177,232	140,622,906
Current liabilities	Before appropriation	30,377,402	57,236,700	53,250,046
	After appropriation	45,172,990	72,301,299	(Note1)
Non-current liabilities		11,616,725	19,506,638	27,113,508
Total liabilities	Before appropriation	41,994,127	76,743,338	80,363,554
	After appropriation	56,789,715	91,807,937	(Note1)
Paid-in capital		34,208,328	34,208,328	34,208,328
Capital surplus		12,431,851	12,456,891	14,715,830
Retained earnings	Before appropriation	40,668,067	41,433,176	41,355,524
	After appropriation	25,872,479	26,368,577	(Note1)
Other equity interest		340,026	412,682	(302,986)
Treasury shares		(31,077,183)	(31,077,183)	(29,717,344)
Total shareholders' equity	Before appropriation	56,571,089	57,433,894	60,259,352
	After appropriation	41,775,501	42,369,295	(Note1)

Note 1: The appropriation amount for the 2014 earnings has to be approved at the AGM.

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

## Consolidated condensed balance sheet (2010-2012) – Based on ROC GAAP

Unit: NT\$'000

		2010	2011	2012
Current assets		15,242,392	18,126,033	19,884,936
Investments		3,196,711	2,161,551	2,842,353
Fixed assets		43,613,993	40,801,447	39,978,686
Intangible assets		20,347,050	27,760,674	26,781,024
Other assets		3,084,054	2,944,663	2,865,019
Total assets		85,484,200	91,794,368	92,352,018
Current liabilities	Before appropriation	23,231,653	36,105,959	30,726,480
	After appropriation	35,671,620	49,986,911	45,522,068
Long-term liabilities		10,300,000	4,000,000	8,995,180
Other liabilities		1,053,129	1,624,524	1,824,538
Total liabilities	Before appropriation	34,584,782	41,730,483	41,546,198
	After appropriation	47,024,749	55,611,435	56,341,786
Paid-in capital		38,009,254	34,208,328	34,208,328
Capital surplus		12,432,489	12,432,446	12,432,446
Retained earnings	Before appropriation	32,243,481	33,272,277	34,082,930
	After appropriation	19,803,514	19,391,325	19,287,342
Unrealized valuation loss on financial instruments		89,842	111,306	99,351
Translation adjustments		(5,716)	17,612	2,115
Net loss not recognized as pension cost		(10,695)	(16,775)	(24,050)
Treasury shares		(31,889,100)	(31,077,183)	(31,077,183)
Minority interest		29,863	1,115,874	1,081,883
Total shareholders' equity	Before appropriation	50,899,418	50,063,885	50,805,820
	After appropriation	38,459,451	36,182,933	36,010,232

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



## Stand-alone condensed balance sheet (2010-2012) – Based on ROC GAAP

Unit: NT\$'000

		2010	2011	2012
Current assets		23,819,685	10,307,087	12,702,556
Investments		11,359,143	26,670,657	34,466,074
Fixed assets		35,014,385	31,268,171	29,131,007
Intangible assets		12,818,208	12,816,185	12,014,914
Other assets		4,144,036	3,665,604	3,650,151
Total assets		87,155,457	84,727,704	91,964,702
Current liabilities	Before appropriation	25,621,285	29,800,200	31,158,254
	After appropriation	38,061,252	43,681,152	45,953,842
Long-term liabilities		8,800,000	4,000,000	8,995,180
Other liabilities		1,864,617	1,979,493	2,087,331
Total liabilities	Before appropriation	36,285,902	35,779,693	42,240,765
	After appropriation	48,725,869	49,660,645	57,036,353
Paid-in capital		38,009,254	34,208,328	34,208,328
Capital surplus		12,432,489	12,432,446	12,432,446
Retained earnings	Before appropriation	32,243,481	33,272,277	34,082,930
	After appropriation	19,803,514	19,391,325	19,287,342
Unrealized valuation loss on financial instruments		89,842	111,306	99,351
Translation adjustments		(5,716)	17,612	2,115
Net loss not recognized as pension cost		(10,695)	(16,775)	(24,050)
Treasury shares		(31,889,100)	(31,077,183)	(31,077,183)
Total shareholders' equity	Before appropriation	50,869,555	48,948,011	49,723,937
	After appropriation	38,429,588	35,067,059	34,928,349

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

**Consolidated statements of comprehensive income (2012-2014) – Based on IFRS**

Unit: NT\$'000

	2012	2013	2014
Operating revenue	99,740,256	108,407,931	112,623,879
Gross profit	38,114,612	38,836,911	37,525,641
Operating income	20,782,210	21,071,835	19,710,715
Non-operating income (expenses)	(840,885)	(1,652,822)	(845,638)
Pre-tax income	19,941,325	19,419,013	18,865,077
Income from continuing operations	16,550,199	16,067,173	15,631,434
Loss from discontinued operations, net of tax	-	(249,392)	(78,329)
Net income	16,550,199	15,817,781	15,553,105
Other comprehensive income (after tax)	(57,035)	53,691	(721,504)
Comprehensive income	16,493,164	15,871,472	14,831,601
Profit attributable to owners of the parent company	16,326,013	15,583,447	15,005,428
Profit attributable to non-controlling interest	224,186	234,334	547,677
Comprehensive income attributable to owners of parent company	16,274,624	15,655,368	14,271,279
Comprehensive income attributable to non-controlling interest	218,540	216,104	560,322
EPS (NT\$)	6.07	5.79	5.56

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

**Stand-alone statements of comprehensive income (2012-2014) – Based on IFRS**

Unit: NT\$'000

	2012	2013	2014
Operating revenue	69,867,814	78,928,492	81,649,070
Gross profit	27,460,813	27,629,638	28,814,818
Operating income	13,063,580	8,258,017	5,713,280
Non-operating income (expenses)	5,244,610	8,329,636	10,027,657
Pre-tax income	18,308,190	16,587,653	15,740,937
Net income	16,326,013	15,583,447	15,005,428
Other comprehensive income (after tax)	(51,389)	71,921	(734,149)
Comprehensive income	16,274,624	15,655,368	14,271,279
EPS (NT\$)	6.07	5.79	5.56

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

**Consolidated condensed income statement (2010-2012) – Based on ROC GAAP**

Unit: NT\$'000

	2010	2011	2012
Operating revenue	70,146,004	81,369,183	98,250,353
Gross profit	31,983,641	32,727,673	35,972,109
Operating income	18,307,711	17,589,805	18,734,841
Non-operating income	739,516	672,876	200,288
Non-operating expenses	1,945,905	2,134,112	963,707
Pre-tax income	17,101,322	16,128,569	17,971,422
Net income	13,817,778	13,626,180	14,916,282
EPS (NT\$)	4.62	4.70	5.46

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

**Stand-alone condensed income statement (2010-2012) – Based on ROC GAAP**

Unit: NT\$'000

	2010	2011	2012
Operating revenue	58,547,285	61,919,273	68,025,875
Gross profit	25,738,573	24,125,399	25,616,164
Operating income	13,700,566	11,169,724	11,310,743
Non-operating income	4,465,716	4,506,462	6,068,970
Non-operating expenses	1,768,138	833,190	994,871
Pre-tax income	16,398,144	14,842,996	16,384,842
Net income	13,822,186	13,468,763	14,691,605
EPS (NT\$)	4.62	4.70	5.46

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

**Independent auditors' names and their audit opinions for the past five years**

Year	Accounting firm	Name of CPA	Opinion
2010	KPMG	Simon Chen, Janice Lai	Modified unqualified opinion
2011	KPMG	Simon Chen, Janice Lai	Unqualified opinion
2012	KPMG	Simon Chen, Janice Lai	Unqualified opinion
2013	KPMG	Simon Chen, Leo Chi	Modified unqualified opinion
2014	KPMG	Simon Chen, Leo Chi	Unqualified opinion

## Financial Analysis

### Consolidated financial analysis (2012-2014) – Based on IFRS

		2012	2013	2014
Financial structure	Liability to asset ratio (%)	42.58	57.70	56.68
	Long-term fund to PP&E ratio (%)	170.33	182.99	199.33
Solvency	Current ratio (%)	79.43	50.33	61.41
	Quick ratio (%)	68.95	42.98	54.49
	Interest coverage ratio (%)	6,104.36	4,911.23	3,218.92
Operations	Accounts receivable turnover (x)	6.72	6.14	5.66
	Average collection days	54.31	59.44	64.48
	Inventory turnover (x)	13.05	12.00	12.19
	Accounts payable turnover (x)	9.01	9.53	10.03
	Average days sales	27.96	30.41	29.94
	Property, plant and equipment turnover (x)	2.45	2.54	2.51
	Total asset turnover (x)	0.99	0.79	0.77
Profitability	Return on assets (%)	16.99	13.53	11.00
	Return on equity (%)	29.48	27.34	25.50
	Pre-tax income as a % of paid-in capital	58.29	55.89	54.87
	Net income margin (%)	16.59	14.49	13.79
	EPS (NT\$)	6.07	5.79	5.56
Cash flow	Cash flow ratio (%)	86.82	42.37	53.00
	Cash flow adequacy ratio (%)	129.18	111.11	106.30
	Cash reinvestment rate (%)	11.86	9.08	11.10
Leverage	Operating leverage	2.07	2.13	2.66
	Financial leverage	1.02	1.02	1.03
Others	EBITDA (NT\$'000) (Note)	30,529,287	31,003,599	31,294,846
	EBITDA margin (%) (Note)	30.61	28.60	27.79

Explanation of significant changes in 2014 compared with the previous year:

- (1) The current ratio, quick ratio and cash flow ratio rose due to an increase in current financial assets and payment of short-term borrowings.
- (2) The rise in mid-to-long term borrowings led to increased interest expenses and a lower interest coverage ratio.
- (3) The cash reinvestment rate rose due to higher operating cash inflows in 2014.

Note: The 2014 and 2013 data do not include discontinued operations.

## Stand-alone financial analysis (2012-2014) – Based on IFRS

		2012	2013	2014
Financial structure	Liability to asset ratio (%)	42.61	57.20	57.15
	Long-term fund to PP&E ratio (%)	228.82	265.54	270.55
Solvency	Current ratio (%)	54.21	34.63	28.64
	Quick ratio (%)	46.49	29.92	24.32
	Interest coverage ratio (%)	4,841.74	3,835.17	2,726.66
Operations	Accounts receivable turnover (x)	5.39	5.10	5.38
	Average collection days	67.71	71.56	67.84
	Inventory turnover (x)	10.10	11.13	11.42
	Accounts payable turnover (x)	10.28	11.46	12.34
	Average days sales	36.13	32.79	31.96
	Property, plant and equipment turnover (x)	2.27	2.69	2.67
	Total asset turnover (x)	0.71	0.59	0.59
Profitability	Return on assets (%)	17.73	13.71	11.28
	Return on equity (%)	29.48	27.34	25.50
	Pre-tax income as a % of paid-in capital	53.52	48.49	46.01
	Net profit margin (%)	23.37	19.74	18.38
	EPS (NT\$)	6.07	5.79	5.56
Cash flow	Cash flow ratio (%)	58.81	21.31	32.37
	Cash flow adequacy ratio (%)	128.55	103.57	89.23
	Cash reinvestment rate (%)	3.49	-	1.59
Leverage	Operating leverage	2.02	2.64	5.89
	Financial leverage	1.03	1.06	1.12
Others	EBITDA (NT\$'000)	21,046,995	16,260,324	14,818,825
	EBITDA margin (%)	30.12	20.60	18.15
	ARPU (NT\$)	735	746	730
	MOU (in thousand minutes)	16,496,235	14,864,026	12,379,819

Explanation of significant changes in 2014 compared with the previous year:

- (1) The increase in borrowings led to higher interest expenses and a lower interest coverage ratio.
- (2) The operating leverage increased due to a higher opex in 2014.

Note: The 2012-2014 financial data have been duly audited by independent auditors.

Formulas for the above tables:

Financial structure

- (1) Debt to asset ratio = Total liabilities / Total assets
- (2) Long-term fund to PP&E ratio = (Shareholders' equity + Long-term liabilities) / Net PP&E

Solvency

- (1) Current ratio = Current assets / Current liabilities
- (2) Quick ratio = (Current assets – Inventory – Prepaid expenses) / Current liabilities
- (3) Interest coverage ratio = Income before interest and taxes / Interest expense

Operations

- (1) Accounts receivable turnover = Net revenue / Average accounts receivable
- (2) Average collection days = 365 / AR turnover
- (3) Inventory turnover = COGS / Average inventory
- (4) Accounts payable turnover = COGS / Average accounts payable
- (5) Average days sales = 365 / Inventory turnover
- (6) PP&E turnover = Net revenue / Average net PP&E
- (7) Total asset turnover = Net revenue / Average total assets

Profitability

- (1) Return on assets = [Net income + Interest expense x (1 – Tax rate)] / Average assets
- (2) Return on equity = Net income / Average equity
- (3) Net income margin = Net income / Net sales
- (4) EPS = (Net income – Preferred stock dividend) / Weighted average outstanding shares

Cash flow

- (1) Cash flow ratio = Cash flow from operating activities / Current liabilities
- (2) Cash flow adequacy ratio = Net cash flow from operating activities for the past 5 years / (Capital expenditures + Increases in inventory + Cash dividend) for the past 5 years (2009-2011 numbers were calculated based on ROC GAAP)
- (3) Cash reinvestment rate = (Cash flow from operating activities – Cash dividends) / (Gross fixed assets + Long-term

investments + Other assets + Working capital)  
 (Note: Use zero if working capital value is negative)

Leverage

- (1) Operating leverage = (Net revenue – Variable operating costs and expenses) / Operating income  
 (2) Financial leverage = Operating income / (Operating income – Interest expense)

Others

- (1) EBITDA = Operating income + Depreciation + Amortization  
 (2) EBITDA margin = EBITDA / Net revenue  
 (3) ARPU = Net telecom service revenue / Average number of subscribers  
 (4) MOU = Outgoing & incoming minutes

## Consolidated financial analysis (2010-2012) – Based on ROC GAAP

		2010	2011	2012	
Financial structure	Liability to asset ratio (%)	40.46	45.46	44.99	
	Long-term fund to fixed asset ratio (%)	140.25	131.98	146.88	
Solvency	Current ratio (%)	65.61	50.20	64.72	
	Quick ratio (%)	57.83	42.04	53.21	
	Interest coverage ratio (%)	5,452.51	6,796.94	5,511.22	
Operations	Accounts receivable turnover (x)	9.25	10.35	11.81	
	Average collection days	39.46	35.27	30.91	
	Inventory turnover (x)	10.31	11.39	13.24	
	Accounts payable turnover (x)	11.68	9.73	8.96	
	Average days sales	35.40	32.05	27.57	
	Fixed asset turnover (x)	1.61	1.99	2.46	
	Total asset turnover (x)	0.82	0.89	1.06	
Profitability	Return on assets (%)	16.44	15.60	16.50	
	Return on equity (%)	26.85	26.99	29.78	
	% of paid-in capital	Operating income	48.17	51.42	54.77
		Pre-tax income	44.99	47.15	52.54
	Net profit margin (%)	19.70	16.75	15.18	
EPS (NT\$)	4.62	4.70	5.46		
Cash flow	Cash flow ratio (%)	111.89	69.93	84.16	
	Cash flow adequacy ratio (%)	140.61	154.74	130.24	
	Cash reinvestment rate (%)	12.87	14.50	12.40	
Leverage	Operating leverage	1.91	1.97	2.14	
	Financial leverage	1.02	1.01	1.02	
Others	EBITDA (NT\$'000)	27,464,723	27,086,632	26,985,307	
	EBITDA margin (%)	39.15	33.29	27.47	

## Stand-alone financial analysis (2010-2012) – Based on ROC GAAP

		2010	2011	2012	
Financial structure	Liability to asset ratio (%)	41.63	42.23	45.93	
	Long-term fund to fixed asset ratio (%)	170.41	169.34	201.57	
Solvency	Current ratio (%)	92.97	34.59	40.77	
	Quick ratio (%)	87.00	28.47	32.04	
	Interest coverage ratio (%)	5,099.46	6,314.20	4,343.60	
Operations	Accounts receivable turnover (x)	9.17	9.76	10.22	
	Average collection days	39.80	37.39	35.71	
	Inventory turnover (x)	10.76	10.37	10.09	
	Accounts payable turnover (x)	13.68	12.26	10.28	
	Average days sales	33.92	35.19	36.17	
	Fixed asset turnover (x)	1.67	1.98	2.34	
	Total asset turnover (x)	0.67	0.73	0.74	
Profitability	Return on assets (%)	16.79	15.90	16.99	
	Return on equity (%)	26.85	26.99	29.78	
	% of paid-in capital	Operating income	36.05	32.65	33.06
		Pre-tax income	43.14	43.39	47.90
	Net profit margin (%)	23.61	21.75	21.60	
Cash flow	EPS (NT\$)	4.62	4.70	5.46	
	Cash flow ratio (%)	91.01	74.40	67.31	
	Cash flow adequacy ratio (%)	131.99	148.99	133.23	
Leverage	Cash reinvestment rate (%)	9.89	9.70	6.38	
	Operating leverage	1.94	2.16	2.18	
Others	Financial leverage	1.02	1.02	1.04	
	EBITDA (NT\$'000)	21,763,237	19,239,530	19,294,158	
	EBITDA margin (%)	37.17	31.07	28.36	
	ARPU (NT\$)	718	719	735	
	MOU (in thousand minutes)	14,399,713	15,305,902	16,496,235	

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

Formulas for the above tables:

Financial structure

- (1) Debt to asset ratio = Total liabilities / Total assets
- (2) Long-term fund to fixed asset ratio = (Shareholders' equity + Long-term liabilities) / Net fixed assets

Solvency

- (1) Current ratio = Current assets / Current liabilities
- (2) Quick ratio = (Current assets – Inventory – Prepaid expenses) / Current liabilities
- (3) Interest coverage ratio = Income before interest and tax / Interest expense

Operations

- (1) Accounts receivable turnover = Net revenue / Average accounts receivable
- (2) Average collection days = 365 / AR turnover
- (3) Inventory turnover = COGS / Average inventory
- (4) Accounts payable turnover = COGS / Average accounts payable
- (5) Average days sales = 365 / Inventory turnover
- (6) Fixed asset turnover = Net revenue / Average net fixed assets
- (7) Total asset turnover = Net revenue / Average total assets

Profitability

- (1) Return on assets = [Net income + Interest expense \* (1 – Tax rate)] / Average assets
- (2) Return on equity = Net income / Average equity
- (3) Net income margin = Net income / Net sales
- (4) EPS = (Net income – Preferred stock dividend) / Weighted average outstanding shares

Cash flow

- (1) Cash flow ratio = Cash flow from operating activities / Current liabilities
- (2) Cash flow adequacy ratio = Net cash flow from operating activities for the past 5 years / (Capital expenditures + Increases in inventory + Cash dividend) for the past 5 years
- (3) Cash reinvestment rate = (Cash flow from operating activities – Cash dividends) / (Gross fixed assets + Long-term investments + Other assets + Working capital) (Note: Use zero if working capital value is negative)

Leverage

- (1) Operating leverage = (Net revenue – Variable operating costs and expenses) / Operating income
- (2) Financial leverage = Operating income / (Operating income – Interest expense)

Others

- (1)  $\text{EBITDA} = \text{Operating income} + \text{Depreciation} + \text{Amortization}$
- (2)  $\text{EBITDA margin} = \text{EBITDA} / \text{Net revenue}$
- (3)  $\text{ARPU} = \text{Net telecom service revenue} / \text{Average number of subscribers}$
- (4)  $\text{MOU} = \text{Outgoing and incoming minutes}$

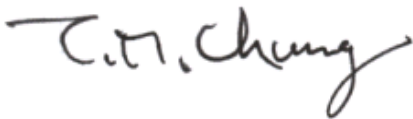


## Audit Committee Report

Date: January 28, 2015

The Board of Directors of Taiwan Mobile Co., Ltd. (TWM) has submitted the Company's 2014 financial statements to the Audit Committee. The CPA firm, KPMG, was retained by the Board to audit TWM's financial statements and has issued an audit report relating to the financial statements. The financial statements have been reviewed and determined to be correct and accurate by the Audit Committee of TWM. According to Article 14-4 of the Securities and Exchange Act and Article 219 of the Company Act, I hereby submit this report on behalf of all members of the committee to the 2015 Annual General Meeting for ratifications.

Taiwan Mobile Co., Ltd.



Tsung-Ming Chung  
Chairman of the Audit Committee

### **The 2014 Consolidated Financial Statements:**

Refer to the attachment.

### **The 2014 Stand-alone Financial Statements:**

Refer to the attachment.

### **Financial Difficulties for the Company and its Affiliates:**

None

## Chapter 6 Review and Analysis of Financial Conditions, Operating Results and Risk Management

### Balance Sheet Analysis

#### Consolidated balance sheet analysis

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

1. Investments increased mainly due to the acquisition of a 14.9% stake in Ambit.
2. Non-current liabilities increased due to additional borrowings to finance mid- and long-term operational requirements.
3. Non-controlling interests increased in 2014 as the Company started to consolidate the numbers of a 49.9%-owned subsidiary, Taipei New Horizon, and because of momo's rights issue for its IPO in which the Company did not participate.

#### 2013 - 2014 Consolidated Balance Sheet

Unit: NT\$'000, %

	2013	2014	YoY change	
			Amount	%
Current assets	29,493,868	32,834,704	3,340,836	11.33
Investments	4,194,570	5,070,051	875,481	20.87
Property, plant and equipment	42,985,801	47,066,319	4,080,518	9.49
Intangible assets	54,837,271	61,168,844	6,331,573	11.55
Other assets	6,840,869	7,397,334	556,465	8.13
Total assets	138,352,379	153,537,252	15,184,873	10.98
Current liabilities	58,605,638	53,468,928	(5,136,710)	(8.76)
Non-current liabilities	21,226,100	33,556,074	12,329,974	58.09
Total liabilities	79,831,738	87,025,002	7,193,264	9.01
Paid-in capital	34,208,328	34,208,328	-	-
Capital surplus	12,456,891	14,715,830	2,258,939	18.13
Retained earnings	41,433,176	41,355,524	(77,652)	(0.19)
Other equity and treasury stock	(30,664,501)	(30,020,330)	644,171	(2.10)
Non-controlling interests	1,086,747	6,252,898	5,166,151	475.38
Total equity	58,520,641	66,512,250	7,991,609	13.66

## Stand-alone balance sheet analysis

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

1. Current assets decreased due to a decline in the Company's loans to its subsidiaries.
2. Investments increased due to rising investments in subsidiaries and financial assets available for sale.
3. Other assets decreased due to some investment properties reclassified to PP&E.
4. Non-current liabilities increased due to additional borrowings to finance mid- and long-term operational requirements.

### 2013- 2014 Stand-alone Balance Sheet

Unit: NT\$'000, %

	2013	2014	YoY change	
			Amount	%
Current assets	19,819,698	15,251,167	(4,568,531)	(23.05)
Investments	39,563,373	49,879,231	10,315,858	26.07
Property, plant and equipment	28,975,365	32,294,190	3,318,825	11.45
Intangible assets	40,247,043	39,117,370	(1,129,673)	(2.81)
Other assets	5,571,753	4,080,948	(1,490,805)	(26.76)
Total assets	134,177,232	140,622,906	6,445,674	4.80
Current liabilities	57,236,700	53,250,046	(3,986,654)	(6.97)
Non-current liabilities	19,506,638	27,113,508	7,606,870	39.00
Total liabilities	76,743,338	80,363,554	3,620,216	4.72
Paid-in capital	34,208,328	34,208,328	-	-
Capital surplus	12,456,891	14,715,830	2,258,939	18.13
Retained earnings	41,433,176	41,355,524	(77,652)	(0.19)
Other equity and treasury stock	(30,664,501)	(30,020,330)	644,171	(2.10)
Total shareholders' equity	57,433,894	60,259,352	2,825,458	4.92

**Impact of changes in financial conditions on financial results:** No significant impact

**Preventive measures:** Not applicable

## Statements of Comprehensive Income Analysis

### Consolidated Statements of Comprehensive Income

1. Decrease in non-operating expenses: Non-operating expenses decreased due to lower losses from asset write-offs.
2. Decrease in losses from discontinued operations: momo sold its loss-making cosmetics chain stores in 2014.

#### 2013 – 2014 Consolidated Statements of Comprehensive Income

Unit: NT\$'000, %

	2013	2014	YoY change	
			Amount	%
Operating revenue	108,407,931	112,623,879	4,215,948	3.89
Operating costs	69,571,020	75,098,238	5,527,218	7.94
Gross profit	38,836,911	37,525,641	(1,311,270)	(3.38)
Operating expenses	17,828,219	17,925,037	96,818	0.54
Operating income	21,071,835	19,710,715	(1,361,120)	(6.46)
Non-operating income (expenses)	(1,652,822)	(845,638)	807,184	(48.84)
Income before tax	19,419,013	18,865,077	(553,936)	(2.85)
Profit from continuing operations	16,067,173	15,631,434	(435,739)	(2.71)
Loss from discontinued operations	249,392	78,329	(171,063)	(68.59)
Net income	15,817,781	15,553,105	(264,676)	(1.67)

### Stand-alone Statements of Comprehensive Income

1. Decrease in operating income: Operating income dropped due to rising operating expenses from 4G business expansion.
2. Increase in non-operating income: Non-operating income rose due to higher investment income from subsidiaries.

#### 2013 – 2014 Stand-alone Statements of Comprehensive Income

Unit: NT\$'000, %

	2013	2014	YoY change	
			Amount	%
Operating revenue	78,928,492	81,649,070	2,720,578	3.45
Operating costs	51,265,449	52,822,024	1,556,575	3.04
Gross profit	27,629,638	28,814,818	1,185,180	4.29
Operating expenses	19,424,256	23,153,551	3,729,295	19.20
Operating income	8,258,017	5,713,280	(2,544,737)	(30.82)
Non-operating income (expenses)	8,329,636	10,027,657	1,698,021	20.39
Income before tax	16,587,653	15,740,937	(846,716)	(5.10)
Net income	15,583,447	15,005,428	(578,019)	(3.71)

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

In 2015, the Company will continue to leverage its 4G high-speed mobile internet service to expand its market share. As demand for smart devices increases, the Company will invest in value-added services to tap into this market's full growth potential. It will focus on developing and enhancing top-of-the-line mobile value-added services, including mobile shopping, mobile payment, video/audio services and myBook store (an e-book platform), to satisfy customer demand and boost average revenue per user. The Company will make full use of its potential and competitive edge in handset procurement to raise its cost-efficiency so as to meet its profit target.

## Cash Flow Analysis

### Consolidated cash flow analysis

1. Decrease in cash outflow from investment activities: Cash outflow declined significantly from 2013 when the Company paid the 4G license fees.
2. Increase in cash outflow from financing activities: Cash outflow rose as the Company paid down bank loans.

#### 2013 – 2014 Consolidated Cash Flow Statement

Unit: NT\$'000, %

	2013	2014	YoY change	
			Amount	%
Cash inflow (outflow) from operating activities	24,833,011	28,338,516	3,505,505	14.12
Cash inflow (outflow) from investment activities	(42,370,252)	(19,664,554)	22,705,698	53.59
Cash inflow (outflow) from financing activities	19,291,773	(8,735,720)	(28,027,493)	NM
Impact from changes in exchange rate	8,622	11,241	2,619	30.38
Net cash increase (decrease)	1,763,154	(50,517)	(1,813,671)	NM

### Stand-alone cash flow analysis

1. Increase in cash inflow from operating activities: Cash inflow rose due to higher revenue collection from expanding businesses.
2. Decrease in cash outflow from investment activities: Cash outflow declined significantly from 2013 when the Company paid the 4G license fees.
3. Increase in cash outflow from financing activities: Cash outflow rose as the Company paid down bank borrowings.

#### 2013 – 2014 Stand-alone Cash Flow Statement

Unit: NT\$'000, %

	2013	2014	YoY change	
			Amount	%
Cash inflow (outflow) from operating activities	12,197,463	17,234,402	5,036,939	41.29
Cash inflow (outflow) from investment activities	(32,165,200)	(3,870,819)	28,294,381	(87.97)
Cash inflow (outflow) from financing activities	19,414,105	(12,797,819)	(32,211,924)	NM
Net cash increase (decrease)	(553,632)	565,764	1,119,396	NM

**Plans to improve negative liquidity:** Not applicable

## Consolidated projected cash flow for 2015

1. Projected cash inflow from operating activities: Expected to remain stable
2. Projected cash outflow from investment activities: For capital expenditure
3. Projected cash outflow from financing activities: For cash dividend distribution

### 2015 Consolidated Projected Cash Flow Analysis

Unit: NT\$'000

Cash balance, beginning of the year (1)	Forecast net cash inflow from operations (2)	Forecast cash outflow from investment and financing activities (3)	Cash balance, end of the year (1) + (2) - (3)	Source of funding for negative cash balance	
				Cash inflow from investment activities	Cash inflow from financing activities
7,903,777	30,903,086	30,821,021	7,985,842	—	—

**Source of funding for negative cash flow in 2015:** Not applicable

## Analysis of Major Capex and its Impact on Finance and Operations

Given stable operations and operating cash inflows, the Company funds its major capex with its own working capital, thus, having a minimal impact on its financials.

## Investment Policies, Reasons for Profit/Loss, Plans for Improvement, and Future Investment Plan

All of TWM's long-term holdings are strategic investments. The Company is committed to promoting digital convergence and becoming a leading player in the T.I.M.E (telecommunication, internet, media and entertainment) era. In 2014, on a consolidated basis, TWM's losses from long-term investments under the equity method amounted to NT\$4,639,000, as some of these investments were still in the initial stage. The Company expects return on investment to improve going forward. It will also continue to make prudent strategic investments.

## Risk Management

### Impact of inflation, interest and exchange rate fluctuations, and preventive measures:

#### 1. Impact of interest rate fluctuations

Interest rate fluctuations had a minimal impact on TWM's 2014 short-term bank borrowings, as interest rates remained low and stable. The Company signed a mid-term loan agreement with the banks to lock in mid-to-long-term interest rates and minimize impacts from interest rate fluctuations.

#### 2. Impact of exchange rate fluctuations

Only some of the Company's expenditures are denominated in euros and US dollars. To minimize the impact from foreign exchange rate fluctuations, the Company hedges risks through foreign exchange spot market transactions. Overall, exchange rate fluctuations had a minimal impact on the Company.

#### 3. Impact of inflation

Inflation had a minimal impact on the Company's operating performance in 2014 and up to publication date in 2015.

#### 4. Objectives and methods for hedge accounting of financial instruments (including derivatives) owned or used by the Company:

Not applicable as the financial instruments owned or used by the Company do not meet the criteria for hedge accounting.

### Investment policy and reasons for gains & losses for high-risk/high-leverage financial products, derivatives, loans to others and guarantees of debts:

1. The Company was not involved in any high-risk, high-leverage financial investment.
2. The Company passed the "Rules and Procedures on Lending and Making Endorsements/Guarantees" to supervise its financing and endorsement activities.
3. Derivatives transaction: None.

## Research and development plans

Project name	Objective	Status	Completion date	Key to success
4G LTE customer experience management	Collect customer experience records from network probes to support better customer service and network optimization.	Working on system design	June 2016	TWM already completed proof of concept (POC) for technical evaluation.
Special commission system with flexible architecture - Phase1	Develop an architecturally flexible special commission system with configurable data settings and system flow to quickly respond to changes in market dynamics and business strategies.	In progress	Dec. 2015	TWM has control over the core technology as it was developed in-house.

<b>Project name</b>	<b>Objective</b>	<b>Status</b>	<b>Completion date</b>	<b>Key to success</b>
Extension of TWM billing system to external merchants	Provide innovative payment services for external merchants by using TWM billing system, which supports various types of e-commerce transactions.	In progress	June 2015	TWM has control over the core technology as it was developed in-house.
TWM customer care mobile app	Apply new user experience design and support instant text messenger for customer service to improve customer satisfaction.	Working on system design and implementation	Sept. 2015	TWM has control over the core technology as it was developed in-house.
M+ Messages	Enhance enterprise IM (Instant Messaging) functions, develop tools for collaboration, and improve data security level.	Working on system design and implementation	Sept. 2015	TWM has control over the core technology as it was developed in-house.
TAMedia - Mobile advertisement platform	Support native advertising and optimize advertisement tracking technology to support cost per lead (CPL) model.	Working on system design	Sept. 2015	Technology is mature.
myVideo	Support download-to-rent (DTR) model to optimize user experience. Provide advertising insertion mechanism to enhance business model's flexibility	Working on system design	2Q15~4Q15	Technology is mature.
Mobile Payment	Provide a mobile wallet service based on NFC (Near Field Communication) and QR Code technologies. This wallet can function as a credit card, transport card, membership/reward card, bank account, and prepaid account. It also supports coupon and advertisement functions for merchants.	Working on system implementation	June 2015	Both the business model and technology are mature.
Value-added services for Voice over LTE (VoLTE)	Provide MRBT (Multimedia Ring Back Tone) and MVPN (Mobile Virtual Private Network) service for VoLTE customers.	Working on system design	Sept. 2015	TWM has control over the core technology as it was developed in-house.
Mobile game marketing platform	Build a market promotion platform for mobile games that supports game downloads, payment, game tips, reward points, virtual item redemption, customer reviews and social networking functions.	Working on system design	June 2015	Both the business model and technology are mature.



## **Regulatory changes and developments**

### **1. Revision of digital convergence regulations**

#### (1) Status

In response to the development of digital convergence services, the NCC plans to change the vertical regulatory framework of the telecommunications, cable TV, terrestrial TV and satellite TV industries into a horizontal hierarchical regulatory framework. The commission plans to amend/reclassify the Telecommunications Act, the Cable Radio and Television Act, the Radio and Television Act, and the Satellite Broadcasting Act into the following acts: Telecommunications Act, Platform Act (including CATV and fixed-line), Content Act (including terrestrial TV and satellite TV), and Convergence Act. The commission has been soliciting public opinions on digital convergence development since December 2013 and will submit a draft to the Legislative Yuan afterwards.

#### (2) Countermeasures

The Company is closely monitoring the progress of the amendments and continues to communicate with and forward suggestions and recommendations concerning related policies and regulations to the NCC to ensure a favorable regulatory environment for the industry's development.

### **2. TWM launched mobile broadband (4G) service**

#### (1) Status

Taiwan Mobile was awarded a 4G license for 15MHz x 2 on the 700MHz frequency band by the NCC on April 30, 2014, and launched its LTE service on June 4, 2014. TWM received two additional licenses for 5MHz x 2 each on the 1800MHz and 700MHz frequency bands on August 29, 2014 and March 20, 2015, respectively, from the NCC. TWM is the only operator that has the largest contiguous spectrum of 20MHz x 2 on the 700MHz band, allowing it to provide the fastest download/upload speed among its peers. In addition, with FET's early return of part of its 2G spectrum approved by the NCC on March 25, 2015, TWM will have another 5MHz x 2 spectrum (10MHz x 2 in total) on the 1800MHz frequency band for LTE use according to the Mobile Broadband Regulation.

#### (2) Countermeasures

Taiwan Mobile is actively increasing spectrum holdings for LTE use to provide high-speed mobile broadband services to its clients.

### **3. Rezoning of CATV service areas**

#### (1) Status

At press time, the NCC has awarded four operating licenses: one in New Taipei City and three in Greater Taichung. However, none have commenced operations because of authorization issues over content. The NCC has also approved 10 applications to start preparatory works for operations: four in Taipei, three in New Taipei City, one in Greater Taichung, one in Greater Kaohsiung and one in Changhua County. The commission is further reviewing one new application in Keelung City.

#### (2) Countermeasures

With the threat of new competition, the Company is integrating its mobile, fixed-line, CATV and digital content to provide users with more digital convergence services, accelerating digitization services and offering more HD channels to enhance customer loyalty.

### **4. Legislative Yuan reviewing ban on media investments by political interests**

#### (1) Status

In March 2012, the Executive Yuan submitted a draft amendment to the Cable Radio and Television Act that would allow a company in which the government indirectly holds less than 10% of its shares to invest in the media industry. The proposed threshold was lowered to 5% by the legislature's Transportation Committee. The amendment still has to be approved by the legislative plenary.

(2) Countermeasures

The relaxation on indirect government ownership should ease the restrictions preventing the Company from venturing into other CATV service areas, giving the Company more flexibility in managing its business. The Company is closely monitoring the progress of the proposed amendment and continues to communicate with and forward suggestions and recommendations concerning related policies and regulations to the Legislative Yuan.

## **5. NCC expects to implement “a la carte” pricing for basic channels starting in 2017**

(1) Status

The NCC plans to implement “a la carte” pricing for basic channels starting in 2017, but it has met with strong opposition from various parties. The NCC has asked new entrants to commit to such a plan when they launch their services in a bid to push its implementation.

(2) Countermeasures

The implementation of “a la carte” pricing for basic channels is expected to have a significant impact on the CATV industry. The Company is closely monitoring the progress of the policy and continues to communicate with the NCC, the Executive Yuan and lawmakers in hopes of maintaining the original cap on pay TV monthly fees and have more flexibility in bundling channels and rate plans.

## Technology changes and development

### 1. Long Term Evolution (LTE) and Long Term Evolution Advanced (LTE-A)

#### (1) Status

LTE, the next generation mobile broadband access technology after 3G, is the dominant global 4G standard for mobile broadband. As LTE can be used in different spectrum bands and is able to provide faster and more efficient mobile broadband access services than 3G, most mobile operators worldwide have built or plan to base their 4G services on LTE. LTE-A is a more advanced technology, with carrier aggregation (CA) being a major feature. CA technology can aggregate two non-contiguous LTE bands to provide a high throughput equivalent to that from two contiguous LTE bands.

#### (2) Countermeasures

TWM won two 15MHz x 2 blocks on the 700MHz (spectrum A4) and the 1800MHz (spectrum C1) bands during the auction in 2013, and has aggressively stepped up its network deployment. TWM started its LTE service through the 15MHz x 2 spectrum on the 700MHz band in June 2014 and then launched 4G services through the 5MHz x 2 spectrum on the 1800MHz band to support 4G smartphones that are not 700MHz LTE enabled. The spectrum utilized on the 700MHz band increased up to 20MHz x 2 to provide a theoretical download speed of 150Mbps starting March 2015. In some metropolitan areas, LTE-A service, which adopts CA technology to combine spectrum of 20MHz on the 700MHz band and 5MHz on the 1800 MHz band to enable a theoretical download speed of 180Mbps, has been provided since then. Going forward, TWM aims to continue expanding its 700MHz and 1800MHz 4G network coverage, utilize more spectrum on 1800MHz up to 10MHz x 2 and increase its LTE-A service regions with CA technology.

### 2. Rising popularity of internet protocol

#### (1) Status

The popularity of internet protocol (IP) has revolutionized the telecommunications business and network infrastructure, giving rise to increased IP-based communications traffic. IP-based telecom is able to simplify network infrastructure, which translates into big savings on operating costs. On the other hand, not only has the increasing availability of cheap or free VoIP services had a great impact on traditional fixed-line operators' long distance and international voice call revenue, free mobile IP messaging services, such as Line, even caused a decline in SMS traffic during the New Year holidays in 2012 to 2015.

#### (2) Countermeasures

TWM has built the latest IP-based optical core network and deployed IP core access and transmission technologies over the past few years. It is also conducting laboratory tests of IPv6 and various End-to-End IP network quality measurements, VoIP and IP messaging application services to lead industry development.

In 2014, the Company continued developing new IP application services and conducting research on the latest optical packet carrier ethernet technologies to introduce more services that provide households with the most advanced and innovative broadband services. Furthermore, the Company has started to test the new VoLTE technology to provide HD-level high-quality VoIP service to LTE subscribers in the future.

### 3. Digital convergence and cloud services

#### (1) Status

Because of the digitalization trend, the transmission and exchange of related digital content and services among different carriers, systems and platforms have brought about changes in the wired and wireless communications and broadcasting industries. This has not only promoted competition and integration of the industries, but also facilitated industry consolidation. Cloud computing technology and service – the base of digital convergence – have progressed from merely a concept to a profitable business, and should be a future trend.

#### (2) Countermeasures

Merging Taiwan Fixed Network (TFN) and Taiwan Telecommunication Network Services (TTN) in 2007 enhanced the Company's status as a leader in the digital convergence era. At the end of 2010, the Company launched its four-screen-and-a-cloud digital convergence service, integrating handset, PC, tablet and TV. In 2013, TWM completed the

construction of a green data center and launched its services. This data center received an ISO 27001 certification for information security management and an ISO 50001 certification for efficient energy management. The data center also adopted European Corporate Security Association (ECSA) certification process to enhance its information security protection mechanism and ensure safety and user satisfaction for cloud services. TWM plans to use this data center to provide infrastructure as a service (IAAS), enabling the Company to launch intelligent cloud services in four key areas – mobile life, digital content, intelligent life and intelligent enterprise.

#### **4. Popularity of mobile smart devices and WiFi technologies**

##### **(1) Status**

The popularity of the iPhone, Android phone and other mobile smart devices has dramatically boosted the growth of data usage. This has forced global mobile operators to expand their access networks' backhaul bandwidth and network capacity, which in turn has increased the pressure on their operating costs. Many mobile operators have started building WiFi networks to offload data traffic.

##### **(2) Countermeasures**

The Company continued deploying more WiFi hotspots in 2014. Statistics shows that the adoption rate and usage of WiFi service by mobile broadband customers have been increasing. Therefore, TWM will continue to expand its WiFi coverage to offload data traffic from the mobile network.

#### **Impact of changes in brand image on the Company's risk management policies in 2014 up to publication date in 2015:**

None. TWM has long built up a sound image among investors and customers for its continuing efforts to enhance corporate governance, network communication quality and customer service, as well as to fulfill its corporate social responsibility. These efforts won numerous recognitions and awards in 2014 (please refer to Chapter 1) and should aid the Company in preventing, controlling and managing latent risks that it may face and help it maintain its good corporate image.

**Expected benefits and risks from mergers in 2014 up to publication date in 2015:** None.

**Expected benefits and risks related to plant facility expansions in 2014 up to publication date in 2015:** Not applicable as the Company is not a manufacturer.

**Risks from supplier and buyer concentration in 2014 up to publication date in 2015:**

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

**Significant changes in shareholdings of directors and major shareholders in 2014 up to publication date in 2015:** None.

**Changes in management controls in 2014 up to publication date in 2015:** Not applicable.

**Significant lawsuits and non-litigious matters in 2014 up to publication date in 2015**

**1. The Company:** None.

**2. The Company's directors, general manager, executives, major shareholder holding more than 10 percent of the Company's shares:** None.

### 3. The Company's subsidiaries

#### (1) Taiwan Fixed Network Co., Ltd. (TFN)

The Construction Bureau of the Taichung City Government ruled that TFN should pay a construction and maintenance fee of NT\$18,688,057 for the reconstruction of the National Second Highway extension's interchange system – A-J bids for common duct construction for 2-1 Road in Fongyuan City.

**Parties Involved:** TFN is the defaulting party.

**Grounds for Lawsuit:**

The Construction Bureau ruled that TFN should pay a construction and maintenance fee of NT\$18,688,057 according to Article 21 of the Common Duct Act and Articles 2, 3 and 4 of the Regulations on Cost Allotment for Common Duct Construction and Management in March 2014. TFN disagreed with the above administrative disposition and filed an administrative appeal. The Taichung City Government revoked the original administrative disposition on June 20, 2014, and requested that the Construction Bureau issue an appropriate and eligible disposition within 90 days after receipt of such written decision from the Taichung City Government. The Construction Bureau has not yet issued any disposition.

#### (2) TCC Investment Co., Ltd. (TCCI)

TCCI filed two lawsuits against Taiwan High Speed Rail Corp (THSRC) for (i) the payment of preferred share dividends in 2007 and 2008, and (ii) the buy-back of the preferred shares.

**Parties Involved:** TCCI is the plaintiff and THSRC is the defendant.

**Amount Claimed:** NT\$24,726,027 for the dividends in 2007, NT\$25,000,000 for the dividends in 2008 and NT\$500,000,000 for the buyback of the preferred shares.

**Grounds for Lawsuit:**

On January 27, 2003, TCCI purchased 50,000,000 Class A name-bearing convertible preferred shares issued by THSRC at NT\$10 per share. According to Article 7-1 and Article 36, paragraph 3 of THSRC's Articles of Corporation, and Articles 8 and 18 of the Regulations for the Issuance and Conversion of Class A Name-Bearing Convertible Preferred Shares ("Regulations"), preferred stock dividends are set at 5% of par value per annum. Dividends are payable in cash on a yearly basis. The issue of preferred shares had been due on February 26, 2010, and TCCI was entitled to request THSRC to buy back the preferred shares in accordance with the above Regulations. However, THSRC has failed to pay any dividend since January 5, 2007. To protect its interests, TCCI filed a lawsuit against THSRC to claim its preferred stock dividends (NT\$24,726,027 for 2007 and NT\$25,000,000 for 2008) plus late payment interest, and filed another lawsuit against THSRC to buy back the preferred shares.

**Status:**

Lawsuit for 2007 dividends, filed on June 24, 2013: The Shihlin District Court and Taiwan High Court dismissed TCCI's claim. TCCI filed an appeal on December 12, 2014, which is now pending in the Supreme Court.

Lawsuit for 2008 dividends, filed on September 23, 2013: The Shihlin District Court dismissed TCCI's claim, and TCCI filed an appeal on November 27, 2014, which is now pending in the Taiwan High Court.

Lawsuit for buyback of preferred shares, filed on January 16, 2015: The case is pending in the Shihlin District Court.

#### (3) Taiwan Kuro Times Co., Ltd. ("Taiwan Kuro")

The Taiwan Intellectual Property Office ("TIPO") issued an administrative disposition in response to Taiwan Kuro's appeal for a review of the generalized licensing royalty rates announced by the Music Copyright Society of Chinese Taipei ("MUST"). Taiwan Kuro disagreed with TIPO's disposition and filed an administrative appeal. When the Ministry of

Economic Affairs dismissed the appeal, Taiwan Kuro filed an administrative litigation. The Intellectual Property Court dismissed Taiwan Kuro's claim, and Taiwan Kuro appealed to the Supreme Administrative Court.

**Parties Involved:** Taiwan Kuro is the appellant and TIPO is the appellee.

**Date of Filing:** The lawsuit was filed on April 25, 2014.

**Grounds for Lawsuit:**

On December 19, 2012, TIPO issued an administrative disposition in response to an appeal filed by Taiwan Kuro on September 1, 2010, for a review of the generalized licensing royalty rates announced by MUST on August 12, 2010. TIPO stated that pursuant to Article 25, Paragraph 6 of the Copyright Collective Management Organization Act: "When there is sufficient reason for an application for review under Paragraph 1, the specialized agency in charge of copyright matters shall make a determination of the given royalty rate, which shall be effective from the date of application for review, provided that in the case of applications made prior to the date of implementation of a given royalty rate, the newly determined rate shall take effect from the date of implementation." Taiwan Kuro disagreed with the generalized licensing royalty rates stipulated in TIPO's disposition and filed an administrative appeal. The Ministry of Economic Affairs dismissed the appeal issued by Taiwan Kuro on June 25, 2013. Taiwan Kuro filed an administrative litigation to revoke TIPO's disposition on August 23, 2013. The Intellectual Property Court dismissed Taiwan Kuro's claim on March 26, 2014. Taiwan Kuro disagreed with the judgment and appealed to the Supreme Administrative Court on April 25, 2014.

**Status:** The case is pending in the Supreme Administrative Court.

## **Other major risks**

### **Customer fraud management policy**

#### **1. Verification before activation**

Applicants' identity and qualifications are carefully reviewed and verified before service is activated.

#### **2. Monitoring after activation**

- (1) Exception management: Relatively "high-risk" applicants are filtered out by the system to protect users' interests.
- (2) Credit control: The system analyzes customers' behavior patterns to strengthen client management.

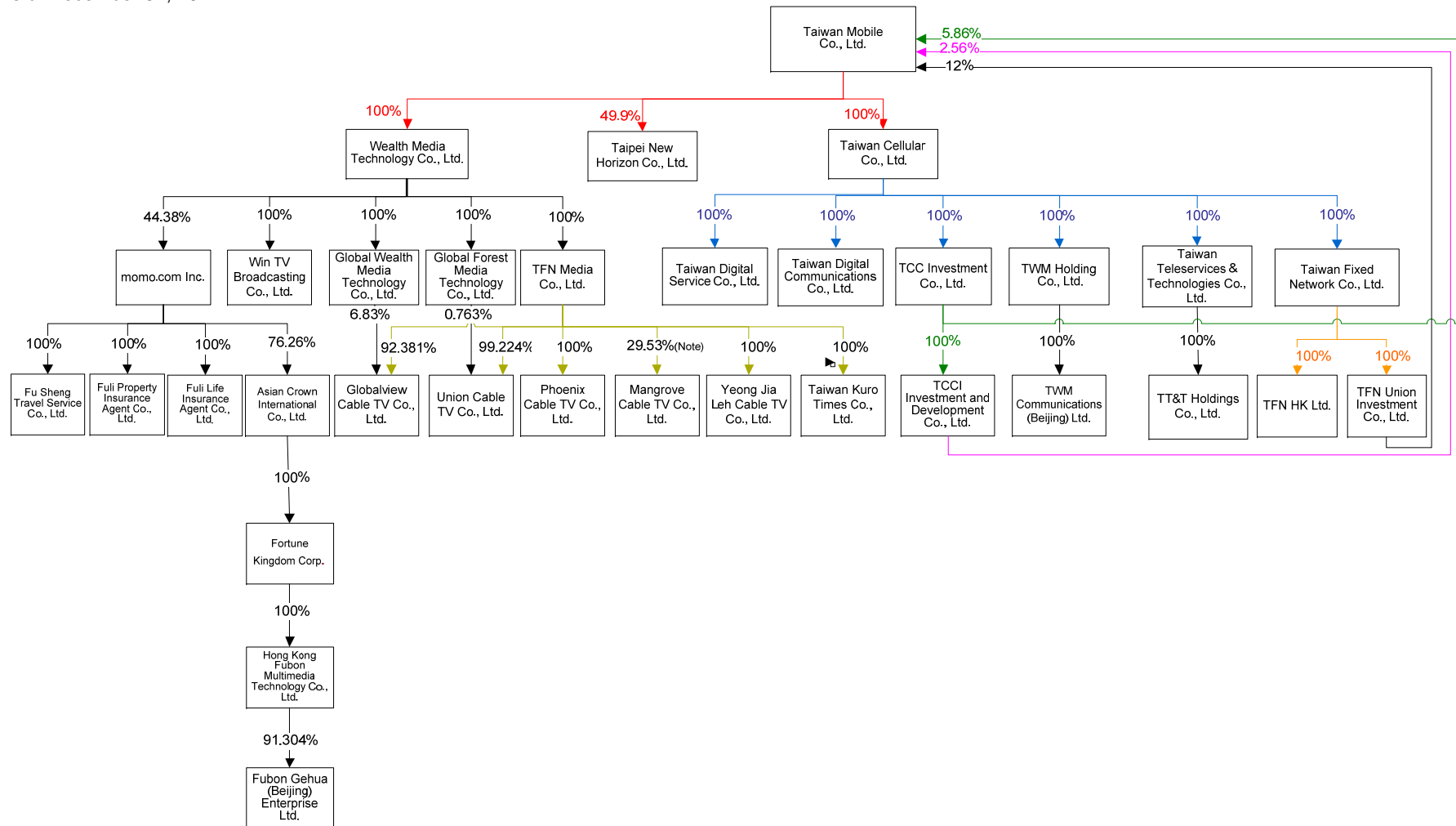
**Other significant items:** None.

# Chapter 7. Special Notes

## Affiliates

### 1. Investment holding structure

As of December 31, 2014



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

## 2. Affiliates' profile

December 31, 2014; Unit: NT\$ (unless otherwise stated)

Name	Date of incorporation	Address	Paid-in capital	Main business
Taiwan Cellular Co., Ltd.	2005.09.20	13F, No. 88, Yanchang Rd., Xinyi District, Taipei	3,711,958,000	Investment
Taiwan Fixed Network Co., Ltd.	2007.01.30	8F, No. 88, Yanchang Rd., Xinyi District, Taipei	21,000,000,000	Fixed-line service provider
Taiwan Digital Service Co., Ltd.	2013.04.02	13F, No. 88, Yanchang Rd., Xinyi District, Taipei	200,000,000	Telecommunications service agency and retail business
Wealth Media Technology Co., Ltd.	2007.08.07	8F, No. 88, Yanchang Rd., Xinyi District, Taipei	420,650,000	Investment
TFN Media Co., Ltd.	2005.01.25	11F, No. 98, Zhouzi St., Neihu District, Taipei	2,309,213,040	Cable broadband and value-added services provider
Win TV Broadcasting Co., Ltd.	2005.10.17	11F, No. 98, Zhouzi St., Neihu District, Taipei	181,773,820	TV program provider
Globalview Cable TV Co., Ltd.	1995.11.25	No. 206, Datong Rd., Sec. 2, Xizhi District, New Taipei City	560,000,000	Cable TV service provider
Union Cable TV Co., Ltd.	2005.02.04	No.179, Nujhong Rd., Sec. 1, Yilan City, Yilan County	1,704,632,800	Cable TV service provider
Yeong Jia Leh Cable TV Co., Ltd.	1994.09.26	10F, No. 651-5, Zhongzheng Rd., Xinzhuang District, New Taipei City	339,400,000	Cable TV service provider
Phoenix Cable TV Co., Ltd.	1996.08.22	No. 312, Fongping 1st Rd., Daliao Township, Greater Kaohsiung	680,901,980	Cable TV service provider
Mangrove Cable TV Co., Ltd.	1996.01.23	5F, No. 33, Lane 3, Zhongzheng E. Rd., Sec. 1, Danshui District, New Taipei City	211,600,000	Cable TV service provider
Taipei New Horizon Co., Ltd.	2009.01.07	6F, No. 88, Yanchang Rd., Xinyi District, Taipei	3,845,000,000	Infrastructure projects and operations
Taiwan Kuro Times Co., Ltd.	2009.02.11	8F, No. 88, Yanchang Rd., Xinyi District, Taipei	136,730	Online music and gaming services
Taiwan Teleservices & Technologies Co., Ltd.	2001.06.08	13F-1, No. 172-1, Jilong Rd., Sec. 2, Taipei	24,843,000	Call center service and telemarketing
TWM Communications (Beijing) Ltd.	2002.09.17	Room 2106, No. 9, Beisihuan West Rd., Haidian District, Beijing, China	US\$3,000,000	Mobile application development and design
TCC Investment Co., Ltd.	2009.08.10	13F, No. 88, Yanchang Rd., Xinyi District, Taipei	221,030,440	Investment
TFN Union Investment Co., Ltd.	2009.09.22	13F, No. 88, Yanchang Rd., Xinyi District, Taipei	4,000,000	Investment
TCCI Investment and Development Co., Ltd.	2009.09.22	8F, No. 88, Yanchang Rd., Xinyi District, Taipei	4,000,000	Investment
Taiwan Digital Communications Co., Ltd.	2007.06.06	8F, No. 88, Yanchang Rd., Xinyi District, Taipei	112,000,000	TV program production and mobile phone wholesale
TFN HK Ltd.	2003.05.14	Unit 511, 5/F, Tower 1, Silvercord, 30 Canton Road, Tsimshatsui, Kowloon, Hong Kong	HK\$1,300,000	Telecommunications service provider



<b>Name</b>	<b>Date of incorporation</b>	<b>Address</b>	<b>Paid-in capital</b>	<b>Main business</b>
Global Wealth Media Technology Co., Ltd.	2007.10.26	1F, No. 206, Datong Rd., Sec. 2, Xizhi District, New Taipei City	89,448,670	Investment
Global Forest Media Technology Co., Ltd.	2008.12.26	8F, No. 88, Yanchang Rd., Xinyi District, Taipei	15,000,000	Investment
TWM Holding Co., Ltd.	2006.06.09	Arias, Fabrega & Fabrega Trust Co., BVI Ltd. 325 Waterfront Drive, Road Town, Tortola, British Virgin Islands	US\$1	Investment
TT&T Holdings Co., Ltd.	2004.10.08	TrustNet Chambers Lotemau Centre, P.O. Box 1225, Apia, Samoa	US\$1,300,000	Investment
momo.com Inc.	2004.09.27	4F, No. 96, Zhouzi St., Neihu District, Taipei	1,420,585,000	Wholesale and retail sales
Fu Sheng Travel Service Co., Ltd.	2004.12.16	7F, No. 92, Zhouzi St., Neihu District, Taipei	25,000,000	Travel agency
Fuli Life Insurance Agent Co., Ltd.	2005.12.27	7F, No 98, Zhouzi St., Neihu District, Taipei	3,000,000	Life insurance agency
Fuli Property Insurance Agent Co., Ltd.	2006.01.03	7F, No. 96, Zhouzi St., Neihu District, Taipei	3,000,000	Property insurance agency
Asian Crown International Co., Ltd.	2009.01.07	Palm Grove House, P.O. Box 438, Road Town, Tortola, British Virgin Islands	US\$34,750,000	Investment
Fortune Kingdom Corp.	2009.01.06	Equity Trust Chambers, P.O. Box 3269, Apia, Samoa	US\$33,632,777	Investment
Hong Kong Fubon Multimedia Technology Co., Ltd.	2010.03.18	Unit 511, Tower 1, Silvercord, 30 Canton Road, Tsimshatsui, Kowloon, Hong Kong.	US\$33,632,777	Investment
Fubon Gehua (Beijing) Enterprise Ltd.	2010.12.08	Room 101-106, Building No. 402, A10 North Jiuxianqiao Road, Chaoyang District, Beijing, China	RMB230,000,000	Wholesale sales

### 3. Affiliates' operating highlights

December 31, 2014; Unit: NT\$'000

Company name	Paid-in capital	Total assets	Total liabilities	Net worth	Operating revenue	Operating income	Net income	EPS (NT\$)
Taiwan Cellular Co., Ltd.	3,711,958	85,574,400	7,501	85,566,899	-	(664)	7,383,016	19.89
Taiwan Fixed Network Co., Ltd.	21,000,000	58,505,607	4,449,294	54,056,313	14,189,597	6,235,050	5,379,331	2.56
Taiwan Digital Service Co., Ltd.	200,000	2,782,381	1,292,257	1,490,124	16,874,886	558,205	467,479	23.37
Wealth Media Technology Co., Ltd.	420,650	20,633,311	6,722	20,626,589	-	(352)	2,703,674	67.12
TFN Media Co., Ltd.	2,309,213	13,631,673	4,027,746	9,603,927	3,110,461	1,743,609	2,196,291	9.51
Win TV Broadcasting Co., Ltd.	181,774	694,607	445,363	249,244	840,132	39,126	37,942	2.09
Globalview Cable TV Co., Ltd.	560,000	904,455	204,218	700,237	507,201	91,988	80,554	1.44
Union Cable TV Co., Ltd.	1,704,633	2,209,940	321,419	1,888,521	641,540	129,002	104,740	0.61
Yeong Jia Leh Cable TV Co., Ltd.	339,400	1,110,111	375,686	734,425	1,166,129	250,486	212,371	6.26
Phoenix Cable TV Co., Ltd.	680,902	1,392,615	306,279	1,086,336	1,217,054	242,633	209,332	3.07
Mangrove Cable TV Co., Ltd.	211,600	606,186	221,163	385,023	491,487	122,942	103,652	4.90
Taipei New Horizon Co., Ltd.	3,845,000	8,378,322	4,925,563	3,452,759	425,383	53,658	(32,425)	(0.08)
Taiwan Kuro Times Co., Ltd.	137	351,648	217,595	134,053	805,994	118,604	98,659	7,215.58
Taiwan Teleservices & Technologies Co., Ltd.	24,843	450,210	343,243	106,967	1,184,268	67,575	60,057	24.17
TWM Communications (Beijing) Co., Ltd.	95,130	87,394	167	87,227	816	(1,999)	105	NA
TCC Investment Co., Ltd.	221,030	29,564,683	527,846	29,036,837	1,481,370	1,479,959	1,485,742	67.22
TFN Union Investment Co., Ltd.	4,000	42,915,733	1,236,104	41,679,629	2	(187)	(137)	(0.34)
TCCI Investment and Development Co., Ltd.	4,000	9,229,904	337,614	8,892,290	1,233,215	1,232,971	1,159,077	2,897.69
Taiwan Digital Communications Co., Ltd.	112,000	116,310	70	116,240	23,077	(659)	(126)	(0.01)
TFN HK Ltd.	5,313	33,507	16,629	16,878	85,872	3,777	3,200	2.46
Global Wealth Media Technology Co., Ltd.	89,449	97,465	74	97,391	-	(180)	5,326	0.60
Global Forest Media Technology Co., Ltd.	15,000	17,698	54	17,644	-	(267)	535	0.36
TWM Holding Co., Ltd.	0.032	261,285	60	261,225	-	(207)	9,548	9,547,784
TT&T Holdings Co., Ltd.	40,943	52,284	-	52,284	-	-	3,260	2.51
momo.com Inc.	1,420,585	9,601,179	3,290,189	6,310,990	23,442,127	1,597,377	1,170,042	9.11

Company name	Paid-in capital	Total assets	Total liabilities	Net worth	Operating revenue	Operating income	Net income	EPS (NT\$)
Fu Sheng Travel Service Co., Ltd.	25,000	321,940	271,521	50,419	52,031	27,353	21,157	8.46
Fuli Life Insurance Agent Co., Ltd.	3,000	11,991	707	11,284	3,927	3,284	2,788	9.29
Fuli Property Insurance Agent Co., Ltd.	3,000	12,886	355	12,531	5,318	4,289	3,634	12.11
Asian Crown International Co., Ltd.	1,068,610	253,702	-	253,702	-	-	(191,776)	(7.56)
Fortune Kingdom Corp.	1,035,051	248,827	-	248,827	-	-	(192,008)	(7.67)
Hong Kong Fubon Multimedia Technology Co., Ltd.	1,035,051	248,827	-	248,827	-	(101)	(192,008)	(7.67)
Fubon Gehua (Beijing) Enterprise Ltd.	1,171,850	368,164	96,292	271,872	403,445	(205,274)	(216,774)	NA

Note : Exchange rate of US\$1=NT\$31.71, HK\$1=NT\$4.087 and RMB1=NT\$5.095 as of December 31, 2014

Average exchange rate of US\$1=NT\$30.2983, HK\$1=NT\$3.9066 and RMB1=NT\$4.9192 for 2014

**Private placement of company shares:** None

**TWM shares held / sold by subsidiaries**

Subsidiary	TCC Investment Co., Ltd.	TFN Union Investment Co., Ltd. (TUI)	TCCI Investment and Development Co., Ltd. (TID)
Paid-in capital (NT\$'000)	221,030	4,000	4,000
Source of funding	Equity	TFN established TUI using shares of the Company	TFN Investment (Note 2) established TID using shares of the Company
% owned by the Company	100%	100%	100%
Acquisition / disposal date	–	–	2014/10/6
No. of shares acquired and payment costs	–	–	–
No. of shares sold / proceeds	–	–	31,974,248 shares / NT\$2,970,389
Investment income	–	–	–
Ending balance: Total No. of shares / value (NT\$'000) (Note 1)	200,496,761 shares / NT\$12,163,470	410,665,284 shares / NT\$22,312,814	87,589,556 shares / NT\$4,759,033
Pledges	None	None	None
Guarantees / endorsements provided by the Company	–	–	–
Financing provided by the Company	–	–	–

Note 1: Ending balance is carrying cost and does not include evaluation gains/losses.

Note 2: TFN Investment was merged into TCC Investment Co., Ltd. on September 19, 2009.

**Other supplementary information:** None

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

**Taiwan Mobile Co., Ltd.**  
**Non-consolidated Financial Statements for the**  
**Years Ended December 31, 2014 and 2013, and**  
**Independent Auditors' Report**

## **Independent Auditors' Report**

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

We have audited the accompanying balance sheets of Taiwan Mobile Co., Ltd. as of December 31, 2014 and 2013, and the related statements of comprehensive income, changes in equity, and cash flows for the years ended December 31, 2014 and 2013. These non-consolidated financial statements are the responsibility of the Company's management. Our responsibility is to issue a report on these non-consolidated financial statements based on our audits.

We conducted our audits 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. Those regulations and standards require that we plan and perform the audit to obtain reasonable assurance about whether the non-consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall non-consolidated statements presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the non-consolidated financial statements referred to above present fairly, in all material respects, the financial position of Taiwan Mobile Co., Ltd. as of December 31, 2014 and 2013, and the results of its operations and its cash flows for the years ended December 31, 2014 and 2013, in conformity with the "Guidelines Governing the Preparation of Financial Reports by Securities Issuers."

We have also audited the accompanying schedules of significant accounts, provided as supplementary analysis, by applying the same procedures described above. In our opinion, such schedules are consistent, in all material respects, with the non-consolidated financial statements referred to above.

KPMG  
Taipei, Taiwan (the Republic of China)  
January 29, 2015

### **Notes to Readers**

The accompanying non-consolidated financial statements are intended only to present the financial position, results of operations, and cash flows in accordance with the accounting principles and practices generally accepted in the Republic of China and not those of any other jurisdictions. The standards, procedures and practices to audit such financial statements are those generally accepted and applied in the Republic of China.

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

**TAIWAN MOBILE CO., LTD.**  
**BALANCE SHEETS**  
**DECEMBER 31, 2014 AND 2013**  
(In Thousands of New Taiwan Dollars)

		<b>2014.12.31</b>		<b>2013.12.31</b>				<b>2014.12.31</b>		<b>2013.12.31</b>	
<b>ASSETS</b>		<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>	<b>LIABILITIES AND EQUITY</b>		<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>
<b>CURRENT ASSETS</b>						<b>CURRENT LIABILITIES</b>					
1100	Cash and cash equivalents (Notes 4, 6(a) and 7)	\$ 1,167,487	1	601,723	1	2100	Short-term borrowings (Notes 4, 6(l) and 7)	\$ 27,880,000	20	37,170,000	28
1125	Current available-for-sale financial assets (Notes 4, 6(b))	204,310	-	202,354	-	2110	Short-term notes and bills payable (Notes 4 and 6(l))	5,593,031	4	2,396,971	2
1170	Accounts and notes receivable, net (Notes 4, 5 and 6(d))	10,606,824	8	11,807,587	9	2170	Accounts payable	4,353,712	3	4,025,392	3
1180	Accounts receivable from related parties (Note 7)	261,589	-	1,744,392	1	2180	Accounts payable to related parties (Note 7)	88,659	-	94,029	-
1200	Other receivables	371,843	-	335,115	-	2219	Other payables (Note 7)	8,885,881	6	8,884,409	7
1210	Other receivable from related parties (Note 7)	333,917	-	2,433,533	2	2230	Current tax liabilities (Note 4)	940,108	1	470,808	-
130x	Inventories (Notes 4 and 6(e))	1,999,682	2	2,283,349	2	2250	Current provisions (Notes 4 and 6(p))	118,947	-	109,116	-
1410	Prepayments (Note 7)	303,705	-	409,844	-	2310	Advance receipts (Note 6(m))	1,673,685	1	1,973,963	1
1479	Other current assets	1,810	-	1,801	-	2320	Long-term liabilities, current portion (Note 6(o))	2,000,000	2	1,000,000	1
	<b>Total current assets</b>	<u>15,251,167</u>	<u>11</u>	<u>19,819,698</u>	<u>15</u>	2399	Other current liabilities	1,716,023	1	1,112,012	1
							<b>Total current liabilities</b>	<u>53,250,046</u>	<u>38</u>	<u>57,236,700</u>	<u>43</u>
<b>NON-CURRENT ASSETS</b>						<b>NON-CURRENT LIABILITIES</b>					
1523	Non-current available-for-sale financial assets (Notes 4 and 6(b))	2,587,050	2	-	-	2530	Bonds payable (Note 6(n))	14,794,293	11	14,792,647	11
1543	Non-current financial assets at cost (Notes 4 and 6(c))	7,050	-	50,324	-	2540	Long-term borrowings (Note 6(o))	10,000,000	7	2,000,000	2
1550	Investments accounted for using equity method (Notes 4, 5 and 6(f))	47,285,131	34	39,513,049	30	2550	Non-current provisions (Notes 4 and 6(p))	616,959	-	564,470	-
1600	Property, plant and equipment (Notes 4, 5 and 6(h))	32,294,190	23	28,975,365	22	2570	Deferred tax liabilities (Notes 4, 5 and 6(s))	1,313,577	1	1,744,211	1
1760	Investment properties, net (Notes 4 and 6(i))	554,966	-	1,765,018	1	2640	Accrued pension liabilities (Notes 4 and 6(r))	28,286	-	28,882	-
1791	Concessions (Notes 4 and 6(j))	31,505,997	22	32,748,545	24	2645	Guarantee deposits	360,393	-	376,428	-
1805	Goodwill (Notes 4, 5 and 6(j))	7,121,871	5	7,121,871	5		<b>Total non-current liabilities</b>	<u>27,113,508</u>	<u>19</u>	<u>19,506,638</u>	<u>14</u>
1801	Computer software, net (Notes 4 and 6(j))	489,502	-	376,627	-		<b>Total liabilities</b>	<u>80,363,554</u>	<u>57</u>	<u>76,743,338</u>	<u>57</u>
1840	Deferred tax assets (Notes 4, 5 and 6(s))	779,560	1	815,573	1						
1995	Other non-current assets (Notes 6(k) and 8)	2,746,422	2	2,991,162	2	3110	Ordinary shares	34,208,328	24	34,208,328	26
	<b>Total non-current assets</b>	<u>125,371,739</u>	<u>89</u>	<u>114,357,534</u>	<u>85</u>	3200	Capital surplus	14,715,830	11	12,456,891	9
							Retained earnings				
						3310	Legal reserve	21,537,666	15	19,262,044	14
						3350	Unappropriated retained earnings	19,817,858	14	22,171,132	17
						3400	Other equity interests	(302,986)	-	412,682	-
						3500	Treasury shares	(29,717,344)	(21)	(31,077,183)	(23)
							<b>Total equity (Note 6(t))</b>	<u>60,259,352</u>	<u>43</u>	<u>57,433,894</u>	<u>43</u>
<b>TOTAL</b>		<u><b>\$140,622,906</b></u>	<u><b>100</b></u>	<u><b>134,177,232</b></u>	<u><b>100</b></u>	<b>TOTAL</b>		<u><b>\$140,622,906</b></u>	<u><b>100</b></u>	<u><b>134,177,232</b></u>	<u><b>100</b></u>

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

**TAIWAN MOBILE CO., LTD.**  
**STATEMENTS OF COMPREHENSIVE INCOME**  
**FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**  
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2014		2013	
	Amount	%	Amount	%
4000 <b>OPERATING REVENUES (Notes 4, 6(v) and 7)</b>	\$ 81,649,070	100	78,928,492	100
5000 <b>OPERATING COSTS (Notes 4, 7 and 12)</b>	52,822,024	65	51,265,449	65
<b>GROSS PROFIT FROM OPERATIONS</b>	28,827,046	35	27,663,043	35
5910 Unrealized gain on sales	42,761	-	33,405	-
5920 Realized gain on sales	30,533	-	-	-
5950 <b>NET GROSS PROFIT FROM OPERATIONS</b>	28,814,818	35	27,629,638	35
6000 <b>OPERATING EXPENSES (Notes 4, 7 and 12)</b>				
6100 Marketing	20,018,364	24	15,989,050	20
6200 Administrative	3,135,187	4	3,435,206	4
	23,153,551	28	19,424,256	24
6500 <b>NET OTHER INCOME AND EXPENSES (Note 6(w))</b>	52,013	-	52,635	-
6900 <b>NET OPERATING INCOME</b>	5,713,280	7	8,258,017	11
<b>NON-OPERATING INCOME AND EXPENSES (Notes 4, 6(x) and 7)</b>				
7010 Other income	550,826	1	229,807	-
7020 Other gains and losses, net	(955,375)	(1)	(1,318,154)	(2)
7050 Finance costs	(599,276)	(1)	(444,094)	(1)
7060 Share of profit of subsidiaries and associates accounted for using equity method	11,031,482	13	9,862,077	13
7000 <b>Total non-operating income and expenses</b>	10,027,657	12	8,329,636	10
7900 <b>PROFIT BEFORE TAX</b>	15,740,937	19	16,587,653	21
7950 <b>TAX EXPENSE (Notes 4 and 6(s))</b>	735,509	1	1,004,206	1
8200 <b>PROFIT</b>	<b>15,005,428</b>	<b>18</b>	<b>15,583,447</b>	<b>20</b>
8300 <b>OTHER COMPREHENSIVE INCOME (LOSS)</b>				
8325 Unrealized gains (losses) on available-for-sale financial assets	(390,994)	(1)	(3,043)	-
8360 Actuarial losses on defined benefit plans	(14,791)	-	(17,260)	-
8370 Share of other comprehensive income (loss) of subsidiaries and associates accounted for using equity method	(330,879)	-	89,290	-
8399 Income tax generated from other comprehensive income	2,515	-	2,934	-
8300 <b>OTHER COMPREHENSIVE INCOME (AFTER TAX)</b>	<b>(734,149)</b>	<b>(1)</b>	<b>71,921</b>	<b>-</b>
8500 <b>COMPREHENSIVE INCOME</b>	<b>\$ 14,271,279</b>	<b>17</b>	<b>15,655,368</b>	<b>20</b>
<b>EARNINGS PER SHARE (Note 6(u))</b>				
9750 <b>BASIC</b>	<b>\$ 5.56</b>		<b>5.79</b>	
9850 <b>DILUTED</b>	<b>\$ 5.55</b>		<b>5.78</b>	

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



**TAIWAN MOBILE CO., LTD.**  
**STATEMENTS OF CHANGES IN EQUITY**  
**FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**  
(In Thousands of New Taiwan Dollars)

Account Number	Ordinary Shares	Capital Surplus	Retained Earnings		Other Equity Interests		Treasury Shares	Total Equity
			Legal Reserve	Unappropriated	Exchange Differences on Translation	Unrealized Gain (Loss) on Available-for-Sale Financial Assets		
A1	\$ 34,208,328	12,431,851	18,061,894	22,606,173	25,483	314,543	(31,077,183)	56,571,089
	Distribution of retained earnings for the year ended December 31, 2012 (Note 1):							
B1	-	-	1,469,160	(1,469,160)	-	-	-	-
B5	-	-	-	(14,526,578)	-	-	-	(14,526,578)
B5	-	-	(269,010)	-	-	-	-	(269,010)
	-	-	1,200,150	(15,995,738)	-	-	-	(14,795,588)
D1	-	-	-	15,583,447	-	-	-	15,583,447
D3	-	-	-	(735)	(535)	73,191	-	71,921
D5	-	-	-	15,582,712	(535)	73,191	-	15,655,368
C7	-	25,040	-	-	-	-	-	25,040
M7	-	-	-	(22,015)	-	-	-	(22,015)
Z1	<b>34,208,328</b>	<b>12,456,891</b>	<b>19,262,044</b>	<b>22,171,132</b>	<b>24,948</b>	<b>387,734</b>	<b>(31,077,183)</b>	<b>57,433,894</b>
	Distribution of retained earnings for the year ended December 31, 2013 (Note 2):							
B1	-	-	2,275,622	(2,275,622)	-	-	-	-
B5	-	-	-	(15,064,599)	-	-	-	(15,064,599)
	-	-	2,275,622	(17,340,221)	-	-	-	(15,064,599)
D1	-	-	-	15,005,428	-	-	-	15,005,428
D3	-	-	-	(18,481)	6,346	(722,014)	-	(734,149)
D5	-	-	-	14,986,947	6,346	(722,014)	-	14,271,279
C7	-	1,665	-	-	-	-	-	1,665
L7	-	1,520,403	-	-	-	-	1,359,839	2,880,242
M5	-	85,965	-	-	-	-	-	85,965
M7	-	650,906	-	-	-	-	-	650,906
Z1	<b>\$ 34,208,328</b>	<b>14,715,830</b>	<b>21,537,666</b>	<b>19,817,858</b>	<b>31,294</b>	<b>(334,280)</b>	<b>(29,717,344)</b>	<b>60,259,352</b>

Note 1: The remuneration to directors of \$39,667 thousand and the bonus to employees of \$396,673 thousand have been expensed and deducted from 2012 earnings.

Note 2: The remuneration to directors of \$42,075 thousand and the bonus to employees of \$420,753 thousand have been expensed and deducted from 2013 earnings.

**The accompanying notes are an integral part of the non-consolidated financial statements.**

**TAIWAN MOBILE CO., LTD.**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**  
**(In Thousands of New Taiwan Dollars)**

	<u>2014</u>	<u>2013</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	<b>\$ 15,740,937</b>	<b>16,587,653</b>
A10000 <b>Profit before tax</b>		
A20000 <b>Adjustments</b>		
A20010     Adjustments to reconcile profit (loss)		
A22400         Share of profit of subsidiaries and associates		
accounted for using equity method	(11,031,482)	(9,862,077)
A20100         Depreciation expense	7,600,128	7,008,086
A20200         Amortization expense	1,505,417	994,221
A22500         Loss on disposal of property, plant and equipment,	950,715	1,285,754
net		
A20900         Finance costs	599,276	444,094
A20300         Provision for bad debt expense	334,960	286,698
A23900         Unrealized gain on sales	42,761	33,405
A24000         Realized gain on sales	(30,533)	-
A21200         Interest income	(18,531)	(38,975)
A21300         Dividend income	(9,835)	(11,628)
A20010         Total adjustments to reconcile profit (loss)	<u>(57,124)</u>	<u>139,578</u>
A30000     Changes in operating assets and liabilities		
A31150         Accounts and notes receivable	1,164,238	(941,074)
A31160         Accounts receivable from related parties	1,482,803	(1,704,873)
A31180         Other receivables	(46,827)	211,472
A31190         Other receivable from related parties	14,616	(542,393)
A31200         Inventories	283,667	(334,014)
A31230         Prepayments	106,139	(15,923)
A31240         Other current assets	(9)	1,900
A32150         Accounts payable	328,320	(733,372)
A32160         Accounts payable to related parties	(5,370)	25,757
A32180         Other payables	(1,001,011)	488,164
A32200         Provisions	(5,416)	(5,845)
A32210         Advance receipts	(245,267)	(294,734)
A32230         Other current liabilities	549,000	419,300
A32240         Accrued pension liabilities	(15,387)	860
A30000         Total changes in operating assets and	<u>2,609,496</u>	<u>(3,424,775)</u>
liabilities		
A33000     Net cash inflows generated from operating activities	<u>18,293,309</u>	<u>13,302,456</u>
A33100         Interest received	1,510	-
A33300         Interest paid	(4,351)	(1,134)
A33350         Income taxes paid	(1,056,066)	(1,103,859)
AAAA <b>Net cash flows from operating activities</b>	<b>\$ <u>17,234,402</u></b>	<b><u>12,197,463</u></b>

(Continued)

**TAIWAN MOBILE CO., LTD.**  
**STATEMENTS OF CASH FLOW(Continued)**  
**FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**  
**(In Thousands of New Taiwan Dollars)**

	<u>2014</u>	<u>2013</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
B02700 Acquisition of property, plant and equipment	(9,196,218)	(6,776,085)
B07100 Increase in prepayments for equipment	(280,962)	(137,989)
B04500 Acquisition of intangible assets	(108,375)	(29,148,300)
B01800 Acquisition of investments accounted for using equity method	(3,172,155)	(1,153,350)
B00300 Acquisition of available-for-sale financial assets	(2,980,000)	-
B04300 Increase in financing provided to investees	(2,920,000)	(4,445,000)
B04400 Decrease in financing provided to investees	5,005,000	4,190,000
B03700 Increase in refundable deposits	(125,248)	(109,629)
B03800 Decrease in refundable deposits	94,717	88,819
B04600 Proceeds from disposal of intangible assets	12,660	20,394
B02800 Proceeds from disposal of property, plant and equipment	12,484	33,005
B01400 Proceeds from investees' capital reduction	43,274	-
B07500 Interest received	26,943	33,085
B07600 Dividend received	9,717,061	5,240,570
B06500 Increase in other financial assets	-	(720)
BBBB <b>Net cash used in investing activities</b>	<u>(3,870,819)</u>	<u>(32,165,200)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
C00100 Increase in short-term borrowings	109,300,000	71,900,000
C00200 Decrease in short-term borrowings	(122,200,000)	(44,400,000)
C03700 Proceeds of financing from investee	21,070,000	7,270,000
C03800 Repayment of financing from investee	(17,460,000)	(7,400,000)
C00500 Increase in short-term notes and bills payable	19,067,020	3,894,957
C00600 Decrease in short-term notes and bills payable	(15,874,202)	(1,498,542)
C01600 Proceeds from long-term borrowings	10,000,000	3,000,000
C01700 Repayments of long-term borrowings	(1,000,000)	-
C03000 Increase in guarantee deposits received	110,213	119,069
C03100 Decrease in guarantee deposits received	(127,049)	(126,859)
C04500 Cash dividends paid	(15,064,590)	(14,795,584)
C05600 Interest paid	(619,211)	(344,979)
C01200 Proceeds from issuance of bonds	-	5,796,043
C01300 Repayments of bonds	-	(4,000,000)
CCCC <b>Net cash flows from (used in) financing activities</b>	<u>(12,797,819)</u>	<u>19,414,105</u>
EEEE <b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	565,764	(553,632)
E00100 <b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	601,723	1,155,355
E00200 <b>CASH AND CASH EQUIVALENTS AT END OF YEARS</b>	<u><u>1,167,487</u></u>	<u><u>601,723</u></u>

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

(Concluded)

**TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES**  
**NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS**  
**YEARS ENDED DECEMBER 31, 2014 AND 2013**  
**(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)**

**1. ORGANIZATION AND OPERATIONS**

Taiwan Mobile Co., Ltd. (TWM) was incorporated in the Republic of China (ROC) on February 25, 1997. TWM's shares began to trade on the ROC Over-the-Counter Securities Exchange (known as the GreTai Securities Market) on September 19, 2000. On August 26, 2002, TWM's shares were listed on the Taiwan Stock Exchange. TWM mainly renders wireless communication services and sells mobile phones and accessories.

TWM's received a second-generation (2G) mobile telecommunications concession operation license issued by the Directorate General of Telecommunications (DGT) of the ROC. The license allows TWM to provide services for 15 years from 1997 onwards. The license was renewed and its expiry date was extended to June 2017 by the National Communications Commission (NCC) in November 2012. In March 2005, TWM received a third-generation (3G) concession operation license issued by the DGT. The 3G license allows TWM to provide services from the issuance date of the license to December 2018.

TWM acquired the Mobile Broadband Spectrum frequency of 30 MHz x 2 (15 MHz x 2 in the 700 MHz frequency band and 15 MHz x 2 in the 1800 MHz frequency band of the 4G spectrum) in October 2013. In April 2014, TWM acquired the concession license for the Mobile Broadband Spectrum frequency of 15 MHz x 2 in the 700 MHz frequency band. To accelerate the Mobile Broadband Spectrum service in the 1800 MHz frequency band in July 2014, the NCC authorized TWM to return the mobile telephone service frequency and approved the application for the Broadband Spectrum frequency of 5 MHz x 2 in the 1800 MHz frequency band. TMW acquired the concession license for the Mobile Broadband Spectrum frequency of 5 MHz x 2 in the 1800 MHz frequency band in August 2014.

In January 2014, TWM was approved to acquire a Mobile Broadband Spectrum frequency of 5 MHz x 2 in the 700 MHz frequency band by the NCC. Please refer to note 11 "Significant subsequent events".

**2. APPROVAL DATE AND PROCEDURES OF THE NON-CONSOLIDATED FINANCIAL STATEMENTS**

The Board of Directors approved the non-consolidated financial statements on January 29, 2015.

**3. NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED**

- a. 2013 International Financial Reporting Standards endorsed by the Financial Supervisory Commission, R.O.C., but not yet in effect

In accordance with Rule No. 1030010325 issued by the Financial Supervisory Commission ("FSC") on April 3, 2014, companies listed for trading on the stock exchange or over-the-counter market or for registration as emerging stock should adopt the 2013 IFRSs (excluding IFRS 9 *Financial Instruments*) endorsed by the FSC beginning in 2015. The new standards, amendments and interpretations which were announced by the International Accounting Standards Board ("IASB") are as follows:

**TAIWAN MOBILE CO., LTD.**

**NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

<b>New Standards, Amendments and Interpretations</b>	<b>Effective Date Issued by IASB</b>
Amended IFRS 1 <i>Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters</i>	July 1, 2010
Amended IFRS 1 <i>Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters</i>	July 1, 2011
Amended IFRS 1 <i>Government Loans</i>	January 1, 2013
Amended IFRS 7 <i>Disclosures - Transfers of Financial Assets</i>	July 1, 2011
Amended IFRS 7 <i>Disclosures - Offsetting Financial Assets and Financial Liabilities</i>	January 1, 2013
IFRS 10 <i>Consolidated Financial Statements</i>	January 1, 2013 (Subsidiaries will adopt on January 1, 2014)
IFRS 11 <i>Joint Agreements</i>	January 1, 2013
IFRS 12 <i>Disclosure of Interests in Other Entities</i>	January 1, 2013
Amended IFRS 10, IFRS 11 and IFRS 12 <i>Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance</i>	January 1, 2013
Amended IFRS 10, IFRS 12 and IAS 27 <i>Investment Entities</i>	January 1, 2014
IFRS 13 <i>Fair Value Measurement</i>	January 1, 2013
Amended IAS 1 <i>Presentation of Items of Other Comprehensive Income</i>	July 1, 2012
Amended IAS 12 <i>Deferred Tax: Recovery of Underlying Assets</i>	January 1, 2012
Amended IAS 19 <i>Employee Benefits</i>	January 1, 2013
Amended IAS 27 <i>Separate Financial Statements</i>	January 1, 2013
Amended IAS 28 <i>Investments in Associates and Joint Ventures</i>	January 1, 2013
Amended IAS 32 <i>Offsetting Financial Assets and Financial Liabilities</i>	January 1, 2014
IFRIC 20 <i>Stripping Costs in the Production Phase of a Surface Mine</i>	January 1, 2013

In the TWM's assessment, except for the following standards, the 2013 IFRSs will not have significant influence after their adoption:

(1) IAS 19 *Employee Benefits*

The amendments to IAS 19 require companies to calculate a "net interest" amount by applying the discount rate to the net defined benefit liability or asset to replace the interest cost and expected return on plan assets used in the previous IAS 19. In addition, the amendments eliminate the accounting treatment of either the corridor approach or the immediate recognition of actuarial gains and losses in profit or loss when they occur, and instead require companies to recognize all actuarial gains and losses immediately through other comprehensive income. The past service cost, on the other hand, will be expensed immediately when it is incurred and will no longer be amortized over the average period before meeting vesting conditions on a straight-line basis. In addition, the amendments also require a broader disclosure of defined benefit plans. In compliance with the standards above, TWM anticipates that accrued pension

## TAIWAN MOBILE CO., LTD.

### NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

liabilities would increase by \$311 thousand and retained earnings would decrease by \$258 thousand on January 1, 2014; accrued pension liabilities would increase by \$289 thousand and retained earnings would decrease by \$240 thousand on December 31, 2014, operating expenses would increase by \$562 thousand and actuarial gains on defined benefit plans, before tax would increase by \$584 thousand in other comprehensive income for the year ended December 31, 2014.

(2) *IAS 1 Presentation of Financial Statements*

The primary amendment of IAS 1 was requiring profit or loss and other comprehensive income to be presented together, requiring entities to group items presented in other comprehensive income based on whether they are potentially reclassifiable to profit or loss subsequently, and requiring tax associated with items presented before tax to be shown separately for each of the two groups of other comprehensive income items. TWM will follow the amendment of IAS 1 to present the comprehensive income statement.

(3) *IFRS 12 Disclosure of Interests in Other Entities*

IFRS 12 combines all related standards regarding the disclosures of financial reports of subsidiaries, joint ventures, associates, and non-consolidated entities.

(4) *IFRS 13 Fair Value Measurement*

IFRS 13 defines the meaning of fair value and sets the method of calculation and the presentation of measurement of fair value. After assessing the standard, TWM does not expect any significant influence on the financial condition and performance, and will follow IFRS 13 to additionally disclose the information on measurement of fair value.

- b. New standards and interpretations of 2013 IFRSs issued by the IASB but not yet endorsed by the FSC

<b>New Standards, Amendments and Interpretations</b>	<b>Effective Date Issued by IASB</b>
<i>IFRS 9 Financial Instruments</i>	January 1, 2018
<i>IFRS 14 Regulatory Deferral Accounts</i>	January 1, 2016
<i>IFRS 15 Revenue from Contracts with Customers</i>	January 1, 2017
<i>Amended IAS 1 Disclosure Initiative</i>	January 1, 2016
<i>Amended IFRS 9 and IFRS 7 Mandatory Effective Date and Offsetting Disclosures</i>	January 1, 2018

(continued)

## TAIWAN MOBILE CO., LTD.

### NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

<u>New Standards, Amendments and Interpretations</u>	<u>Effective Date Issued by IASB</u>
Amended IFRS 10 and IAS 28 <i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i>	January 1, 2016
Amended IFRS 10, IFRS 12 and IAS 28 <i>Investment Entities: Applying the Consolidation Exception</i>	January 1, 2016
Amended IFRS 11 <i>Accounting for Acquisitions of Interests in Joint Operations</i>	January 1, 2016
Amended IAS 16 and IAS 38 <i>Clarification of Acceptable Methods of Depreciation and Amortization</i>	January 1, 2016
Amended IAS 16 and IAS 41 <i>Agriculture: Bearer Plants</i>	January 1, 2016
Amended IAS 19 <i>Defined Benefit Plans: Employee Contributions</i>	July 1, 2014
Amended IAS 36 <i>Recoverable Amount Disclosure for Non-Financial Assets</i>	January 1, 2014
Amended IAS 39 <i>Novation of Derivatives and Continuation of Hedge Accounting</i>	January 1, 2014
IFRIC 21 <i>Levies</i>	January 1, 2014 (concluded)

TWM is assessing the influence on financial condition and performance of the above standards and interpretations. TWM will disclose the related influence when the assessment is finished.

#### 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

##### Statement of Compliance

The non-consolidated financial statements have been prepared in accordance with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers (the Guidelines).

##### Basis of Preparation

a. Basis of measurement

The non-consolidated financial statements have been prepared on a historical cost basis except for financial instruments measured at fair value through profit or loss, which are measured at fair value.

b. Functional and presentation currency

The functional currency is determined based on the primary economic environment in

## TAIWAN MOBILE CO., LTD.

### NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

which the entity operates. The non-consolidated financial statements are presented in New Taiwan Dollars, which is TWM's functional currency. All financial information presented in New Taiwan Dollars has been rounded to the nearest thousand.

#### **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 (the reporting date), foreign currency monetary amounts are reported using the closing rate.

Non-monetary items carried at fair value should be reported at the rate that existed when the fair values were determined. Non-monetary items carried at historical cost are reported using the exchange rate at the date of the transaction.

Exchange differences due to settlement of transactions or translation for monetary items are recognized in profit or loss.

Exchange differences arising on non-monetary items carried at fair value (for example, equity instruments) are recognized in profit or loss. If a gain or loss on a non-monetary item is recognized in other comprehensive income, any foreign exchange component of that gain or loss is also recognized in other comprehensive income.

For the purpose of preparing non-consolidated financial statements, the assets and liabilities of foreign operations are translated to New Taiwan Dollars (NTD) using the exchange rates at the reporting date. The income and expenses of foreign operations are translated at the average exchange rate for the period. Exchange differences are recognized in other comprehensive income, and accumulated in equity.

#### **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 expects to realize the asset, or intends to sell or consume it, in its normal operating cycle;
- b. It holds the asset primarily for the purpose of trading;
- c. It expects to realize the asset within twelve months after the reporting period; or
- d. 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.



## **TAIWAN MOBILE CO., LTD.**

### **NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

- a. It expects to settle the liability in its normal operating cycle;
- b. It holds the liability primarily for the purpose of trading;
- c. The liability is due to be settled within twelve months after the reporting period; or
- d. 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.

#### **Voluntary Change in Accounting Policy**

In response to the development of the IAS regarding revenue, TWM consulted the practical experience of most of the telecommunication service providers abroad and professional investigations of accounting firms, and changed the recognition method for bundle sales from the residual value method to the relative fair value method on January 1, 2013. Instead of recognizing revenue from telecommunication service charges and sales of inventories, the total price of the contract is allocated based on the relative fair value of each component, which fairly presents transactions and attributes gain and loss to the correct accounting period.

#### **Cash and Cash Equivalents**

Cash and cash equivalents comprise cash, cash in bank, and short-term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value. Time deposits which meet the above definition and are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes should be recognized as cash equivalents. If they do not meet the above definition, time deposits should be recognized as other current and non-current financial assets.

#### **Financial Instruments**

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

- a. Financial assets

TWM adopts trade-date accounting to recognize and derecognize financial assets. Financial assets are classified into the following categories: available-for-sale financial assets and loans and receivables.

## TAIWAN MOBILE CO., LTD.

### NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

#### (1) 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 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.

#### (2) 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, trade receivables, other receivables, debt instrument investment without active market, other financial assets, and refundable deposits.

#### (3) Impairment of financial assets

A financial asset is impaired if, and only if, there is 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 financial assets that can be estimated reliably.

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. In

## TAIWAN MOBILE CO., LTD.

### NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

addition, 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.

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, 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.

Trade receivables are assessed as to whether any impairment has occurred at every reporting date. A trade 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 trade receivables, for which an impairment loss is reflected in an allowance account against the receivables. When it is determined a trade 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.

#### (4) 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.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received or receivable and any

## TAIWAN MOBILE CO., LTD.

### NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

cumulative gain or loss that had been recognized in other comprehensive income is recognized in profit or loss.

#### b. Financial liabilities

##### (1) Recognition

Financial liabilities not classified as held for trading or designated as at fair value through profit or loss, which comprise loans and borrowings, short-term notes and bills payable, bonds payable, trade payables, other payables, and guarantee deposits received, are measured at fair value plus any directly attributable transaction cost at the time of initial recognition. Subsequent to initial recognition, they are measured at amortized cost calculated using the effective interest method.

##### (2) Derecognition of financial liabilities

TWM derecognizes a financial liability when its contractual obligation has been discharged or cancelled, or has expired. The difference between the carrying amount of a financial liability removed and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognized in profit or loss.

#### **Inventories**

Inventories are measured at the lower of cost and net realizable value. Inventories are assessed item by item, except those with similar characteristics are collectively assessed. 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 calculation of cost.

#### **Investment in Associates**

Associates are those entities in which TWM has significant influence, but not control, over the financial and operating policies.

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.

The non-consolidated financial statements include TWM's share of the profit or loss and other comprehensive income 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.

## **TAIWAN MOBILE CO., LTD.**

### **NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

If TWMM does not subscribe the newly issued shares 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.

Unrealized profits resulting from transactions between TWMM and an associate are eliminated to the extent of TWMM's interest in the associate. Unrealized losses on transactions with associates are eliminated in the same way, except to the extent that the underlying asset is impaired.

When TWMM's share of losses exceeds its interest in an associate, the carrying amount of the investment, including any long-term interests that form part thereof, is reduced to zero, and the recognition of further losses is discontinued except to the extent that TWMM has an obligation or has made payments on behalf of the investee.

#### **Subsidiaries**

The subsidiaries which TWMM holds for control are measured under the equity method in the financial statements. Under the equity method, the net income, other comprehensive income, and equity in the separate financial statements are equivalent to the net income, other comprehensive income, and equity attributable to the owners of the parent in the consolidated financial statements.

Changes in ownership of the subsidiaries are recognized as equity transactions.

#### **Property, Plant and Equipment**

##### **a. Recognition and measurement**

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

## TAIWAN MOBILE CO., LTD.

### NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

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 as profit and loss.

#### b. Reclassification to investment property

Property is reclassified to investment property at its carrying amount when the use of the property changes from owner-occupied to investment property.

#### c. Subsequent cost

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.

#### d. Depreciation

The depreciable amount of an asset is determined after deducting its residual amount, and the net amount shall be allocated with the direct method over its useful life. Each significant item of property, plant and equipment shall be evaluated and depreciated separately if it possesses a different useful life. The depreciation charge for each period shall be recognized in profit or loss.

The depreciable amount of a leased asset is allocated to each accounting period during the period of expected use on a systematic basis consistent with the depreciation policy the lessee adopts for depreciable assets that are owned. The asset is depreciated over the shorter of the lease term and its useful life.

Land has an unlimited useful life and therefore is not depreciated. For the estimated useful lives, for the current and comparative years, of significant items of property, plant and equipment, please refer to Note 6(h).

Depreciation methods, useful lives, and residual values are reviewed at each reporting date. If expectations differ from the previous estimates, the change is accounted for as a change in accounting estimate.

### **Investment Property**

Investment property is the property held either to earn rental income or for capital appreciation or for both. Investment property is measured at cost on initial recognition and subsequently at fair value, with any change therein recognized in profit or loss. Cost includes expenditure that is directly attributable to the acquisition of the investment property.

## TAIWAN MOBILE CO., LTD.

### NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

When the use of a property changes such that it is reclassified as property, plant and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.

#### **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 included in intangible assets.

Goodwill is measured at cost less accumulated impairment losses. The carrying amount of the investments in associates includes goodwill. The impairment losses on investments would not be allocated to goodwill or any other assets.

##### b. Other intangible assets

Other intangible assets are measured at cost less accumulated amortization and any accumulated impairment losses.

##### c. Amortization

Amortization is recognized in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill and intangible assets with an indefinite useful life, from the date that they are available for use. For the estimated useful lives for the current and comparative periods, please refer to Note 6(j).

The amortization method, the amortization period, and the residual value for an intangible asset with a finite useful life shall be reviewed at each fiscal year-end. Any changes shall be accounted for as changes in accounting estimates.

#### **Impairment of Non-financial Assets**

TWM measures whether impairment occurred in non-financial assets (except for inventories, deferred income tax assets, and employee benefits) on every reporting date, and estimates the recoverable amount. If it is not possible to determine the recoverable amount (fair value less

## TAIWAN MOBILE CO., LTD.

### NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

cost to sell and value in use) for the individual asset, then TWMM will determine the recoverable amount for the asset's cash-generating unit.

The recoverable amount for an individual asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use. If, and only if, the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset shall be reduced to its recoverable amount. That reduction is an impairment loss. An impairment loss shall be recognized immediately in profit or loss.

TWMM should assess at the end of each reporting period whether there is any indication that an impairment loss recognized in prior periods for an asset other than goodwill may no longer exist or may have decreased. If any such indication exists, the entity shall estimate the recoverable amount of that asset. An impairment loss recognized in prior periods for an asset other than goodwill shall be reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If this is the case, the carrying amount of the asset shall be increased to its recoverable amount. That increase is a reversal of an impairment loss. An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

Notwithstanding whether indicators exist, recoverability of goodwill and intangible assets with indefinite useful lives or those not yet in use is required to be tested at least annually. Impairment loss is recognized if the recoverable amount is less than the carrying amount.

For the purpose of impairment testing, goodwill acquired in a business combination shall, from the acquisition date, be allocated to each of the acquirer's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination. If the carrying amount of the cash-generating units exceeds the recoverable amount of the units, the entity shall recognize the impairment loss, and the impairment loss shall be allocated to reduce the carrying amount of each asset in the units. Reversal of an impairment loss for goodwill is prohibited.

#### **Provisions**

A provision is recognized if, as a result of a past event, TWMM 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 at a pre-tax rate that reflects the current market assessments of the time value of money and the risks specific to the liability. The unwinding



## **TAIWAN MOBILE CO., LTD.**

### **NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

of the discount is recognized as finance cost. The restoration cost 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.

#### **Treasury Shares**

Repurchased shares are recognized under treasury shares (a contra-equity account) based on their repurchase price (including all directly accountable costs), net of tax. Shares that are owned by TWM's subsidiaries are seen as identical to treasury shares.

Gains on disposal of treasury shares should be recognized under "capital reserve – treasury share transactions"; Losses on disposal of treasury shares should be offset against existing capital reserves arising from similar types of treasury shares. 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 shares should be calculated using the weighted-average method and grouped by the type of repurchase.

#### **Employee Benefits**

Obligations for contributions to defined contribution pension plans are recognized as an employee benefit expense in profit or loss in the periods during which services are rendered by employees.

A defined benefit plan uses the projected unit credit method to calculate actuarial valuation at the end of the fiscal year. TWM recognizes actuarial gains and losses from the defined benefit obligation in other comprehensive income immediately when the gains and losses occur. When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognized in profit or loss on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognized immediately in profit or loss.

TWM recognizes gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on curtailment comprises any resulting change in the fair value of plan assets, any change in the present value of the defined benefit obligation, and any related actuarial gains or losses and past service cost that had not previously been recognized.

The rate used to discount post-employment benefit obligations is determined by reference to market yields at the end of the reporting period on high-quality corporate bonds or

## TAIWAN MOBILE CO., LTD.

### NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

government bonds. The currency and term of the bonds are consistent with those of the obligations.

#### **Income Tax**

Income tax expenses include both current taxes and deferred taxes. Except for expenses related to business combinations, expenses recognized in equity or other comprehensive income directly, 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) for the year calculated using the statutory tax rate on the reporting date or the actual legislative tax rate, as well as tax adjustments related to prior years.

An additional 10% surtax on undistributed earnings, computed according to the ROC Income Tax Act, is recognized in current taxes in the year of approval by a shareholders' 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 bases. Deferred tax assets are generally recognized for all deductible temporary differences, net operating loss carryforwards, and unused tax credits to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Deferred taxes shall not be recognized for temporary differences from the following:

- (1) Assets and liabilities that are initially recognized but not related to a business combination and have no effect on net income or taxable gains (losses) during the combination.
- (2) Temporary differences arising from equity investments in subsidiaries or joint ventures where there is a high probability that such temporary differences will not reverse.
- (3) Initial recognition of goodwill.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates that have been enacted or substantively enacted on the reporting date. The measurement reflects the entity's expectations on the reporting date as to the manner in which the carrying amount of its assets and liabilities will be recovered or settled.

## TAIWAN MOBILE CO., LTD.

### NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

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 every year on the financial reporting date, 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.

Income tax expenses recognized in equity balances or other comprehensive income shall be measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled based on the temporary differences between the carrying amount and the tax basis of related assets and liabilities on the reporting date.

#### Revenue

Revenue is measured at the fair value of the consideration received or receivable, net of returns, trade discounts, and volume rebates. Revenue from bundle sales is recognized with the relative fair value method, and the total price of the contract is allocated to each component of revenue based on the relative fair values.

- a. Service revenues from mobile communication services, wireless services, and value-added services, net of any applicable discount, are billed at predetermined rates.
- b. Sales of goods

Revenue from sales of goods is recognized when the conditions mentioned below are all satisfied; the amount of sales allowance is reasonably estimated based on previous experience and other relevant factors.

- (1) TWM has transferred the significant risks and returns of ownership to the counterparty;
- (2) TWM has not been involved in any control activities and has not maintained effective control over the goods sold;
- (3) The amount can be reliably measured;
- (4) Economic benefits relevant to the transactions will probably flow to TWM;
- (5) Costs related to the transactions, whether incurred or expected, can be reliably measured.

## TAIWAN MOBILE CO., LTD.

### NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

Generally, revenue is recognized as goods are delivered and ownership is transferred.

c. Customer loyalty program

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

d. Commissions

Revenue from services rendered is recognized in profit or loss in proportion to the stage of completion of the transaction at the reporting date.

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 made by TWM.

e. Dividend and interest income

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. Recognition is on an accrual basis, and revenue is in accordance with the weighted-average outstanding principal and effective interest rate.

#### **Business Combination**

A business combination uses the acquisition method. Goodwill is measured as an aggregation of the consideration transferred, which is measured at fair value at the acquisition date, and the amount of any non-controlling interest in the acquiree, net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed at fair value. If the residual balance is negative, TWM shall re-assess whether it has correctly identified all of the assets acquired and liabilities assumed, and recognize a gain on the bargain purchase thereafter.

#### **5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY**

The preparation of the non-consolidated financial statements in conformity with the Guidelines 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.

## TAIWAN MOBILE CO., LTD.

### NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

The management will continually review the estimates and basic assumptions. Changes in accounting estimates will be recognized in the period of change and the future period of their impact.

#### a. Impairment assessment of tangible and intangible assets (goodwill is excluded)

In the process of impairment assessment, TWM should rely on subjective judgment to determine the individual cash flows of a specific group of assets and estimate future gain and loss according to the usage of assets and business characteristics. Alteration of estimates from any change in economic conditions or business strategy may lead to significant impairment loss in the future.

TWM has not recognized any impairment loss for the years ended December 31, 2014 and 2013.

#### b. Impairment assessment of goodwill

The use 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 present value. Significant impairment loss may occur if actual cash flows are less than forecasted.

As of December 31, 2014 and 2013, the carrying value of goodwill amounted to \$7,121,871 thousand. TWM has not recognized any impairment loss on goodwill for the years ended December 31, 2014 and 2013.

#### c. Impairment assessment of investments accounted for using equity method

Impairment assessment is required if, and only if, there is objective evidence of impairment of investments accounted for using equity method and the carrying value may not be recoverable. Management assesses the impairment based on the expected future cash flows from the investee, including the growth rate of revenues estimated by the management of the investee. The general situation of the market and businesses which share similar characteristics is taken into consideration to assess the rationality of relevant assumptions.

TWM has not recognized any impairment loss on investments accounted for using equity method for the years ended December 31, 2014 and 2013.

#### d. Income tax

The realizability of deferred income tax assets (liabilities) depends on sufficient future

## TAIWAN MOBILE CO., LTD.

### NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

profits or a taxable temporary difference. Any changes in the industry environment or amendments of law can result in significant adjustment of deferred income tax.

As of December 31, 2014 and 2013, the carrying value of deferred income tax assets amounted to \$779,560 thousand and \$815,573 thousand, respectively; and the carrying value of deferred income tax liabilities amounted to \$1,313,577 thousand and \$1,744,211 thousand, respectively.

#### e. Useful lives of property, plant and equipment

Please refer to Note 6(h). TWM reviews the estimated useful lives of property, plant and equipment periodically.

#### f. Impairment assessment of accounts receivable

If there is any objective evidence of impairment, TWM will take account of estimates of future cash flows. An impairment loss is calculated as the difference between an asset's carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Significant impairment loss may occur if actual cash flows are less than forecasted.

As of December 31, 2014 and 2013, the carrying value of accounts receivable amounted to \$10,606,296 thousand and \$11,804,813 thousand, respectively. They were the net amounts after subtracting the allowances for doubtful accounts amounting to \$228,697 thousand and \$263,918 thousand, respectively.

### 6. DESCRIPTION OF SIGNIFICANT ACCOUNTS

#### a. Cash and cash equivalents

	<u>2014.12.31</u>	<u>2013.12.31</u>
Cash in banks	\$ 729,570	431,763
Time deposits	392,887	11,960
Government bonds with repurchase rights	45,000	158,000
Revolving funds	30	-
	<u>\$ 1,167,487</u>	<u>601,723</u>

#### b. Current and non-current available-for-sale financial assets

	<u>2014.12.31</u>	<u>2013.12.31</u>
Domestic listed stock	\$ 204,310	202,354
Domestic unlisted stock	\$ 2,587,050	-

**TAIWAN MOBILE CO., LTD.**

**NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

c. Non-current financial assets at cost

	<b>2014.12.31</b>	<b>2013.12.31</b>
Foreign unlisted stock	<b>\$ 7,050</b>	<b>50,324</b>

The aforementioned investments held by TWM are measured at cost less impairment loss at year-end given that the range of reasonable fair value estimates is significant and the probability for each estimate cannot be reasonably determined. Therefore, TWM management has determined that the fair value cannot be measured reliably.

For the years ended December 31, 2014 and 2013, there was no impairment loss.

d. Accounts and notes receivable, net

	<b>2014.12.31</b>	<b>2013.12.31</b>
Notes receivable	\$ 528	2,774
Accounts receivable	10,834,993	12,068,731
Less: allowance for doubtful accounts	(228,697)	(263,918)
Accounts receivable, net	10,606,296	11,804,813
Total	<b>\$ 10,606,824</b>	<b>11,807,587</b>

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

	<b>Amount of Accounts Receivable Sold</b>	<b>Proceeds of the Sale of Accounts Receivable</b>
<u>January 2014</u>		
Long Sun Asset Management Co., Ltd.	<b>\$ 988,347</b>	<b>42,499</b>
<u>January 2013</u>		
Hui Cheng First Asset Management Co., Ltd.	<b>\$ 1,238,163</b>	<b>40,116</b>

The accounts receivable aging analysis of TWM was as follows:

	<b>2014.12.31</b>	<b>2013.12.31</b>
Neither past due nor impaired	\$ 10,327,243	11,517,099
Past due but not impaired		
Past due within 180 days	279,053	283,805
Past due over 180 days	-	3,909
	<b>\$ 10,606,296</b>	<b>11,804,813</b>

**TAIWAN MOBILE CO., LTD.**

**NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

Movements of allowance for doubtful receivables for the years ended December 31, 2014 and 2013, were as follows:

	<b>For the Years Ended December 31</b>	
	<b>2014</b>	<b>2013</b>
Beginning balance	\$ 263,918	257,724
Add: Provision	317,187	262,779
Reversal	112,886	120,169
Less: Write-off	(465,294)	(376,754)
Ending balance	<b>\$ 228,697</b>	<b>263,918</b>

e. Inventories

	<b>2014.12.31</b>	<b>2013.12.31</b>
Merchandise	<b>\$ 1,999,682</b>	<b>2,283,349</b>

For the years ended December 31, 2014 and 2013, the cost of goods sold recognized in comprehensive income amounted to \$24,463,513 thousand and \$23,565,134 thousand, respectively, which included the inventory write-downs amounting to \$28,232 thousand and recovery amounting to \$22,766 thousand, respectively. The value of the inventories was recovered by clearing the inventories in the year 2013.

f. Investments accounted for using equity method

	<b>2014.12.31</b>	<b>2013.12.31</b>
Subsidiaries	\$ 47,261,992	37,917,583
Associates		
Taipei New Horizon Co., Ltd.(TNH)	-	1,566,952
Alliance Digital Tech Co., Ltd. (ADT)	23,139	28,514
	<b>\$ 47,285,131</b>	<b>39,513,049</b>

(1) Subsidiaries

Please refer to the consolidated financial statements for the years ended December 31, 2014 and 2013.

(2) Associates

Financial information on TWM's associates was as follows:

	<b>2014.12.31</b>	<b>2013.12.31</b>
Total assets	<b>\$ 187,143</b>	<b>7,768,095</b>
Total liabilities	<b>\$ 13,598</b>	<b>4,478,376</b>



**TAIWAN MOBILE CO., LTD.**

**NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

	<b>For the Years Ended</b>	
	<b>December 31</b>	
	<b>2014</b>	<b>2013</b>
Operating revenues	<u>\$ 42,355</u>	<u>2,875,023</u>
Profit	<u>\$ (64,188)</u>	<u>143,215</u>
Share of losses of associates accounted for using equity method	<u>\$ (16,876)</u>	<u>(69,725)</u>

(1) TNH

TNH was established with the approval of the Taipei City Government and entered into “the Build-operate-transfer project of investment in Songshan Tobacco Plant culture park contract” (the “BOT contract”) with the Department of Cultural Affairs, Taipei City Government, in 2009. TNH began to operate in May 2013.

On January 22, 2014, the Board of Directors of TNH resolved to increase TNH’s capital by \$345,000 thousand, divided into 34,500 thousand shares with a par value of \$10 per share. TWM subscribed for the shares based on its proportion of the shareholding, which remained at 49.9%, and paid \$172,155 thousand on January 27, 2014.

On February 21, 2014, TWM obtained control of TNH due to a change in the Board members of TNH, and therefore, TNH is included in the consolidated entities as a subsidiary. For the acquisition of subsidiaries, please refer to Note 6(g).

(2) ADT

In November 2013, TWM acquired 19.23% of ADT.

In 2014, TWM held 13.33% of ADT due to not subscribing for new shares.

TWM holds less than 20% of ADT but still has significant influence on ADT due to a seat on the Board.

g. Acquisition of subsidiaries

TWM obtained control of TNH due to the change in the members on the Board of TNH through the election on February 21, 2014. TWM’s shareholding remained at 49.9%. TNH mainly engages in real estate leasing and hotel business.

Assets acquired and liabilities assumed

**TAIWAN MOBILE CO., LTD.**

**NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

	<b>TNH</b>
Current assets	
Cash and cash equivalents	\$ 1,193,252
Others	79,777
Non-current assets	
Service concession	7,460,415
Others	5,656
Current liabilities	(647,681)
Non-current liabilities	
Long-term borrowings	(3,285,841)
Others	(1,339,944)
	<b>\$ 3,465,634</b>

TWM's shareholding of TNH was 49.9% before obtaining control of TNH, at which time the book value and fair value were equivalent. Therefore, the gain and loss arising from remeasurement were not significant.

h. Property, plant and equipment

Movements of the cost, depreciation, and impairment of property, plant and equipment of TWM for the years ended December 31, 2014 and 2013, were as follows:

	<b>Land</b>	<b>Buildings</b>	<b>Telecommunication equipment</b>	<b>Miscellaneous equipment</b>	<b>Construction in progress and equipment to be inspected</b>	<b>Total</b>
<b>Cost:</b>						
Balance, January 1, 2014	\$ 4,268,702	2,612,273	63,138,694	4,571,722	1,793,869	76,385,260
Additions	-	-	59,519	328,317	10,284,580	10,672,416
Reclassification	944,263	395,524	8,962,996	116,320	(9,079,632)	1,339,471
Disposals	-	-	(6,058,462)	(73,691)	(7,218)	(6,139,371)
Balance, December 31, 2014	<b>\$ 5,212,965</b>	<b>3,007,797</b>	<b>66,102,747</b>	<b>4,942,668</b>	<b>2,991,599</b>	<b>82,257,776</b>
Balance, January 1, 2013	\$ 4,040,056	2,551,870	61,272,984	4,243,731	2,581,974	74,690,615
Additions	-	-	114,199	338,225	6,755,580	7,208,004
Reclassification	228,646	60,403	7,471,680	60,045	(7,532,341)	288,433
Disposals	-	-	(5,720,169)	(70,279)	(11,344)	(5,801,792)
Balance, December 31, 2013	<b>\$ 4,268,702</b>	<b>2,612,273</b>	<b>63,138,694</b>	<b>4,571,722</b>	<b>1,793,869</b>	<b>76,385,260</b>
<b>Accumulated depreciation and impairment:</b>						
Balance, January 1, 2014	\$ 59,376	842,123	43,348,134	3,160,262	-	47,409,895
Depreciation	-	69,961	7,040,623	477,016	-	7,587,600
Reclassification	-	142,263	(51,578)	51,578	-	142,263
Disposals	-	-	(5,117,069)	(59,103)	-	(5,176,172)
Balance, December 31, 2014	<b>\$ 59,376</b>	<b>1,054,347</b>	<b>45,220,110</b>	<b>3,629,753</b>	<b>-</b>	<b>49,963,586</b>

(continued)

**TAIWAN MOBILE CO., LTD.**

**NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

	<u>Land</u>	<u>Buildings</u>	<u>Telecommunication equipment</u>	<u>Miscellaneous equipment</u>	<u>Construction in progress and equipment to be inspected</u>	<u>Total</u>
Balance, January 1, 2013	\$ 67,280	760,044	41,366,103	2,697,422	-	44,890,849
Depreciation	-	64,926	6,434,764	491,340	-	6,991,030
Reclassification	(7,904 )	17,153	-	1,800	-	11,049
Disposals	-	-	(4,452,733 )	(30,300 )	-	(4,483,033 )
Balance, December 31, 2013	<u>\$ 59,376</u>	<u>842,123</u>	<u>43,348,134</u>	<u>3,160,262</u>	-	<u>47,409,895</u>
<b>Carrying amount:</b>						
Balance, December 31, 2014	<u>\$ 5,153,589</u>	<u>1,953,450</u>	<u>20,882,637</u>	<u>1,312,915</u>	<u>2,991,599</u>	<u>32,294,190</u>
Balance, December 31, 2013	<u>\$ 4,209,326</u>	<u>1,770,150</u>	<u>19,790,560</u>	<u>1,411,460</u>	<u>1,793,869</u>	<u>28,975,365</u>

(concluded)

(1) The estimated useful lives, for the current and comparative years, of significant items of property, plant and equipment are as follows:

(a) Buildings

Primary buildings 50~55 years

Mechanical and electrical equipment 15 years

(b) Telecommunication equipment 2~15 years

(c) Miscellaneous equipment 2~20 years

(2) The non-cash investing activities of TWM for the years ended December 31, 2014 and 2013, were as follows:

	<b>For the Years Ended December 31</b>	
	<u>2014</u>	<u>2013</u>
Acquisition of property, plant and equipment	\$ 10,672,416	7,208,004
Changes in other payables	(1,416,746 )	(317,854)
Changes in provisions	(59,452)	(114,065)
Cash paid for acquisition of property, plant and equipment	<u>\$ 9,196,218</u>	<u>6,776,085</u>

i. Investment property

	<u>2014.12.31</u>	<u>2013.12.31</u>
Land:		
Cost	<u>\$ 393,709</u>	<u>1,337,972</u>
Buildings:		
Cost	\$ 254,062	649,585
Accumulated depreciation	92,805	222,539
Carrying amount	<u>\$ 161,257</u>	<u>427,046</u>

(Continued)

**TAIWAN MOBILE CO., LTD.**

**NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

	<b>2014.12.31</b>	<b>2013.12.31</b>
Total investment property	<b>\$ 554,966</b>	<b>1,765,018</b>
Fair value	<b>\$ 1,566,181</b>	<b>3,300,725</b>
Capitalization rate	<b>1.06%~5.07%</b>	<b>1.19%~4.92%</b>
		(Concluded)

Properties were reclassified from property, plant and equipment to investment property since the properties were no longer used by TWM and it was decided to lease them to a third party.

Fair value of a property is determined through the income approach, comparative approach, and cost approach by an independent appraisal company.

j. Intangible assets

The cost, amortization, and impairment of intangible assets of TWM for the years ended December 31, 2014 and 2013, were as follows:

	<b>Concession license</b>	<b>Goodwill</b>	<b>Computer software</b>	<b>Total</b>
<b>Cost:</b>				
Balance, January 1, 2014	\$39,291,000	7,121,871	1,579,154	47,992,025
Addition	-	-	108,375	108,375
Disposals	-	-	(15,670)	(15,670)
Reclassification	-	-	280,029	280,029
Balance, December 31, 2014	<b><u>\$39,291,000</u></b>	<b><u>7,121,871</u></b>	<b><u>1,951,888</u></b>	<b><u>48,364,759</u></b>
Balance, January 1, 2013	\$10,281,000	7,121,871	1,315,126	18,717,997
Addition	29,010,000	-	138,300	29,148,300
Disposals	-	-	(54,782)	(54,782)
Reclassification	-	-	180,510	180,510
Balance, December 31, 2013	<b><u>\$39,291,000</u></b>	<b><u>7,121,871</u></b>	<b><u>1,579,154</u></b>	<b><u>47,992,025</u></b>
<b>Amortization:</b>				
Balance, January 1, 2014	\$ 6,542,455	-	1,202,527	7,744,982
Amortization	1,242,548	-	246,869	1,505,417
Disposals	-	-	(3,010)	(3,010)
Balance, December 31, 2014	<b><u>\$ 7,785,003</u></b>	<b><u>-</u></b>	<b><u>1,462,386</u></b>	<b><u>9,247,389</u></b>
Balance, January 1, 2013	\$ 5,794,746	-	990,403	6,785,149
Amortization	747,709	-	246,512	994,221
Disposals	-	-	(34,388)	(34,388)
Balance, December 31, 2013	<b><u>\$ 6,542,455</u></b>	<b><u>-</u></b>	<b><u>1,202,527</u></b>	<b><u>7,744,982</u></b>
<b>Carrying amounts:</b>				
Balance, December 31, 2014	<b><u>\$31,505,997</u></b>	<b><u>7,121,871</u></b>	<b><u>489,502</u></b>	<b><u>39,117,370</u></b>
Balance, December 31, 2013	<b><u>\$32,748,545</u></b>	<b><u>7,121,871</u></b>	<b><u>376,627</u></b>	<b><u>40,247,043</u></b>

## TAIWAN MOBILE CO., LTD.

### NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

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

(1) 4G concession license	16 years and 4 months ~16 years and 7 months
(2) 3G concession license	13 years and 9 months
(3) Computer software	2~3 years

(1) 4G concession license

TWM won the Mobile Broadband Spectrum frequency of 30 MHz x 2 for 4G service on October 30, 2013. The bid price was \$29,010,000 thousand (\$10,485,000 thousand for 15 MHz x 2 in the 700 MHz frequency band and \$18,525,000 thousand for 15 MHz x 2 in the 1800 MHz frequency band).

(2) Goodwill

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

In conformity with IAS 36 *Impairment of Assets*, TWM identified 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, which were as follows:

a. Assumptions on cash flows

The five-year cash flow projections were estimated on the basis of previous experience, actual operating results, and the financial budget.

b. Assumptions on operating revenues

After taking changes in the telecom industry and 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 average revenue per minute.

c. Assumptions on operating costs and expenses

The estimates of activation commissions and customer retention costs were based on the new customers obtained and existing customers maintained. The estimates of remaining costs and expenses were based on the cost drivers of each item.

**TAIWAN MOBILE CO., LTD.**

**NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

d. Assumptions on discount rate

For the years ended December 31, 2014 and 2013, the discount rate used to calculate the asset recoverable amounts of TWM was 5.56% and 4.68%, respectively.

Based on the key assumptions of each 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 intangible assets for the years ended December 31, 2014 and 2013.

k. Other non-current assets

	<b>2014.12.31</b>	<b>2013.12.31</b>
Long-term accounts receivable	\$ 2,248,006	2,546,264
Refundable deposits	430,750	400,218
Prepayments for equipment	66,946	43,960
Other financial assets	720	720
	<b>\$ 2,746,422</b>	<b>2,991,162</b>

l. Short-term borrowings and short-term notes and bills payable

	<b>2014.12.31</b>	
	<b>Annual interest rate</b>	<b>Amount</b>
Unsecured loans—financial institutions	0.83%~1.08%	\$ 17,600,000
Unsecured loans—related parties	1.29478%~1.29789%	10,280,000
		<b>\$ 27,880,000</b>
Short-term notes and bills payable	0.868%~0.915%	\$ 5,600,000
Less: Discount on short-term notes and bills payable		(6,969)
		<b>\$ 5,593,031</b>
	<b>2013.12.31</b>	
	<b>Annual interest rate</b>	<b>Amount</b>
Unsecured loans—financial institutions	0.83%~1.15%	\$ 30,500,000
Unsecured loans—related parties	1.183%~1.196%	6,670,000
		<b>\$ 37,170,000</b>
Short-term notes and bills payable	0.62%~0.72%	\$ 2,400,000
Less: Discount on short-term notes and bills payable		(3,029)
		<b>\$ 2,396,971</b>

For financial risk information of TWM, please refer to Note 6(aa); for the information on

**TAIWAN MOBILE CO., LTD.**

**NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

loans from related parties, please refer to Note 7.

m. Advance receipts

	<b>2014.12.31</b>	<b>2013.12.31</b>
Advance receipts from customers	\$ 1,606,359	1,854,177
Deferred customer loyalty revenues	51,137	47,879
Others	16,189	71,907
	<b>\$ 1,673,685</b>	<b>1,973,963</b>

In accordance with the NCC's policy, TWM entered into a contract with First Commercial Bank Co., Ltd. which provided a performance guarantee for advance receipts from prepaid cards and electronic gift certificates amounting to \$524,500 thousand and \$11,609 thousand, respectively, as of December 31, 2014.

n. Bonds payable

	<b>2014.12.31</b>	<b>2013.12.31</b>
3rd domestic unsecured bonds	\$ 8,996,692	8,995,936
4th domestic unsecured bonds	5,797,601	5,796,711
	<b>\$ 14,794,293</b>	<b>14,792,647</b>

(1) 3rd domestic unsecured bonds

On December 20, 2012, TWM authorized Hua Nan Commercial Bank as a trustee to issue \$9,000,000 thousand of seven-year 3rd domestic unsecured bonds, each having 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 with equal installments, i.e., \$4,500,000 thousand. As of December 31, 2014, the amount of unamortized bond issue cost was \$3,308 thousand.

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

<b>Year</b>	<b>Amount</b>
2018	\$ 4,500,000
2019	4,500,000
	<b>\$ 9,000,000</b>

(2) 4th domestic unsecured bonds

On April 25, 2013, TWM authorized Hua Nan Commercial Bank as a trustee to issue \$5,800,000 thousand of five-year 4th domestic unsecured bonds, each having a face value of \$10,000 thousand and a coupon rate of 1.29% per annum, with simple interest

**TAIWAN MOBILE CO., LTD.**

**NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

due annually. Repayment will be made in the fourth and fifth years with equal installments, i.e., \$2,900,000 thousand. As of December 31, 2014, the amount of unamortized bond issue cost was \$2,399 thousand.

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

Year	Amount
2017	\$ 2,900,000
2018	2,900,000
	<b>\$ 5,800,000</b>

o. Long-term borrowings

	<b>2014.12.31</b>	
	Annual interest rate	Amount
Unsecured loans – financial institutions	1.05%~1.095%	\$ 12,000,000
Less: current portion	1.05%	(2,000,000)
		<b>\$ 10,000,000</b>

	<b>2013.12.31</b>	
	Annual interest rate	Amount
Unsecured loans – financial institutions	1.05%	\$ 3,000,000
Less: current portion		(1,000,000)
		<b>\$ 2,000,000</b>

TWM obtained credit facilities from banks for mid-term operating capital. The facilities will last 2 years from the date of drawing, and the interest will be paid quarterly. The credit facilities are subject to covenants regarding debt ratio and interest protection multiples during the facility period.

p. Provisions

	<b>2014.12.31</b>	<b>2013.12.31</b>
Current	\$ 118,947	109,116
Non-current	616,959	564,470
	<b>\$ 735,906</b>	<b>673,586</b>



**TAIWAN MOBILE CO., LTD.**

**NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

The changes in provisions for the years ended December 31, 2014 and 2013, were as follows:

	<b>For the Years Ended</b>	
	<b>December 31</b>	
	<b>2014</b>	<b>2013</b>
Beginning balance	\$ 673,586	556,202
Provision	63,903	122,600
Unwinding of discount	8,284	9,165
Payment	(4,051)	(8,042)
Reversal	(5,816)	(6,339)
Ending balance	<b><u>\$ 735,906</u></b>	<b><u>673,586</u></b>

q. Operating lease

(1) Lessee

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

	<b>2014.12.31</b>	<b>2013.12.31</b>
Less than one year	\$ 2,870,057	2,614,701
Between one and five years	4,718,876	4,688,430
Over five years	24,633	30,953
	<b><u>\$ 7,613,566</u></b>	<b><u>7,334,084</u></b>

TWM leases base transceiver stations, stores, offices, machine rooms, maintenance centers, etc., under operating leases. The leases typically run for a period of 1 to 5 years, with an option to renew the lease.

As of December 31, 2014 and 2013, TWM anticipated it would receive total future minimum sublease payments under the non-cancellable sublease contracts in the amount of \$1,346,575 thousand and \$1,616,357 thousand, respectively.

The payment of leases and subleases, recognized as gains or losses, was as follows:

	<b>For the Years Ended</b>	
	<b>December 31</b>	
	<b>2014</b>	<b>2013</b>
Minimum lease payment	\$ 3,176,487	2,788,581
Sublease payment	(595,089)	(279,119)
	<b><u>\$ 2,581,398</u></b>	<b><u>2,509,462</u></b>

**TAIWAN MOBILE CO., LTD.**

**NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

(2) Lessor

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

	<b>2014.12.31</b>	<b>2013.12.31</b>
Less than one year	\$ 52,772	124,556
Between one and five years	11,701	29,782
Over five years	-	405
	<b>\$ 64,473</b>	<b>154,743</b>

r. Employee benefits

(1) Defined benefit plan

The present value of the defined benefit obligations and fair value of plan assets are as follows:

	<b>2014.12.31</b>	<b>2013.12.31</b>
Present value of defined benefit obligations	\$ 498,948	486,172
Fair value of plan assets	(470,373)	(456,979)
Unfunded defined benefit obligation	28,575	29,193
Unrecognized prior service cost	(289)	(311)
Accrued pension liability	<b>\$ 28,286</b>	<b>28,882</b>

TWM established the pension fund account for the defined benefit plan in Bank of Taiwan. The plan, under the Labor Standards Law, provides benefits based on an employee's length of service and average monthly salary for six-month period prior to retirement.

(a) Composition of plan assets

According to the "Regulations for Revenues, Expenditures, Safeguard and Utilization of the Labor Retirement Fund", with regard to the utilization of the Fund, its minimum earnings in the annual distributions shall be no less than the earnings attainable from two-year time deposits with the interest rates offered by local banks.

The information related to the pension fund includes the asset allocation and yield of the fund. Please refer to the information published on the website of the Council of Labor Affairs.

**TAIWAN MOBILE CO., LTD.**

**NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

(b) Movements in present value of the defined benefit obligations

The movements in present value of defined benefit obligations for the years ended December 31, 2014 and 2013, were as follows:

	<b>For the Years Ended</b>	
	<b>December 31</b>	
	<b>2014</b>	<b>2013</b>
Defined benefit obligation, January 1	\$ 486,172	471,990
Benefits unpaid by the plan	(14,372 )	(9,654 )
Current service costs	1,725	2,400
Interest cost	9,116	7,080
Actuarial losses	16,307	14,356
Defined benefit obligation, December 31	<b>\$ 498,948</b>	<b>486,172</b>

(c) Movements of defined benefit plan assets

The movements in the present value of the defined benefit plan assets for the years ended December 31, 2014 and 2013, were as follows:

	<b>For the Years Ended</b>	
	<b>December 31</b>	
	<b>2014</b>	<b>2013</b>
Fair value of plan assets, January 1	\$ 456,979	460,895
Contributions made	16,910	-
Benefits paid by the plan	(14,372 )	(9,654 )
Expected return on plan assets	9,340	8,642
Actuarial gains (losses)	1,516	(2,904 )
Fair value of plan assets, December 31	<b>\$ 470,373</b>	<b>456,979</b>

(d) Expenses recognized in profit or loss

The expenses recognized in profit or loss for the years ended December 31, 2014 and 2013, were as follows:

	<b>For the Years Ended</b>	
	<b>December 31</b>	
	<b>2014</b>	<b>2013</b>
Current service costs	\$ 1,725	2,400
Interest cost	9,116	7,080
Past service costs	22	22
Expected return on plan assets	(9,340 )	(8,642 )
	<b>\$ 1,523</b>	<b>860</b>

**TAIWAN MOBILE CO., LTD.**

**NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

	<b>For the Years Ended</b>	
	<b>December 31</b>	
	<b>2014</b>	<b>2013</b>
Actual return on plan assets	<b>\$ 10,855</b>	<b>5,739</b>

- (e) The pre-tax actuarial gains (losses) recognized in other comprehensive income TWM's pre-tax actuarial gains and losses recognized in other comprehensive income for the years ended December 31, 2014 and 2013, were as follows:

	<b>For the Years Ended</b>	
	<b>December 31</b>	
	<b>2014</b>	<b>2013</b>
Cumulative amount, January 1	\$ 37,206	19,946
Recognized during the period	14,791	17,260
Cumulative amount, December 31	<b>\$ 51,997</b>	<b>37,206</b>

- (f) Actuarial assumptions

The following are the principal actuarial assumptions at the measurement date:

	<b>2014.12.31</b>	<b>2013.12.31</b>
Discount rate	1.875%	1.875%
Expected return on plan assets	2.00%	2.00%
Long-term average adjustment rate of salary	2.75%	2.75%

The expected rate of return of plan assets is based on the portfolio as a whole and not on the sum of the returns on individual asset categories. The return is based exclusively on historical returns, without adjustments.

TWM expected \$20,749 thousand in contributions to be paid to its benefit plans within a year of the December 31, 2014, reporting date.

- (g) Historical information

	<b>2014.12.31</b>	<b>2013.12.31</b>	<b>2012.12.31</b>	<b>2012.1.1</b>
Present value of the defined benefit obligation	\$ (498,948)	(486,172)	(471,990)	(446,193)
Fair value of plan assets	470,373	456,979	460,895	429,245
Deficit in the plan	<b>\$ (28,575)</b>	<b>(29,193)</b>	<b>(11,095)</b>	<b>(16,948)</b>
Experience adjustments arising on plan liabilities	<b>\$ (16,307)</b>	<b>(14,356)</b>	<b>(15,524)</b>	-
Experience adjustments arising on plan assets	<b>\$ 1,516</b>	<b>(2,904)</b>	<b>(4,422)</b>	-

**TAIWAN MOBILE CO., LTD.**

**NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

(2) Defined contribution plans

TWM contributed 6% of each employee's monthly wages to a labor pension personal account at the Bureau of Labor Insurance in accordance with the provisions of the Labor Pension Act. TWM contributed a fixed amount to the Bureau of Labor Insurance without additional legal or constructive obligations.

TWM's contribution to the pension plan amounted to \$103,665 thousand and \$113,417 thousand for the years ended December 31, 2014 and 2013, respectively.

s. Income tax

(1) Income tax expense recognized in profits or losses

	<b>For the Years Ended December 31</b>	
	<b>2014</b>	<b>2013</b>
Current income tax expense		
Current period	\$ 947,931	945,214
Prior years' adjustment on current income tax	179,684	(75,077)
	1,127,615	870,137
Deferred income tax expense		
Current period	(228,406)	134,069
Reversal of temporary difference	(163,700)	-
	(392,106)	134,069
Income tax expense	<b>\$ 735,509</b>	<b>1,004,206</b>

(2) Income tax recognized in other comprehensive income

	<b>For the Years Ended December 31</b>	
	<b>2014</b>	<b>2013</b>
Deferred income tax income		
Defined benefit plan actuarial gains and losses	<b>\$ (2,515)</b>	<b>(2,934)</b>

**TAIWAN MOBILE CO., LTD.**

**NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

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

	<b>For the Years Ended December 31</b>	
	<b>2014</b>	<b>2013</b>
Profit before tax	\$ 15,740,937	16,587,653
Income tax expense at domestic statutory tax rate	2,675,959	2,819,901
Investments accounted for using equity method, net	(1,875,352)	(1,676,553)
Temporary differences	216,424	(179,164)
Deferred income taxes	(392,106)	134,069
Prior years' adjustment	179,684	(75,077)
Investment tax credit	(48,001)	-
Others	(21,099)	(18,970)
	<b>\$ 735,509</b>	<b>1,004,206</b>

(4) Deferred tax assets and liabilities

Recognized deferred tax assets and liabilities

Changes in the amount of deferred tax assets and liabilities for the years ended December 31, 2014 and 2013, were as follows:

**Deferred Tax Assets:**

	<b>Property, Plant and Equipment</b>	<b>Accrued Pension Liabilities</b>	<b>Others</b>	<b>Total</b>
Balance, January 1, 2014	\$ 731,100	9,746	74,727	815,573
Recognized in profit or loss	(71,716)	-	33,188	(38,528)
Recognized in other comprehensive income	-	2,515	-	2,515
Balance, December 31, 2014	<b>\$ 659,384</b>	<b>12,261</b>	<b>107,915</b>	<b>779,560</b>
Balance, January 1, 2013	\$ 857,820	6,812	99,695	964,327
Recognized in profit or loss	(126,720)	-	(24,968)	(151,688)
Recognized in other comprehensive income	-	2,934	-	2,934
Balance, December 31, 2013	<b>\$ 731,100</b>	<b>9,746</b>	<b>74,727</b>	<b>815,573</b>

**Deferred Tax Liabilities:**

	<b>Accounts Receivable</b>	<b>Intangible Assets</b>	<b>Others</b>	<b>Total</b>
Balance, January 1, 2014	\$ 1,325,422	413,160	5,629	1,744,211
Recognized in profit or loss	(320,912)	(116,926)	7,204	(430,634)
Balance, December 31, 2014	<b>\$ 1,004,510</b>	<b>296,234</b>	<b>12,833</b>	<b>1,313,577</b>
Balance, January 1, 2013	\$ 1,404,763	335,693	21,374	1,761,830
Recognized in profit or loss	(79,341)	77,467	(15,745)	(17,619)
Balance, December 31, 2013	<b>\$ 1,325,422</b>	<b>413,160</b>	<b>5,629</b>	<b>1,744,211</b>

**TAIWAN MOBILE CO., LTD.**

**NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

Integrated income tax information was as follows:

	<b>2014.12.31</b>	<b>2013.12.31</b>
Balance of TWM's imputation credit account (ICA)	<b>\$ 1,234,356</b>	<b>1,312,654</b>

As of December 31, 2014, there were no unappropriated earnings generated before 1997.

The estimated tax creditable ratio for 2014 and actual tax creditable ratio for 2013 were 16.09% and 14.14%, respectively, based on Decree No. 10204562810 announced on October 17, 2013, by the Ministry of Finance of the Republic of China. Under the Integrated Income Tax System, ROC resident shareholders are allowed a tax credit for the income tax paid by TWM. An imputation credit account (ICA) is maintained by TWM for such income tax, and a tax credit is allocated to each shareholder. Actual allocation of the imputation credit account is based on the balance on the date of dividend distribution. Therefore, the estimated tax creditable ratio may differ from the actual tax creditable ratio for the 2014 earnings appropriation.

TWM's income tax returns for the years up to 2012 have been examined by the tax authorities. TWM disagreed with the examination results of the income tax returns for 2011 and 2012 and requested reexaminations.

t. Capital and other equity

(1) Ordinary shares

As of December 31, 2014, TWM had authorized 6,000,000 thousand ordinary shares, with 3,420,833 thousand shares outstanding (par value \$10).

(2) Capital surplus

	<b>2014.12.31</b>	<b>2013.12.31</b>
Additional paid-in capital from convertible corporate bonds	\$ 8,775,820	8,775,820
Treasury share transactions	5,159,704	3,639,301
Difference between consideration and carrying amount of subsidiaries' shares disposed of	85,965	-
Changes in equity of subsidiaries	652,219	1,313
Changes in equity of associates accounted for using equity method	26,705	25,040
Others	15,417	15,417
	<b>\$ 14,715,830</b>	<b>12,456,891</b>

## TAIWAN MOBILE CO., LTD.

### NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

Under the 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' shares acquired or disposed of, and treasury share transactions, may be applied to cover a deficit, or be transferred to capital as stock dividends, or be distributed as cash dividends when there is no 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 could be applied to cover a deficit.

#### (3) Legal reserve

According to the Company Act, a company shall first set aside ten percent of its income after taxes as legal reserve until it equals the paid-in capital. After offsetting any deficit, the legal reserve may be transferred to capital and distributed as stock dividends or distributed as cash dividends for the amount in excess of 25% of the paid-in capital pursuant to a resolution adopted by the shareholders' meeting.

#### (4) Appropriation of earnings and dividend policy

TWM's articles of incorporation provide that, in the event that TWM, according to the financial report, earns profits in a fiscal year, such profits shall first be applied to pay the applicable taxes, recover losses, set aside legal reserve pursuant to laws and regulations, and set aside or reverse a special reserve in accordance with the law or to satisfy the business needs of TWM. Any balance left over shall be applied to the following items:

- (a) Remuneration to directors, not exceeding 0.3%;
- (b) Employee bonuses in the sum of 1% to 3%;
- (c) The remaining balance and any unappropriated earnings of the previous fiscal years shall be distributed to the shareholders as dividends in accordance with resolutions of the shareholders' meetings.

TWM adopts a dividend distribution policy whereby only surplus profits of TWM shall be distributed to shareholders. 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. The value of stock dividends in a particular year shall not be more than 80% of the value of dividends 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



**TAIWAN MOBILE CO., LTD.**

**NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

approved by resolutions of the Board, who shall, upon such approval, recommend the same to the shareholders for approval by resolution at the shareholders' meetings.

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" announced by the FSC. The special reserve appropriation will be reversed as distributable retained earnings to the extent that the net debit balance of the other shareholders' equity reverses.

The appropriation of earnings should be resolved by the shareholders' meeting and recognized in the financial statements in the following year.

TWM's estimated bonuses to employees and estimated remuneration to directors are accrued by a certain percentage of the net income. TWM's estimated bonuses to employees amounted to \$396,057 thousand and \$420,753 thousand for the years ended December 31, 2014 and 2013, respectively, and estimated remuneration to directors amounted to \$33,846 thousand and \$42,075 thousand for the years ended December 31, 2014 and 2013, respectively. The significant difference between annual accruals and the amount approved by the Board of Directors shall be adjusted in the current year. If the Board of Directors' approval differs from the amount ratified at the annual general shareholders' meeting (AGM), the difference will be treated as a change in accounting estimate and will be adjusted in profit and losses in the year of the AGM. If employee bonuses are paid in the form of company shares, the number of employee bonus shares shall be derived by dividing the approved bonus amount by the closing price one day prior to the AGM, adjusted for cash and/or stock dividends, if any.

The 2013 and 2012 earnings appropriations resolved by the AGM on June 12, 2014, and June 21, 2013, were as follows:

	<u>Appropriation of Earnings</u>		<u>Dividend per Share (NT\$)</u>	
	<u>For Fiscal Year 2013</u>	<u>For Fiscal Year 2012</u>	<u>For Fiscal Year 2013</u>	<u>For Fiscal Year 2012</u>
Appropriation of legal reserve	\$ 2,275,622	1,469,160		
Cash dividends	15,064,599	14,526,578	5.6	5.4
	<u>\$ 17,340,221</u>	<u>15,995,738</u>		

**TAIWAN MOBILE CO., LTD.**

**NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

The cash dividends of \$5.4 per share mentioned above were distributed from unappropriated earnings. In addition, the Board of Directors resolved another cash appropriation from legal reserve amounting to \$269,010 thousand, that is, \$0.1 per share. Total appropriation distributed \$5.5 per share for 2012.

The AGM on June 12, 2014, and June 21, 2013, resolved to distribute bonuses to employees amounting to \$420,753 thousand and \$396,673 thousand, respectively, and remuneration to directors amounting to \$42,075 thousand and \$39,667 thousand, respectively, for the years ended December 31, 2013 and 2012. There were no differences between the above actual distributions and the amounts recognized in the financial statements for 2013 and 2012.

TWM's appropriation of the earnings, bonus to employees, and remuneration to directors for 2014 is awaiting a proposal by the Board of Directors and approval at the AGM.

Information on the appropriation of the earnings, bonus to employees, and remuneration to directors is available on the Market Observation Post System website of the Taiwan Stock Exchange.

(5) Other equity interests

	<b>Exchange Differences on Translation</b>	<b>Unrealized Gain (Loss) on Available-for-sale Financial Assets</b>	<b>Total</b>
Balance, January 1, 2014	\$ 24,948	387,734	412,682
Changes in fair value of available-for-sale financial assets	-	(390,994 )	(390,994 )
Changes in other comprehensive income of subsidiaries and associates accounted for using equity method	6,346	(331,020 )	(324,674 )
Balance, December 31, 2014	<u>\$ 31,294</u>	<u>(334,280 )</u>	<u>(302,986 )</u>

(continued)

**TAIWAN MOBILE CO., LTD.**

**NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

	<b>Exchange Differences on Translation</b>	<b>Unrealized Gain (Loss) on Available-for-sale Financial Assets</b>	<b>Total</b>
Balance, January 1, 2013	\$ 25,483	314,543	340,026
Changes in fair value of available-for-sale financial assets	-	(3,043 )	(3,043 )
Changes in other comprehensive income of subsidiaries and associates accounted for using equity method	(535 )	76,234	75,699
Balance, December 31, 2013	<u>\$ 24,948</u>	<u>387,734</u>	<u>412,682</u>

(continued)

(6) Treasury shares

TCCI Investment & Development Co., Ltd. (TID) disposed of 31,974 thousand shares of TWM for \$2,970,389 thousand in October 2014. TWM recognized “capital surplus – treasury share transactions” in the amount of \$1,520,403 thousand.

As of December 31, 2014 and 2013, TWM’s stock held by TCC Investment Co., Ltd., TFN Union Investment Co., Ltd. and TID (all are subsidiaries 100% owned by TWM) was 698,752 thousand shares and 730,726 thousand shares, respectively, and the carrying and market values were \$73,019,542 thousand and \$70,368,899 thousand, respectively. Since the shares held by subsidiaries are regarded as treasury shares, TWM recognized \$29,717,344 thousand and \$31,077,183 thousand, respectively, as treasury shares. Although these shares are treated as treasury shares in the financial statements, the shareholders are entitled to excise their rights over these shares, except for participation in capital injection by cash. In addition, based on the ROC Company Act, subsidiaries with over 50% shareholding by TWM cannot exercise the voting rights over their treasury shares.

**TAIWAN MOBILE CO., LTD.**

**NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

u. Earnings per share

The calculations of the basic and diluted EPS were as follows:

	<b>For the Year Ended December 31</b>	
	<b>2014</b>	<b>2013</b>
<b>Basic EPS</b>		
Profit attributable to ordinary shareholders	<u>\$ 15,005,428</u>	<u>15,583,447</u>
Weighted-average number of ordinary shares	<u>2,697,728</u>	<u>2,690,107</u>
	<u>\$ 5.56</u>	<u>5.79</u>
<b>Diluted EPS</b>		
Profit attributable to ordinary shareholders (adjusted for potential effect of dilutive ordinary shares)	<u>\$ 15,005,428</u>	<u>15,583,447</u>
Weighted-average number of ordinary shares	2,697,728	2,690,107
Effect of potential dilutive ordinary shares		
Effect of employees' bonuses	<u>5,792</u>	<u>6,106</u>
Weighted-average number of ordinary shares (adjusted for potential effect of dilutive ordinary shares)	<u>2,703,520</u>	<u>2,696,213</u>
	<u>\$ 5.55</u>	<u>5.78</u>

If TWMM may settle the bonus to employees by cash or shares, TWMM should presume that the entire amount of the bonus will be settled in shares, and the potential share dilution should be included in the weighted-average number of shares outstanding used in the calculation of diluted EPS if the shares have a dilutive effect. In the calculation of diluted EPS, the number of outstanding shares is derived by dividing the entire amount of the bonus by the closing price of the shares at the reporting date. Such potential dilutive effect should be taken into consideration in the calculation of diluted EPS until the shareholders resolve the actual number of shares to be distributed to employees at the AGM of the following year.

**TAIWAN MOBILE CO., LTD.**

**NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

v. Operating revenues

TWM's operating revenues were as follows:

	<b>For the Years Ended</b>	
	<b>December 31</b>	
	<b>2014</b>	<b>2013</b>
Telecommunication service	\$ 56,224,864	55,034,285
Sales revenue	23,219,991	22,089,510
Other operating revenues	2,204,215	1,804,697
	<b>\$ 81,649,070</b>	<b>78,928,492</b>

w. Other income and expenses

TWM's other income and expenses were as follows:

	<b>For the Years Ended</b>	
	<b>December 31</b>	
	<b>2014</b>	<b>2013</b>
Police inquiry	\$ 21,655	30,141
Others	30,358	22,494
	<b>\$ 52,013</b>	<b>52,635</b>

x. Non-operating income and expenses

(1) Other income

TWM's other income was as follows:

	<b>For the Years Ended</b>	
	<b>December 31</b>	
	<b>2014</b>	<b>2013</b>
Rent income	\$ 147,611	176,994
Interest income	18,531	38,975
Dividend income	9,835	11,628
Other income	374,849	2,210
	<b>\$ 550,826</b>	<b>229,807</b>

**TAIWAN MOBILE CO., LTD.**

**NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

(2) Other gains and losses, net

TWM's other gains and losses were as follows:

	<b>For the Years Ended</b>	
	<b>December 31</b>	
	<b>2014</b>	<b>2013</b>
Loss on disposal of property, plant and equipment \$	(950,715 )	(1,285,754 )
Foreign exchange gains	28,926	6,985
Others	(33,586 )	(39,385 )
	<b>\$ (955,375 )</b>	<b>(1,318,154 )</b>

(3) Finance costs

TWM's finance costs were as follows:

	<b>For the Years Ended</b>	
	<b>December 31</b>	
	<b>2014</b>	<b>2013</b>
Interest expense		
Bank loans	\$ 307,095	93,642
Corporate bonds	197,066	274,442
Financing extension	105,150	69,800
Others	3,110	30,464
	612,421	468,348
Less: capitalized interest	(13,145 )	(24,254 )
	<b>\$ 599,276</b>	<b>444,094</b>

Capitalization rates were as follows:

	<b>For the Years Ended</b>	
	<b>December 31</b>	
	<b>2014</b>	<b>2013</b>
Capitalization rates	1.20%~1.36%	1.24%~1.60%

y. Capital management

TWM manages its capital to maintain a healthy capital base, to meet the minimal 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 maintain financial ratios, TWM may adopt various financing approaches to balance its capital structure in order to meet the

**TAIWAN MOBILE CO., LTD.**

**NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

demands for capital expenditures, working capital, settlements of liabilities, and dividend payments in the future.

z. Financial instruments

(1) Categories of financial instruments

Financial assets

	<b>2014.12.31</b>	<b>2013.12.31</b>
Available-for-sale financial assets (including current and non-current portions)	\$ 2,791,360	202,354
Financial assets carried at cost	7,050	50,324
Loans and receivables:		
Cash and cash equivalents	1,167,487	601,723
Receivables (including current and non-current portions)	13,822,179	18,866,891
Other financial assets	720	720
Refundable deposits	430,750	400,218
Subtotal	<b>15,421,136</b>	<b>19,869,552</b>
Total	<b>\$ 18,219,546</b>	<b>20,122,230</b>

Financial liabilities

	<b>2014.12.31</b>	<b>2013.12.31</b>
Short-term borrowings	\$ 27,880,000	37,170,000
Short-term notes and bills payable	5,593,031	2,396,971
Payables	13,328,252	13,003,830
Bonds payable	14,794,293	14,792,647
Long-term borrowings (including current portion)	12,000,000	3,000,000
Guarantee deposits	360,393	376,428
Total	<b>\$ 73,955,969</b>	<b>70,739,876</b>

(2) Credit risk

The maximum credit risk exposure of TWM's financial instruments is equal to the carrying amount.

(3) Liquidity risk

TWM's working capital is sufficient to meet the cash flow demand; therefore, liquidity risk is not considered to be significant.

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.

**TAIWAN MOBILE CO., LTD.**

**NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

	<u>Carrying amount</u>	<u>Contractual cash flows</u>	<u>Within 1 year</u>	<u>1~5 years</u>	<u>More than 5 years</u>
<b>2014.12.31</b>					
Unsecured loans	\$ 29,600,000	29,808,299	19,761,866	10,046,433	-
Unsecured loans-related parties	10,280,000	10,411,831	10,411,831	-	-
Short-term notes and bills payable	5,593,031	5,600,000	5,600,000	-	-
Bonds payable	14,794,293	15,604,570	195,420	15,409,150	-
	<b><u>\$ 60,267,324</u></b>	<b><u>61,424,700</u></b>	<b><u>35,969,117</u></b>	<b><u>25,455,583</u></b>	<b><u>-</u></b>
<b>2013.12.31</b>					
Unsecured loans	\$ 33,500,000	33,623,454	31,607,747	2,015,707	-
Unsecured loans-related parties	6,670,000	6,741,664	6,741,664	-	-
Short-term notes and bills payable	2,396,971	2,400,000	2,400,000	-	-
Bonds payable	14,792,647	15,799,990	195,420	11,044,270	4,560,300
	<b><u>\$ 57,359,618</u></b>	<b><u>58,565,108</u></b>	<b><u>40,944,831</u></b>	<b><u>13,059,977</u></b>	<b><u>4,560,300</u></b>

(4) Exchange rate risk

(a) Exposure to exchange rate risk

TWM's financial assets and liabilities exposed to exchange rate risk were as follows:

	<u>2014.12.31</u>			<u>2013.12.31</u>		
	<u>Foreign currency</u>	<u>Exchange rate</u>	<u>NTD</u>	<u>Foreign currency</u>	<u>Exchange rate</u>	<u>NTD</u>
<b>Financial Assets</b>						
USD	43,439	31.71	1,377,460	20,230	29.90	604,884
EUR	395	38.57	15,227	844	41.14	34,707
<b>Financial Liabilities</b>						
USD	15,085	31.71	478,352	456	29.90	13,654
EUR	8	38.57	293	2	41.14	85



**TAIWAN MOBILE CO., LTD.**

**NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

(b) Sensitivity analysis

TWM's exchange rate risk comes mainly from conversion gains and losses of accounts measured in foreign currencies such as cash and cash equivalents, accounts receivable, other receivables, other financial assets, accounts payable, other payables, etc. If the NTD, when compared with the USD and EUR, had depreciated 5% (with other factors remaining constant on the reporting date and with analyses of the two periods on the same basis), profit would have increased by \$45,702 thousand and by \$31,300 thousand for the years ended December 31, 2014 and 2013, respectively.

(5) Interest rate analysis

The balances of TWM's financial instruments exposed to interest rate risk were as follows:

	<b>Carrying amount</b>	
	<b>2014.12.31</b>	<b>2013.12.31</b>
Fair value interest rate risk		
Financial assets	\$ 437,887	2,254,960
Financial liabilities	60,267,324	57,359,618
Cash flow interest rate risk		
Financial assets	\$ 722,543	426,010

The following sensitivity analysis is based on the exposure to interest rate risk of derivative and non-derivative instruments on the reporting date. For floating-rate assets and liabilities, the analysis assumes that the balances of outstanding assets and liabilities on the reporting date have been outstanding for the whole period and that the changes in interest rates are reasonable. If the interest rate had increased by 0.5% (with other factors remaining constant on the reporting date and with analyses of the two periods on the same basis), for the years ended December 31, 2014 and 2013, TWM's profit would have increased by \$3,613 thousand and by \$2,130 thousand, respectively.

(6) Fair value of financial instruments

(a) Financial instruments not at fair value

Except for the table below, the management of 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.

**TAIWAN MOBILE CO., LTD.**

**NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

	2014.12.31		2013.12.31	
	Carrying	Fair	Carrying	Fair
	Amount	Value	Amount	Value
Financial liabilities				
Corporate bonds payable	\$ 14,794,293	14,774,375	14,792,647	14,713,072

(b) Valuation techniques and assumptions used in fair value determination

TWM uses the following methods in determining the fair value of its financial assets and liabilities:

- (i) The fair value of financial assets and liabilities traded in active markets is based on quoted market prices (including stocks and bonds of companies that went public).
- (ii) The fair value of corporate bonds payable is measured based on a volume-weighted-average price on the OTC on the reporting date.

(c) Fair value measurements recognized in the balance sheets

Fair value levels are defined based on the extent that fair value can be observed. Definitions are as follows:

- (i) Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- (ii) Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).
- (iii) Level 3: Inputs for the assets or liabilities that are not based on observable market data (unobservable inputs).

	Level 1	Level 2	Level 3	Total
<b>2014.12.31</b>				
<u>Available-for-sale financial assets</u>				
Domestic listed stock	\$ 204,310	-	-	204,310
Domestic unlisted stocks	-	2,587,050	-	2,587,050
	<u>\$ 204,310</u>	<u>2,587,050</u>	<u>-</u>	<u>2,791,360</u>
<b>2013.12.31</b>				
<u>Available-for-sale financial assets</u>				
Domestic listed stock	<u>\$ 202,354</u>	<u>-</u>	<u>-</u>	<u>202,354</u>

## TAIWAN MOBILE CO., LTD.

### NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

There was no transfer between the fair value levels for the years ended December 31, 2014 and 2013.

#### aa. Financial risk management

##### (1) Overview

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 regularly monitors and assesses the potential risks that TWM may face and uses this information as a reference for drafting its annual audit plan. The Internal Audit Office should report any discrepancy to the concerned unit chief and ensure that remediation efforts are completed.

## TAIWAN MOBILE CO., LTD.

### NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

#### (3) Credit risk

Credit risk is the risk of financial loss to TWM if a customer or counterparty of a financial instrument fails to meet its contractual obligations, which arises principally from TWM's receivables from customers and financial instruments. TWM deals with customers with good reputations and monitors customers' credit risk and credit ratings continuously. TWM does not concentrate transactions significantly with any single customer or counterparty or in similar areas.

#### (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 ensures sufficient cash for the requirements of paying estimated operating expenditures, including financial obligations. TWM also monitors its bank credit facilities and ensures that the provisions of loan contracts are all complied with properly. As of December 31, 2014 and 2013, TWM had unused bank facilities of \$39,793,000 thousand and \$36,943,800 thousand, respectively.

#### (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 engages in financial instrument transactions without involving any significant risk such as exchange rate risk, fair value risk arising from interest rate changes, and market price risk; therefore, TWM's market risk is insignificant.

##### (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 EUR and USD; thus, TWM purchases currency

## TAIWAN MOBILE CO., LTD.

### NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

at the spot rate based on the conservative principle in order to hedge exchange rate risk. Overall, exchange rate risk does not affect TWM significantly.

(b) Interest rate risk

TWM issued unsecured corporate bonds and signed facility letters with banks, locking in medium- and long-term fixed interest rates. In respect of interest payables, the fluctuation of interest rates does not affect TWM significantly. Also, interest rate risk does not impact short-term bank loans significantly.

(c) Other market price risk

TWM's exposure to equity price risk is mainly due to holding equity financial instruments. TWM supervises the equity price risk actively and manages the risk based on fair value.

Sensitivity analysis: If the equity securities price had increased by 5% (with other factors remaining constant and with the analyses of the two periods on the same basis), for the years ended December 31, 2014 and 2013, other comprehensive income would have increased by \$139,568 thousand and \$10,118 thousand, respectively.

#### 7. RELATED-PARTY TRANSACTIONS

The transactions with related parties were as follows, unless stated in other disclosures of the notes:

a. Significant transactions with related parties

(1) Operating revenue

	For the Years Ended	
	December 31	
	2014	2013
Subsidiaries	\$ 14,728,155	9,942,848
Associates	12,930	10,812
Other related parties	15,332	15,074
	<u>\$ 14,756,417</u>	<u>9,968,734</u>

**TAIWAN MOBILE CO., LTD.**

**NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

TWM renders telecommunication and sales services, etc., to the entities mentioned above. The transaction terms with related parties were not significantly different from those with third parties.

(2) Purchases

	<b>For the Years Ended</b>	
	<b>December 31</b>	
	<b>2014</b>	<b>2013</b>
Subsidiaries	\$ 7,727,001	7,109,659
Associates	92	-
Other related parties	22,091	25,452
	<b>\$ 7,749,184</b>	<b>7,135,111</b>

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

(3) Receivables from related parties

The amount of receivables from related parties was as follows:

<b>Account</b>	<b>Related Party</b>	<b>2014.12.31</b>	<b>2013.12.31</b>
	<b>Category</b>		
Accounts receivable	Subsidiaries	\$ 255,602	1,735,253
Accounts receivable	Associates	2,145	3,251
Accounts receivable	Other related parties	3,842	5,888
		<b>\$ 261,589</b>	<b>1,744,392</b>
Other receivables	Subsidiaries	\$ 325,071	319,445
Other receivables	Subsidiaries (loans to related parties)	-	2,085,000
Other receivables	Other related parties	8,846	29,088
		<b>\$ 333,917</b>	<b>2,433,533</b>

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

**TAIWAN MOBILE CO., LTD.**

**NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

(4) Payables to related parties

The amount of payables to related parties was as follows:

<u>Account</u>	<u>Related Party Category</u>	<u>2014.12.31</u>	<u>2013.12.31</u>
Accounts payable	Subsidiaries	\$ 88,659	94,029
Other payables	Subsidiaries	\$ 552,127	931,934

(5) Prepayments

The amount of prepayments to related parties was as follows:

	<u>2014.12.31</u>	<u>2013.12.31</u>
Subsidiaries	\$ 53,253	102,715

(6) Property transactions

Disposal of equipment and computer software

	<u>For the Years Ended December 31</u>			
	<u>2014</u>		<u>2013</u>	
	<u>Amount</u>	<u>Gain (Loss)</u>	<u>Amount</u>	<u>Gain (Loss)</u>
Subsidiaries	\$ 24,916	-	51,648	-

(7) Borrowings from related parties

	<u>2014.12.31</u>	<u>2013.12.31</u>
Subsidiaries	\$ 10,280,000	6,670,000

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

(8) Bank deposits

	<u>2014.12.31</u>	<u>2013.12.31</u>
Other related parties	\$ 380,882	159,962

(9) Investments

In 2014, TWM participated in TNH's and Wealth Media Technology Co., Ltd.'s increase in capital based on its proportion of the shareholding, and the investment amount increased by \$172,155 thousand and \$3,000,000 thousand, respectively.

In June 2013, TWM acquired 19.23% of ADT, and the investment amount was \$30,000 thousand, which was recognized as prepayments for investments.

**TAIWAN MOBILE CO., LTD.**

**NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

(10) Others

	<b>2014.12.31</b>	<b>2013.12.31</b>
(a) <u>Guarantee deposits</u>		
Subsidiaries	\$ 16,756	-
	<b>2014.12.31</b>	<b>2013.12.31</b>
(b) <u>Other current liabilities – collections and temporary receipts</u>		
Subsidiaries	\$ 43,349	47,884
	<b>For the Years Ended December 31</b>	
	<b>2014</b>	<b>2013</b>
(c) <u>Freight</u>		
Subsidiaries	\$ 246,891	122,515
(d) <u>Telecommunication service expenses</u>		
Subsidiaries	\$ 66,390	84,585
(e) <u>Repair expense</u>		
Subsidiaries	\$ 487,780	267,214
Other related parties	25,200	26,539
	\$ 512,980	293,753
(f) <u>Advertisement expenses</u>		
Subsidiaries	\$ 34,057	47,000
(g) <u>Insurance expenses</u>		
Other related parties	\$ 6,309	11,341
(h) <u>Donation expense</u>		
Other related parties	\$ 17,910	14,540
(i) <u>Commission</u>		
Subsidiaries	\$ 10,883,637	5,778,404



**TAIWAN MOBILE CO., LTD.**

**NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

	<b>For the Years Ended</b>	
	<b>December 31</b>	
	<u>2014</u>	<u>2013</u>
(j) <u>Professional service fees</u>		
Subsidiaries	<u>\$ 1,076,335</u>	<u>1,053,933</u>
(k) <u>Other expense</u>		
Subsidiaries	\$ 231,176	110,913
Other related parties	<u>166,176</u>	<u>148,086</u>
	<u>\$ 397,352</u>	<u>258,999</u>

(l) Management service charges

(i) For the years ended December 31, 2014 and 2013, TWM provided services to related parties, which were recorded as deductions from related costs and expenses. TWM's service charges received were as follows:

	<b>For the Years Ended December 31</b>	
	<u>2014</u>	<u>2013</u>
	Subsidiaries	<u>\$ 605,919</u>

(ii) For the years ended December 31, 2014 and 2013, TWM's service charges paid were as follows:

	<b>For the Years Ended December 31</b>	
	<u>2014</u>	<u>2013</u>
	Subsidiaries	<u>\$ 62,616</u>
(m) <u>Interest income</u>		
Subsidiaries	<u>\$ 11,730</u>	<u>23,134</u>
(n) <u>Finance costs</u>		
Subsidiaries	<u>\$ 105,150</u>	<u>69,800</u>
(o) <u>Rent income</u>		
Subsidiaries	<u>\$ 111,770</u>	<u>141,253</u>
(p) <u>Rental expenses</u>		
Subsidiaries	<u>\$ 124,661</u>	<u>13,651</u>

Leases were conducted at market prices, and the rental was received and paid by the month.

**TAIWAN MOBILE CO., LTD.**

**NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

b. Key management personnel compensation

	<b>For the Years Ended</b>	
	<b>December 31</b>	
	<b>2014</b>	<b>2013</b>
Short-term employee benefits	\$ 231,074	238,698
Termination benefits	27,560	43,989
Post-employment benefits	1,614	1,593
	<b>\$ 260,248</b>	<b>284,280</b>

**8. ASSETS PLEDGED**

The assets pledged as collateral for performance bonds for construction contracts were as follows:

	<b>2014.12.31</b>	<b>2013.12.31</b>
Other non-current financial assets — time deposits	<b>\$ 720</b>	<b>720</b>

**9. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED COMMITMENTS**

Unrecognized commitments

	<b>2014.12.31</b>	<b>2013.12.31</b>
Purchases of property, plant and equipment, etc.	<b>\$ 8,355,482</b>	<b>5,001,220</b>
Purchases of cellular phones	<b>\$ 7,057,442</b>	<b>3,445,158</b>

**10. SIGNIFICANT CASUALTY LOSS: NONE**

**11. SIGNIFICANT SUBSEQUENT EVENTS**

In January 2015, TWM was approved to acquire a Mobile Broadband Spectrum frequency of 5 MHz x 2 in the 700 MHz frequency band by the NCC. The consideration has been paid in full.

## TAIWAN MOBILE CO., LTD.

### NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

#### 12. OTHERS

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

	For the Years Ended December 31							
	2014				2013			
	Classified as Operating Costs	Classified as Operating Expenses	Classified as Operating Costs or Reduction of Expenses	Total	Classified as Operating Costs	Classified as Operating Expenses	Classified as Operating Costs or Reduction of Expenses	Total
Employee benefits								
Salary	1,017,655	1,333,071	549,112	2,899,838	1,020,683	1,832,656	316,140	3,169,479
Labor and health insurance	71,619	90,769	31,231	193,619	69,345	124,061	17,937	211,343
Pension	39,274	48,086	17,828	105,188	39,189	64,512	10,576	114,277
Others	53,133	64,944	9,297	127,374	50,787	90,889	5,446	147,122
Depreciation	7,158,286	429,314	-	7,587,600	6,552,378	438,652	-	6,991,030
Amortization	1,242,787	262,630	-	1,505,417	748,585	245,636	-	994,221

(1) For the years ended December 31, 2014 and 2013, the depreciation expense in non-operating expenses was \$12,528 thousand and \$17,056 thousand, respectively.

(2) For the years ended 2014 and 2013, the average number of employees of TWM was 2,303 and 2,634, respectively.

#### 13. ADDITIONAL DISCLOSURES

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

The following were the additional disclosures required by the Securities and Futures Bureau for TWM and its investees:

- (1) Financing extended to other parties: Table 1 (attached)
- (2) Endorsements/guarantees provided to other parties: Table 2 (attached)
- (3) Marketable securities held: Table 3 (attached) (excluding investments in subsidiaries and associates)
- (4) Marketable securities acquired and disposed of at costs or prices of at least NT\$300 million or 20% of the paid-in capital: Table 4 (attached)
- (5) Acquisition of individual real estate properties at costs of at least NT\$300 million or 20% of the paid-in capital: Table 5 (attached)
- (6) Disposal of individual real estate properties at prices of at least NT\$300 million or 20%

## TAIWAN MOBILE CO., LTD.

### NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

of the paid-in capital: None

- (7) Total purchases from or sales to related parties of at least NT\$100 million or 20% of the paid-in capital: Table 6 (attached)
- (8) Receivables from related parties of at least NT\$100 million or 20% of the paid-in capital: Table 7 (attached)
- (9) Names, locations and related information of investees on which TWM exercised significant influence: Table 8 (attached) (excluding information on investment in Mainland China)
- (10) Trading in derivative instruments: 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 9 (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: Please refer to “Information on significant transactions” above.

## 14. SEGMENT INFORMATION

Please refer to the consolidated financial statements for the years ended December 31, 2014 and 2013.

**TAIWAN MOBILE CO., LTD.**  
**FINANCING EXTENDED TO OTHER PARTIES**  
**FOR THE YEAR ENDED DECEMBER 31, 2014**

TABLE 1

(In Thousands of New Taiwan Dollars)

No.	Lending Company	Borrowing Company	Financial Statement Account	Related Parties	Maximum Balance for the Period (Note 1)	Ending Balance (Note 1)	Drawdown Amounts	Interest Rate	Nature of Financing	Transaction Amounts	Reasons for Short-term Financing	Allowance for Doubtful Accounts	Collateral		Lending Limit for Each Borrowing Company	Lending Company's Lending Amount Limits
													Item	Value		
0	TWM	TFN Media Co., Ltd.	Other receivables	Yes	\$ 4,000,000	\$ -	\$ -	1.176%~1.197%	Short-term financing	\$ -	- Operation requirements	\$ -	-	-	\$ 24,103,741 (Note 2)	\$ 24,103,741 (Note 2)
		Win TV Broadcasting Co., Ltd.	Other receivables	Yes	600,000	-	-	1.196%~1.197%	Short-term financing	-	- Operation requirements	-	-	-	24,103,741 (Note 2)	24,103,741 (Note 2)
1	Taiwan Fixed Network Co., Ltd.	TWM	Other receivables	Yes	9,000,000	9,000,000	8,180,000	1.183%~1.29622%	Short-term financing	-	- Operation requirements	-	-	-	21,622,525 (Note 2)	21,622,525 (Note 2)
2	Globalview Cable TV Co., Ltd.	TFN Media Co., Ltd.	Other receivables	Yes	260,000	260,000	260,000	1.184%~1.29489%	Short-term financing	-	- Repayment of financing	-	-	-	280,095 (Note 3)	494,767 (Note 3)
3	Phoenix Cable TV Co., Ltd.	TFN Media Co., Ltd.	Other receivables	Yes	545,000	540,000	540,000	1.184%~1.29489%	Transactions	544,485	-	-	-	-	544,485 (Note 3)	979,019 (Note 3)
4	Yeong Jia Leh Cable TV Co., Ltd.	TFN Media Co., Ltd.	Other receivables	Yes	495,000	480,000	425,000	1.184%~1.29489%	Transactions	494,235	-	-	-	-	494,235 (Note 3)	788,005 (Note 3)
5	Wealth Media Technology Co., Ltd.	TWM	Other receivables	Yes	2,300,000	2,300,000	1,800,000	1.184%~1.29789%	Short-term financing	-	- Operation requirements	-	-	-	8,250,635 (Note 2)	8,250,635 (Note 2)
		Taiwan Kuro Times Co., Ltd.	Other receivables	Yes	100,000	100,000	-	1.196%~1.197%	Short-term financing	-	- Operation requirements	-	-	-	8,250,635 (Note 2)	8,250,635 (Note 2)
		Win TV Broadcasting Co., Ltd.	Other receivables	Yes	600,000	600,000	250,000	1.294%~1.29789%	Short-term financing	-	- Operation requirements	-	-	-	8,250,635 (Note 2)	8,250,635 (Note 2)
		TFN Media Co., Ltd.	Other receivables	Yes	3,000,000	3,000,000	1,500,000	1.294%	Short-term financing	-	- Operation requirements	-	-	-	8,250,635 (Note 2)	8,250,635 (Note 2)
6	Taiwan Cellular Co., Ltd.	TWM	Other receivables	Yes	300,000	300,000	300,000	1.186%~1.29622%	Short-term financing	-	- Operation requirements	-	-	-	34,226,760 (Note 2)	34,226,760 (Note 2)

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 percent of the lending company's net worth. The individual loan funds shall be limited to the lowest amount of the following items: 1) 40 percent 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 lending company). In the event that a lending company directly or indirectly owns 100% of the borrowing company, or the borrowing company directly or 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. A) For reasons of business dealings: the individual lending amount and the aggregate amount of loaned funds shall not exceed the amount of business dealings. B) 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.

**TAIWAN MOBILE CO., LTD.**  
**ENDORSEMENTS/GUARANTEES PROVIDED TO OTHER PARTIES**  
**FOR THE YEAR ENDED DECEMBER 31, 2014**

TABLE 2  
(In Thousands of New Taiwan Dollars)

No.	Company Providing Endorsements/Guarantees	Receiving Party		Limit 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
		Name	Nature of Relationship										
0	TWM	Taiwan Fixed Network Co., Ltd.	(Note 2)	\$ 42,000,000 (Note 3)	\$ 21,500,000	\$ 21,500,000	\$ 11,575,650 (Note 4)	\$ -	35.68%	\$ 60,259,352 (Note 3)	Y	N	N
		Taiwan Kuro Times Co., Ltd.	(Note 2)	259,800 (Note 3)	50,000	50,000	50,000	-	0.08%	60,259,352 (Note 3)	Y	N	N
1	momo.com Inc.	Fubon Gehua (Beijing) Enterprise Ltd.	(Note 2)	799,626 (Note 5)	507,360	507,360	507,360	-	8.04%	6,310,990 (Note 5)	N	N	Y

Note 1: The maximum guarantee/endorsement 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 USD15,000 thousand.

Note 5: FGE is more than 50% directly and indirectly owned by momo. The aggregate endorsement/guarantee amount provided by momo shall be limited to the net worth of momo, and the individual amount shall be limited to the investment amount in FGE.

※Limit for individual amount: The limit of guarantee/endorsement provided by momo to FGE is limited to the investment amount (USD12,322,314 × 31.71 + RMB60,000,000 × 5.095 + US\$3,254,043.15 × 31.71 = NTD799,626 thousand).

※The momo Board of Directors authorized the guarantee amount (USD16,000,000 × 31.71 = NTD507,360 thousand).

※Drawn-down amount: USD16,000,000 × 31.71 = NTD507,360 thousand.

※Amount of guarantee collateralized by property: 0 thousand.

Note 6: The above amounts were translated into New Taiwan dollars at the exchange rate of US\$1 = NT\$31.71 and RMB 1 = NT\$5.095 at the end of the period.

**TAIWAN MOBILE CO., LTD.**  
**MARKETABLE SECURITIES HELD (EXCLUDING INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES)**  
**DECEMBER 31, 2014**

TABLE 3

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

Investing Company	Marketable Securities Type and Name	Relationship with the Securities Issuer	Financial Statement Account	DECEMBER 31, 2014				Note
				Shares/Units (Thousands)	Carrying Value	Percentage of Ownership	Fair Value	
TWM	<u>Stock</u> Chunghwa Telecom Co., Ltd.	—	Current available-for-sale financial assets	2,174	\$ 204,310	0.028	\$ 204,310	
	Ambit Microsystems Corporation	—	Non-current available-for-sale financial assets	298,000	2,587,050	14.9	2,587,050	
	Bridge Mobile Pte Ltd.	—	Non-current financial assets at cost	800	7,050	10	-	
	Yes Mobile Holdings Company	—	Non-current financial assets at cost	74	-	0.19	-	
momo.com Inc.	<u>Beneficiary Certificate</u> Fubon Strategic High Income Fund B	Related party in substance	Current available-for-sale financial assets	18,302	186,456	-	186,456	
	Fubon Chi-Hsiang Money Market Fund	Related party in substance	Current available-for-sale financial assets	12,970	200,004	-	200,004	
	Fubon China High Yield Bond Fund-B (RMB)	Related party in substance	Current available-for-sale financial assets	3,886	193,869	-	193,869	
	Fuh Hwa Emerging Market High Yield Bond Fund B	—	Current available-for-sale financial assets	10,225	73,313	-	73,313	
	PineBridge Global Multi - Strategy High Yield Bond Fund-B	—	Current available-for-sale financial assets	23,351	186,335	-	186,335	
	Eastspring Investments Global High Yield Bond Fund B	—	Current available-for-sale financial assets	19,028	180,437	-	180,437	
	Eastspring Investments Well Pool Money Market Fund	—	Current available-for-sale financial assets	29,933	400,006	-	400,006	
	JPMorgan (Taiwan) Asia High Yield Total Return Bond Fund - Monthly Distribution Share Class	—	Current available-for-sale financial assets	18,916	189,020	-	189,020	
	Allianz Global Investors Taiwan Money Market Fund	—	Current available-for-sale financial assets	32,520	400,007	-	400,007	
	<u>Stock</u> We Can Medicines Co., Ltd.	—	Non-current financial assets at cost	2,400	60,000	7.73	-	
	Taiwan Cellular Co., Ltd.	<u>Stock</u> Arcoa Communication Co., Ltd.	—	Non-current financial assets at cost	6,998	67,731	5.21	
Parawin Venture Capital Corp.		—	Non-current financial assets at cost	2,160	11,471	3	-	
Transportation High Tech Inc.		—	Non-current financial assets at cost	1,200	-	12	-	
WEB Point Co., Ltd.		—	Non-current financial assets at cost	803	6,773	3.17	-	

(Continued)

**TAIWAN MOBILE CO., LTD.**  
**MARKETABLE SECURITIES HELD (EXCLUDING INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES)**  
**DECEMBER 31, 2014**

Investing Company	Marketable Securities Type and Name	Relationship with the Securities Issuer	Financial Statement Account	DECEMBER 31, 2014				Note
				Shares/Units (Thousands)	Carrying Value	Percentage of Ownership	Fair Value	
TFN Media Co., Ltd.	Beneficiary Certificate Dragon Tiger Capital Partners Limited	—	Current held-to-maturity financial assets	0.2	\$ 6	-	\$ 6	
TCC Investment Co., Ltd.	Stock TWM	TWM	Non-current available-for-sale financial assets	200,497	20,951,911	5.86	20,951,911	
	Great Taipei Broadband Co., Ltd.	—	Non-current financial assets at cost	10,000	39,627	6.67	-	
	Preferred stock Taiwan High Speed Rail Corporation Unlisted Convertible Preferred Stock – Series A	—	Non-current debt instrument investment without active market	50,000	500,000	1.24	-	
TCCI Investment and Development Co., Ltd.	Stock TWM	TWM	Non-current available-for-sale financial assets	87,590	9,153,109	2.56	9,153,109	
Taiwan Fixed Network Co., Ltd.	Stock Taiwan High Speed Rail Corporation	—	Non-current available-for-sale financial assets	225,531	893,103	3.46	893,103	
TFN Union Investment Co., Ltd.	Stock TWM	TWM	Non-current available-for-sale financial assets	410,665	42,914,522	12	42,914,522	

Note 1: Impairment loss was recognized in 2004. The value was reduced to zero.

Note 2: For the information on investments in subsidiaries and associates, please refer to table 8 and table 10.

(Concluded)



**TAIWAN MOBILE CO., LTD.**

**MARKETABLE SECURITIES ACQUIRED AND DISPOSED OF AT COSTS OR PRICES OF AT LEAST NT\$300 MILLION OR 20% OF THE PAID-IN CAPITAL  
FOR THE YEAR ENDED DECEMBER 31, 2014**

TABLE 4

(In Thousands of New Taiwan Dollars)

Company Name	Marketable Securities Type and Issuer	Financial Statement Account	Counter-party	Nature of Relationship	Beginning Balance		Acquisition		Disposal				Ending Balance	
					Shares/Units (Thousands)	Amount	Shares/Units (Thousands)	Amount	Shares/Units (Thousands)	Amount	Carrying Value	Gain (Loss) on Disposal	Shares/Units (Thousands)	Amount
TWM	Stock Wealth Media Technology Co., Ltd.	Investments accounted for using equity method	Wealth Media Technology Co., Ltd.	Subsidiary	39,065	\$16,157,062	3,000 (Note 1)	\$ 3,000,000	-	-	-	-	42,065	\$ 20,626,589 (Note 2)
	Ambit Microsystems Corporation	Non-current available-for-sale financial assets	-	-	-	-	298,000 (Note 1)	2,980,000	-	-	-	-	298,000	2,587,050 (Note 2)
Wealth Media Technology Co., Ltd.	Stock momo.com Inc.	Investments accounted for using equity method	SinoPac Securities Co., Ltd. (Note 4)	Unrelated parties	64,742	8,567,490	-	-	1,695	323,859	229,995	(Note 3)	63,047	9,352,414 (Note 2)
TCCI Investment and Development Co., Ltd.	Stock TWM	Non-current available-for-sale financial assets	-	-	119,564	11,513,994	-	-	31,974	2,970,389	1,737,267	1,233,122	87,590	9,153,109 (Note 2)
momo.com Inc.	Beneficiary Certificate Eastspring Investments Well Pool Money Market Fund	Current available-for-sale financial assets	-	-	-	-	29,933	400,000	-	-	-	-	29,933	400,006 (Note 2)
	Allianz Global Investors Taiwan Money Market Fund	Current available-for-sale financial assets	-	-	-	-	32,520	400,000	-	-	-	-	32,520	400,007 (Note 2)
Asian Crown(BVI)	Stock Fortune Kingdom	Investments accounted for using equity method	Fortune Kingdom	Subsidiary	22,237	118,883	11,396	344,227	-	-	-	-	33,633	248,827 (Note 2)
Fortune Kingdom	Stock HK Fubon Multimedia	Investments accounted for using equity method	HK Fubon Multimedia	Subsidiary	22,237	118,883	11,396	344,227	-	-	-	-	33,633	248,827 (Note 2)
HK Fubon Multimedia	Fubon Gehua (Beijing) Enterprise Ltd.	Investments accounted for using equity method	Fubon Gehua (Beijing) Enterprise Ltd.	Subsidiary	-	118,218	-	344,227	-	-	-	-	-	248,230 (Note 2)

Note 1: The Shares/Units purchased for the period were obtained from capital increase by cash.

Note 2: The ending balance includes unrealized gains (losses) on financial assets, exchange differences on translation of foreign financial statements, associates accounted for using equity method, and adjustments of subsidiaries.

Note 3: The gain (loss) on disposal was recognized as a capital surplus.

Note 4: To comply with the regulation for trading on the emerging market and over-allotment for initial listing on the stock exchange.

**TAIWAN MOBILE CO., LTD.**

**ACQUISITION OF INDIVIDUAL REAL ESTATE PROPERTIES AT COSTS OF AT LEAST NT\$300 MILLION OR 20% OF THE PAID-IN CAPITAL  
FOR THE YEAR ENDED DECEMBER 31, 2014**

TABLE 5

(In Thousands of New Taiwan Dollars)

Company Name	Type of Property	Transaction Date	Transaction Amount	Payment	Counter-party	Nature of Relationship	Prior Transaction with Related Party				Price Reference	Purpose of Acquisition	Other Terms
							Owner	Relationship	Transfer Date	Amount			
momo.com Inc.	Land	May 14, 2014	\$ 1,708,270	Paid in full	Natural person	Unrelated parties	-	-	-	-	The appraisal reports of Jin Han Real Estate Appraiser Joint Firm and G-Beam Real Estate Appraiser Firm.	Operating usage	None

**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, 2014**

TABLE 6

(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	Taiwan Fixed Network Co., Ltd.	Subsidiary	Sale	\$ (1,815,552)	2	Based on contract terms	—	—	\$ 277,712	3	(Note 1)
			Purchase	7,418,275	(Note 2)	Based on contract terms	—	—	(405,095)	(Note 3)	
	Taiwan Kuro Times Co., Ltd.	Subsidiary	Purchase	355,702	1	Based on contract terms	—	—	(86,895)	2	(Note 1)
	Taiwan Teleservices & Technologies Co., Ltd.	Subsidiary	Purchase	1,076,444	(Note 2)	Based on contract terms	—	—	(94,383)	(Note 3)	
	Taiwan Digital Service Co., Ltd.	Subsidiary	Sale	(12,811,112)	15	Based on contract terms	—	—	1,677,203	14	(Note 1)
			Purchase	11,761,940	(Note 4)	Based on contract terms	—	—	(1,819,888)	(Note 1)	
	momo.com Inc.	Subsidiary	Sale	(101,189)	-	Based on contract terms	—	—	13,097	-	
Taiwan Teleservices & Technologies Co., Ltd.	TWM	Ultimate parent	Sale	(1,076,444)	91	Based on contract terms	—	—	94,383	91	
	Taiwan Fixed Network Co., Ltd.	The same parent company	Sale	(100,848)	8	Based on contract terms	—	—	7,901	8	
Taiwan Fixed Network Co., Ltd.	TWM	Ultimate parent	Sale	(7,418,275)	52	Based on contract terms	—	—	405,095	48	(Note 1)
			Purchase	1,815,552	(Note 2)	Based on contract terms	—	—	(277,317)	44	(Note 1)
	TFN Media Co., Ltd.	The same parent company	Sale	(142,287)	1	Based on contract terms	—	—	24,945	3	
	Taiwan Teleservices & Technologies Co., Ltd.	The same parent company	Purchase	100,848	(Note 4)	Based on contract terms	—	—	(7,901)	(Note 3)	
Taiwan Digital Service Co., Ltd.	TWM	Ultimate parent	Sale	(11,762,007)	70	Based on contract terms	—	—	1,819,888	99	
			Purchase	12,811,112	(Note 2)	Based on contract terms	—	—	(1,677,203)	99	(Note 1)
Taiwan Kuro Times Co., Ltd.	TWM	Ultimate parent	Sale	(355,702)	44	Based on contract terms	—	—	86,895	100	(Note 1)
TFN Media Co., Ltd.	Phoenix Cable TV Co., Ltd.	Subsidiary	Channel leasing fee	(466,136)	15	Based on contract terms	(Note 5)	(Note 5)	-	-	
	Yeong Jia Leh Cable TV Co., Ltd.	Subsidiary	Channel leasing fee	(419,902)	13	Based on contract terms	(Note 5)	(Note 5)	-	-	
	Union Cable TV Co., Ltd.	Subsidiary	Channel leasing fee	(214,288)	7	Based on contract terms	(Note 5)	(Note 5)	-	-	
	Globalview Cable TV Co., Ltd.	Subsidiary	Channel leasing fee	(182,606)	6	Based on contract terms	(Note 5)	(Note 5)	-	-	
	Taiwan Fixed Network Co., Ltd.	The same parent company	Operating costs	137,565	11	Based on contract terms	—	—	(24,318)	5	
Yeong Jia Leh Cable TV Co., Ltd.	TFN Media Co., Ltd.	Parent	Royalty for copyright	419,902	56	Based on contract terms	(Note 5)	(Note 5)	-	-	
Phoenix Cable TV Co., Ltd.	TFN Media Co., Ltd.	Parent	Royalty for copyright	466,136	58	Based on contract terms	(Note 5)	(Note 5)	-	-	
Union Cable TV Co., Ltd.	TFN Media Co., Ltd.	Parent	Royalty for copyright	214,288	50	Based on contract terms	(Note 5)	(Note 5)	-	-	
Globalview Cable TV Co., Ltd.	TFN Media Co., Ltd.	Parent	Royalty for copyright	182,606	53	Based on contract terms	(Note 5)	(Note 5)	-	-	
Mangrove Cable TV Co., Ltd.	Dai-Ka Ltd.	Related party in substance	Royalty for copyright	151,606	49	Based on contract terms	(Note 5)	(Note 5)	(37,901)	86	
momo.com Inc.	Taiwan Pelican Express Co., Ltd.	Equity-method investee	Purchase	438,046	2	Based on contract terms	—	—	(41,259)	2	
	TWM	Ultimate parent	Purchase	99,042	1	Based on contract terms	—	—	(16,396)	1	

Note 1: Accounts receivable (payable) was the net amount of accounts receivable minus accounts payable, custodial receipts, and payment on behalf of others.

Note 2: Including operating costs and operating expenses.

Note 3: Including accounts payable and other payables.

Note 4: Recognized as operating expenses.

Note 5: 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, 2014**

TABLE 7  
(In Thousands of New Taiwan Dollars)

Company Name	Related Party	Nature of Relationship	Ending Balance		Turnover Rate	Overdue		Amount Received in Subsequent Period	Allowance for Bad Debts
						Amount	Action Taken		
TWM	Taiwan Fixed Network Co., Ltd.	Subsidiary	Accounts receivable	\$ 277,712	6.26	\$ -	-	\$ -	-
			Other receivables	33,260		-	-	30,064	-
	Taiwan Digital Service Co., Ltd.	Subsidiary	Accounts receivable	1,677,203	5.57	-	-	1,677,203	-
			Other receivables	284,053		-	-	275,249	-
Taiwan Cellular Co., Ltd.	TWM	Parent	Other receivables	300,582		-	-	-	-
Wealth Media Technology Co., Ltd.	TWM	Parent	Other receivables	1,802,905		-	-	80,054	-
	Win TV Broadcasting Co., Ltd.	Subsidiary	Other receivables	250,988		-	-	-	-
	TFN Media Co., Ltd.	Subsidiary	Other receivables	1,507,870		-	-	-	-
Taiwan Fixed Network Co., Ltd.	TWM	Ultimate parent	Accounts receivable	405,095	12.68	-	-	373,382	-
			Other receivables	8,286,612		-	-	2,242	-
Taiwan Digital Service Co., Ltd.	TWM	Ultimate parent	Accounts receivable	1,819,888	6.99	-	-	398,647	-
			Other receivables	2,887		-	-	111	-
Phoenix Cable TV Co., Ltd.	TFN Media Co., Ltd.	Parent	Accounts receivable	4,957	7.35	-	-	-	-
			Other receivables	540,161		-	-	-	-
Globalview Cable TV Co., Ltd.	TFN Media Co., Ltd.	Parent	Accounts receivable	2,207	6.94	-	-	-	-
			Other receivables	260,001		-	-	-	-
Yeong Jia Leh Cable TV Co., Ltd.	TFN Media Co., Ltd.	Parent	Accounts receivable	5,492	6.61	-	-	-	-
			Other receivables	425,001		-	-	-	-
momo.com Inc.	Taiwan Pelican Express Co., Ltd.	Equity-method investee	Accounts receivable	360	9.87	-	-	360	-
			Other receivables	109,183		-	-	109,183	-

**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, 2014**

TABLE 8

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

Investor	Investee	Location	Main Businesses and Products	Investment Amount		Balance as of December 31, 2014			Net Income (Loss) of the Investee	Investment Income (Loss)	Note
				December 31, 2014	December 31, 2013	Shares (Thousands)	Percentage of Ownership	Carrying Value			
TWM	Taiwan Cellular Co., Ltd.	Taiwan	Investment	\$ 41,872,288	\$ 44,767,288	371,196	100	\$ 24,912,476	\$ 7,383,016	\$ 8,351,285	Note 1
	Taipei New Horizon Co., Ltd.	Taiwan	Real estate leasing and hotel business	1,918,655	1,746,500	191,866	49.9	1,722,927	(32,425)	(16,180)	
	Wealth Media Technology Co., Ltd.	Taiwan	Investment	16,802,000	13,802,000	42,065	100	20,626,589	2,703,674	2,703,674	
	Alliance Digital Tech Co., Ltd.	Taiwan	Technology development of mobile payment and information processing services	30,000	30,000	3,000	13.33	23,139	(44,991)	(7,297)	
Wealth Media Technology Co., Ltd.	momo.com Inc.	Taiwan	Wholesale and retail sales	8,129,394	8,347,949	63,047	44.38	9,352,414	1,170,042	-	Note 2
	Win TV Broadcasting Co., Ltd.	Taiwan	TV program provider	222,417	222,417	18,177	100	256,861	37,942	-	Note 2
	TFN Media Co., Ltd.	Taiwan	Cable broadband and value added service provider	5,210,443	5,210,443	230,921	100	7,082,165	2,196,291	-	Note 2
Global Wealth Media Technology Co., Ltd.	Global Wealth Media Technology Co., Ltd.	Taiwan	Investment	92,189	92,189	8,945	100	97,391	5,326	-	Note 2
	Global Forest Media Technology Co., Ltd.	Taiwan	Investment	16,984	16,984	1,500	100	17,644	535	-	Note 2
Global Wealth Media Technology Co., Ltd.	Globalview Cable TV Co., Ltd.	Taiwan	Cable TV service provider	91,910	91,910	3,825	6.83	95,841	80,554	-	Note 2
Global Forest Media Technology Co., Ltd.	Union Cable TV Co., Ltd.	Taiwan	Cable TV service provider	16,218	16,218	1,300	0.76	15,968	104,740	-	Note 2
momo.com Inc.	Fu Sheng Travel Service Co., Ltd.	Taiwan	Travel agent	6,000	6,000	2,500	100	50,419	21,157	-	Note 2
	Fuli Life Insurance Agent Co., Ltd.	Taiwan	Life insurance agent	3,000	3,000	300	100	11,284	2,788	-	Note 2
Asian Crown (BVI)	Fuli Property Insurance Agent Co., Ltd.	Taiwan	Property insurance agent	3,000	3,000	300	100	12,531	3,634	-	Note 2
	Asian Crown (BVI)	British Virgin Islands	Investment	789,864	690,824	26,500	76.26	193,473	(191,776)	-	Note 2
Taiwan Pelican Express Co., Ltd.	Taiwan Pelican Express Co., Ltd.	Taiwan	Logistics industry	337,860	337,860	16,893	17.70	455,426	155,092	-	Note 2
	TVD Shopping	Thailand	Wholesale and retail sales	150,797	-	31,150	35.00	150,803	15,180	-	Note 2
Asian Crown(BVI)	Fortune Kingdom	Samoa	Investment	(THB 155,750) 1,035,051	690,824	33,633	100	248,827	(192,008)	-	Note 2
Fortune Kingdom	HK Fubon Multimedia	Hong Kong	Investment	1,035,051	690,824	33,633	100	248,827	(192,008)	-	Note 2
Taiwan Cellular Co., Ltd.	TWM Holding	British Virgin Islands	Investment	347,951	347,951	-	100	261,225	9,548	-	Notes 2 & 7
	Taiwan Fixed Network Co., Ltd.	Taiwan	Fixed line service provider	21,000,000	21,000,000	2,100,000	100	54,057,276	5,379,331	-	Note 2
Taiwan Teleservices & Technologies Co., Ltd.	Taiwan Digital Communication Co., Ltd.	Taiwan	TV program production and mobile phone wholesaling	112,000	112,000	11,200	100	116,240	(126)	-	Note 2
	TCC Investment Co., Ltd.	Taiwan	Investment	17,785,441	20,680,441	22,103	100	29,130,683	1,485,742	-	Note 2
	Taiwan Teleservices & Technologies Co., Ltd.	Taiwan	Call center service and telephone marketing	56,210	56,210	2,484	100	106,967	60,057	-	Note 2
	Taiwan Digital Service Co., Ltd.	Taiwan	Telecommunications service agencies and retail business	1,000,000	1,000,000	20,000	100	1,490,123	467,479	-	Note 2
Taiwan Teleservices & Technologies Co., Ltd.	TT&T Holdings	Samoa	Investment	36,284	36,284	1,300	100	52,284	3,260	-	Note 2
	Taiwan Mobile Basketball Co., Ltd.	Taiwan	Basketball team management	-	3,511	-	-	-	959	-	Notes 2 & 3

(Continued)

**TAIWAN MOBILE CO., LTD.**  
**NAMES, LOCATIONS AND RELATED INFORMATION OF INVESTEES ON WHICH TWM EXERCISED SIGNIFICANT INFLUENCE**  
**(EXCLUDING INFORMATION ON INVESTMENT IN MAINLAND CHINA)**  
**FOR THE YEAR ENDED DECEMBER 31, 2014**

Investor	Investee	Location	Main Businesses and Products	Investment Amount		Balance as of December 31, 2014			Net Income (Loss) of the Investee	Investment Income (Loss)	Note
				December 31, 2014	December 31, 2013	Shares (Thousands)	Percentage of Ownership	Carrying Value			
TCC Investment Co., Ltd.	TCCI Investment and Development Co., Ltd.	Taiwan	Investment	\$ 3,602,782	\$ 6,498,076	400	100	\$ 8,010,126	\$ 1,159,077	-	Note 2
TFN Media Co., Ltd.	Yeong Jia Leh Cable TV Co., Ltd.	Taiwan	Cable TV service provider	2,061,522	2,061,522	33,940	100	2,258,904	212,371	-	Note 2
	Mangrove Cable TV Co., Ltd.	Taiwan	Cable TV service provider	510,724	510,724	6,248	29.53	648,198	103,652	-	Notes 2 & 4
	Phoenix Cable TV Co., Ltd.	Taiwan	Cable TV service provider	3,261,073	3,261,073	68,090	100	3,411,121	209,332	-	Note 2
	Union Cable TV Co., Ltd.	Taiwan	Cable TV service provider	1,986,250	1,986,250	169,141	99.22	2,077,057	104,740	-	Note 2
	Globalview Cable TV Co., Ltd.	Taiwan	Cable TV service provider	1,221,002	1,221,002	51,733	92.38	1,269,405	80,554	-	Note 2
	Taiwan Kuro Times Co., Ltd.	Taiwan	Online music and game service	129,900	129,900	14	100	246,103	98,659	-	Note 2
	Kbro Media Co., Ltd.	Taiwan	Film distribution, arts and literature service, and entertainment	292,500	292,500	29,250	32.5	267,878	(36,707)	-	Note 2
Taiwan Fixed Network Co., Ltd.	TFN Union Investment Co., Ltd.	Taiwan	Investment	22,314,536	22,314,536	400	100	37,527,081	(137)	-	Note 2
	TFN HK LIMITED	Hong Kong	Telecommunications service provider	3,041	3,041	1,300	100	16,878	3,200	-	Note 2
				(HK\$744)	(HK\$744)						

Note 1: Downstream transactions, upstream transactions, and consolidated unrealized gain or loss with intercompany effect are included.

(Concluded)

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: The investee was disposed of in September 2014. The net income or loss for the period from January 1, 2014, to the disposal date of the subsidiary was listed in the net income (loss) of the investee.

Note 4: 70.47% of shares are held under trustee accounts.

Note 5: The above amounts were translated into New Taiwan dollars at the exchange rate of HK\$1=NT\$4.087 and THB1=NT\$0.9682 at the end of the period.

Note 6: For information on investment in Mainland China, please refer to table 10.

Note 7: Held 1 share on December 31, 2014.

**TAIWAN MOBILE CO., LTD.**  
**INFORMATION ON INVESTMENT IN MAINLAND CHINA**  
**FOR THE YEAR ENDED DECEMBER 31, 2014**

TABLE 9

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

Investee Company Name	Main Businesses and Products	Total Amount of Paid-in Capital	Investment Type	Accumulated Outflow of Investment from Taiwan as of January 1, 2014	Investment Flows		Accumulated Outflow of Investment from Taiwan as of December 31, 2014	Net (Loss) Income of Investee	% Ownership through Direct or Indirect Investment	Investment Income (Loss)	Carrying Value as of December 31, 2014	Accumulated Inward Remittance of Earnings as of December 31, 2014
					Outflow	Inflow						
Xiamen Taifu Teleservices & Technologies Co., Ltd.	System integration, management, analysis and development of CRM application and information consulting services	\$ - (Note 3)	2	\$ 41,223 (US\$1,300)	\$ -	\$ -	\$ 41,223 (US\$1,300)	\$ -	100% indirect ownership through TWM's subsidiary	\$ -	- (Note 3)	\$ -
TWM Communications (Beijing) Co. Ltd.	Mobile application development and design	95,130 (US\$3,000)	2	154,491 (US\$4,872)	-	-	154,491 (US\$4,872)	105	100% indirect ownership through TWM's subsidiary	105	114,049	-
Fubon Gehua (Beijing) Enterprise Ltd.	Wholesaling	1,171,850 (RMB230,000)	2	697,370 (US\$14,000, RMB49,741)	101,900 (RMB20,000)	-	799,270 (US\$14,000, RMB69,741)	(216,774)	69.63% indirect ownership through TWM's subsidiary	(179,541)	189,304	-

Investee Company Name	Accumulated Investment in Mainland China as of December 31, 2014	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on Investment Authorized by Investment Commission, MOEA
Xiamen Taifu Teleservices & Technologies Co., Ltd.	41,223 (US\$1,300)	41,223 (US\$1,300)	\$80,000
TWM Communications (Beijing) Co., Ltd.	154,491 (US\$4,872)	154,491 (US\$4,872)	\$51,340,140
Fubon Gehua (Beijing) Enterprise Ltd.	799,270 (US\$14,000, RMB69,741)	883,250 (US\$15,000, RMB80,000)	\$3,836,917

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: The above amounts were translated into New Taiwan dollars at the exchange rate of US\$1 = NT\$31.71 and RMB1 = NT\$5.095 at the end of the period.

Note 3: Xiamen Taifu Teleservices & Technologies Co., Ltd. was dissolved in November 2013 and contributed capital to the parent company, TT&T Holdings.

Note 4: The amount was calculated based on the audited financial statements.

**TAIWAN MOBILE CO., LTD.**  
**CASH AND CASH EQUIVALENTS**  
**DECEMBER 31, 2014**  
(In Thousands of New Taiwan Dollars)

<u>Item</u>	<u>Summary</u>	<u>Amount</u>
Cash in banks		
Foreign-currency deposits	EUR 289,116.47 (exchange rate at 38.57)	\$ 11,151
	US\$3,959,021.71 (exchange rate at 31.71)	125,541
Checking deposits		7,747
Demand deposits		585,131
		<u>729,570</u>
Time deposits		<u>392,887</u>
Government bonds with repurchase rights	Due on January 8, 2015, with interest rate of 0.45%	<u>45,000</u>
Revolving funds		<u>30</u>
		<u><u>\$ 1,167,487</u></u>



**TAIWAN MOBILE CO., LTD.**  
**ACCOUNTS AND NOTES RECEIVABLE**  
**DECEMBER 31, 2014**  
(In Thousands of New Taiwan Dollars)

Client	Amount
Related parties	
Taiwan Digital Service Co., Ltd.	\$ 214,280
Taiwan Fixed Network Co., Ltd.	26,560
momo.com Inc.	13,097
Other (Note)	7,652
	261,589
Third parties	
Other (Note)	10,835,521
Less: allowance for doubtful accounts	(228,697)
	10,606,824
	<b>\$ 10,868,413</b>

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

SCHEDULE 3

**TAIWAN MOBILE CO., LTD.**  
**OTHER RECEIVABLES**  
**DECEMBER 31, 2014**  
**(In Thousands of New Taiwan Dollars)**

<u>Item</u>	<u>Amount</u>
Temporary receipts by distribution channel	\$ 611,517
Other (Note)	94,243
	<u>\$ 705,760</u>

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

**TAIWAN MOBILE CO., LTD.**  
**CHANGES IN INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD**  
**FOR THE YEAR ENDED DECEMBER 31, 2014**  
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

	Par Value	Thousand Shares	Beginning Balance		Increase		Decrease		Adjustments	Ending Balance		Market Price
			Thousand Shares	Amount	Thousand Shares	Amount	Thousand Shares	Amount (Note 1)	Method (Note 3)	Thousand Shares	% of Ownership	Amount
Taiwan Cellular Co., Ltd.	NT\$ 10	371,196	\$ 21,760,521	-	-	-	(7,730,497)	10,882,452	371,196	100	24,912,476	85,566,899
Wealth Media Technology Co., Ltd.	10	39,065	16,157,062	3,000	3,000,000	-	(1,976,729)	3,446,256	42,065	100	20,626,589	20,626,589
Taipei New Horizons Co., Ltd.	10	174,650	1,566,952	17,216	172,155	-	-	(16,180)	191,866	49.9	1,722,927	1,722,924
Alliance Digital Tech. Co., Ltd.	10	3,000	28,514	-	-	-	-	(5,375)	3,000	13.33	23,139	23,139
			<b>\$ 39,513,049</b>		<b>3,172,155</b>		<b>(9,707,226)</b>	<b>14,307,153</b>			<b>47,285,131</b>	

Note 1: The decrease in investments resulted from receiving dividends of investees, (including capital surplus appropriation distributed).

Note 2: None of the above long-term investments were provided as collateral.

Note 3: The Adjustments on Equity Method include the share of the profit or loss and other comprehensive income of subsidiaries and associates, adjustment of capital surplus from disposal of the Company's share by subsidiaries, adjustment of capital surplus from changes in percentage of ownership, and unrealized gain or loss due to intercompany's transactions.

**TAIWAN MOBILE CO., LTD.**  
**CHANGES IN PROPERTY, PLANT AND EQUIPMENT**  
**FOR THE YEAR ENDED DECEMBER 31, 2014**  
**(In Thousands of New Taiwan Dollars)**

Please refer to Note 6(h) for related information.

**TAIWAN MOBILE CO., LTD.**  
**CHANGES IN INVESTMENT PROPERTY**  
**FOR THE YEAR ENDED DECEMBER 31, 2014**  
(In Thousands of New Taiwan Dollars)

<u>Item</u>	<u>Beginning Balance</u>	<u>Changes for the Period</u>		<u>Ending Balance</u>
		<u>Increase</u>	<u>Reclassification</u>	
Cost				
Land	\$ 1,362,022	-	(944,263 )	417,759
Buildings	649,585	-	(395,524 )	254,061
	<u>\$ 2,011,607</u>	<u>-</u>	<u>(1,339,787 )</u>	<u>671,820</u>
Accumulated depreciation and impairment				
Land	\$ 24,050	-	-	24,050
Buildings	222,539	12,528	(142,263 )	92,804
	<u>\$ 246,589</u>	<u>12,528</u>	<u>(142,263 )</u>	<u>116,854</u>
Investment property, net	<u>\$ 1,765,018</u>	<u>(12,528 )</u>	<u>(1,197,524 )</u>	<u>554,966</u>

**TAIWAN MOBILE CO., LTD.**  
**CHANGES IN INTANGIBLE ASSETS**  
**FOR THE YEAR ENDED DECEMBER 31, 2014**  
**(In Thousands of New Taiwan Dollars)**

Please refer to Note 6(j) for related information.

SCHEDULE 8

**TAIWAN MOBILE CO., LTD.**  
**SHORT-TERM BORROWINGS**  
**DECEMBER 31, 2014**  
**(In Thousands of New Taiwan Dollars)**

<u>Loan Type</u>	<u>Amount</u>	<u>Financing Period</u>	<u>Interest Rate</u>	<u>Credit Line</u>	<u>Mortgage Guarantee</u>
Unsecured loans	\$ 17,600,000	August 29, 2014 ~April 30, 2015	0.83%~1.08%	69,827,500	None
Unsecured loans—related parties					
Taiwan Fixed Network Co., Ltd.	8,180,000	October 31, 2014 ~ October 30, 2015	1.29622%	9,000,000	None
Wealth Media Technology Co., Ltd.	1,800,000	October 31, 2014 ~ October 30, 2015	1.29622% -1.29789%	2,300,000	None
Taiwan Cellular Co., Ltd.	300,000	October 31, 2014 ~ October 30, 2015	1.29478% -1.29622%	300,000	None
	<u>10,280,000</u>			<u>11,600,000</u>	
	<u><b>\$ 27,880,000</b></u>			<u><b>81,427,500</b></u>	

**TAIWAN MOBILE CO., LTD.**  
**SHORT-TERM NOTES AND BILLS PAYABLE**  
**DECEMBER 31, 2014**  
(In Thousands of New Taiwan Dollars)

<b>Item</b>	<b>Institution Providing Guarantee or Acceptance</b>	<b>Due Date</b>	<b>Interest Rate</b>	<b>Issuing Amount</b>	<b>Discount on Short-term Notes and Bills Payable</b>	<b>Net Carrying Value</b>
Short-term notes and bills payable	International Bills Financial Corporation	March 31, 2015	0.868% ~0.915%	\$ 2,600,000	3,743	2,596,257
	China Bills Financial Corporation	March 31, 2015	0.888% ~0.907%	3,000,000	3,226	2,996,774
				<b>\$ 5,600,000</b>	<b>6,969</b>	<b>5,593,031</b>



**TAIWAN MOBILE CO., LTD.**  
**ACCOUNTS PAYABLE**  
**DECEMBER 31, 2014**  
(In Thousands of New Taiwan Dollars)

<u>Suppliers</u>	<u>Amount</u>
Related parties	
Taiwan Kuro Times Co., Ltd.	\$ 86,717
Others (Note)	1,942
	<u>88,659</u>
Third parties	
A Company	1,203,326
B Company	1,168,658
C Company	525,743
D Company	453,701
Others (Note)	1,002,284
	<u>4,353,712</u>
	<u><b>\$ 4,442,371</b></u>

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

**TAIWAN MOBILE CO., LTD.**  
**OTHER PAYABLES**  
**DECEMBER 31, 2014**  
(In Thousands of New Taiwan Dollars)

<u>Item</u>	<u>Amount</u>
Equipment and construction	\$ 2,854,982
Commissions	1,259,995
Salaries and pension	1,194,956
Repair and maintenance expense	907,300
Rent and utilities expense	656,046
Bonus to employees and compensation to directors	429,903
Professional service fees	263,366
Others (Note)	1,319,333
	<u>\$ 8,885,881</u>

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

**TAIWAN MOBILE CO., LTD.**  
**BONDS PAYABLE**  
**DECEMBER 31, 2014**  
**(In Thousands of New Taiwan Dollars)**

Please refer to Note 6(n) for related information.

**TAIWAN MOBILE CO., LTD.**  
**LONG-TERM BORROWINGS**  
**DECEMBER 31, 2014**  
(In Thousands of New Taiwan Dollars)

<u>Creditor</u>	<u>Amount</u>	<u>Financing Period</u>	<u>Interest Rate</u>	<u>Mortgage or Guarantee</u>
Sumitomo Mitsui Banking Corporation	\$ 3,000,000	February 27, 2014 ~ February 26, 2016	1.07%	None
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	2,000,000	December 31, 2013 ~ December 31, 2015	1.05%	None
Mizuho Bank, Ltd.	7,000,000	April 14, 2014 ~ April 14, 2016	1.08% ~1.095%	None
Less: current portion	<u>(2,000,000)</u>		1.05%	None
	<b><u>\$ 10,000,000</u></b>			

**TAIWAN MOBILE CO., LTD.**  
**OPERATING REVENUES**  
**FOR THE YEAR ENDED DECEMBER 31, 2014**  
**(In Thousands of New Taiwan Dollars)**

<b>Item</b>	<b>Amount</b>
Monthly access fee and activation fee	\$ 48,505,727
Sales revenue	23,219,991
Interconnection revenue (Note 1)	7,719,137
Other operating revenues (Note 2)	2,204,215
	<b>\$ 81,649,070</b>

Note 1: This includes the revenues from other telecommunication operators' use of TWM's networks and IDD delivery revenues.

Note 2: This includes counter-party default revenues and service revenues, etc.

**TAIWAN MOBILE CO., LTD.**  
**OPERATING COSTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2014**  
**(In Thousands of New Taiwan Dollars)**

<b>Item</b>	<b>Amount</b>
Cost of goods sold	\$ 24,463,513
Leased-line charges	7,450,263
Depreciation	7,158,286
Interconnection cost (Note 1)	5,110,740
Rent and utilities expenses	3,555,957
Government Fees (Note 2)	1,985,511
Salaries and pension	1,056,929
Maintenance materials and constructions	958,782
Others (Note 3)	1,082,043
	<b>\$ 52,822,024</b>

Note 1: This includes airtime and interconnection charges paid to other telecommunication service providers.

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

Note 3: This includes expenses for maintaining telecommunication network and equipment.

**TAIWAN MOBILE CO., LTD.**  
**OPERATING EXPENSES**  
**FOR THE YEAR ENDED DECEMBER 31, 2014**  
(In Thousands of New Taiwan Dollars)

<u>Item</u>	<u>Marketing</u>	<u>Administrative</u>	<u>Total</u>
Commissions and mobile phone allowance	\$ 16,345,265	-	16,345,265
Salaries and pension	614,654	766,503	1,381,157
Professional service fees	1,023,903	209,610	1,233,513
Service charges	428,876	461,425	890,301
Repair expense	518,723	162,902	681,625
Depreciation	196,431	232,884	429,315
Bad debts	505	334,278	334,783
Telecommunication service fees	65,986	198,083	264,069
Amortization	834	261,796	262,630
Others (Note)	823,187	507,706	1,330,893
	<u>\$ 20,018,364</u>	<u>3,135,187</u>	<u>23,153,551</u>

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

**TAIWAN MOBILE CO., LTD.**  
**NET OTHER INCOME AND EXPENSES**  
**FOR THE YEAR ENDED DECEMBER 31, 2014**  
**(In Thousands of New Taiwan Dollars)**

Please refer to Note 6(w) for related information.



**TAIWAN MOBILE CO., LTD.**  
**FINANCE COSTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2014**  
**(In Thousands of New Taiwan Dollars)**

Please refer to Note 6(x) for related information.

**Taiwan Mobile Co., Ltd. and Subsidiaries**  
**Consolidated Financial Statements for the**  
**Years Ended December 31, 2014 and 2013, and**  
**Independent Auditors' Report**



## Independent Auditors' Report

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

We have audited the accompanying consolidated balance sheets of Taiwan Mobile Co., Ltd. and subsidiaries as of December 31, 2014 and 2013, and the related consolidated statements of comprehensive income, changes in equity, and cash flows for the years ended December 31, 2014 and 2013. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to issue a report on these consolidated financial statements based on our audits.

We conducted our audits 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. Those regulations and standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Taiwan Mobile Co., Ltd. and subsidiaries as of December 31, 2014 and 2013, and the consolidated results of their operations and their consolidated cash flows for the years ended December 31, 2014 and 2013, in conformity with the "Guidelines Governing the Preparation of Financial Reports by Securities Issuers" and with the IFRSs, IASs, IFRIC Interpretations and SIC Interpretations endorsed by the Financial Supervisory Commission.

We have also audited the standalone balance sheets of Taiwan Mobile Co., Ltd. as of December 31, 2014 and 2013, and the related statements of comprehensive income, changes in equity, and cash flows for the years ended December 31, 2014 and 2013, on which we have issued an unqualified and modified unqualified audit report, respectively.

KPMG  
Taipei, Taiwan (the Republic of China)  
January 29, 2015

### Notes to Readers

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

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

**TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
**DECEMBER 31, 2014 AND 2013**  
**(In Thousands of New Taiwan Dollars)**

ASSETS		2014.12.31		2013.12.31		LIABILITIES AND EQUITY		2014.12.31		2013.12.31	
		Amount	%	Amount	%			Amount	%	Amount	%
<b>CURRENT ASSETS</b>						<b>CURRENT LIABILITIES</b>					
1100	Cash and cash equivalents (Notes 4, 6(a) and 7)	\$ 7,903,777	5	7,954,294	6	2100	Short-term borrowings (Notes 4, 6(m) and 7)	\$ 18,900,000	12	30,605,813	22
1125	Current available-for-sale financial assets (Notes 4, 6(b) and 7)	2,213,757	1	960,945	1	2110	Short-term notes and bills payable (Notes 4 and 6(m))	5,593,031	4	2,396,971	2
1130	Current held-to-maturity financial assets (Note 4)	6	-	-	-	2150	Notes payable	191,951	-	408,904	-
1170	Accounts and notes receivable, net (Notes 4, 5 and 6(d))	14,990,240	10	14,583,899	10	2170	Accounts payable	7,590,325	5	6,661,431	5
1180	Accounts receivable from related parties (Note 7)	34,561	-	49,557	-	2180	Accounts payable to related parties (Note 7)	79,392	-	73,080	-
1200	Other receivables (Note 7)	1,000,549	1	494,348	-	2219	Other payables (Note 7)	12,310,967	8	11,657,899	9
130x	Inventories (Notes 4 and 6(e))	3,210,988	2	3,781,354	3	2230	Current tax liabilities (Note 4)	2,114,614	1	1,512,072	1
1410	Prepayments (Note 7)	486,343	-	521,368	-	2250	Current provisions (Notes 4 and 6(q))	217,083	-	193,886	-
1460	Non-current assets held for sale (Notes 4 and 6(f))	-	-	50,275	-	2310	Advance receipts (Note 6(n))	2,264,612	2	2,619,906	2
1476	Other current financial assets (Notes 4, 7 and 8)	2,967,826	2	1,046,057	1	2320	Long-term liabilities, current portion (Note 6(p))	2,208,218	2	1,000,000	1
1479	Other current assets	26,657	-	51,771	-	2399	Other current liabilities	1,998,735	1	1,475,676	1
	<b>Total current assets</b>	<u>32,834,704</u>	<u>21</u>	<u>29,493,868</u>	<u>21</u>		<b>Total current liabilities</b>	<u>53,468,928</u>	<u>35</u>	<u>58,605,638</u>	<u>43</u>
<b>NON-CURRENT ASSETS</b>						<b>NON-CURRENT LIABILITIES</b>					
1523	Non-current available-for-sale financial assets (Notes 4 and 6(b))	3,480,153	2	1,226,889	1	2530	Bonds payable (Note 6(o))	14,794,293	10	14,792,647	11
1543	Non-current financial assets at cost (Notes 4 and 6(c))	192,652	-	178,325	-	2540	Long-term borrowings (Notes 6(p) and 7)	13,182,326	9	2,000,000	1
1546	Non-current debt instrument investment without active market (Note 4)	500,000	-	500,000	-	2550	Non-current provisions (Notes 4 and 6(q))	1,014,349	1	880,069	1
1550	Investments accounted for using equity method (Notes 4, 5, 6(g) and 7)	897,246	1	2,289,356	2	2570	Deferred tax liabilities (Notes 4, 5 and 6(u))	2,688,568	2	2,599,791	2
1600	Property, plant and equipment (Notes 4, 5 and 6(i))	47,066,319	31	42,985,801	31	2640	Accrued pension liabilities (Notes 4 and 6(t))	122,423	-	115,463	-
1760	Investment properties, net (Notes 4 and 6(j))	354,208	-	320,394	-	2645	Guarantee deposits	820,504	-	818,386	-
1791	Concessions (Notes 4, 6(k) and 8)	39,103,292	26	32,748,545	24	2670	Other non-current liabilities (Note 6(r))	933,611	-	19,744	-
1805	Goodwill (Notes 4, 5 and 6(k))	15,845,930	10	15,845,930	11		<b>Total non-current liabilities</b>	<u>33,556,074</u>	<u>22</u>	<u>21,226,100</u>	<u>15</u>
1821	Other intangible assets, net (Notes 4, 5 and 6(k))	6,219,622	4	6,242,796	5		<b>Total liabilities</b>	<u>87,025,002</u>	<u>57</u>	<u>79,831,738</u>	<u>58</u>
1840	Deferred tax assets (Notes 4, 5 and 6(u))	882,732	1	924,576	1	<b>EQUITY ATTRIBUTABLE TO OWNERS OF PARENT</b>					
1980	Other non-current financial assets (Notes 4, 6(n), 7 and 8)	271,574	-	250,717	-	<b>(Notes 4 and 6(v))</b>					
1995	Other non-current assets (Notes 6(l) and 7)	5,888,820	4	5,345,182	4	3110	Ordinary shares	34,208,328	22	34,208,328	25
	<b>Total non-current assets</b>	<u>120,702,548</u>	<u>79</u>	<u>108,858,511</u>	<u>79</u>	3200	Capital surplus	14,715,830	10	12,456,891	9
							Retained earnings				
						3310	Legal reserve	21,537,666	14	19,262,044	14
						3350	Unappropriated retained earnings	19,817,858	13	22,171,132	16
						3400	Other equity interests	(302,986)	-	412,682	-
						3500	Treasury shares	(29,717,344)	(20)	(31,077,183)	(23)
							<b>Total equity attributable to owners of parent</b>	<u>60,259,352</u>	<u>39</u>	<u>57,433,894</u>	<u>41</u>
						36xx	<b>Non-controlling interests (Notes 6(h) and 6(v))</b>	<u>6,252,898</u>	<u>4</u>	<u>1,086,747</u>	<u>1</u>
							<b>Total equity</b>	<u>66,512,250</u>	<u>43</u>	<u>58,520,641</u>	<u>42</u>
<b>TOTAL</b>		<u>\$ 153,537,252</u>	<u>100</u>	<u>138,352,379</u>	<u>100</u>	<b>TOTAL</b>		<u>\$ 153,537,252</u>	<u>100</u>	<u>138,352,379</u>	<u>100</u>

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

**TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
**FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**  
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2014		2013	
	Amount	%	Amount	%
4000 <b>OPERATING REVENUES (Notes 4, 6(x) and 7)</b>	\$ 112,623,879	100	108,407,931	100
5000 <b>OPERATING COSTS (Notes 4, 7 and 12)</b>	75,098,238	66	69,571,020	64
5900 <b>GROSS PROFIT FROM OPERATIONS</b>	37,525,641	34	38,836,911	36
6000 <b>OPERATING EXPENSES (Notes 4, 7 and 12)</b>				
6100     Marketing	12,979,675	12	12,883,401	12
6200     Administrative	4,945,362	4	4,944,818	5
	17,925,037	16	17,828,219	17
6500 <b>NET OTHER INCOME AND EXPENSES (Note 6(y))</b>	110,111	-	63,143	-
6900 <b>NET OPERATING INCOME</b>	19,710,715	18	21,071,835	19
<b>NON-OPERATING INCOME AND EXPENSES (Notes 4, 6(z) and 7)</b>				
7010     Other income	541,030	-	156,348	-
7020     Other gains and losses, net	(780,195)	(1)	(1,356,445)	(1)
7050     Finance costs	(601,834)	-	(397,322)	-
7060     Share of profit (loss) of associates accounted for using equity method	(4,639)	-	(55,403)	-
7000 <b>Total non-operating income and expenses</b>	(845,638)	(1)	(1,652,822)	(1)
7900 <b>PROFIT BEFORE TAX</b>	18,865,077	17	19,419,013	18
7950 <b>TAX EXPENSE (Notes 4 and 6(u))</b>	3,233,643	3	3,351,840	3
8000 <b>PROFIT FROM CONTINUING OPERATIONS</b>	15,631,434	14	16,067,173	15
8100 <b>LOSS FROM DISCONTINUED OPERATIONS, NET OF TAX (Notes 4 and 6(f))</b>	(78,329)	-	(249,392)	-
8200 <b>PROFIT</b>	<b>15,553,105</b>	<b>14</b>	<b>15,817,781</b>	<b>15</b>
8300 <b>OTHER COMPREHENSIVE INCOME (LOSS)</b>				
8310     Exchange differences on translation	14,226	-	303	-
8325     Unrealized gains (losses) on available-for-sale financial assets	(763,588)	(1)	54,782	-
8360     Actuarial gains (losses) on defined benefit plans	(23,207)	-	560	-
8370     Share of other comprehensive income (loss) of associates accounted for using equity method	47,120	-	(1,859)	-
8399     Income tax generated from other comprehensive income	3,945	-	(95)	-
8300 <b>OTHER COMPREHENSIVE INCOME (AFTER TAX)</b>	<b>(721,504)</b>	<b>(1)</b>	<b>53,691</b>	<b>-</b>
8500 <b>COMPREHENSIVE INCOME</b>	<b>\$ 14,831,601</b>	<b>13</b>	<b>15,871,472</b>	<b>15</b>
<b>PROFIT ATTRIBUTABLE TO</b>				
8610     Owners of parent	\$ 15,005,428	14	15,583,447	15
8620     Non-controlling interests	547,677	-	234,334	-
	<b>\$ 15,553,105</b>	<b>14</b>	<b>15,817,781</b>	<b>15</b>
<b>COMPREHENSIVE INCOME ATTRIBUTABLE TO</b>				
8710     Owners of parent	\$ 14,271,279	13	15,655,368	15
8720     Non-controlling interests	560,322	-	216,104	-
	<b>\$ 14,831,601</b>	<b>13</b>	<b>15,871,472</b>	<b>15</b>
<b>EARNINGS PER SHARE</b>				
<b>BASIC (Note 6(w))</b>				
9710     Basic earnings per share from continuing operations	\$	5.57	5.84	
9720     Basic loss per share from discontinued operations		(0.01)	(0.05)	
9750 <b>Total basic earnings per share</b>	<b>\$</b>	<b>5.56</b>	<b>5.79</b>	
<b>DILUTED (Note 6(w))</b>				
9810     Diluted earnings per share from continuing operations	\$	5.56	5.83	
9820     Diluted loss per share from discontinued operations		(0.01)	(0.05)	
9850 <b>Total diluted earnings per share</b>	<b>\$</b>	<b>5.55</b>	<b>5.78</b>	

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

**TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
**FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**  
**(In Thousands of New Taiwan Dollars)**

Account Number	Equity Attributable to Owners of Parent										
	Ordinary Shares	Capital Surplus	Retained Earnings		Other Equity Interests			Total	Non-controlling Interests	Total Equity	
			Legal Reserve	Unappropriated	Exchange Differences on Translation	Unrealized Gain (Loss) on Available-for-Sale Financial Assets	Treasury Shares				
A1	<b>BALANCE, JANUARY 1, 2013</b>	\$ 34,208,328	12,431,851	18,061,894	22,606,173	25,483	314,543	(31,077,183)	56,571,089	1,072,204	57,643,293
	Distribution of retained earnings for the year ended December 31, 2012:										
B1	Legal reserve	-	-	1,469,160	(1,469,160)	-	-	-	-	-	-
B5	Cash dividends	-	-	-	(14,526,578)	-	-	-	(14,526,578)	-	(14,526,578)
B5	Legal reserve used to distribute cash dividends	-	-	(269,010)	-	-	-	-	(269,010)	-	(269,010)
	Total distribution of retained earnings	-	-	1,200,150	(15,995,738)	-	-	-	(14,795,588)	-	(14,795,588)
D1	Profit for the year ended December 31, 2013	-	-	-	15,583,447	-	-	-	15,583,447	234,334	15,817,781
D3	Other comprehensive income for the year ended December 31, 2013	-	-	-	(735)	(535)	73,191	-	71,921	(18,230)	53,691
D5	Total comprehensive income for the year ended December 31, 2013	-	-	-	15,582,712	(535)	73,191	-	15,655,368	216,104	15,871,472
C7	Changes in equity of associates accounted for using equity method	-	25,040	-	-	-	-	-	25,040	24,410	49,450
M7	Adjustments arising from changes in percentage of ownership of subsidiaries	-	-	-	(22,015)	-	-	-	(22,015)	22,015	-
O1	Cash dividends from subsidiaries paid to non-controlling interests	-	-	-	-	-	-	-	-	(247,986)	(247,986)
Z1	<b>BALANCE, DECEMBER 31, 2013</b>	<b>34,208,328</b>	<b>12,456,891</b>	<b>19,262,044</b>	<b>22,171,132</b>	<b>24,948</b>	<b>387,734</b>	<b>(31,077,183)</b>	<b>57,433,894</b>	<b>1,086,747</b>	<b>58,520,641</b>
	Distribution of retained earnings for the year ended December 31, 2013:										
B1	Legal reserve	-	-	2,275,622	(2,275,622)	-	-	-	-	-	-
B5	Cash dividends	-	-	-	(15,064,599)	-	-	-	(15,064,599)	-	(15,064,599)
	Total distribution of retained earnings	-	-	2,275,622	(17,340,221)	-	-	-	(15,064,599)	-	(15,064,599)
D1	Profit for the year ended December 31, 2014	-	-	-	15,005,428	-	-	-	15,005,428	547,677	15,553,105
D3	Other comprehensive income for the year ended December 31, 2014	-	-	-	(18,481)	6,346	(722,014)	-	(734,149)	12,645	(721,504)
D5	Total comprehensive income for the year ended December 31, 2014	-	-	-	14,986,947	6,346	(722,014)	-	14,271,279	560,322	14,831,601
C7	Changes in equity of associates accounted for using equity method	-	1,665	-	-	-	-	-	1,665	(258)	1,407
L7	Disposal of TWM's shares by subsidiaries	-	1,520,403	-	-	-	-	1,359,839	2,880,242	-	2,880,242
M5	Difference between consideration and carrying amount of subsidiaries' shares disposed of	-	85,965	-	-	-	-	-	85,965	229,995	315,960
M7	Adjustments arising from changes in percentage of ownership of subsidiaries	-	650,906	-	-	-	-	-	650,906	2,864,113	3,515,019
O1	Cash dividends from subsidiaries paid to non-controlling interests	-	-	-	-	-	-	-	-	(224,481)	(224,481)
O1	Increase in non-controlling interests	-	-	-	-	-	-	-	-	1,736,460	1,736,460
Z1	<b>BALANCE, DECEMBER 31, 2014</b>	<b>\$ 34,208,328</b>	<b>14,715,830</b>	<b>21,537,666</b>	<b>19,817,858</b>	<b>31,294</b>	<b>(334,280)</b>	<b>(29,717,344)</b>	<b>60,259,352</b>	<b>6,252,898</b>	<b>66,512,250</b>

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

**TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**  
**(In Thousands of New Taiwan Dollars)**

	<u>2014</u>	<u>2013</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	\$ 18,865,077	19,419,013
A00010 <b>Profit from continuing operations before tax</b>	(94,363)	(300,472)
A00020 <b>Loss from discontinued operations before tax</b>	18,770,714	19,118,541
A10000 <b>Profit before tax</b>		
A20000 <b>Adjustments</b>		
A20010 Adjustments to reconcile profit (loss)		
A20100 Depreciation expense	9,721,579	8,767,518
A20200 Amortization expense	1,871,429	1,234,149
A23000 Gain on disposal of non-current assets held for sale, net	(153,706)	-
A22500 Loss on disposal of property, plant and equipment, net	969,694	1,395,538
A20300 Provision for bad debt expense	373,778	321,110
A20900 Finance costs	601,834	397,373
A21200 Interest income	(94,992)	(95,023)
A21300 Dividend income	(22,803)	(24,246)
A21900 Share-based payments of subsidiaries	2,840	-
A23700 Impairment loss on non-financial assets (from discontinued operations)	17,794	-
A22300 Share of loss of associates accounted for using equity method	4,639	55,403
A23100 Loss (gain) on disposal of investments	168	(4,046)
A23200 Gain on disposal of investments accounted for using equity method	-	(5,874)
A29900 Others	(1,076)	184
A20010 Total adjustments to reconcile profit (loss)	<u>13,291,178</u>	<u>12,042,086</u>
A30000 <b>Changes in operating assets and liabilities</b>		
A31150 Accounts and notes receivable	(1,782,136)	(3,590,403)
A31160 Accounts receivable from related parties	14,996	21,482
A31180 Other receivables	(49,560)	(9,118)
A31200 Inventories	570,348	(1,212,808)
A31230 Prepayments	72,751	47,189
A31240 Other current assets	27,412	30,630
A31990 Other assets	14,266	18,265
A32130 Notes payable	(216,953)	48,235
A32150 Accounts payable	924,698	(469,971)
A32160 Accounts payable to related parties	6,312	8,703
A32180 Other payables	(429,711)	1,079,894
A32200 Provisions	27,444	41,840
A32210 Advance receipts	(301,410)	(489,918)
A32230 Other current liabilities	459,458	506,844
A32240 Accrued pension liabilities	(16,247)	(213)
A30000 Total changes in operating assets and liabilities	<u>(678,332)</u>	<u>(3,969,349)</u>
A33000 <b>Net cash inflows generated from operating activities</b>	31,383,560	27,191,278
A33100 Interest received	1,510	-
A33300 Interest paid	(6,291)	(1,165)
A33500 Income taxes paid	(3,040,263)	(2,357,102)
AAAA <b>Net cash flows from operating activities</b>	<u>28,338,516</u>	<u>24,833,011</u>

(Continued)

**TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOW(Continued)**  
**FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**  
**(In Thousands of New Taiwan Dollars)**

	<u>2014</u>	<u>2013</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
B02700 Acquisition of property, plant and equipment	(13,569,058)	(11,525,906)
B04500 Acquisition of intangible assets	(829,831)	(29,190,087)
B07100 Increase in prepayments for equipment	(304,769)	(303,046)
B02200 Net cash inflows from new consolidated entities	1,193,252	-
B02300 Net cash inflows from disposal of subsidiaries	14,533	-
B01800 Acquisition of investments accounted for using equity method	(320,273)	(1,067,850)
B01900 Proceeds from disposal of investments accounted for using equity method	-	12,855
B00300 Acquisition of available-for-sale financial assets	(4,273,724)	(1,000,000)
B00400 Proceeds from disposal of available-for-sale financial assets	-	194,277
B01200 Acquisition of financial assets at cost	(60,000)	-
B03700 Increase in refundable deposits	(164,135)	(207,141)
B03800 Decrease in refundable deposits	154,372	220,613
B06500 Increase in other financial assets	(2,392,255)	(1,218,816)
B06600 Decrease in other financial assets	447,544	1,471,101
B02600 Proceeds from disposal of non-current assets held for sale	250,291	-
B02800 Proceeds from disposal of property, plant and equipment	5,856	110,239
B04600 Proceeds from disposal of intangible assets	-	1
B01400 Proceeds from investees' capital reduction	45,673	3,002
B06700 Increase in other non-current assets	(3,706)	-
B00900 Acquisition of held-to-maturity financial assets	(6)	-
B07500 Interest received	93,540	95,940
B07600 Dividend received	48,142	34,566
<b>BBBB Net cash used in investing activities</b>	<u>(19,664,554)</u>	<u>(42,370,252)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
C00100 Increase in short-term borrowings	119,246,379	73,873,936
C00200 Decrease in short-term borrowings	(130,955,823)	(46,435,716)
C00500 Increase in short-term notes and bills payable	19,467,020	3,894,957
C00600 Decrease in short-term notes and bills payable	(16,274,202)	(1,498,542)
C01200 Proceeds from issuance of bonds	-	5,796,043
C01300 Repayments of bonds	-	(4,000,000)
C01600 Proceeds from long-term borrowings	10,000,000	3,000,000
C01700 Repayments of long-term borrowings	(1,105,000)	-
C04500 Cash dividends paid (including paid to non-controlling interests)	(15,289,071)	(15,043,570)
C05000 Proceeds from disposal of treasury shares	2,970,389	-
C05500 Disposal of ownership interests in subsidiaries (without losing control)	323,859	-
C03000 Increase in guarantee deposits received	169,229	193,527
C03100 Decrease in guarantee deposits received	(214,427)	(186,458)
C05600 Interest paid	(586,873)	(302,404)
C05800 Increase in non-controlling interests	3,512,800	-
<b>CCCC Net cash flows from (used in) financing activities</b>	<u>(8,735,720)</u>	<u>19,291,773</u>
<b>DDDD EFFECT OF EXCHANGES RATE CHANGES ON CASH AND CASH EQUIVALENTS</b>	<u>11,241</u>	<u>8,622</u>
<b>EEEE NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<u>(50,517)</u>	<u>1,763,154</u>
<b>E00100 CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<u>7,954,294</u>	<u>6,191,140</u>
<b>E00200 CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<u><u>\$ 7,903,777</u></u>	<u><u>7,954,294</u></u>

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

(Concluded)



**TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**YEARS ENDED DECEMBER 31, 2014 AND 2013**  
**(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)**

**1. ORGANIZATION AND OPERATIONS**

Taiwan Mobile Co., Ltd. (TWM) was incorporated in the Republic of China (ROC) on February 25, 1997. TWM's shares began to trade on the ROC Over-the-Counter Securities Exchange (known as the GreTai Securities Market) on September 19, 2000. On August 26, 2002, TWM's shares were listed on the Taiwan Stock Exchange. TWM mainly renders wireless communication services and sells mobile phones and accessories.

TWM's received a second-generation (2G) mobile telecommunications concession operation license issued by the Directorate General of Telecommunications (DGT) of the ROC. The license allows TWM to provide services for 15 years from 1997 onwards. The license was renewed and its expiry date was extended to June 2017 by the National Communications Commission (NCC) in November 2012. In March 2005, TWM received a third-generation (3G) concession operation license issued by the DGT. The 3G license allows TWM to provide services from the issuance date of the license to December 2018.

TWM acquired the Mobile Broadband Spectrum frequency of 30 MHz x 2 (15 MHz x 2 in the 700 MHz frequency band and 15 MHz x 2 in the 1800 MHz frequency band of the 4G spectrum) in October 2013. In April 2014, TWM acquired the concession license for the Mobile Broadband Spectrum frequency of 15 MHz x 2 in the 700 MHz frequency band. To accelerate the Mobile Broadband Spectrum service in the 1800 MHz frequency band in July 2014, the NCC authorized TWM to return the mobile telephone service frequency and approved the application for the Broadband Spectrum frequency of 5 MHz x 2 in the 1800 MHz frequency band. TMW acquired the concession license for the Mobile Broadband Spectrum frequency of 5 MHz x 2 in the 1800 MHz frequency band in August 2014.

In January 2015, TWM was approved to acquire a Mobile Broadband Spectrum frequency of 5 MHz x 2 in the 700 MHz frequency band by the NCC. Please refer to note 11 "Significant subsequent events".

The consolidated financial statements of TWM as of and for the year ended December 31, 2014, comprise TWM and its subsidiaries (the Group).

**2. APPROVAL DATE AND PROCEDURES OF THE CONSOLIDATED FINANCIAL STATEMENTS**

The Board of Directors approved the consolidated financial statements on January 29, 2015.

**3. NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED**

- a. 2013 International Financial Reporting Standards endorsed by the Financial Supervisory Commission, R.O.C., but not yet in effect

In accordance with Rule No. 1030010325 issued by the Financial Supervisory Commission ("FSC") on April 3, 2014, companies listed for trading on the stock exchange or over-the-counter market or for registration as emerging stock should adopt the 2013 IFRSs

## TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(excluding IFRS 9 *Financial Instruments*) endorsed by the FSC beginning in 2015. The new standards, amendments and interpretations which were announced by the International Accounting Standards Board (“IASB”) are as follows:

<b>New Standards, Amendments and Interpretations</b>	<b>Effective Date Issued by IASB</b>
Amended IFRS 1 <i>Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters</i>	July 1, 2010
Amended IFRS 1 <i>Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters</i>	July 1, 2011
Amended IFRS 1 <i>Government Loans</i>	January 1, 2013
Amended IFRS 7 <i>Disclosures - Transfers of Financial Assets</i>	July 1, 2011
Amended IFRS 7 <i>Disclosures - Offsetting Financial Assets and Financial Liabilities</i>	January 1, 2013
IFRS 10 <i>Consolidated Financial Statements</i>	January 1, 2013 (Subsidiaries will adopt on January 1, 2014)
IFRS 11 <i>Joint Agreements</i>	January 1, 2013
IFRS 12 <i>Disclosure of Interests in Other Entities</i>	January 1, 2013
Amended IFRS 10, IFRS 11 and IFRS 12 <i>Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance</i>	January 1, 2013
Amended IFRS 10, IFRS 12 and IAS 27 <i>Investment Entities</i>	January 1, 2014
IFRS 13 <i>Fair Value Measurement</i>	January 1, 2013
Amended IAS 1 <i>Presentation of Items of Other Comprehensive Income</i>	July 1, 2012
Amended IAS 12 <i>Deferred Tax: Recovery of Underlying Assets</i>	January 1, 2012
Amended IAS 19 <i>Employee Benefits</i>	January 1, 2013
Amended IAS 27 <i>Separate Financial Statements</i>	January 1, 2013
Amended IAS 28 <i>Investments in Associates and Joint Ventures</i>	January 1, 2013
Amended IAS 32 <i>Offsetting Financial Assets and Financial Liabilities</i>	January 1, 2014
IFRIC 20 <i>Stripping Costs in the Production Phase of a Surface Mine</i>	January 1, 2013

In the Group’s assessment, except for the following standards, the 2013 IFRSs will not have significant influence after their adoption:

(1) IAS 19 *Employee Benefits*

The amendments to IAS 19 require companies to calculate a “net interest” amount by applying the discount rate to the net defined benefit liability or asset to replace the interest cost and expected return on plan assets used in the previous IAS 19. In addition, the amendments eliminate the accounting treatment of either the corridor approach or the immediate recognition of actuarial gains and losses in profit or loss when they occur, and instead require companies to recognize all actuarial gains and losses immediately through other comprehensive income. The past service cost, on the

**TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

other hand, will be expensed immediately when it is incurred and will no longer be amortized over the average period before meeting vesting conditions on a straight-line basis. In addition, the amendments also require a broader disclosure of defined benefit plans. In compliance with the standards above, the Group anticipates that accrued pension liabilities would increase by \$16,101 thousand and retained earnings would decrease by \$13,364 thousand on January 1, 2014; accrued pension liabilities would increase by \$14,359 thousand and retained earnings would decrease by \$11,918 thousand on December 31, 2014, operating expenses would decrease by \$1,095 thousand and actuarial gains on defined benefit plans, before tax, would increase by \$647 thousand in other comprehensive income for the year ended December 31, 2014.

(2) *IAS 1 Presentation of Financial Statements*

The primary amendment of IAS 1 was requiring profit or loss and other comprehensive income to be presented together, requiring entities to group items presented in other comprehensive income based on whether they are potentially reclassifiable to profit or loss subsequently, and requiring tax associated with items presented before tax to be shown separately for each of the two groups of other comprehensive income items. The Group will follow the amendment of IAS 1 to present the comprehensive income statement.

(3) *IFRS 12 Disclosure of Interests in Other Entities*

IFRS 12 combines all related standards regarding the disclosures of financial reports of subsidiaries, joint ventures, associates, and non-consolidated entities. The Group will additionally disclose the information on consolidated and non-consolidated entities.

(4) *IFRS 13 Fair Value Measurement*

IFRS 13 defines the meaning of fair value and sets the method of calculation and the presentation of measurement of fair value. After assessing the standard, the Group does not expect any significant influence on the financial condition and performance, and will follow IFRS 13 to additionally disclose the information on measurement of fair value.

- b. New standards and interpretations of 2013 IFRSs issued by the IASB but not yet endorsed by the FSC

**TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

<b>New Standards, Amendments and Interpretations</b>	<b>Effective Date Issued by IASB</b>
IFRS 9 <i>Financial Instruments</i>	January 1, 2018
IFRS 14 <i>Regulatory Deferral Accounts</i>	January 1, 2016
IFRS 15 <i>Revenue from Contracts with Customers</i>	January 1, 2017
Amended IAS 1 <i>Disclosure Initiative</i>	January 1, 2016
Amended IFRS 9 and IFRS 7 <i>Mandatory Effective Date and Offsetting Disclosures</i>	January 1, 2018
Amended IFRS 10 and IAS 28 <i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i>	January 1, 2016
Amended IFRS 10, IFRS 12 and IAS 28 <i>Investment Entities: Applying the Consolidation Exception</i>	January 1, 2016
Amended IFRS 11 <i>Accounting for Acquisitions of Interests in Joint Operations</i>	January 1, 2016
Amended IAS 16 and IAS 38 <i>Clarification of Acceptable Methods of Depreciation and Amortization</i>	January 1, 2016
Amended IAS 16 and IAS 41 <i>Agriculture: Bearer Plants</i>	January 1, 2016
Amended IAS 19 <i>Defined Benefit Plans: Employee Contributions</i>	July 1, 2014
Amended IAS 36 <i>Recoverable Amount Disclosure for Non-Financial Assets</i>	January 1, 2014
Amended IAS 39 <i>Novation of Derivatives and Continuation of Hedge Accounting</i>	January 1, 2014
IFRIC 21 <i>Levies</i>	January 1, 2014

The Group is assessing the influence on financial condition and performance of the above standards and interpretations. The Group will disclose the related influence when the assessment is finished.

#### **4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

##### **Statement of Compliance**

The consolidated financial statements have been prepared in accordance with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers (the Guidelines) and with the IFRSs, IASs, IFRIC Interpretations and SIC Interpretations endorsed by the FSC (collectively, "Taiwan-IFRSs").

**TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

**Basis of Preparation**

a. Basis of measurement

The consolidated financial statements have been prepared on a historical cost basis except for financial instruments measured at fair value through profit or loss, which are measured at fair value.

b. Functional and presentation currency

The functional currency of each individual consolidated entity is determined based on the primary economic environment in which the entity operates. The Group's consolidated financial statements are presented in New Taiwan Dollars, which is TWM's functional currency. All financial information presented in New Taiwan Dollars has been rounded to the nearest thousand.

**Basis of Consolidation**

a. Principles of preparation of consolidated financial statements

The consolidated financial statements incorporate the financial statements of TWM and its controlled entities (the subsidiaries). Control is achieved where TWM has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The financial statements of the subsidiaries are included in the consolidated financial statements from the date of obtaining control and are excluded from the date of losing control. The comprehensive income from subsidiaries is allocated to TWM and its non-controlling interests, even if the non-controlling interests have a deficit balance.

The consolidated statements of comprehensive income include the results of a disposed of subsidiary up to the date of disposal.

Changes in the ownership of a subsidiary that do not result in loss of control are accounted for as equity transactions.

Financial statements of subsidiaries are adequately adjusted to align their accounting policies with those of the Group.

Transactions and balances, and any unrealized income and expenses arising from intra-group transactions are eliminated in preparing the consolidated financial statements.

b. The subsidiaries included in the consolidated financial statements

The consolidated entities were as follows:

**TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

<u>Investor</u>	<u>Subsidiary</u>	<u>Main Business and Products</u>	<u>Percentage of Ownership</u>		<u>Note</u>
			<u>2014.12.31</u>	<u>2013.12.31</u>	
TWM	Wealth Media Technology Co., Ltd. (WMT)	Investment	100.00	100.00	-
WMT	momo.com Inc. (momo)	Wholesale and retail sales	44.38	50.64	Note 1
momo	Fu Sheng Travel Service Co., Ltd. (FST)	Travel agent	100.00	100.00	-
momo	Fuli Life Insurance Agent Co., Ltd. (FLI)	Life insurance agent	100.00	100.00	-
momo	Fuli Property Insurance Agent Co., Ltd. (FPI)	Property insurance agent	100.00	100.00	-
momo	Asian Crown International Co., Ltd. (Asian Crown)	Investment	76.26	100.00	Note 2
Asian Crown	Fortune Kingdom Corporation (Fortune Kingdom)	Investment	100.00	100.00	-
Fortune Kingdom	Hong Kong Fubon Multimedia Technology Co., Ltd. (HK Fubon Multimedia)	Investment	100.00	100.00	-
HK Fubon Multimedia	Fubon Gehua (Beijing) Enterprise Ltd. (FGE)	Wholesaling	91.30	87.50	Note 2
WMT	Global Wealth Media Technology Co., Ltd. (GWMT)	Investment	100.00	100.00	-
GWMT	Globalview Cable TV Co., Ltd. (GCTV)	Cable TV service provider	6.83	6.83	-
WMT	Global Forest Media Technology Co., Ltd. (GFMT)	Investment	100.00	100.00	-
GFMT	Union Cable TV Co., Ltd. (UCTV)	Cable TV service provider	0.76	0.76	-
WMT	Win TV Broadcasting Co., Ltd. (WTVB)	TV program provider	100.00	100.00	-
WMT	TFN Media Co., Ltd. (TFNM)	Cable broadband and value-added services provider	100.00	100.00	-
TFNM	UCTV	Cable TV service provider	99.22	99.22	-
TFNM	Yeong Jia Leh Cable TV Co., Ltd. (YJCTV)	Cable TV service provider	100.00	100.00	-

(Continued)

**TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

<u>Investor</u>	<u>Subsidiary</u>	<u>Main Business and Products</u>	<u>Percentage of Ownership</u>		<u>Note</u>
			<u>2014.12.31</u>	<u>2013.12.31</u>	
TFNM	Mangrove Cable TV Co., Ltd. (MCTV)	Cable TV service provider	29.53	29.53	The other 70.47% of shares were held under trustee accounts.
TFNM	Phoenix Cable TV Co., Ltd. (PCTV)	Cable TV service provider	100.00	100.00	-
TFNM	GCTV	Cable TV service provider	92.38	92.38	-
TFNM	Taiwan Kuro Times Co., Ltd. (TKT)	Online music and game service	100.00	100.00	-
TKT	ezPeer Multimedia Ltd.	Investment	-	-	ezPeer Samoa was dissolved in November 2013.
TWM	Taiwan Cellular Co., Ltd. (TCC)	Investment	100.00	100.00	-
TCC	TCC Investment Co., Ltd. (TCCI)	Investment	100.00	100.00	TCCI, TID and TUI collectively owned 698,752 thousand shares of TWM representing 20.42% of total outstanding shares as of December 31, 2014.
TCCI	TCCI Investment & Development Co., Ltd. (TID)	Investment	100.00	100.00	-
TCC	Taiwan Fixed Network Co., Ltd. (TFN)	Fixed-line service provider	100.00	100.00	-
TFN	TFN Union Investment Co., Ltd. (TUI)	Investment	100.00	100.00	-
TFN	TFN HK Ltd.	Telecommunication service provider	100.00	100.00	-
TCC	Taiwan Digital Communications Co., Ltd. (TDC)	TV program production and mobile phone wholesaling	100.00	100.00	-
TCC	TWM Holding Co., Ltd. (TWM Holding)	Investment	100.00	100.00	-
TWM Holding	TWM Communications (Beijing) Co., Ltd. (TWMC)	Mobile application development and design	100.00	100.00	-
TCC	Taiwan Teleservices & Technologies Co., Ltd. (TT&T)	Call center service and telephone marketing	100.00	100.00	-

(Continued)

**TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

<u>Investor</u>	<u>Subsidiary</u>	<u>Main Business and Products</u>	<u>Percentage of Ownership</u>		<u>Note</u>
			<u>2014.12.31</u>	<u>2013.12.31</u>	
TT&T	Taiwan Mobile Basketball Co., Ltd. (TMB)	Basketball team management	-	100.00	TMB was sold in September 2014
TT&T	TT&T Holdings Co., Ltd. (TT&T Holdings)	Investment	100.00	100.00	-
TT&T Holdings	Xiamen Taifu Teleservices & Technologies Co., Ltd.	System integration, management, analysis and development of CRM application and information consulting services	-	-	Xiamen Taifu Teleservices & Technologies Co., Ltd. was dissolved in November 2013.
TCC	Taiwan Digital Service Co., Ltd. (TDS)	Telecommunications service agencies and retail business	100.00	100.00	-
TWM	Taipei New Horizon Co., Ltd. (TNH)	Real estate leasing and hotel business	49.90	Note 3	Note 3

(Concluded)

Note 1: WMT disposed of part of its shareholding in momo as stock released for registration as emerging and listed stock in February and December 2014, respectively. Due to non-proportional investment in momo's capital increase, the percentage of ownership in momo decreased. Despite the reduction in the shareholding in momo, WMT still has over half of the seats on the board of momo and maintains control over momo, so momo is included in the consolidated entities.

Note 2: In July 2014, an extraordinary shareholders' meeting of FGE resolved to inject capital by cash. Due to non-proportional investment in an investee's capital increase, momo's percentage of ownership in Asian Crown decreased, and HK Fubon Multimedia's percentage of ownership in FGE increased.

Note 3: TWM subscribed for the shares based on its proportion of the shareholding in TNH, which remained at 49.9%. Since February 21, 2014, TWM has had control over TNH due to a change in the board members of TNH, and therefore TNH is included in the consolidated entities as a subsidiary.

c. Subsidiaries excluded from the consolidated financial statements: None.

**Foreign Currency**

Foreign currency transactions are recorded at the spot exchange rate on the date of the transaction. At the end of the reporting period (the reporting date), foreign currency monetary



**TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

amounts are reported using the closing rate.

Non-monetary items carried at fair value should be reported at the rate that existed when the fair values were determined. Non-monetary items carried at historical cost are reported using the exchange rate at the date of the transaction.

Exchange differences due to settlement of transactions or translation for monetary items are recognized in profit or loss.

Exchange differences arising on non-monetary items carried at fair value (for example, equity instruments) are recognized in profit or loss. If a gain or loss on a non-monetary item is recognized in other comprehensive income, any foreign exchange component of that gain or loss is also recognized in other comprehensive income.

For the purpose of preparing consolidated financial statements, the assets and liabilities of foreign operations are translated to New Taiwan Dollars (NTD) using the exchange rates at the reporting date. The income and expenses of foreign operations are translated at the average exchange rate for the period. Exchange differences are recognized in other comprehensive income, and accumulated in equity.

**Classification of Current and Non-current Assets and Liabilities**

The Group classifies an asset as current when any one of the following requirements is met. Assets that are not classified as current are non-current assets.

- a. It expects to realize the asset, or intends to sell or consume it, in its normal operating cycle;
- b. It holds the asset primarily for the purpose of trading;
- c. It expects to realize the asset within twelve months after the reporting period; or
- d. The asset is cash or a cash equivalent unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

The Group classifies a liability as current when any one of the following requirements is met. Liabilities that are not classified as current are non-current liabilities.

- a. It expects to settle the liability in its normal operating cycle;
- b. It holds the liability primarily for the purpose of trading;
- c. The liability is due to be settled within twelve months after the reporting period; or
- d. 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

**TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

**Voluntary Change in Accounting Policy**

In response to the development of the IAS regarding revenue, the Group consulted the practical experience of most of the telecommunication service providers abroad and professional investigations of accounting firms, and changed the recognition method for bundle sales from the residual value method to the relative fair value method on January 1, 2013. Instead of recognizing revenue from telecommunication service charges and sales of inventories, the total price of the contract is allocated based on the relative fair value of each component, which fairly presents transactions and attributes gain and loss to the correct accounting period.

**Cash and Cash Equivalents**

Cash and cash equivalents comprise cash, cash in bank, and short-term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value. Time deposits which meet the above definition and are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes should be recognized as cash equivalents. If they do not meet the above definition, time deposits should be recognized as other current and non-current financial assets.

**Financial Instruments**

Financial assets and financial liabilities are initially recognized when the Group becomes a party to the contractual provisions of the instruments.

a. Financial assets

The Group adopts trade-date accounting to recognize and derecognize financial assets. Financial assets are classified into the following categories: financial assets at fair value through profit or loss, available-for-sale financial assets, held-to-maturity financial assets, and loans and receivables.

(1) Financial assets at fair value through profit or loss

A financial asset classified in this category is for the purpose of trading or is at fair value through profit or loss.

This type of financial asset is measured at fair value at the time of initial recognition, and transaction costs are recognized in profit or loss as incurred. Financial assets at fair

**TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

value through profit or loss are measured at fair value, and changes therein, which take into account any dividend and interest income, are recognized in profit or loss, and are included in non-operating income and expenses.

(2) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available for sale or are not classified in any of the other categories of financial assets. Available-for-sale financial assets are recognized initially at fair value, plus any directly attributable transaction cost, and changes are measured at fair value afterwards. Impairment losses, dividend income, and changes in the carrying amount of available-for-sale financial assets from foreign exchange gains or losses and interest income using the effective interest method are recognized in profit and loss, while other changes in carrying amount are recognized in other comprehensive income and presented in unrealized gain (loss) on available-for-sale financial assets in equity. When an investment is derecognized, the gain or loss accumulated in equity is reclassified to profit or loss, and is included in non-operating income and expenses.

Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less impairment loss, and are included in financial assets measured at cost.

(3) Held-to-maturity financial assets

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Group intends and is able to hold to maturity. Held-to-maturity financial assets are recognized initially at fair value plus directly attributable transaction costs and are measured subsequently at amortized cost using the effective interest method, less any impairment losses.

Interest income is recognized in non-operating income and expenses.

(4) 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, trade receivables, other receivables, debt instrument investment without active market, other financial assets, and refundable deposits.

**TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

(5) Impairment of financial assets

A financial asset is impaired if, and only if, there is 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 financial assets that can be estimated reliably.

Objective evidence that financial assets are impaired includes default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, adverse changes in the payment status of borrowers or issuers, economic conditions that correlate with defaults, or the disappearance of an active market for a security. In addition, 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.

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, and accumulated in other equity.

An impairment loss in respect of a financial asset measured at cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss is not reversible in subsequent periods.

For financial assets at amortized cost, an impairment loss is calculated as the difference between an asset's carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate.

For financial assets measured at amortized cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the financial assets at the date the impairment loss is reversed does not exceed what the amortized cost would have been had the impairment loss not been recognized.

Trade receivables are assessed as to whether any impairment has occurred at every

**TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

reporting date. A trade 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 trade receivables, for which an impairment loss is reflected in an allowance account against the receivables. When it is determined a trade 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.

(6) Derecognition of financial assets

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

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received or receivable and any cumulative gain or loss that had been recognized in other comprehensive income is recognized in profit or loss.

b. Financial liabilities

(1) Recognition

Financial liabilities not classified as held for trading or designated as at fair value through profit or loss, which comprise loans and borrowings, short-term notes and bills payable, bonds payable, notes payable, trade payables, other payables, and guarantee deposits received, are measured at fair value plus any directly attributable transaction cost at the time of initial recognition. Subsequent to initial recognition, they are measured at amortized cost calculated using the effective interest method.

(2) Derecognition of financial liabilities

The Group derecognizes a financial liability when its contractual obligation has been discharged or cancelled, or has expired. The difference between the carrying amount of

**TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

a financial liability removed and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognized in profit or loss.

**Inventories**

Inventories are measured at the lower of cost and net realizable value. Inventories are assessed item by item, except those with similar characteristics are collectively assessed. 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 calculation of cost.

**Non-current Assets Held for Sale and Discontinued Operations**

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 plan a 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. Impairment losses measured both at the time of classification as held for sale and subsequently should be recognized in profit or loss. A gain from any subsequent increase in the above measurement should be recognized in profit or loss to the extent that it is not in excess of the cumulative impairment loss.

A discontinued operation is a component of an entity that either has been disposed of or is classified as held for sale, and represents either a separate major line of business or a geographical area of operations. The operation should be classified as discontinued when the operation is ready for disposal or the criteria for discontinuing are met, whichever is earlier.

**Investment in Associates**

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies.

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.

The consolidated financial statements include the Group's share of the profit or loss and other comprehensive income of equity-accounted investees, after adjustments to align their

**TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases.

If the Group does not subscribe the newly issued shares 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.

Unrealized profits resulting from transactions between the Group and an associate are eliminated to the extent of the Group's interest in the associate. Unrealized losses on transactions with associates are eliminated in the same way, except to the extent that the underlying asset is impaired.

When the Group's share of losses exceeds its interest in an associate, the carrying amount of the investment, including any long-term interests that form part thereof, is reduced to zero, and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

**Property, Plant and Equipment**

a. Recognition and measurement

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 as profit and loss.

b. Reclassification to investment property

Property is reclassified to investment property at its carrying amount when the use of the

**TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

property changes from owner-occupied to investment property.

c. Subsequent cost

Subsequent expenditure is capitalized only when it is probable that the future economic benefits associated with the expenditure will flow to the Group and the amount can be reliably measured. The carrying amount of those parts that are replaced is derecognized. Ongoing repairs and maintenance are expensed as incurred.

d. Depreciation

The depreciable amount of an asset is determined after deducting its residual amount, and the net amount shall be allocated with the direct method over its useful life. Each significant item of property, plant and equipment shall be evaluated and depreciated separately if it possesses a different useful life. The depreciation charge for each period shall be recognized in profit or loss.

The depreciable amount of a leased asset is allocated to each accounting period during the period of expected use on a systematic basis consistent with the depreciation policy the lessee adopts for depreciable assets that are owned. The asset is depreciated over the shorter of the lease term and its useful life.

Operation utensils are measured at the cost of the acquired assets when acquisition occurs. Some of the operation utensils are depreciated over the useful life, and others are recognized at expenses when breakage occurs.

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, please refer to Note 6(i).

Depreciation methods, useful lives, and residual values are reviewed at each reporting date. If expectations differ from the previous estimates, the change is accounted for as a change in accounting estimate.

**Investment Property**

Investment property is the property held either to earn rental income or for capital appreciation or for both. Investment property is measured at cost on initial recognition and subsequently at fair value, with any change therein recognized in profit or loss. Cost includes expenditure that is directly attributable to the acquisition of the investment property.

When the use of a property changes such that it is reclassified as property, plant and equipment, its fair value at the date of reclassification becomes its cost for subsequent



**TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

accounting.

**Leases**

Leases in which the lessee assumes substantially all of the risks and rewards of ownership are classified as finance leases. Other leases are operating leases. Receivables collected are periodically recognized as rental income during the lease contract.

Under an operating lease, rental income or lease payments are recognized as income or expense, respectively, on a straight-line basis over the lease term.

Under a finance lease, the proceeds from the lessee should be recognized on a net basis as lease receivable when the Group is the lessor. The finance income is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the receivable.

**Intangible Assets**

a. Goodwill

Goodwill acquired in a business combination is included in intangible assets.

Goodwill is measured at cost less accumulated impairment losses. The carrying amount of the investments in associates includes goodwill. The impairment losses on investments would not be allocated to goodwill or any other assets.

b. Service concession agreement

The operator recognizes the right to charge users for a service as an intangible asset. The operator measures the intangible asset at fair value.

c. Other intangible assets

Other intangible assets that are acquired through business combinations or are internally developed are measured at cost less accumulated amortization and any accumulated impairment losses. Intangible assets that are acquired through business combinations are measured at acquisition-date fair value, and recognized along with goodwill.

d. Amortization

Amortization is recognized in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill and intangible assets with an indefinite useful life, from the date that they are available for use. For the estimated useful lives for the current and comparative periods, please refer to Note 6(k).

**TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

The amortization method, the amortization period, and the residual value for an intangible asset with a finite useful life shall be reviewed at each fiscal year-end. Any changes shall be accounted for as changes in accounting estimates.

**Impairment of Non-financial Assets**

The Group measures whether impairment occurred in non-financial assets (except for inventories, deferred income tax assets, and employee benefits) on every reporting date, and estimates the recoverable amount. If it is not possible to determine the recoverable amount (fair value less cost to sell and value in use) for the individual asset, then the Group will determine the recoverable amount for the asset's cash-generating unit.

The recoverable amount for an individual asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use. If, and only if, the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset shall be reduced to its recoverable amount. That reduction is an impairment loss. An impairment loss shall be recognized immediately in profit or loss.

The Group should assess at the end of each reporting period whether there is any indication that an impairment loss recognized in prior periods for an asset other than goodwill may no longer exist or may have decreased. If any such indication exists, the entity shall estimate the recoverable amount of that asset. An impairment loss recognized in prior periods for an asset other than goodwill shall be reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If this is the case, the carrying amount of the asset shall be increased to its recoverable amount. That increase is a reversal of an impairment loss. An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

Notwithstanding whether indicators exist, recoverability of goodwill and intangible assets with indefinite useful lives or those not yet in use is required to be tested at least annually. Impairment loss is recognized if the recoverable amount is less than the carrying amount.

For the purpose of impairment testing, goodwill acquired in a business combination shall, from the acquisition date, be allocated to each of the acquirer's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination. If the carrying amount of the cash-generating units exceeds the recoverable amount of the units, the entity shall recognize the impairment loss, and the impairment loss

**TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

shall be allocated to reduce the carrying amount of each asset in the units. Reversal of an impairment loss for goodwill is prohibited.

**Provisions**

A provision is recognized if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate 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 cost for property, plant and equipment that were originally acquired or used by the Group for a period of time and had obligations for dismantling, relocating, and restoring to the previous state should be recognized as an addition to the assets and accrued as a potential liability accordingly.

b. 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.

c. Decommissioning

For a service concession agreement, the concession receiver has an obligation for maintenance or decommissioning before returning the construction to the grantor as stated in the concession agreement. For a build-operate-transfer contract, the costs paid for the obligation for maintenance or decommissioning should be recognized as expense and liabilities.

**Treasury Shares**

Repurchased shares are recognized under treasury shares (a contra-equity account) based on their repurchase price (including all directly accountable costs), net of tax. Shares that are owned by TWM's subsidiaries are seen as identical to treasury shares.

Gains on disposal of treasury shares should be recognized under "capital reserve – treasury share transactions"; Losses on disposal of treasury shares should be offset against existing capital reserves arising from similar types of treasury shares. If there is insufficient capital reserve to offset the losses, then such losses should be accounted for under retained earnings.

**TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

The carrying amount of treasury shares should be calculated using the weighted-average method and grouped by the type of repurchase.

**Employee Benefits**

Obligations for contributions to defined contribution pension plans are recognized as an employee benefit expense in profit or loss in the periods during which services are rendered by employees.

A defined benefit plan uses the projected unit credit method to calculate actuarial valuation at the end of the fiscal year. The Group recognizes actuarial gains and losses from the defined benefit obligation in other comprehensive income immediately when the gains and losses occur. When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognized in profit or loss on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognized immediately in profit or loss.

The Group recognizes gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on curtailment comprises any resulting change in the fair value of plan assets, any change in the present value of the defined benefit obligation, and any related actuarial gains or losses and past service cost that had not previously been recognized.

The rate used to discount post-employment benefit obligations is determined by reference to market yields at the end of the reporting period on high-quality corporate bonds or government bonds. The currency and term of the bonds are consistent with those of the obligations.

**Income Tax**

Income tax expenses include both current taxes and deferred taxes. Except for expenses related to business combinations, expenses recognized in equity or other comprehensive income directly, 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) for the year calculated using the statutory tax rate on the reporting date or the actual legislative tax rate, as well as tax adjustments related to prior years.

An additional 10% surtax on undistributed earnings, computed according to the ROC

**TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

Income Tax Act, is recognized in current taxes in the year of approval by a shareholders' 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 bases. Deferred tax assets are generally recognized for all deductible temporary differences, net operating loss carryforwards, and unused tax credits to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Deferred taxes shall not be recognized for temporary differences from the following:

- (1) Assets and liabilities that are initially recognized but not related to a business combination and have no effect on net income or taxable gains (losses) during the combination.
- (2) Temporary differences arising from equity investments in subsidiaries or joint ventures where there is a high probability that such temporary differences will not reverse.
- (3) Initial recognition of goodwill.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates that have been enacted or substantively enacted on the reporting date. The measurement reflects the entity's expectations on the reporting date 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 every year on the financial reporting date, 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.

Income tax expenses recognized in equity balances or other comprehensive income shall be measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled based on the temporary differences between the carrying amount and the tax basis of related assets and liabilities on the reporting date.

**TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

**Revenue**

Revenue is measured at the fair value of the consideration received or receivable, net of returns, trade discounts, and volume rebates. Revenue from bundle sales is recognized with the relative fair value method, and the total price of the contract is allocated to each component of revenue based on the relative fair values.

a. Service revenues from mobile communication services, wireless services, fixed network services, and value-added services, net of any applicable discount, are billed at predetermined rates; the fixed monthly fees on the basic cable TV services are accrued.

b. Sales of goods

Revenue from sales of goods is recognized when the conditions mentioned below are all satisfied; the amount of sales allowance is reasonably estimated based on previous experience and other relevant factors.

- (1) The Group has transferred the significant risks and returns of ownership to the counterparty;
- (2) The Group has not been involved in any control activities and has not maintained effective control over the goods sold;
- (3) The amount can be reliably measured;
- (4) Economic benefits relevant to the transactions will probably flow to the Group;
- (5) Costs related to the transactions, whether incurred or expected, can be reliably measured.

Generally, revenue is recognized as goods are delivered and ownership is transferred.

c. Proceeds from game service are recognized as advance receipts upon receiving deposits from customers and are recognized as revenue over the service periods or upon the consumption of deposits.

d. Customer loyalty program

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

e. Commissions

Revenue from services rendered is recognized in profit or loss in proportion to the stage of completion of the transaction at the reporting date.

**TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

When the Group acts in the capacity of an agent rather than as the principal in a transaction, the revenue recognized is the net amount of commission made by the Group.

- f. Revenue from room service and restaurants is recognized when the service is provided.
- g. Dividend and interest income

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

Interest arising from financial instruments is recognized when the economic benefits will probably flow to the Group and the amount can be reliably measured. Recognition is on an accrual basis, and revenue is in accordance with the weighted-average outstanding principal and effective interest rate.

**Business Combination**

A business combination uses the acquisition method. Goodwill is measured as an aggregation of the consideration transferred, which is measured at fair value at the acquisition date, and the amount of any non-controlling interest in the acquiree, net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed at fair value. If the residual balance is negative, the Group shall re-assess whether it has correctly identified all of the assets acquired and liabilities assumed, and recognize a gain on the bargain purchase thereafter.

**5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY**

The preparation of the consolidated financial statements in conformity with Taiwan-IFRSs 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. Changes in accounting estimates will be recognized in the period of change and the future period of their impact.

- a. Impairment assessment of tangible and intangible assets (goodwill is excluded)

In the process of impairment assessment, the Group should rely on subjective judgment to determine the individual cash flows of a specific group of assets and estimate future gain and loss according to the usage of assets and business characteristics. Alteration of estimates

**TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

from any change in economic conditions or business strategy may lead to significant impairment loss in the future.

Except for the assets from discontinued operations, the Group has not recognized any impairment loss for the years ended December 31, 2014 and 2013. For the recognition of impairment loss on the assets from discontinued operations, please refer to Note 6(f).

b. Impairment assessment of goodwill

The use 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 present value. Significant impairment loss may occur if actual cash flows are less than forecasted.

As of December 31, 2014 and 2013, the carrying value of goodwill amounted to \$15,845,930 thousand. The Group has not recognized any impairment loss on goodwill for the years ended December 31, 2014 and 2013.

c. Impairment assessment of investments accounted for using equity method

Impairment assessment is required if, and only if, there is objective evidence of impairment of investments accounted for using equity method and the carrying value may not be recoverable. Management assesses the impairment based on the expected future cash flows from the investee, including the growth rate of revenues estimated by the management of the investee. The general situation of the market and businesses which share similar characteristics is taken into consideration to assess the rationality of relevant assumptions.

The Group has not recognized any impairment loss on investments accounted for using equity method for the years ended December 31, 2014 and 2013.

d. Income tax

The realizability of deferred income tax assets (liabilities) depends on sufficient future profits or a taxable temporary difference. Any changes in the industry environment or amendments of law can result in significant adjustment of deferred income tax.

As of December 31, 2014 and 2013, the carrying value of deferred income tax assets amounted to \$882,732 thousand and \$924,576 thousand, respectively; and the carrying value of deferred income tax liabilities amounted to \$2,688,568 thousand and \$2,599,791 thousand, respectively.



**TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

e. Useful lives of property, plant and equipment

Please refer to Note 6(i). The Group reviews the estimated useful lives of property, plant and equipment periodically.

f. Impairment assessment of accounts receivable

If there is any objective evidence of impairment, the Group will take account of estimates of future cash flows. An impairment loss is calculated as the difference between an asset's carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Significant impairment loss may occur if actual cash flows are less than forecasted.

As of December 31, 2014 and 2013, the carrying value of accounts receivable amounted to \$14,880,147 thousand and \$14,373,340 thousand, respectively. They were the net amounts after subtracting the allowances for doubtful accounts amounting to \$277,815 thousand and \$288,620 thousand, respectively.

**6. DESCRIPTION OF SIGNIFICANT ACCOUNTS**

a. Cash and cash equivalents

	<u>2014.12.31</u>	<u>2013.12.31</u>
Government bonds with repurchase rights	\$ 3,481,084	4,070,060
Cash in banks	2,214,593	2,053,132
Time deposits	1,777,771	1,748,153
Short-term notes and bills	299,786	-
Cash on hand	121,546	73,530
Revolving funds	8,997	9,419
	<u>\$ 7,903,777</u>	<u>7,954,294</u>

b. Available-for-sale financial assets

	<u>2014.12.31</u>	<u>2013.12.31</u>
Domestic listed stock	\$ 204,310	202,354
Domestic emerging stock	893,103	1,226,889
Domestic unlisted stock	2,587,050	-
Beneficiary certificates	2,009,447	758,591
	<u>\$ 5,693,910</u>	<u>2,187,834</u>

**TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

	<u>2014.12.31</u>	<u>2013.12.31</u>
Current	\$ 2,213,757	960,945
Non-current	\$ 3,480,153	1,226,889
c. Non-current financial assets at cost		
	<u>2014.12.31</u>	<u>2013.12.31</u>
Domestic unlisted stock	\$ 185,602	128,001
Foreign unlisted stock	7,050	50,324
	<u>\$ 192,652</u>	<u>178,325</u>

The aforementioned investments held by the Group are measured at cost less impairment loss at year-end given that the range of reasonable fair value estimates is significant and the probability for each estimate cannot be reasonably determined. Therefore, the Group management has determined that the fair value cannot be measured reliably.

For the years ended December 31, 2014 and 2013, there was no impairment loss.

d. Accounts and notes receivable, net

	<u>2014.12.31</u>	<u>2013.12.31</u>
Notes receivable	\$ 110,093	210,559
Accounts receivable	15,157,962	14,661,960
Less: allowance for doubtful accounts	(277,815)	(288,620)
Accounts receivable, net	14,880,147	14,373,340
Total	<u>\$ 14,990,240</u>	<u>14,583,899</u>

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

	<u>Amount of Accounts Receivable Sold</u>	<u>Proceeds of the Sale of Accounts Receivable</u>
<u>January 2014</u>		
Long Sun Asset Management Co., Ltd.	<u>\$ 991,966</u>	<u>42,699</u>
<u>January 2013</u>		
Hui Cheng First Asset Management Co., Ltd.	<u>\$ 1,242,340</u>	<u>40,249</u>

**TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

The accounts receivable aging analysis of the Group was as follows:

	<u>2014.12.31</u>	<u>2013.12.31</u>
Neither past due nor impaired	\$ 14,417,430	13,992,823
Past due but not impaired		
Past due within 180 days	462,436	373,592
Past due over 180 days	281	6,925
	<u>\$ 14,880,147</u>	<u>14,373,340</u>

Movements of allowance for doubtful receivables for the years ended December 31, 2014 and 2013, were as follows:

	<b>For the Years Ended</b>	
	<b>December 31</b>	
	<u>2014</u>	<u>2013</u>
Beginning balance	\$ 288,620	267,589
Add: Provision	345,198	284,130
Reversal	112,704	120,596
Less: Write-off	(468,707)	(383,695)
Ending balance	<u>\$ 277,815</u>	<u>288,620</u>

e. Inventories

	<u>2014.12.31</u>	<u>2013.12.31</u>
Merchandise	\$ 3,131,412	3,708,181
Materials for maintenance	78,214	73,173
Catering inventories	1,362	-
	<u>\$ 3,210,988</u>	<u>3,781,354</u>

For the years ended December 31, 2014 and 2013, the cost of goods sold recognized in consolidated comprehensive income amounted to \$42,614,868 thousand and \$38,099,625 thousand, respectively, which included the inventory write-downs amounting to \$29,019 thousand and \$21,738 thousand, respectively.

f. Non-current assets held for sale and discontinued operations

(1) Non-current assets held for sale

- (a) In November 2013, TFN decided to dispose of a piece of land and sold it to Chii Lih Development Enterprise Co., Ltd. The land was recorded as assets held for sale amounting to \$50,275 thousand at the end of December 2013, and the transfer of the ownership, which was finished on January 28, 2014, led to a gain of \$158,568 thousand.

**TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

(b) In March 2014, the Board of Directors of momo resolved to sell the traditional retail business to We Can Medicines Co., Ltd. At the end of March 2014, the total value of machinery and equipment, storage equipment, and telecommunication equipment held for sale was \$46,310 thousand, and a total impairment loss of \$17,794 thousand was recognized through measurement at the lower of carrying amount and fair value less costs to sell. The above equipment was disposed of in June 2014, and a loss of \$4,862 thousand was recognized under discontinued operations.

(2) Disclosure of profit and loss, and cash flows from discontinued operations

The profit and loss, and cash flows from discontinued operations are summarized as follows:

	<b>For the Years Ended December 31</b>	
	<b>2014</b>	<b>2013</b>
Profit and loss from discontinued operations:		
Operating revenue	\$ 172,273	735,436
Operating costs	138,848	462,299
Gross profit	33,425	273,137
Operating expenses	102,382	546,335
Other income and expenses	(1,727)	(3,800)
Loss from discontinued operations before tax	(70,684)	(276,998)
Non-operating income and expenses		
Loss on disposal of property, plant, and equipment	(2,148)	(25,083)
Interest income	39	553
Finance costs	-	(51)
Others	1,086	1,107
Tax revenue	12,183	51,080
Loss from discontinued operations after tax	(59,524)	(249,392)
Gain (loss) on disposal of the assets from discontinued operations		
Loss recognized on measurement of fair value less costs to sell of the assets from discontinued operations before tax	(17,794)	-
Loss recognized on the disposal of the assets from discontinued operations before tax	(4,862)	-
Tax revenue	3,851	-

(Continued)

**TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

	For the Years Ended December 31	
	2014	2013
Loss recognized on measurement of fair value less costs to sell of the assets disposed of from discontinued operations after tax	(18,805)	-
Loss from discontinued operations after tax	<b>\$ (78,329)</b>	<b>(249,392)</b>
Cash flows from (used in) discontinued operations:		
Net cash from operating activities	\$ 78,566	(113,534)
Net cash from investing activities	59,740	42,821
Net cash from financing activities	(9,684)	(8,576)
Net cash inflow (outflow)	<b>\$ 128,622</b>	<b>(79,289)</b>

(Concluded)

(3) Profit (loss) from discontinued operations attributable to owners of parent:

Please refer to Note 6(w).

g. Investments accounted for using equity method

Investee Company	2014.12.31		2013.12.31	
	Amount	% of Ownership	Amount	% of Ownership
TNH	\$ -	-	1,566,952	49.90
Taiwan Pelican Express Co., Ltd. (TPE)	455,426	17.70	409,142	17.70
Kbro Media Co., Ltd.	267,878	32.50	284,748	32.50
TVD Shopping Co., Ltd. (TVD Shopping)	150,803	35.00	-	-
Alliance Digital Tech Co., Ltd. (ADT)	23,139	13.33	28,514	19.23
	<b>\$ 897,246</b>		<b>2,289,356</b>	

The fair value of the investments accounted for using equity method measured at the closing price in the open market on the reporting date was as follows:

Investee Company	2014.12.31	2013.12.31
TPE	<b>\$ 846,339</b>	<b>1,140,278</b>

Financial information on the Group's associates was as follows:

	2014.12.31	2013.12.31
Total assets	<b>\$ 3,827,703</b>	<b>10,659,757</b>
Total liabilities	<b>\$ 689,475</b>	<b>4,994,076</b>

**TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

	<b>For the Years Ended</b>	
	<b>December 31</b>	
	<b>2014</b>	<b>2013</b>
Operating revenues	<u>\$ 2,814,459</u>	<u>5,438,800</u>
Profit	<u>\$ 69,377</u>	<u>17,845</u>
Other comprehensive income	<u>\$ 250,030</u>	<u>(22,144)</u>
Share of losses of associates accounted for using equity method	<u>\$ (4,639)</u>	<u>(55,403)</u>

(1) TNH

TNH was established with the approval of the Taipei City Government and entered into “the Build-operate-transfer project of investment in Songshan Tobacco Plant culture park contract” (the “BOT contract”) with the Department of Cultural Affairs, Taipei City Government, in 2009. TNH began to operate in May 2013.

On January 22, 2014, the Board of Directors of TNH resolved to increase TNH’s capital by \$345,000 thousand, divided into 34,500 thousand shares with a par value of \$10 per share. TWM subscribed for the shares based on its proportion of the shareholding, which remained at 49.9%, and paid \$172,155 thousand on January 27, 2014.

On February 21, 2014, TWM obtained control of TNH due to a change in the Board members of TNH, and therefore, TNH is included in the consolidated entities as a subsidiary. For the acquisition of subsidiaries, please refer to Note 6(h).

(2) TPE

In August 2012, momo, a subsidiary of TWM, acquired 20% of TPE.

As of December 2013, momo held 17.70% of TPE due to not subscribing for new shares and selling part of its shares when TPE went public. Momo still has significant influence on TPE due to two seats on the Board.

(3) Kbro Media Co., Ltd.

In August 2012, TFNM, a subsidiary of TWM, acquired 32.5% of Kbro Media Co., Ltd.

On December 26, 2012, Kbro Media Co., Ltd.’s Board of Directors resolved to increase Kbro Media Co., Ltd.’s capital by \$660,000 thousand, divided into 66,000

**TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

thousand shares with a par value of \$10 per share, with a record date of January 31, 2013. TFNM subscribed for the shares based on its proportion of the shareholding, which remains at 32.5%.

(4) TVD Shopping

In April 2014, momo acquired 35% of TVD Shopping.

(5) ADT

In November 2013, TWM acquired 19.23% of ADT.

In 2014, TWM held 13.33% of ADT due to not subscribing for new shares.

TWM holds less than 20% of ADT but still has significant influence on ADT due to a seat on the Board.

h. Subsidiaries and transactions with non-controlling interests

(1) Acquisition of subsidiaries

TWM obtained control of TNH due to the change in the members on the Board of TNH through the election on February 21, 2014. TWM's shareholding remained at 49.9%. TNH mainly engages in real estate leasing and hotel business.

(a) Assets acquired and liabilities assumed

	<b>TNH</b>
Current assets	
Cash and cash equivalents	\$ 1,193,252
Others	79,777
Non-current assets	
Service concession	7,460,415
Others	5,656
Current liabilities	(647,681)
Non-current liabilities	
Long-term borrowings	(3,285,841)
Others	(1,339,944)
	<b>\$ 3,465,634</b>

The Group's shareholding of TNH was 49.9% before obtaining control of TNH, at which time the book value and fair value were equivalent. Therefore, the gain and loss arising from remeasurement were not significant.

**TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

(b) Operating influences of combination

The Group's share of operating revenue and net loss of TNH was \$238,023 thousand and \$13,229 thousand, respectively, for the period from February 21 to December 31, 2014. If the business combination had occurred at the beginning of the fiscal year, the pro forma operating revenue and net loss in the Group's consolidated comprehensive income statement would have been \$274,198 thousand and \$32,425 thousand, respectively, for the year ended December 31, 2014. The pro forma revenue and net loss could not be regarded as the actual operating outcome on the basis that the business combination occurred at the beginning of the year and revenue and net loss were projected into the future.

(2) Disposal of subsidiaries

In September 2014, TT&T disposed of all of its ownership in TMB to Fubon Financial Holding Venture Co., Ltd., which caused a disposal loss of \$168 thousand and the loss of control of TMB. Net cash inflow from the disposal of TMB was as follows:

Cash consideration received	\$ 21,360
Less: Cash and cash equivalents of TMB	<u>6,827</u>
Net cash inflow	<u><u>\$ 14,533</u></u>

(3) Transactions with non-controlling interests

(a) WMT disposed of part of its shareholding in momo in February and December 2014. Despite WMT's non-proportional investment in momo's increase in capital and the decrease in the shareholding in momo from 50.64% to 44.38%, WMT still maintains control of momo and therefore deemed it an equity transaction.

(i) Cash consideration received	\$ 323,859
Increase in non-controlling interests due to equity transaction involving subsidiaries	(229,995)
Other adjustments	<u>(7,899)</u>
Capital surplus - difference between consideration and carrying amounts of subsidiaries' shares disposed of	<u><u>\$ 85,965</u></u>
(ii) Proceeds from capital injection	\$ 3,262,970
Increase in non-controlling interests due to equity transaction involving subsidiaries	(2,688,317)
Other adjustments	<u>2,219</u>
Capital surplus - changes in equity of subsidiaries	<u><u>\$ 576,872</u></u>



**TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

(b) Due to non-proportional investment in an investee's increase in capital in 2014 (Tong-An Investment Co., Ltd., TPE, Kuo Chi Investment Corp., and Fubon Financial Holding Venture Co., Ltd. participated in the capital increase), momo's ownership percentage in Asian Crown decreased from 100% to 76.26%, and due to HK Fubon Multimedia's non-proportional investment in FGE, its ownership percentage in FGE increased from 87.5% to 91.30%. The above transactions did not result in losing control of FGE, and therefore these were equity transactions.

Proceeds from capital injection	\$ 249,830
Increase in non-controlling interests due to equity transaction involving subsidiaries	(175,796)
Capital surplus - changes in equity of subsidiaries	<u><u>\$ 74,034</u></u>

Due to non-proportional investment in an investee's increase in capital in 2013, momo's ownership percentage in FGE increased from 80% to 87.5%. The change in momo's ownership interest in FGE, which did not result in losing control of FGE, was an equity transaction, decreasing unappropriated retained earnings and increasing non-controlling interests by \$22,015 thousand.

i. Property, plant and equipment

Movements of the cost, depreciation, and impairment of property, plant and equipment of the Group for the years ended December 31, 2014 and 2013, were as follows:

	<u>Land</u>	<u>Buildings</u>	<u>Telecommunication equipment and machinery</u>	<u>Miscellaneous equipment</u>	<u>Construction in progress and equipment to be inspected</u>	<u>Total</u>
<b>Cost:</b>						
Balance, January 1, 2014	\$ 8,675,595	4,961,737	73,940,408	6,049,561	3,162,832	96,790,133
Additions	1,717,927	2,061	282,376	408,312	12,465,544	14,876,220
Acquisition from combination	-	-	-	10,232	-	10,232
Reclassification	(26,837)	(16,098)	10,814,268	677,283	(11,635,447)	(186,831)
Disposals	-	-	(6,180,508)	(167,523)	(7,332)	(6,355,363)
Effect of deconsolidation of subsidiaries	-	-	-	(1,463)	-	(1,463)
Effect of exchange rate changes	-	-	6,588	2,891	-	9,479
Balance, December 31, 2014	<u><u>\$ 10,366,685</u></u>	<u><u>4,947,700</u></u>	<u><u>78,863,132</u></u>	<u><u>6,979,293</u></u>	<u><u>3,985,597</u></u>	<u><u>105,142,407</u></u>
Balance, January 1, 2013	\$ 6,735,900	4,145,550	70,234,280	5,540,378	4,060,086	90,716,194
Additions	-	748	284,480	504,004	11,662,533	12,451,765
Reclassification	1,939,695	815,439	9,386,062	411,398	(12,522,151)	30,443
Disposals	-	-	(5,974,854)	(410,944)	(37,636)	(6,423,434)
Effect of exchange rate changes	-	-	10,440	4,725	-	15,165
Balance, December 31, 2013	<u><u>\$ 8,675,595</u></u>	<u><u>4,961,737</u></u>	<u><u>73,940,408</u></u>	<u><u>6,049,561</u></u>	<u><u>3,162,832</u></u>	<u><u>96,790,133</u></u>

**TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

	<u>Land</u>	<u>Buildings</u>	<u>Telecommunication equipment and machinery</u>	<u>Miscellaneous equipment</u>	<u>Construction in progress and equipment to be inspected</u>	<u>Total</u>
<b>Accumulated depreciation and impairment:</b>						
Balance, January 1, 2014	\$ 83,426	1,260,526	48,470,898	3,989,482	-	53,804,332
Depreciation	-	144,045	8,659,533	914,638	-	9,718,216
Acquisition from combination	-	-	-	835	-	835
Reclassification	-	(5,760)	(80,647)	15,095	-	(71,312)
Disposals	-	-	(5,222,019)	(157,794)	-	(5,379,813)
Effect of deconsolidation of subsidiaries	-	-	-	(1,257)	-	(1,257)
Effect of exchange rate changes	-	-	3,221	1,866	-	5,087
Balance, December 31, 2014	<u>\$ 83,426</u>	<u>1,398,811</u>	<u>51,830,986</u>	<u>4,762,865</u>	-	<u>58,076,088</u>
Balance, January 1, 2013	\$ 83,426	1,127,005	45,302,209	3,465,876	-	49,978,516
Depreciation	-	138,216	7,795,085	830,711	-	8,764,012
Reclassification	-	(4,695)	-	(19,452)	-	(24,147)
Disposals	-	-	(4,628,743)	(289,112)	-	(4,917,855)
Effect of exchange rate changes	-	-	2,347	1,459	-	3,806
Balance, December 31, 2013	<u>\$ 83,426</u>	<u>1,260,526</u>	<u>48,470,898</u>	<u>3,989,482</u>	-	<u>53,804,332</u>
<b>Carrying amount:</b>						
Balance, December 31, 2014	<u>\$ 10,283,259</u>	<u>3,548,889</u>	<u>27,032,146</u>	<u>2,216,428</u>	<u>3,985,597</u>	<u>47,066,319</u>
Balance, December 31, 2013	<u>\$ 8,592,169</u>	<u>3,701,211</u>	<u>25,469,510</u>	<u>2,060,079</u>	<u>3,162,832</u>	<u>42,985,801</u>

(1) The estimated useful lives, for the current and comparative years, of significant items of property, plant and equipment are as follows:

(a) Buildings

Primary buildings 20~55 years

Mechanical and electrical equipment 15 years

(b) Telecommunication equipment and machinery 2~20 years

(c) Miscellaneous equipment 2~20 years

(2) The non-cash investing activities of the Group for the years ended December 31, 2014 and 2013, were as follows:

	<b>For the Years Ended</b>	
	<b>December 31</b>	
	<u>2014</u>	<u>2013</u>
Acquisition of property, plant and equipment	\$ 14,876,220	12,451,765
Changes in other payables	(1,215,324)	(783,810)
Changes in provisions	(91,838)	(142,049)
Cash paid for acquisition of property, plant and equipment	<u>\$ 13,569,058</u>	<u>11,525,906</u>

**TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

j. Investment property

	<b>2014.12.31</b>	<b>2013.12.31</b>
Land:		
Cost	<b>\$ 261,905</b>	<b>235,068</b>
Buildings:		
Cost	\$ 137,465	121,367
Accumulated depreciation	45,162	36,041
Carrying amount	<b>\$ 92,303</b>	<b>85,326</b>
Total investment property	<b>\$ 354,208</b>	<b>320,394</b>
Fair value	<b>\$ 1,113,847</b>	<b>717,142</b>
Capitalization rate	<b>1.06%~4.20%</b>	<b>1.19%~3.12%</b>

Properties were reclassified from property, plant and equipment to investment property since the properties were no longer used by the Group and it was decided to lease them to a third party.

Fair value of a property is determined through the income approach, comparative approach, and cost approach by an independent appraisal company.

k. Intangible assets

The cost, amortization, and impairment of intangible assets of the Group for the years ended December 31, 2014 and 2013, were as follows:

	Concessions			Other intangible assets					Total
	Concession license	Service concession	Goodwill	Computer software	Customer relationship	Operating rights	Trademarks	Others	
<b>Cost:</b>									
Balance, January 1, 2014	\$ 39,291,000	-	15,845,930	2,020,208	2,849,197	1,382,000	2,517,860	5,107	63,911,302
Addition	-	419,832	-	147,170	-	-	6	-	567,008
Acquisition from combination	-	7,460,415	-	-	-	-	-	-	7,460,415
Disposals	-	-	-	(3,357)	-	-	-	-	(3,357)
Adjustment and reclassification	-	(144,119)	-	319,334	-	-	-	-	175,215
Effect of exchange rate changes	-	-	-	831	-	-	-	110	941
Balance, December 31, 2014	<b>\$ 39,291,000</b>	<b>7,736,128</b>	<b>15,845,930</b>	<b>2,484,186</b>	<b>2,849,197</b>	<b>1,382,000</b>	<b>2,517,866</b>	<b>5,217</b>	<b>72,111,524</b>

**TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

	Concessions			Other intangible assets					
	Concession	Service	Goodwill	Computer	Customer	Operating			Total
	license	concession		software	relationship	rights	Trademarks	Others	
Balance, January 1, 2013	\$ 10,281,000	-	15,845,930	1,664,031	2,849,197	1,382,000	2,517,290	5,631	34,545,079
Addition	29,010,000	-	-	181,894	-	-	570	-	29,192,464
Deduction	-	-	-	(51,979)	-	-	-	(739)	(52,718)
Reclassification	-	-	-	224,939	-	-	-	-	224,939
Effect of exchange rate changes	-	-	-	1,323	-	-	-	215	1,538
Balance, December 31, 2013	<u>\$ 39,291,000</u>	<u>-</u>	<u>15,845,930</u>	<u>2,020,208</u>	<u>2,849,197</u>	<u>1,382,000</u>	<u>2,517,860</u>	<u>5,107</u>	<u>63,911,302</u>
<b>Amortization and impairment:</b>									
Balance, January 1, 2014	\$ 6,542,455	-	-	1,502,406	1,023,771	-	579	4,820	9,074,031
Amortization	1,242,548	138,833	-	353,162	136,400	-	199	287	1,871,429
Disposals	-	-	-	(3,357)	-	-	-	-	(3,357)
Effect of exchange rate changes	-	-	-	467	-	-	-	110	577
Balance, December 31, 2014	<u>\$ 7,785,003</u>	<u>138,833</u>	<u>-</u>	<u>1,852,678</u>	<u>1,160,171</u>	<u>-</u>	<u>778</u>	<u>5,217</u>	<u>10,942,680</u>
Balance, January 1, 2013	\$ 5,794,746	-	-	1,232,525	860,198	-	400	3,056	7,890,925
Amortization	747,709	-	-	321,025	163,573	-	179	1,663	1,234,149
Deduction	-	-	-	(51,651)	-	-	-	-	(51,651)
Effect of exchange rate changes	-	-	-	507	-	-	-	101	608
Balance, December 31, 2013	<u>\$ 6,542,455</u>	<u>-</u>	<u>-</u>	<u>1,502,406</u>	<u>1,023,771</u>	<u>-</u>	<u>579</u>	<u>4,820</u>	<u>9,074,031</u>
<b>Carrying amounts:</b>									
Balance, December 31, 2014	<u>\$ 31,505,997</u>	<u>7,597,295</u>	<u>15,845,930</u>	<u>631,508</u>	<u>1,689,026</u>	<u>1,382,000</u>	<u>2,517,088</u>	<u>-</u>	<u>61,168,844</u>
Balance, December 31, 2013	<u>\$ 32,748,545</u>	<u>-</u>	<u>15,845,930</u>	<u>517,802</u>	<u>1,825,426</u>	<u>1,382,000</u>	<u>2,517,281</u>	<u>287</u>	<u>54,837,271</u>

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

- |                           |  |
|---------------------------|--|
| (1) 4G concession license | 16 years and 4 months ~16 years and 7 months |
| (2) 3G concession license | 13 years and 9 months                        |
| (3) Service concession    | 44 years and 1 months ~50 years              |
| (4) Computer software     | 2~10 years                                   |
| (5) Customer relationship | 20 years                                     |
| (6) Trademarks            | 10 years                                     |
| (7) Others                | 1~3 years                                    |

- (1) 4G concession license

TWM won the Mobile Broadband Spectrum frequency of 30 MHz x 2 for 4G service on October 30, 2013. The bid price was \$29,010,000 thousand (\$10,485,000 thousand

**TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

for 15 MHz x 2 in the 700 MHz frequency band and \$18,525,000 thousand for 15 MHz x 2 in the 1800 MHz frequency band).

(2) Service concession

On January 15, 2009, TNH signed the BOT contract with the Department of Cultural Affairs, Taipei City Government. Under the BOT contract, TNH obtained the right to build and operate the development project on the location of old Songshan Tobacco Plant. The development concession premium of superficies is amortized on a straight-line basis during the contract period, and the construction costs are amortized on a straight-line basis from the completion date of the construction to the BOT contract expiry date.

(3) Customer relationship, trademarks, and operating rights

The Group measures the fair value of the acquired assets when acquisition occurs, and identifies the fair value and amortization periods of the intangible assets which conform to materiality and related standards. Although some of the intangible assets such as operating rights and trademarks have a legal useful life, which can be extended, the Group regards these assets as intangible assets with indefinite useful life.

(a) On April 17, 2007, TFN, TWM's 100%-owned subsidiary, acquired more than 50% of the former Taiwan Fixed Network Co., Ltd. (the former TFN) through a public tender offer. TWM divided the former TFN and its subsidiaries into two cash-generating units: fixed network service and cable television business. Accordingly, customer relationship and operating rights are identified as major intangible assets.

(b) Taiwan United Communication Co., Ltd. (TUC) was merged into TFN on January 1, 2008. In September 2007, TUC, TWM's 100%-owned subsidiary, acquired more than 50% of Taiwan Telecommunication Network Services Co., Ltd. (TTN) shares. TTN was merged into TFN on August 1, 2008. TWM measured the fair value of the acquired assets and viewed TTN's ISP services as one cash-generating unit. Accordingly, customer relationship is identified as a major intangible asset.

(c) On September 1, 2010, TFNM, TWM's 100%-owned subsidiary, acquired 55% of TKT. On August 12, 2011, TFNM acquired 45% of TKT. TWM measured the fair value of the acquired assets and viewed TKT's wireless services as one cash-generating unit. Accordingly, trademarks and customer relationship are identified as major intangible assets.

**TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

(d) On July 13, 2011, WMT, TWM's 100%-owned subsidiary, acquired more than 50% of momo. TWM measured the fair value of the acquired assets and viewed momo's retail business as one cash-generating unit. Accordingly, trademarks are identified as major intangible assets.

(4) Goodwill

The carrying amounts of goodwill allocated to the above units were as follows:

	<u>2014.12.31</u>	<u>2013.12.31</u>
Mobile communication service	\$ 7,238,758	7,238,758
Fixed network service	357,970	357,970
Cable television business	3,269,636	3,269,636
Retail business	4,979,566	4,979,566
	<u><u>\$ 15,845,930</u></u>	<u><u>15,845,930</u></u>

(5) Impairment of assets

In conformity with IAS 36 *Impairment of Assets*, the Group identified mobile communication service, fixed network service, the cable television business, and the retail business as the smallest identifiable units which can generate cash inflows independently.

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

(a) Mobile communication service

(i) 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.

(ii) Assumptions on operating revenues

After taking changes in the telecom industry and 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 average revenue per minute.

(iii) Assumptions on operating costs and expenses

The estimates of activation commissions and customer retention costs were

**TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

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.

(iv) Assumptions on discount rate

For the years ended December 31, 2014 and 2013, the discount rate used to calculate the asset recoverable amounts of TWM was 5.56% and 4.68%, respectively.

(b) Fixed network service

(i) Assumptions on cash flows

The five-year cash flow projections were made on the basis of previous experience, actual operating results, and the financial budget.

(ii) Assumptions on operating revenues

After taking into consideration the changes in the telecom industry and TWM's growth of operations, the operating revenues were estimated based on the demand for the various types of data transmission and broadband volume.

(iii) Assumptions on operating costs and expenses

The estimates of operating costs and expenses were based on the cost drivers of each cost and expense.

(iv) Assumptions on discount rate

For the years ended December 31, 2014 and 2013, the discount rates were 6.17% and 5.31%, respectively, in calculating the asset recoverable amounts of TFN.

(c) Cable television business

(i) 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.

(ii) Assumptions on operating revenues

After taking changes in the cable television industry and competitive landscape into consideration, operating revenues were estimated on the basis of the projected changes in subscriber numbers and average revenue per

**TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

subscriber.

(iii) Assumptions on operating costs and expenses

The estimates of cost of commissions, customer service costs, and bill processing costs were based on the projected changes in subscriber numbers. The estimates of remaining costs and expenses were based on the actual costs and expenses as a proportion of operating revenues.

(iv) Assumptions on discount rate

The discount rates used to calculate the asset recoverable amounts for each system operator ranged from 4.38% to 4.92% and from 8.28% to 8.38% for the years ended December 31, 2014 and 2013, respectively.

(d) Retail business

(i) 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.

(ii) Assumptions on operating revenues

After taking into consideration the changes in the retail business industry and competitiveness of the market, the operating revenues were estimated based on the classification and the average price of commodities, and the degree of the contribution of the customers.

(iii) Assumptions on operating costs and expenses

The costs and expenses were based on the actual costs and expenses as a proportion of operating revenues.

(iv) Assumptions on discount rate

For the years ended December 31, 2014 and 2013, the discount rates in calculating the asset recoverable amounts were 15.55% and 7.29%, respectively.

Based on the key assumptions of each cash-generating unit, the Group's management believes that the carrying amounts of these operating assets and intangible assets will not exceed their recoverable amounts even if there are any reasonable changes in the critical assumptions used to estimate recoverable amounts. Thus, there was no impairment of intangible assets for the years ended December 31, 2014 and 2013.



**TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

1. Other non-current assets

	<u>2014.12.31</u>	<u>2013.12.31</u>
Long-term accounts receivable	\$ 4,717,815	4,198,548
Refundable deposits	579,457	561,223
Prepayments for equipment	78,501	59,619
Others	513,047	525,792
	<u>\$ 5,888,820</u>	<u>5,345,182</u>

m. Short-term borrowings and short-term notes and bills payable

	<u>2014.12.31</u>	
	<u>Annual interest rate</u>	<u>Amount</u>
Unsecured loans – financial institutions	0.83%~1.08%	<u>\$ 18,900,000</u>
Short-term notes and bills payable	0.868%~0.915%	\$ 5,600,000
Less: Discount on short-term notes and bills payable		(6,969)
		<u>\$ 5,593,031</u>
	<u>2013.12.31</u>	
	<u>Annual interest rate</u>	<u>Amount</u>
Unsecured loans – financial institutions	0.83%~1.15%	\$ 30,500,000
Secured loans – financial institutions (related parties)	6.3%~7.224%	105,813
		<u>\$ 30,605,813</u>
Short-term notes and bills payable	0.62%~0.72%	\$ 2,400,000
Less: Discount on short-term notes and bills payable		(3,029)
		<u>\$ 2,396,971</u>

For financial risk information of the Group, please refer to Note 6(ac); for the information on loans from related parties, please refer to Note 7; and for the information on time deposits pledged as collateral for bank loans and commitments, please refer to Note 8 and Table 2.

**TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

n. Advance receipts

	<u>2014.12.31</u>	<u>2013.12.31</u>
Advance receipts from customers	\$ 2,100,001	2,405,345
Deferred customer loyalty revenues	58,172	51,116
Others	106,439	163,445
	<u>\$ 2,264,612</u>	<u>2,619,906</u>

- (1) In accordance with the NCC's policy, TWM entered into a contract with First Commercial Bank Co., Ltd. which provided a performance guarantee for advance receipts from prepaid cards and electronic gift certificates amounting to \$524,500 thousand and \$11,609 thousand, respectively, as of December 31, 2014.
- (2) In accordance with the NCC's policy, TFN entered into a contract with First Commercial Bank Co., Ltd. which provided a performance guarantee for advance receipts from International Direct Dialing (IDD) calling cards amounting to \$38 thousand as of December 31, 2014.
- (3) In accordance with the NCC's policy, cable television companies should provide a performance deposit based on a certain proportion of the advance receipts for a prepaid period. As of December 31, 2014, the cable television companies had provided \$55,742 thousand as a performance deposit, classified as other non-current financial assets.
- (4) In accordance with the Ministry of Economic Affairs' policy, momo entered into a contract with First Commercial Bank Co., Ltd. which provided a performance guarantee for advance receipts from prepaid bonus amounting to \$16,854 thousand as of December 31, 2014.
- (5) In accordance with the NCC's and the Ministry of Economic Affairs' policies, TKT entered into a contract with Mega International Commercial Bank Co., Ltd. which provided a performance guarantee for advance receipts from prepaid music cards amounting to \$1,447 thousand as of December 31, 2014.

o. Bonds payable

	<u>2014.12.31</u>	<u>2013.12.31</u>
3rd domestic unsecured bonds	\$ 8,996,692	8,995,936
4th domestic unsecured bonds	5,797,601	5,796,711
	<u>\$ 14,794,293</u>	<u>14,792,647</u>

**TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

(1) 3rd domestic unsecured bonds

On December 20, 2012, TWM authorized Hua Nan Commercial Bank as a trustee to issue \$9,000,000 thousand of seven-year 3rd domestic unsecured bonds, each having 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 with equal installments, i.e., \$4,500,000 thousand. As of December 31, 2014, the amount of unamortized bond issue cost was \$3,308 thousand.

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

Year	Amount
2018	\$ 4,500,000
2019	4,500,000
	\$ <b>9,000,000</b>

(2) 4th domestic unsecured bonds

On April 25, 2013, TWM authorized Hua Nan Commercial Bank as a trustee to issue \$5,800,000 thousand of five-year 4th domestic unsecured bonds, each having a face value of \$10,000 thousand and a coupon rate of 1.29% per annum, with simple interest due annually. Repayment will be made in the fourth and fifth years with equal installments, i.e., \$2,900,000 thousand. As of December 31, 2014, the amount of unamortized bond issue cost was \$2,399 thousand.

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

Year	Amount
2017	\$ 2,900,000
2018	2,900,000
	\$ <b>5,800,000</b>

p. Long-term borrowings

	2014.12.31	
	Annual interest rate	Amount
Unsecured loans – financial institutions	1.05%~1.095%	\$ 12,000,000
Secured loans – financial institutions	2.2526%	3,390,544
Less: current portion	1.05%~2.2526%	(2,208,218)
		\$ <b>13,182,326</b>

**TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

	<b>2013.12.31</b>	
	<b>Annual interest rate</b>	<b>Amount</b>
Unsecured loans – financial institutions	1.05%	\$ 3,000,000
Less: current portion		(1,000,000)
		<b>\$ 2,000,000</b>

(1) Unsecured loans

TWM obtained credit facilities from banks for mid-term operating capital. The facilities will last 2 years from the date of drawing, and the interest will be paid quarterly. The credit facilities are subject to covenants regarding debt ratio and interest protection multiples during the facility period.

(2) Secured loans

On January 22, 2010, TNH entered into a syndicated loan agreement with Bank of Taiwan, Taipei Fubon Bank, etc., nine banks in total, for the investment under the BOT contract. The aggregate credit and guarantee amount were up to \$3,565,000 thousand for 7 years, including the grace period of 4 years. TWM would pay interest monthly. In accordance with the contract, the financial covenants regarding the current ratio, equity ratio, and interest protection multiples must be complied with during the facility period. TNH has pledged the property of the BOT contract and its superficies as collateral; please refer to Note 8.

q. Provisions

	<b>2014.12.31</b>	<b>2013.12.31</b>
Restoration	\$ 1,105,662	1,021,896
Warranties	62,524	52,059
Decommissioning	63,246	-
	<b>\$ 1,231,432</b>	<b>1,073,955</b>
Current	\$ 217,083	193,886
Non-current	1,014,349	880,069
	<b>\$ 1,231,432</b>	<b>1,073,955</b>

**TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

	<u>Restoration</u>	<u>Warranties</u>	<u>Decommis- sioning</u>	<u>Total</u>
Balance, January 1, 2014	\$ 1,021,896	52,059	-	1,073,955
Provision	109,076	102,395	36,819	248,290
Acquisition from combination	-	-	25,494	25,494
Reversal	(22,084)	(34,841)	-	(56,925)
Unwinding of discount	13,092	-	933	14,025
Payment	(16,318)	(57,089)	-	(73,407)
Balance, December 31, 2014	<u>\$ 1,105,662</u>	<u>62,524</u>	<u>63,246</u>	<u>1,231,432</u>
Balance, January 1, 2013	\$ 875,805	-	-	875,805
Provision	175,766	91,050	-	266,816
Reversal	(23,589)	-	-	(23,589)
Unwinding of discount	14,261	-	-	14,261
Payment	(20,347)	(38,991)	-	(59,338)
Balance, December 31, 2013	<u>\$ 1,021,896</u>	<u>52,059</u>	<u>-</u>	<u>1,073,955</u>

r. Other non-current liabilities

	<u>2014.12.31</u>	<u>2013.12.31</u>
Construction retainage payable	\$ 95,465	-
Concession payable	950,325	-
Less: Discounts on concession payable	(131,923)	-
Others	19,744	19,744
	<u>\$ 933,611</u>	<u>19,744</u>

Concession payable is the development concession from the BOT contract between the Department of Cultural Affairs and TNH; please refer to Note 9(b).

s. Operating lease

(1) Lessee

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

	<u>2014.12.31</u>	<u>2013.12.31</u>
Less than one year	\$ 2,989,343	2,920,143
Between one and five years	4,823,342	5,403,480
More than five years	102,907	123,538
	<u>\$ 7,915,592</u>	<u>8,447,161</u>

**TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

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

As of December 31, 2014 and 2013, the Group anticipated it would receive total future minimum sublease payments under the non-cancellable sublease contracts in the amount of \$9,058 thousand and \$9,930 thousand, respectively.

The payment of leases and subleases, recognized as gains or losses, was as follows:

	<b>For the Years Ended</b>	
	<b>December 31</b>	
	<b>2014</b>	<b>2013</b>
Minimum lease payment	\$ 3,437,000	3,316,424
Sublease payment	(3,499)	(3,263)
	<b>\$ 3,433,501</b>	<b>3,313,161</b>

(2) Lessor

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

	<b>2014.12.31</b>	<b>2013.12.31</b>
Less than one year	\$ 15,232	20,036
Between one and five years	14,866	22,220
	<b>\$ 30,098</b>	<b>42,256</b>

t. Employee benefits

(1) Defined benefit plan

The present value of the defined benefit obligations and fair value of plan assets are as follows:

	<b>2014.12.31</b>	<b>2013.12.31</b>
Present value of defined benefit obligations	\$ 881,719	851,574
Fair value of plan assets	(744,937)	(720,010)
Unfunded defined benefit obligation	136,782	131,564
Unrecognized prior service cost	(14,359)	(16,101)
Accrued pension liability	<b>\$ 122,423</b>	<b>115,463</b>

**TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

The Group established the pension fund account for the defined benefit plan in Bank of Taiwan. The plan, under the Labor Standards Law, provides benefits based on an employee's length of service and average monthly salary for six-month period prior to retirement.

(a) Composition of plan assets

According to the "Regulations for Revenues, Expenditures, Safeguard and Utilization of the Labor Retirement Fund", with regard to the utilization of the Fund, its minimum earnings in the annual distributions shall be no less than the earnings attainable from two-year time deposits with the interest rates offered by local banks.

The information related to the pension fund includes the asset allocation and yield of the fund. Please refer to the information published on the website of the Council of Labor Affairs.

(b) Movements in present value of the defined benefit obligations

The movements in present value of defined benefit obligations for the years ended December 31, 2014 and 2013, were as follows:

	<b>For the Years Ended</b>	
	<b>December 31</b>	
	<b>2014</b>	<b>2013</b>
Defined benefit obligation, January 1	\$ 851,574	851,210
Benefits unpaid by the plan	(14,372)	(10,805)
Current service costs	2,626	3,295
Interest cost	16,032	12,802
Actuarial losses (gains)	25,859	(4,928)
Defined benefit obligation, December 31	<b>\$ 881,719</b>	<b>851,574</b>

(c) Movements of defined benefit plan assets

The movements in the present value of the defined benefit plan assets for the years ended December 31, 2014 and 2013, were as follows:

**TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

	<b>For the Years Ended</b>	
	<b>December 31</b>	
	<b>2014</b>	<b>2013</b>
Fair value of plan assets, January 1	\$ 720,010	717,130
Contributions made	22,195	4,655
Benefits paid by the plan	(14,372)	(10,805)
Expected return on plan assets	14,452	13,398
Actuarial gains (losses)	2,652	(4,368)
Fair value of plan assets, December 31	<b>\$ 744,937</b>	<b>720,010</b>

(d) Expenses recognized in profit or loss

The expenses recognized in profit or loss for the years ended December 31, 2014 and 2013, were as follows:

	<b>For the Years Ended</b>	
	<b>December 31</b>	
	<b>2014</b>	<b>2013</b>
Current service costs	\$ 2,626	3,295
Interest cost	16,032	12,802
Past service costs	1,742	1,742
Expected return on plan assets	(14,452)	(13,398)
	<b>\$ 5,948</b>	<b>4,441</b>
Actual return on plan assets	<b>\$ 17,103</b>	<b>9,033</b>

(e) The pre-tax actuarial gains (losses) recognized in other comprehensive income

The Group's pre-tax actuarial gains and losses recognized in other comprehensive income for the years ended December 31, 2014 and 2013, were as follows:

	<b>For the Years Ended</b>	
	<b>December 31</b>	
	<b>2014</b>	<b>2013</b>
Cumulative amount, January 1	\$ (42,725)	(43,285)
Recognized during the period	(23,207)	560
Cumulative amount, December 31	<b>\$ (65,932)</b>	<b>(42,725)</b>



**TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

(f) Actuarial assumptions

The following are the principal actuarial assumptions at the measurement date:

	<u>2014.12.31</u>	<u>2013.12.31</u>
Discount rate	1.875%~2.125%	1.875%
Expected return on plan assets	1.75%~2.00%	1.75%~2.00%
Long-term average adjustment rate of salary	2.50%~3.00%	2.50%~3.00%

The expected rate of return of plan assets is based on the portfolio as a whole and not on the sum of the returns on individual asset categories. The return is based exclusively on historical returns, without adjustments.

The Group expected \$27,041 thousand in contributions to be paid to its benefit plans within a year of the December 31, 2014, reporting date.

(g) Historical information

	<u>2014.12.31</u>	<u>2013.12.31</u>	<u>2012.12.31</u>	<u>2012.1.1</u>
Present value of the defined benefit obligation	\$ (881,719)	(851,574)	(851,210)	(808,208)
Fair value of plan assets	744,937	720,010	717,130	680,705
Deficit in the plan	<u>\$ (136,782)</u>	<u>(131,564)</u>	<u>(134,080)</u>	<u>(127,503)</u>
Experience adjustments arising on plan liabilities	<u>\$ (25,859)</u>	<u>4,928</u>	<u>(36,381)</u>	<u>-</u>
Experience adjustments arising on plan assets	<u>\$ 2,652</u>	<u>(4,368)</u>	<u>(6,904)</u>	<u>-</u>

(2) Defined contribution plans

The Group contributed 6% of each employee's monthly wages to a labor pension personal account at the Bureau of Labor Insurance in accordance with the provisions of the Labor Pension Act. The Group contributed a fixed amount to the Bureau of Labor Insurance without additional legal or constructive obligations.

The Group's contribution to the pension plan amounted to \$257,572 thousand and \$245,044 thousand for the years ended December 31, 2014 and 2013, respectively.

**TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

u. Income tax from continuing operations

(1) Income tax expense recognized in profits or losses

	<b>For the Years Ended December 31</b>	
	<b>2014</b>	<b>2013</b>
Current income tax expense		
Current period	\$ 2,868,296	2,685,164
Prior years' adjustment on current income tax	230,781	38,459
	<u>3,099,077</u>	<u>2,723,623</u>
Deferred income tax expense		
Current period	298,266	628,217
Reversal of temporary difference	(163,700)	-
	<u>134,566</u>	<u>628,217</u>
Income tax expense	<u><b>\$ 3,233,643</b></u>	<u><b>3,351,840</b></u>

(2) Income tax recognized in other comprehensive income

	<b>For the Years Ended December 31</b>	
	<b>2014</b>	<b>2013</b>
Deferred income tax expense (income)		
Defined benefit plan actuarial gains and losses	<u><b>\$ (3,945)</b></u>	<u><b>95</b></u>

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

	<b>For the Years Ended December 31</b>	
	<b>2014</b>	<b>2013</b>
Profit before tax	\$ 18,865,077	19,419,013
Income tax expense at domestic statutory tax rate	3,207,063	3,301,232
Effect of different tax rates on the Group entities	(19,537)	(19,694)
Temporary differences	(314,915)	(672,325)
Deferred income taxes	134,566	628,217
Investment tax credit	(48,001)	-
Unrecognized loss carryforwards	56,442	59,336
Prior years' adjustment	230,781	38,459
Others	(12,756)	16,615
	<u><b>\$ 3,233,643</b></u>	<u><b>3,351,840</b></u>

**TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

(4) Deferred tax assets and liabilities

(a) Unrecognized deferred tax assets items

	<u>2014.12.31</u>	<u>2013.12.31</u>
Loss carry-forwards	\$ 1,351,696	799,999
Impairment loss on financial assets	1,208,366	1,208,366
	<u>\$ 2,560,062</u>	<u>2,008,365</u>

As of December 31, 2014, the Group had not recognized the prior years' loss carry-forwards as deferred tax assets. The expiry years are as follows:

<u>Remaining Creditable Amount</u>	<u>Expiry Year</u>
\$ 121,341	2016
284,415	2017
311,895	2018
290,718	2019
47,142	2020
94,017	2021
50,934	2022
118,808	2023
32,426	2024
<u>\$ 1,351,696</u>	

(b) Recognized deferred tax assets and liabilities

Changes in the amount of deferred tax assets and liabilities for the years ended December 31, 2014 and 2013, were as follows:

**Deferred Tax Assets:**

	<u>Property, Plant and Equipment</u>	<u>Accrued Pension Liabilities</u>	<u>Others</u>	<u>Total</u>
Balance, January 1, 2014	\$ 772,621	44,257	107,698	924,576
Recognized in profit or loss	(69,049)	391	23,191	(45,467)
Recognized in other comprehensive income	-	3,623	-	3,623
Balance, December 31, 2014	<u>\$ 703,572</u>	<u>48,271</u>	<u>130,889</u>	<u>882,732</u>
Balance, January 1, 2013	\$ 889,773	44,181	138,890	1,072,844
Recognized in profit or loss	(117,152)	262	(31,192)	(148,082)
Recognized in other comprehensive income	-	(186)	-	(186)
Balance, December 31, 2013	<u>\$ 772,621</u>	<u>44,257</u>	<u>107,698</u>	<u>924,576</u>

**TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

**Deferred Tax Liabilities:**

	<u>Accounts Receivable</u>	<u>Intangible Assets</u>	<u>Accrued Pension Liabilities</u>	<u>Others</u>	<u>Total</u>
Balance, January 1, 2014	\$ 1,855,071	719,585	20,360	4,775	2,599,791
Recognized in profit or loss	182,315	(102,176)	3,013	5,947	89,099
Recognized in other comprehensive income	-	-	(322)	-	(322)
Balance, December 31, 2014	<u>\$ 2,037,386</u>	<u>617,409</u>	<u>23,051</u>	<u>10,722</u>	<u>2,688,568</u>
Balance, January 1, 2013	\$ 1,487,266	594,229	20,132	18,120	2,119,747
Recognized in profit or loss	367,805	125,356	319	(13,345)	480,135
Recognized in other comprehensive income	-	-	(91)	-	(91)
Balance, December 31, 2013	<u>\$ 1,855,071</u>	<u>719,585</u>	<u>20,360</u>	<u>4,775</u>	<u>2,599,791</u>

Integrated income tax information was as follows:

	<u>2014.12.31</u>	<u>2013.12.31</u>
Balance of the Group's imputation credit account (ICA)	<u>\$ 1,234,356</u>	<u>1,312,654</u>

As of December 31, 2014, there were no unappropriated earnings generated before 1997.

The estimated tax creditable ratio for 2014 and actual tax creditable ratio for 2013 were 16.09% and 14.14%, respectively, based on Decree No. 10204562810 announced on October 17, 2013, by the Ministry of Finance of the Republic of China. Under the Integrated Income Tax System, ROC resident shareholders are allowed a tax credit for the income tax paid by TWM. An imputation credit account (ICA) is maintained by TWM for such income tax, and a tax credit is allocated to each shareholder. Actual allocation of the imputation credit account is based on the balance on the date of dividend distribution. Therefore, the estimated tax creditable ratio may differ from the actual tax creditable ratio for the 2014 earnings appropriation.

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

	<u>Year</u>
TWM	2012
TCC	2012
WMT	2012
GWMT	2012
GFMT	2012
TDC	2012
TDS (established on April 2, 2013)	-
TCCI	2012
TID	2012

**TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

	<u>Year</u>
TFN	2012
TT&T	2013
TUI	2012
WTVB	2012
TFNM	2012
UCTV	2011
YJCTV	2012
MCTV	2012
PCTV	2012
GCTV	2012
TKT	2012
momo	2012
FST	2012
FLI	2012
FPI	2012
TNH	2012

TWM's income tax returns for the years up to 2012 have been examined by the tax authorities. TWM disagreed with the examination results of the income tax returns for 2011 and 2012 and requested reexaminations.

TFN's income tax returns up to 2012 have been examined by the tax authorities. TFN disagreed with the examination results of the income tax return for 2010 and 2011 and requested reexaminations. The tax authorities approved TFN's application for correction for 2011.

TFNM's income tax returns up to 2012 have been examined by the tax authorities. TFNM disagreed with the examination results of the income tax return for 2008 and requested a reexamination.

v. Capital and other equity

(1) Ordinary shares

As of December 31, 2014, TWM had authorized 6,000,000 thousand ordinary shares, with 3,420,833 thousand shares outstanding (par value \$10).

(2) Capital surplus

	<u>2014.12.31</u>	<u>2013.12.31</u>
Additional paid-in capital from convertible corporate bonds	\$ 8,775,820	8,775,820
Treasury share transactions	5,159,704	3,639,301

(Continued)

**TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

	<b>2014.12.31</b>	<b>2013.12.31</b>
Difference between consideration and carrying amount of subsidiaries' shares disposed of	85,965	-
Changes in equity of subsidiaries	652,219	1,313
Changes in equity of associates accounted for using equity method	26,705	25,040
Others	15,417	15,417
	<b>\$ 14,715,830</b>	<b>12,456,891</b>

(Concluded)

Under the 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' shares acquired or disposed of, and treasury share transactions, may be applied to cover a deficit, or be transferred to capital as stock dividends, or be distributed as cash dividends when there is no 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 could be applied to cover a deficit.

(3) Legal reserve

According to the Company Act, a company shall first set aside ten percent of its income after taxes as legal reserve until it equals the paid-in capital. After offsetting any deficit, the legal reserve may be transferred to capital and distributed as stock dividends or distributed as cash dividends for the amount in excess of 25% of the paid-in capital pursuant to a resolution adopted by the shareholders' meeting.

(4) Appropriation of earnings and dividend policy

TWM's articles of incorporation provide that, in the event that TWM, according to the financial report, earns profits in a fiscal year, such profits shall first be applied to pay the applicable taxes, recover losses, set aside legal reserve pursuant to laws and regulations, and set aside or reverse a special reserve in accordance with the law or to satisfy the business needs of TWM. Any balance left over shall be applied to the following items:

- (a) Remuneration to directors, not exceeding 0.3%;
- (b) Employee bonuses in the sum of 1% to 3%;
- (c) The remaining balance and any unappropriated earnings of the previous fiscal

**TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

years shall be distributed to the shareholders as dividends in accordance with resolutions of the shareholders' meetings.

TWM adopts a dividend distribution policy whereby only surplus profits of TWM shall be distributed to shareholders. 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. The value of stock dividends in a particular year shall not be more than 80% of the value of dividends 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, who shall, upon such approval, recommend the same to the shareholders for approval by resolution at the shareholders' meetings.

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" announced by the FSC. The special reserve appropriation will be reversed as distributable retained earnings to the extent that the net debit balance of the other shareholders' equity reverses.

The appropriation of earnings should be resolved by the shareholders' meeting and recognized in the financial statements in the following year.

TWM's estimated bonuses to employees and estimated remuneration to directors are accrued by a certain percentage of the net income. TWM's estimated bonuses to employees amounted to \$396,057 thousand and \$420,753 thousand for the years ended December 31, 2014 and 2013, respectively, and estimated remuneration to directors amounted to \$33,846 thousand and \$42,075 thousand for the years ended December 31, 2014 and 2013, respectively. The significant difference between annual accruals and the amount approved by the Board of Directors shall be adjusted in the current year. If the Board of Directors' approval differs from the amount ratified at the annual general shareholders' meeting (AGM), the difference will be treated as a change in accounting estimate and will be adjusted in profit and losses in the year of the AGM. If employee bonuses are paid in the form of company shares, the number of employee bonus shares shall be derived by dividing the approved bonus amount by the closing price one day prior to the AGM, adjusted for cash and/or stock dividends, if any.

The 2013 and 2012 earnings appropriations resolved by the AGM on June 12, 2014, and June 21, 2013, were as follows:

**TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

	<u>Appropriation of Earnings</u>		<u>Dividend per Share (NT\$)</u>	
	<u>For Fiscal Year 2013</u>	<u>For Fiscal Year 2012</u>	<u>For Fiscal Year 2013</u>	<u>For Fiscal Year 2012</u>
Appropriation of legal reserve \$	2,275,622	1,469,160		
Cash dividends	15,064,599	14,526,578	5.6	5.4
	<u>\$ 17,340,221</u>	<u>15,995,738</u>		

The cash dividends of \$5.4 per share mentioned above were distributed from unappropriated earnings. In addition, the Board of Directors resolved another cash appropriation from legal reserve amounting to \$269,010 thousand, that is, \$0.1 per share. Total appropriation distributed was \$5.5 per share for 2012.

The AGM on June 12, 2014, and June 21, 2013, resolved to distribute bonuses to employees amounting to \$420,753 thousand and \$396,673 thousand, respectively, and remuneration to directors amounting to \$42,075 thousand and \$39,667 thousand, respectively, for the years ended December 31, 2013 and 2012. There were no differences between the above actual distributions and the amounts recognized in the financial statements for 2013 and 2012.

TWM's appropriation of the earnings, bonus to employees, and remuneration to directors for 2014 is awaiting a proposal by the Board of Directors and approval at the AGM.

Information on the appropriation of the earnings, bonus to employees, and remuneration to directors is available on the Market Observation Post System website of the Taiwan Stock Exchange.

(5) Other equity interests

	<u>Exchange Differences on Translation</u>	<u>Unrealized Gain (Loss) on Available-for-sale Financial Assets</u>	<u>Total</u>
	Balance, January 1, 2014	\$ 24,948	387,734
Exchange differences on translation	6,487	-	6,487
Changes in fair value of available-for-sale financial assets	-	(741,210)	(741,210)
Changes in other comprehensive income of associates accounted for using equity method	(141)	19,196	19,055
Balance, December 31, 2014	<u>\$ 31,294</u>	<u>(334,280)</u>	<u>(302,986)</u>



**TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

	<b>Exchange Differences on Translation</b>	<b>Unrealized Gain (Loss) on Available-for-sale Financial Assets</b>	<b>Total</b>
Balance, January 1, 2013	\$ 25,483	314,543	340,026
Exchange differences on translation	(708)	-	(708)
Changes in fair value of available-for-sale financial assets	-	75,223	75,223
Changes in other comprehensive income of associates accounted for using equity method	173	(2,032)	(1,859)
Balance, December 31, 2013	<u>\$ 24,948</u>	<u>387,734</u>	<u>412,682</u>

(6) Treasury shares

TID disposed of 31,974 thousand shares of TWM for \$2,970,389 thousand in October 2014. TWM recognized “capital surplus – treasury share transactions” in the amount of \$1,520,403 thousand.

As of December 31, 2014 and 2013, TWM’s stock held by TCCI, TUI and TID (all are subsidiaries 100% owned by TWM) was 698,752 thousand shares and 730,726 thousand shares, respectively, and the carrying and market values were \$73,019,542 thousand and \$70,368,899 thousand, respectively. Since the shares held by subsidiaries are regarded as treasury shares, TWM recognized \$29,717,344 thousand and \$31,077,183 thousand, respectively, as treasury shares. Although these shares are treated as treasury shares in the financial statements, the shareholders are entitled to excise their rights over these shares, except for participation in capital injection by cash. In addition, based on the ROC Company Act, subsidiaries with over 50% shareholding by TWM cannot exercise the voting rights over their treasury shares.

(7) Non-controlling interests

	<b>For the Years Ended December 31</b>	
	<b>2014</b>	<b>2013</b>
Beginning balance	\$ 1,086,747	1,072,204
Portion attributable to non-controlling interests		
Profit	547,677	234,334
Unrealized gains (losses) on available-for-sale financial assets	5,657	(20,441)
Exchange differences on translation	7,769	1,011
Actuarial gains (losses) on defined benefit plans	(941)	1,446

(Continued)

**TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

	<b>For the Years Ended December 31</b>	
	<b>2014</b>	<b>2013</b>
Tax expense (income) on defined benefit plans	160	(246)
Changes in capital surplus of associates accounted for using equity method	(258)	24,410
Disposal of partial ownership interests in subsidiaries	229,995	-
Adjustments arising from changes in percentage of ownership of subsidiaries	2,864,113	22,015
Cash dividends from subsidiaries paid to non-controlling interests	(224,481)	(247,986)
Increase in non-controlling interests	1,736,460	-
Ending balance	<b>\$ 6,252,898</b>	<b>1,086,747</b>

(Concluded)

w. Earnings per share

The calculations of the basic and diluted EPS were as follows:

	<b>For the Year Ended December 31, 2014</b>		
	<b>Amount after income tax</b>	<b>Weighted-average number of ordinary shares</b>	<b>EPS</b>
<b>Basic EPS</b>			
Profit from continuing operations attributable to owners of parent	\$ 15,044,537	2,697,728	\$ 5.57
Loss from discontinued operations attributable to owners of parent	(39,109)	2,697,728	(0.01)
Profit attributable to owners of parent	<b>\$ 15,005,428</b>	<b>2,697,728</b>	<b>\$ 5.56</b>
<b>Diluted EPS</b>			
Profit from continuing operations attributable to owners of parent	\$ 15,044,537	2,697,728	
Effect of potential dilutive ordinary shares: Effect of employees' bonuses	-	5,792	
Profit from continuing operations attributable to owners of parent	\$ 15,044,537	2,703,520	\$ 5.56
Loss from discontinued operations attributable to owners of parent	(39,109)	2,703,520	(0.01)
Profit attributable to owners of parent (adjusted for potential effect of dilutive ordinary shares)	<b>\$ 15,005,428</b>	<b>2,703,520</b>	<b>\$ 5.55</b>

**TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

	<b>For the Year Ended December 31, 2013</b>		
	<b>Amount after income tax</b>	<b>Weighted-average number of ordinary shares</b>	<b>EPS</b>
<b>Basic EPS</b>			
Profit from continuing operations attributable to owners of parent	\$ 15,709,729	2,690,107	\$ 5.84
Loss from discontinued operations attributable to owners of parent	(126,282)	2,690,107	(0.05)
Profit attributable to owners of parent	<u>\$ 15,583,447</u>	<u>2,690,107</u>	<u>\$ 5.79</u>
<b>Diluted EPS</b>			
Profit from continuing operations attributable to owners of parent	\$ 15,709,729	2,690,107	
Effect of potential dilutive ordinary shares:			
Effect of employees' bonuses	-	6,106	
Profit from continuing operations attributable to owners of parent	\$ 15,709,729	<u>2,696,213</u>	\$ 5.83
Loss from discontinued operations attributable to owners of parent	(126,282)	2,696,213	(0.05)
Profit attributable to owners of parent (adjusted for potential effect of dilutive ordinary shares)	<u>\$ 15,583,447</u>	<u>2,696,213</u>	<u>\$ 5.78</u>

If TWMM may settle the bonus to employees by cash or shares, TWMM should presume that the entire amount of the bonus will be settled in shares, and the potential share dilution should be included in the weighted-average number of shares outstanding used in the calculation of diluted EPS if the shares have a dilutive effect. In the calculation of diluted EPS, the number of outstanding shares is derived by dividing the entire amount of the bonus by the closing price of the shares at the reporting date. Such potential dilutive effect should be taken into consideration in the calculation of diluted EPS until the shareholders resolve the actual number of shares to be distributed to employees at the AGM of the following year.

**TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

x. Operating revenues from continuing operations

The Group's operating revenues were as follows:

	<b>For the Years Ended</b>	
	<b>December 31</b>	
	<b>2014</b>	<b>2013</b>
Telecommunication service	\$ 58,374,045	59,591,951
Sales revenue	44,752,181	40,473,850
Cable TV and broadband	6,199,530	5,993,284
Other operating revenues	3,298,123	2,348,846
	<b>\$ 112,623,879</b>	<b>108,407,931</b>

y. Other income and expenses from continuing operations

The Group's other income and expenses were as follows:

	<b>For the Years Ended</b>	
	<b>December 31</b>	
	<b>2014</b>	<b>2013</b>
Police inquiry	\$ 24,217	32,679
Government subsidy	34,900	3,762
Others	50,994	26,702
	<b>\$ 110,111</b>	<b>63,143</b>

z. Non-operating income and expenses from continuing operations

(1) Other income

The Group's other income was as follows:

	<b>For the Years ended</b>	
	<b>December 31</b>	
	<b>2014</b>	<b>2013</b>
Interest income	\$ 94,953	94,470
Dividend income	22,803	24,246
Rent income	33,493	33,559
Other income	389,781	4,073
	<b>\$ 541,030</b>	<b>156,348</b>

**TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

(2) Other gains and losses, net

The Group's other gains and losses were as follows:

	<b>For the Years ended</b>	
	<b>December 31</b>	
	<b>2014</b>	<b>2013</b>
Gain on disposal of non-current assets held for sale \$	158,568	-
Loss on disposal of property, plant and equipment	(967,546)	(1,370,455)
Foreign exchange gains	39,657	16,393
Gain (loss) on disposal of investments	(168)	4,046
Gain on disposal of investments accounted for using equity method	-	5,874
Others	(10,706)	(12,303)
	<b>\$ (780,195)</b>	<b>(1,356,445)</b>

(3) Finance costs

The Group's finance costs were as follows:

	<b>For the Years ended</b>	
	<b>December 31</b>	
	<b>2014</b>	<b>2013</b>
Interest expense	\$ 389,366	109,744
Bank loans	197,066	274,442
Corporate bonds	28,547	37,390
Others	614,979	421,576
Less: capitalized interest	(13,145)	(24,254)
	<b>\$ 601,834</b>	<b>397,322</b>

Capitalization rates were as follows:

	<b>For the Years ended</b>	
	<b>December 31</b>	
	<b>2014</b>	<b>2013</b>
Capitalization rates	1.20%~1.36%	1.24%~1.60%

aa. Capital management

The Group manages its capital to maintain a healthy capital base, to meet the minimal paid-in capital required by the competent authority, and to optimize the balance of

**TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

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 maintain financial ratios, the Group may adopt various financing approaches to balance its capital structure in order to meet the demands for capital expenditures, working capital, settlements of liabilities, and dividend payments in the future.

ab. Financial instruments

(1) Categories of financial instruments

Financial assets

	<u>2014.12.31</u>	<u>2013.12.31</u>
Available-for-sale financial assets (including current and non-current portions)	\$ 5,693,910	2,187,834
Held-to-maturity financial assets	6	-
Financial assets carried at cost	192,652	178,325
Loans and receivables:		
Cash and cash equivalents	7,903,777	7,954,294
Receivables (including current and non-current portions)	20,743,165	19,326,352
Debt instrument investment without active market	500,000	500,000
Other financial assets (including current and non-current portions)	3,239,400	1,296,774
Refundable deposits	579,457	561,223
Subtotal	32,965,799	29,638,643
Total	<u>\$ 38,852,367</u>	<u>32,004,802</u>

Financial liabilities

	<u>2014.12.31</u>	<u>2013.12.31</u>
Short-term borrowings	\$ 18,900,000	30,605,813
Short-term notes and bills payable	5,593,031	2,396,971
Payables (including current and non-current portions)	21,086,502	18,801,314
Bonds payable	14,794,293	14,792,647
Long-term borrowings (including current portion)	15,390,544	3,000,000
Guarantee deposits	820,504	818,386
Total	<u>\$ 76,584,874</u>	<u>70,415,131</u>

**TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

(2) Credit risk

The maximum credit risk exposure of the Group's financial instruments is equal to the carrying amount.

(3) Liquidity risk

The Group's working capital is sufficient to meet the cash flow demand; therefore, liquidity risk is not considered to be significant.

The table below summarizes the maturity profile of the Group's financial liabilities based on contractual undiscounted payments, but not including the financial liabilities whose carrying amounts approximate contractual cash flows.

	<u>Carrying amount</u>	<u>Contractual cash flows</u>	<u>Within 1 year</u>	<u>1~5 years</u>	<u>More than 5 years</u>
<b>2014.12.31</b>					
Unsecured loans	\$ 30,900,000	31,109,636	21,063,203	10,046,433	-
Secured loans	3,390,544	3,395,000	210,000	3,185,000	-
Short-term notes and bills payable	5,593,031	5,600,000	5,600,000	-	-
Bonds payable	14,794,293	15,604,570	195,420	15,409,150	-
	<b>\$ 54,677,868</b>	<b>55,709,206</b>	<b>27,068,623</b>	<b>28,640,583</b>	<b>-</b>
<b>2013.12.31</b>					
Unsecured loans	\$ 33,500,000	33,623,454	31,607,747	2,015,707	-
Secured loans	105,813	111,349	111,349	-	-
Short-term notes and bills payable	2,396,971	2,400,000	2,400,000	-	-
Bonds payable	14,792,647	15,799,990	195,420	11,044,270	4,560,300
	<b>\$ 50,795,431</b>	<b>51,934,793</b>	<b>34,314,516</b>	<b>13,059,977</b>	<b>4,560,300</b>

(4) Exchange rate risk

(a) Exposure to exchange rate risk

The Group's financial assets and liabilities exposed to exchange rate risk were as follows:

**TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

	2014.12.31			2013.12.31		
	Foreign currency	Exchange rate	NTD	Foreign currency	Exchange rate	NTD
<b>Financial Assets</b>						
RMB	\$ 88,102	5.095	448,986	27,917	4.926	137,521
USD	57,656	31.71	1,828,259	33,167	29.90	991,719
JPY	652	0.2647	173	110	0.2838	31
HKD	4,362	4.087	17,828	3,394	3.856	13,087
EUR	416	38.57	16,062	870	41.14	35,820
<b>Financial Liabilities</b>						
RMB	18,835	5.095	95,963	37,460	4.926	184,532
USD	18,240	31.71	578,380	4,187	29.90	125,213
JPY	4,683	0.2647	1,240	5,280	0.2838	1,499
HKD	4,213	4.087	17,218	6,712	3.856	25,882
EUR	14	38.57	548	10	41.14	431
GBP	-	49.25	-	6	49.33	321

(b) Sensitivity analysis

The Group's exchange rate risk comes mainly from conversion gains and losses of accounts measured in foreign currencies such as cash and cash equivalents, available-for-sale financial assets, accounts receivable, other receivables, other financial assets, refundable deposits, short-term borrowings, accounts payable, other payables, guarantee deposits, etc. If the NTD, when compared with the RMB, USD, JPY, HKD, EUR, and GBP, had depreciated 5% (with other factors remaining constant on the reporting date and with analyses of the two periods on the same basis), profit would have increased by \$80,789 thousand and by \$42,022 thousand for the years ended December 31, 2014 and 2013, respectively.

(5) Interest rate analysis

The balances of the Group's financial instruments exposed to interest rate risk were as follows:



**TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

	<b>Carrying amount</b>	
	<b>2014.12.31</b>	<b>2013.12.31</b>
Fair value interest rate risk		
Financial assets	\$ 8,530,060	6,982,121
Financial liabilities	51,287,324	50,689,618
Cash flow interest rate risk		
Financial assets	\$ 2,472,715	2,177,000
Financial liabilities	3,390,544	105,813

The following sensitivity analysis is based on the exposure to interest rate risk of derivative and non-derivative instruments on the reporting date. For floating-rate assets and liabilities, the analysis assumes that the balances of outstanding assets and liabilities on the reporting date have been outstanding for the whole period and that the changes in interest rates are reasonable. If the interest rate had increased by 0.5% (with other factors remaining constant on the reporting date and with analyses of the two periods on the same basis), for the years ended December 31, 2014 and 2013, the Group's profit would have decreased by \$4,589 thousand and increased by \$10,356 thousand, respectively.

(6) Fair value of financial instruments

(a) Financial instruments not at fair value

Except for the table below, the management of the Group considers that the book value of financial assets and liabilities that are not at fair value is close to the fair value, or the fair value cannot be reliably measured.

	<b>2014.12.31</b>		<b>2013.12.31</b>	
	<b>Carrying Amount</b>	<b>Fair Value</b>	<b>Carrying Amount</b>	<b>Fair Value</b>
Financial liabilities				
Corporate bonds payable	\$ 14,794,293	14,774,375	14,792,647	14,713,072

(b) Valuation techniques and assumptions used in fair value determination

The Group uses the following methods in determining the fair value of its financial assets and liabilities:

- (i) The fair value of financial assets and liabilities traded in active markets is based on quoted market prices (including stocks and bonds of companies that

**TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

went public).

(ii) The fair value of corporate bonds payable is measured based on a volume-weighted-average price on the OTC on the reporting date.

(c) Fair value measurements recognized in the consolidated balance sheets

Fair value levels are defined based on the extent that fair value can be observed. Definitions are as follows:

(i) Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

(ii) Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).

(iii) Level 3: Inputs for the assets or liabilities that are not based on observable market data (unobservable inputs).

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<b>2014.12.31</b>				
<u>Available-for-sale financial assets</u>				
Domestic listed stock	\$ 204,310	-	-	204,310
Domestic emerging stock	893,103	-	-	893,103
Domestic unlisted stocks	-	2,587,050	-	2,587,050
Beneficiary certificates	2,009,447	-	-	2,009,447
	<u>\$ 3,106,860</u>	<u>2,587,050</u>	<u>-</u>	<u>5,693,910</u>
<b>2013.12.31</b>				
<u>Available-for-sale financial assets</u>				
Domestic listed stock	\$ 202,354	-	-	202,354
Domestic emerging stock	1,226,889	-	-	1,226,889
Beneficiary certificates	758,591	-	-	758,591
	<u>\$ 2,187,834</u>	<u>-</u>	<u>-</u>	<u>2,187,834</u>

There was no transfer between the fair value levels for the years ended December 31, 2014 and 2013.

ac. Financial risk management

(1) Overview

The Group is exposed to the following risks due to usage of financial instruments:

**TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

- (a) Credit risk
- (b) Liquidity risk
- (c) Market risk

This note presents information concerning the Group's risk exposure and the Group's targets, policies and procedures to measure and manage the risks.

(2) Risk management framework

(a) Decision-making mechanism:

The Board of Directors is the highest supervisory and decision-making body responsible for assessing material risks, designating actions to control these risks, and keeping track of their execution. In addition, the Operations and Management Committee conducts periodic reviews of each business group's operating target and performance to meet the Group's guidance and budget.

(b) Risk management policies:

- (i) Promote a risk-management-based business model.
- (ii) Establish a risk management mechanism that can effectively recognize, evaluate, supervise and control risk.
- (iii) Create a company-wide risk management structure that can limit risk to an acceptable level.
- (iv) Introduce best risk management practices and continue to seek improvements.

(c) Monitoring mechanism:

The Internal Audit Office regularly monitors and assesses the potential risks that the Group may face and uses this information as a reference for drafting its annual audit plan. The Internal Audit Office should report any discrepancy to the concerned unit chief and ensure that remediation efforts are completed.

(3) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty of a financial instrument fails to meet its contractual obligations, which arises principally from the Group's receivables from customers and financial instruments. The Group deals with customers with good reputations and monitors customers' credit risk and credit ratings continuously. The Group does not concentrate transactions significantly with any single customer or counterparty or in similar areas.

**TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

(4) Liquidity risk

Liquidity risk is the risk that the Group fails to meet the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to manage liquidity is to ensure, as far as possible, that it always has sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable loss or damage to the Group's reputation.

The Group ensures sufficient cash for the requirements of paying estimated operating expenditures, including financial obligations. The Group also monitors its bank credit facilities and ensures that the provisions of loan contracts are all complied with properly. As of December 31, 2014 and 2013, the Group had unused bank facilities of \$51,516,644 thousand and \$49,957,934 thousand, respectively.

(5) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates, and equity prices, will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within an acceptable range and to optimize the return.

The Group engages in financial instrument transactions without involving any significant risk such as exchange rate risk, fair value risk arising from interest rate changes, and market price risk; therefore, the Group's market risk is insignificant.

(a) Exchange rate risk

The Group mainly operates in Taiwan, except for international roaming services. Most of the operating revenues and expenses are measured in NTD. A small portion of the expenses is paid in EUR and USD; thus, the Group purchases currency at the spot rate based on the conservative principle in order to hedge exchange rate risk. Overall, exchange rate risk does not affect the Group significantly.

(b) Interest rate risk

The Group issued unsecured corporate bonds and signed facility letters with banks, locking in medium- and long-term fixed interest rates. In respect of interest payables, the fluctuation of interest rates does not affect the Group significantly. Also, interest rate risk does not impact short-term bank loans significantly.

**TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

(c) Other market price risk

The Group's exposure to equity price risk is mainly due to holding equity financial instruments. The Group supervises the equity price risk actively and manages the risk based on fair value.

Sensitivity analysis: If the equity securities price had increased by 5% (with other factors remaining constant and with the analyses of the two periods on the same basis), for the years ended December 31, 2014 and 2013, other comprehensive income would have increased by \$284,696 thousand and \$109,392 thousand, respectively.

**7. RELATED-PARTY TRANSACTIONS**

a. Parent company and ultimate controlling party

TWM is the ultimate controlling party of the Group.

b. Significant transactions with related parties

(1) Operating revenue

	<b>For the Years Ended</b>	
	<b>December 31</b>	
	<b>2014</b>	<b>2013</b>
Associates	\$ 17,858	13,841
Other related parties	196,619	206,557
Less: operating revenue from discontinued operations	-	(148)
	<b>\$ 214,477</b>	<b>220,250</b>

The Group renders telecommunication services to other related parties. The transaction terms with related parties were not significantly different from those with third parties.

(2) Purchases

	<b>For the Years Ended</b>	
	<b>December 31</b>	
	<b>2014</b>	<b>2013</b>
Associates	\$ 453,848	583,206
Other related parties	253,506	223,774
Less: purchases from discontinued operations	(6,370)	(31,078)
	<b>\$ 700,984</b>	<b>775,902</b>

**TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

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

(3) Receivables from related parties

The amount of receivables from related parties was as follows:

<u>Account</u>	<u>Related Party Category</u>	<u>2014.12.31</u>	<u>2013.12.31</u>
Accounts receivable	Associates	\$ 2,792	3,720
Accounts receivable	Other related parties	31,769	45,837
		<u>\$ 34,561</u>	<u>49,557</u>
Other receivables	Associates	\$ 109,211	53,587
Other receivables	Other related parties	60,568	29,125
		<u>\$ 169,779</u>	<u>82,712</u>

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

(4) Payables to related parties

The amount of payables to related parties was as follows:

<u>Account</u>	<u>Related Party Category</u>	<u>2014.12.31</u>	<u>2013.12.31</u>
Accounts payable	Associates	\$ 45,329	73,080
Accounts payable	Other related parties	34,063	-
		<u>\$ 79,392</u>	<u>73,080</u>
Other payables	Other related parties	<u>\$ 56,419</u>	<u>35,144</u>

(5) Prepayments

The amount of prepayments to related parties was as follows:

	<u>2014.12.31</u>	<u>2013.12.31</u>
Other related parties	<u>\$ 15,986</u>	<u>15,394</u>

**TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

(6) Borrowings from related parties

The amount of borrowings from related parties was as follows:

	<b>2014.12.31</b>	<b>2013.12.31</b>
Other related parties	<b>\$ 727,500</b>	<b>105,813</b>

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

Additionally, the Group had drawn \$32,500 thousand of performance guarantee from related parties as of December 31, 2014.

(7) Bank deposits

	<b>2014.12.31</b>	<b>2013.12.31</b>
<u>(a) Bank deposits and time deposits</u>		
Other related parties	<b>\$ 1,610,122</b>	<b>1,563,806</b>
<u>(b) Other financial assets (including current and non-current)</u>		
Other related parties	<b>\$ 1,587,469</b>	<b>984,684</b>

(8) Mutual funds purchased from related parties

	<b>For the Years Ended December 31</b>	
	<b>2014</b>	<b>2013</b>
Other related parties	<b>\$ 393,724</b>	<b>200,000</b>

(9) Acquisition of associates

In April 2014, the Group acquired 35% of TVD Shopping, and the investment amount was \$148,118 thousand.

In June 2013, the Group acquired 19.23% of ADT, and the investment amount was \$30,000 thousand, which was recognized as prepayments for investments.

(10) Disposal of investments

In September 2014, the Group sold all of its ownership in TMB to Fubon Financial Holding Venture Co., Ltd. The proceeds from the disposal were \$21,360 thousand, and the Group recognized a loss on disposal of investments of \$168 thousand.

**TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

(11) Others

	<b>2014.12.31</b>	<b>2013.12.31</b>
(a) <u>Guarantee deposits</u>		
Other related parties	\$ 32,489	30,682
<b>For the Years Ended</b>		
<b>December 31</b>		
	<b>2014</b>	<b>2013</b>
(b) <u>Donation expense</u>		
Other related parties	\$ 22,910	14,540
(c) <u>Other expense</u>		
Other related parties	\$ 340,306	244,692
Less: other expense from discontinued operations	(314)	(9,513)
	\$ 339,992	235,179
(d) <u>Repair and maintenance expense</u>		
Other related parties	\$ 25,824	27,087
(e) <u>Insurance expenses</u>		
Other related parties	\$ 20,759	24,036
(f) <u>Other income</u>		
Associates	\$ 12,337	-
(g) <u>Finance costs</u>		
Other related parties	\$ 24,167	14,077
(h) <u>Rental expenses</u>		
Other related parties	\$ 80,130	123,134
Less: rental expenses from discontinued operations	(1,557)	(80,636)
	\$ 78,573	42,498

Leases were conducted at market prices, and the rental was paid by the month.



**TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

c. Key management personnel compensation

	<b>For the Years Ended December 31</b>	
	<b>2014</b>	<b>2013</b>
Short-term employee benefits	\$ 283,024	301,456
Termination benefits	27,560	47,564
Post-employment benefits	2,854	2,749
	<b>\$ 313,438</b>	<b>351,769</b>

**8. ASSETS PLEDGED**

The assets pledged as collateral for bank loans, syndicated loans, and performance bonds for construction contracts were as follows:

	<b>2014.12.31</b>	<b>2013.12.31</b>
Other current financial assets		
Time deposits and restricted deposits	\$ 124,806	66,070
Services concession	7,597,295	-
Other non-current financial assets		
Time deposits and restricted deposits	107,380	250,717
	<b>\$ 7,829,481</b>	<b>316,787</b>

**9. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED COMMITMENTS**

a. Unrecognized commitments

	<b>2014.12.31</b>	<b>2013.12.31</b>
Purchases of property, plant and equipment etc.	<b>\$ 8,857,528</b>	<b>5,213,950</b>
Purchases of cellular phones	<b>\$ 7,057,442</b>	<b>3,462,588</b>

b. On January 15, 2009, TNH signed a BOT contract with the Department of Cultural Affairs, Taipei City Government. The primary terms of the contract are summarized as follows:

(1) Construction and operating period:

The construction and operating period is 50 years from the day following the signing of the contract.

**TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

(2) Development concession:

The total initial amount of concession was \$1,238,095 thousand (tax excluded). According to the supplemental agreement signed in November 2014, the concession will be paid with additional business tax from the signing date of the agreement; thus, the concession will be increased by \$48,750 thousand. The rest of the concession will be paid over 14 years from the year 2015. As of December 31, 2014, \$263,096 thousand of the concession had been paid.

(3) Operating concession

TNH has to pay 0.5% of total sales revenue as operating concession. According to the supplemental agreement signed in November 2014, the concession will be paid with additional business tax from the date of agreement signing.

(4) Performance guarantee

As of December 31, 2014, TNH had provided a \$65,000 thousand performance guarantee regarding the BOT contract.

(5) Rental of land

During the construction period, TNH should pay land value tax (1% of the announced land value) and other expenses.

During the operating period, TNH should pay 60% of 5% of the announced land value, that is, 3% of the announced land value. According to the supplemental agreement signed in November 2014, the concession will be paid with additional business tax from the date of agreement signing.

**10. SIGNIFICANT CASUALTY LOSS: NONE**

**11. SIGNIFICANT SUBSEQUENT EVENTS**

- a. In January 2015, TWM was approved to acquire a Mobile Broadband Spectrum frequency of 5 MHz x 2 in the 700 MHz frequency band by the NCC. The consideration has been paid in full.
- b. For business operations, on January 27, 2015, momo's Board of Directors resolved to construct logistics centers and acquire equipment, and the amounts of the projects are

**TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

\$1,828,250 thousand and \$642,890 thousand, respectively.

**12. OTHERS**

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

	For the Years Ended December 31					
	2014			2013		
	Classified as Operating Costs	Classified as Operating Expenses	Total	Classified as Operating Costs	Classified as Operating Expenses	Total
Employee benefits						
Salary	\$ 2,042,923	3,988,524	6,031,447	2,023,125	4,043,104	6,066,229
Labor and health insurance	168,993	333,381	502,374	161,285	319,449	480,734
Pension	88,283	167,674	255,957	86,814	162,671	249,485
Others	95,947	183,587	279,534	91,335	194,135	285,470
Depreciation	9,187,476	530,740	9,718,216	8,174,885	589,127	8,764,012
Amortization	1,544,286	327,143	1,871,429	928,611	305,538	1,234,149

For the years ended December 31, 2014 and 2013, the depreciation expense in non-operating expenses was \$3,363 thousand and \$3,506 thousand, respectively.

**13. ADDITIONAL DISCLOSURES**

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

The following were the additional disclosures required by the Securities and Futures Bureau for TWM and its investees:

- (1) Financing extended to other parties: Table 1 (attached)
- (2) Endorsements/guarantees provided to other parties: Table 2 (attached)
- (3) Marketable securities held: Table 3 (attached) (excluding investments in subsidiaries and associates)
- (4) Marketable securities acquired and disposed of at costs or prices of at least NT\$300 million or 20% of the paid-in capital: Table 4 (attached)
- (5) Acquisition of individual real estate properties at costs of at least NT\$300 million or 20% of the paid-in capital: Table 5 (attached)

**TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

- (6) Disposal of individual real estate properties at prices of at least NT\$300 million or 20% of the paid-in capital: None
  - (7) Total purchases from or sales to related parties of at least NT\$100 million or 20% of the paid-in capital: Table 6 (attached)
  - (8) Receivables from related parties of at least NT\$100 million or 20% of the paid-in capital: Table 7 (attached)
  - (9) Names, locations and related information of investees on which TWM exercised significant influence: Table 8 (attached) (excluding information on investment in Mainland China)
  - (10) Trading in derivative instruments: None
  - (11) Business relationships and significant intercompany transactions: Table 9 (attached)
- c. Information on investment in Mainland China:
- (1) The names of investees in Mainland China, the main businesses and products, issued capital, method of investment, information on inflow or outflow of capital, ownership, net income or loss and recognized investment gain or loss, ending balance, amount received as earnings distributions from the investment, and limitation on investment: Table 10 (attached)
  - (2) Significant direct or indirect transactions with the investee companies, the prices and terms of payment, unrealized gain or loss, and other related information which is helpful to understand the impact of investment in Mainland China on financial reports: Please refer to “Information on significant transactions” above.

**14. SEGMENT INFORMATION**

The basis of segmentation in 2014 is different from the prior year. In response to internal management needs, the Group has changed the segments to telecommunication, retail, cable television, and others.

The Group divides its business into four reportable segments with different market attributes and operation modes. The four segments are described as follows.

Telecommunication: Providing mobile communication services, data mobile services, and fixed-line services.

Retail: Providing TV shopping, online shopping, and catalog shopping.

Cable Television: Providing pay TV and cable broadband services.

**TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

Others: Business other than telecommunication, retail, and cable television.

The amount of discontinued operations is not included in the following segment information.

For the information about discontinued operations, please refer to Note 6(f).

<b>For the Year Ended December 31, 2014</b>	<b>Telecommu- nication</b>	<b>Retail</b>	<b>Cable Television</b>	<b>Others</b>	<b>Adjustments and Eliminations</b>	<b>Total</b>
Operating revenues	\$ 82,355,506	23,897,005	6,380,295	383,028	(391,955)	112,623,879
Operating costs	51,316,166	20,592,348	3,042,249	257,043	(109,598)	75,098,238
Operating expenses	15,332,332	1,879,684	756,281	65,313	(108,573)	17,925,037
Other gains and losses, net	71,681	2,442	35,971	-	17	110,111
Profit	15,778,689	1,427,415	2,617,706	60,672	(173,767)	19,710,715
EBITDA (Note)	26,106,333	1,562,408	3,438,314	201,400	(13,609)	31,294,846

<b>For the Year Ended December 31, 2013</b>	<b>Telecommu- nication</b>	<b>Retail</b>	<b>Cable Television</b>	<b>Others</b>	<b>Adjustments and Eliminations</b>	<b>Total</b>
Operating revenues	\$ 81,879,391	20,542,841	6,243,668	-	(257,969)	108,407,931
Operating costs	48,767,854	17,987,594	2,896,136	-	(80,564)	69,571,020
Operating expenses	15,470,721	1,616,826	753,453	-	(12,781)	17,828,219
Other gains and losses, net	64,759	(3,638)	2,049	-	(27)	63,143
Profit	17,705,575	934,783	2,596,128	-	(164,651)	21,071,835
EBITDA (Note)	26,695,857	1,039,735	3,277,918	-	(9,911)	31,003,599

Note: The Group uses EBIDTA as the measurement for segment profit and the basis of performance assessment.

a. Geographical information

The Group's revenues are mostly from domestic business.

b. Information on major customers

The Group's revenues from a single customer do not exceed 10% of the total net operating revenues.

**TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES**  
**FINANCING EXTENDED TO OTHER PARTIES**  
**FOR THE YEAR ENDED DECEMBER 31, 2014**

TABLE 1

(In Thousands of New Taiwan Dollars)

No.	Lending Company	Borrowing Company	Financial Statement Account	Related Parties	Maximum Balance for the Period (Note 1)	Ending Balance (Note 1)	Drawdown Amounts	Interest Rate	Nature of Financing	Transaction Amounts	Reasons for Short-term Financing	Allowance for Doubtful Accounts	Collateral		Lending Limit for Each Borrowing Company	Lending Company's Lending Amount Limits
													Item	Value		
0	TWM	TFN Media Co., Ltd.	Other receivables	Yes	\$ 4,000,000	\$ -	\$ -	1.176%~1.197%	Short-term financing	\$ -	- Operation requirements	\$ -	-	-	\$ 24,103,741 (Note 2)	\$ 24,103,741 (Note 2)
		Win TV Broadcasting Co., Ltd.	Other receivables	Yes	600,000	-	-	1.196%~1.197%	Short-term financing	-	- Operation requirements	-	-	-	24,103,741 (Note 2)	24,103,741 (Note 2)
1	Taiwan Fixed Network Co., Ltd.	TWM	Other receivables	Yes	9,000,000	9,000,000	8,180,000	1.183%~1.29622%	Short-term financing	-	- Operation requirements	-	-	-	21,622,525 (Note 2)	21,622,525 (Note 2)
2	Globalview Cable TV Co., Ltd.	TFN Media Co., Ltd.	Other receivables	Yes	260,000	260,000	260,000	1.184%~1.29489%	Short-term financing	-	- Repayment of financing	-	-	-	280,095 (Note 3)	494,767 (Note 3)
3	Phoenix Cable TV Co., Ltd.	TFN Media Co., Ltd.	Other receivables	Yes	545,000	540,000	540,000	1.184%~1.29489%	Transactions	544,485	-	-	-	-	544,485 (Note 3)	979,019 (Note 3)
4	Yeong Jia Leh Cable TV Co., Ltd.	TFN Media Co., Ltd.	Other receivables	Yes	495,000	480,000	425,000	1.184%~1.29489%	Transactions	494,235	-	-	-	-	494,235 (Note 3)	788,005 (Note 3)
5	Wealth Media Technology Co., Ltd.	TWM	Other receivables	Yes	2,300,000	2,300,000	1,800,000	1.184%~1.29789%	Short-term financing	-	- Operation requirements	-	-	-	8,250,635 (Note 2)	8,250,635 (Note 2)
		Taiwan Kuro Times Co., Ltd.	Other receivables	Yes	100,000	100,000	-	1.196%~1.197%	Short-term financing	-	- Operation requirements	-	-	-	8,250,635 (Note 2)	8,250,635 (Note 2)
		Win TV Broadcasting Co., Ltd.	Other receivables	Yes	600,000	600,000	250,000	1.294%~1.29789%	Short-term financing	-	- Operation requirements	-	-	-	8,250,635 (Note 2)	8,250,635 (Note 2)
		TFN Media Co., Ltd.	Other receivables	Yes	3,000,000	3,000,000	1,500,000	1.294%	Short-term financing	-	- Operation requirements	-	-	-	8,250,635 (Note 2)	8,250,635 (Note 2)
6	Taiwan Cellular Co., Ltd.	TWM	Other receivables	Yes	300,000	300,000	300,000	1.186%~1.29622%	Short-term financing	-	- Operation requirements	-	-	-	34,226,760 (Note 2)	34,226,760 (Note 2)

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 percent of the lending company's net worth. The individual loan funds shall be limited to the lowest amount of the following items: 1) 40 percent 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 lending company). In the event that a lending company directly or indirectly owns 100% of the borrowing company, or the borrowing company directly or 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. A) For reasons of business dealings: the individual lending amount and the aggregate amount of loaned funds shall not exceed the amount of business dealings. B) 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.

**TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES**  
**ENDORSEMENTS/GUARANTEES PROVIDED TO OTHER PARTIES**  
**FOR THE YEAR ENDED DECEMBER 31, 2014**

TABLE 2  
(In Thousands of New Taiwan Dollars)

No.	Company Providing Endorsements/Guarantees	Receiving Party		Limit 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
		Name	Nature of Relationship										
0	TWM	Taiwan Fixed Network Co., Ltd.	(Note 2)	\$ 42,000,000 (Note 3)	\$ 21,500,000	\$ 21,500,000	\$ 11,575,650 (Note 4)	\$ -	35.68%	\$ 60,259,352 (Note 3)	Y	N	N
		Taiwan Kuro Times Co., Ltd.	(Note 2)	259,800 (Note 3)	50,000	50,000	50,000	-	0.08%	60,259,352 (Note 3)	Y	N	N
1	momo.com Inc.	Fubon Gehua (Beijing) Enterprise Ltd.	(Note 2)	799,626 (Note 5)	507,360	507,360	507,360	-	8.04%	6,310,990 (Note 5)	N	N	Y

Note 1: The maximum guarantee/endorsement 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 USD15,000 thousand.

Note 5: FGE is more than 50% directly and indirectly owned by momo. The aggregate endorsement/guarantee amount provided by momo shall be limited to the net worth of momo, and the individual amount shall be limited to the investment amount in FGE.

※Limit for individual amount: The limit of guarantee/endorsement provided by momo to FGE is limited to the investment amount (USD12,322,314 × 31.71 + RMB60,000,000 × 5.095 + US\$3,254,043.15 × 31.71 = NTD799,626 thousand).

※The momo Board of Directors authorized the guarantee amount (USD16,000,000 × 31.71 = NTD507,360 thousand).

※Drawn-down amount: USD16,000,000 × 31.71 = NTD507,360 thousand.

※Amount of guarantee collateralized by property: 0 thousand.

Note 6: The above amounts were translated into New Taiwan dollars at the exchange rate of US\$1 = NT\$31.71 and RMB 1 = NT\$5.095 at the end of the period.

**TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES**  
**MARKETABLE SECURITIES HELD (EXCLUDING INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES)**  
**DECEMBER 31, 2014**

TABLE 3

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

Investing Company	Marketable Securities Type and Name	Relationship with the Securities Issuer	Financial Statement Account	DECEMBER 31, 2014				Note
				Shares/Units (Thousands)	Carrying Value	Percentage of Ownership	Fair Value	
TWM	<u>Stock</u> Chunghwa Telecom Co., Ltd.	—	Current available-for-sale financial assets	2,174	\$ 204,310	0.028	\$ 204,310	
	Ambit Microsystems Corporation	—	Non-current available-for-sale financial assets	298,000	2,587,050	14.9	2,587,050	
	Bridge Mobile Pte Ltd.	—	Non-current financial assets at cost	800	7,050	10	-	
	Yes Mobile Holdings Company	—	Non-current financial assets at cost	74	-	0.19	-	Note 1
momo.com Inc.	<u>Beneficiary Certificate</u> Fubon Strategic High Income Fund B	Related party in substance	Current available-for-sale financial assets	18,302	186,456	-	186,456	
	Fubon Chi-Hsiang Money Market Fund	Related party in substance	Current available-for-sale financial assets	12,970	200,004	-	200,004	
	Fubon China High Yield Bond Fund-B (RMB)	Related party in substance	Current available-for-sale financial assets	3,886	193,869	-	193,869	
	Fuh Hwa Emerging Market High Yield Bond Fund B	—	Current available-for-sale financial assets	10,225	73,313	-	73,313	
	PineBridge Global Multi - Strategy High Yield Bond Fund-B	—	Current available-for-sale financial assets	23,351	186,335	-	186,335	
	Eastspring Investments Global High Yield Bond Fund B	—	Current available-for-sale financial assets	19,028	180,437	-	180,437	
	Eastspring Investments Well Pool Money Market Fund	—	Current available-for-sale financial assets	29,933	400,006	-	400,006	
	JPMorgan (Taiwan) Asia High Yield Total Return Bond Fund - Monthly Distribution Share Class	—	Current available-for-sale financial assets	18,916	189,020	-	189,020	
	Allianz Global Investors Taiwan Money Market Fund	—	Current available-for-sale financial assets	32,520	400,007	-	400,007	
	<u>Stock</u> We Can Medicines Co., Ltd.	—	Non-current financial assets at cost	2,400	60,000	7.73	-	
Taiwan Cellular Co., Ltd.	<u>Stock</u> Arcoa Communication Co., Ltd.	—	Non-current financial assets at cost	6,998	67,731	5.21	-	
	Parawin Venture Capital Corp.	—	Non-current financial assets at cost	2,160	11,471	3	-	
	Transportation High Tech Inc.	—	Non-current financial assets at cost	1,200	-	12	-	Note 1
	WEB Point Co., Ltd.	—	Non-current financial assets at cost	803	6,773	3.17	-	

(Continued)



**TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES**  
**MARKETABLE SECURITIES HELD (EXCLUDING INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES)**  
**DECEMBER 31, 2014**

Investing Company	Marketable Securities Type and Name	Relationship with the Securities Issuer	Financial Statement Account	DECEMBER 31, 2014				Note
				Shares/Units (Thousands)	Carrying Value	Percentage of Ownership	Fair Value	
TFN Media Co., Ltd.	Beneficiary Certificate Dragon Tiger Capital Partners Limited	—	Current held-to-maturity financial assets	0.2	\$ 6	-	\$ 6	
TCC Investment Co., Ltd.	Stock TWM	TWM	Non-current available-for-sale financial assets	200,497	20,951,911	5.86	20,951,911	
	Great Taipei Broadband Co., Ltd.	—	Non-current financial assets at cost	10,000	39,627	6.67	-	
	Preferred stock Taiwan High Speed Rail Corporation Unlisted Convertible Preferred Stock – Series A	—	Non-current debt instrument investment without active market	50,000	500,000	1.24	-	
TCCI Investment and Development Co., Ltd.	Stock TWM	TWM	Non-current available-for-sale financial assets	87,590	9,153,109	2.56	9,153,109	
Taiwan Fixed Network Co., Ltd.	Stock Taiwan High Speed Rail Corporation	—	Non-current available-for-sale financial assets	225,531	893,103	3.46	893,103	
TFN Union Investment Co., Ltd.	Stock TWM	TWM	Non-current available-for-sale financial assets	410,665	42,914,522	12	42,914,522	

Note 1: Impairment loss was recognized in 2004. The value was reduced to zero.

Note 2: For the information on investments in subsidiaries and associates, please refer to table 8 and table 10.

(Concluded)

**TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES**

**MARKETABLE SECURITIES ACQUIRED AND DISPOSED OF AT COSTS OR PRICES OF AT LEAST NT\$300 MILLION OR 20% OF THE PAID-IN CAPITAL**

**FOR THE YEAR ENDED DECEMBER 31, 2014**

TABLE 4

(In Thousands of New Taiwan Dollars)

Company Name	Marketable Securities Type and Issuer	Financial Statement Account	Counter-party	Nature of Relationship	Beginning Balance		Acquisition		Disposal				Ending Balance		
					Shares/Units (Thousands)	Amount	Shares/Units (Thousands)	Amount	Shares/Units (Thousands)	Amount	Carrying Value	Gain (Loss) on Disposal	Shares/Units (Thousands)	Amount	
TWM	<u>Stock</u> Wealth Media Technology Co., Ltd.	Investments accounted for using equity method	Wealth Media Technology Co., Ltd.	Subsidiary	39,065	\$16,157,062	3,000 (Note 1)	\$ 3,000,000	-	-	-	-	-	42,065	\$ 20,626,589 (Note 2)
	Ambit Microsystems Corporation	Non-current available-for-sale financial assets	-	-	-	-	298,000 (Note 1)	2,980,000	-	-	-	-	-	298,000	2,587,050 (Note 2)
Wealth Media Technology Co., Ltd.	<u>Stock</u> momo.com Inc.	Investments accounted for using equity method	SinoPac Securities Co., Ltd. (Note 4)	Unrelated parties	64,742	8,567,490	-	-	1,695	323,859	229,995	(Note 3)	63,047	9,352,414 (Note 2)	
TCCI Investment and Development Co., Ltd.	<u>Stock</u> TWM	Non-current available-for-sale financial assets	-	-	119,564	11,513,994	-	-	31,974	2,970,389	1,737,267	1,233,122	87,590	9,153,109 (Note 2)	
momo.com Inc.	<u>Beneficiary Certificate</u> Eastspring Investments Well Pool Money Market Fund	Current available-for-sale financial assets	-	-	-	-	29,933	400,000	-	-	-	-	29,933	400,006 (Note 2)	
	Allianz Global Investors Taiwan Money Market Fund	Current available-for-sale financial assets	-	-	-	-	32,520	400,000	-	-	-	-	32,520	400,007 (Note 2)	
Asian Crown(BVI)	<u>Stock</u> Fortune Kingdom	Investments accounted for using equity method	Fortune Kingdom	Subsidiary	22,237	118,883	11,396	344,227	-	-	-	-	33,633	248,827 (Note 2)	
Fortune Kingdom	<u>Stock</u> HK Fubon Multimedia	Investments accounted for using equity method	HK Fubon Multimedia	Subsidiary	22,237	118,883	11,396	344,227	-	-	-	-	33,633	248,827 (Note 2)	
HK Fubon Multimedia	Fubon Gehua (Beijing) Enterprise Ltd.	Investments accounted for using equity method	Fubon Gehua (Beijing) Enterprise Ltd.	Subsidiary	-	118,218	-	344,227	-	-	-	-	-	248,230 (Note 2)	

Note 1: The Shares/Units purchased for the period were obtained from capital increase by cash.

Note 2: The ending balance includes unrealized gains (losses) on financial assets, exchange differences on translation of foreign financial statements, associates accounted for using equity method, and adjustments of subsidiaries.

Note 3: The gain (loss) on disposal was recognized as a capital surplus.

Note 4: To comply with the regulation for trading on the emerging market and over-allotment for initial listing on the stock exchange.

**TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES**

**ACQUISITION OF INDIVIDUAL REAL ESTATE PROPERTIES AT COSTS OF AT LEAST NT\$300 MILLION OR 20% OF THE PAID-IN CAPITAL**

**FOR THE YEAR ENDED DECEMBER 31, 2014**

TABLE 5

(In Thousands of New Taiwan Dollars)

Company Name	Type of Property	Transaction Date	Transaction Amount	Payment	Counter-party	Nature of Relationship	Prior Transaction with Related Party				Price Reference	Purpose of Acquisition	Other Terms
							Owner	Relationship	Transfer Date	Amount			
momo.com Inc.	Land	May 14, 2014	\$ 1,708,270	Paid in full	Natural person	Unrelated parties	-	-	-	-	The appraisal reports of Jin Han Real Estate Appraiser Joint Firm and G-Beam Real Estate Appraiser Firm.	Operating usage	None

**TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES**

**TOTAL PURCHASES FROM OR SALES TO RELATED PARTIES OF AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL  
FOR THE YEAR ENDED DECEMBER 31, 2014**

TABLE 6

(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	Taiwan Fixed Network Co., Ltd.	Subsidiary	Sale	\$ (1,815,552)	2	Based on contract terms	—	—	\$ 277,712	3	(Note 1)
			Purchase	7,418,275	(Note 2)	Based on contract terms	—	—	(405,095)	(Note 3)	
	Taiwan Kuro Times Co., Ltd.	Subsidiary	Purchase	355,702	1	Based on contract terms	—	—	(86,895)	2	(Note 1)
	Taiwan Teleservices & Technologies Co., Ltd.	Subsidiary	Purchase	1,076,444	(Note 2)	Based on contract terms	—	—	(94,383)	(Note 3)	
	Taiwan Digital Service Co., Ltd.	Subsidiary	Sale	(12,811,112)	15	Based on contract terms	—	—	1,677,203	14	(Note 1)
			Purchase	11,761,940	(Note 4)	Based on contract terms	—	—	(1,819,888)	(Note 1)	
	momo.com Inc.	Subsidiary	Sale	(101,189)	-	Based on contract terms	—	—	13,097	-	
Taiwan Teleservices & Technologies Co., Ltd.	TWM	Ultimate parent	Sale	(1,076,444)	91	Based on contract terms	—	—	94,383	91	
	Taiwan Fixed Network Co., Ltd.	The same parent company	Sale	(100,848)	8	Based on contract terms	—	—	7,901	8	
Taiwan Fixed Network Co., Ltd.	TWM	Ultimate parent	Sale	(7,418,275)	52	Based on contract terms	—	—	405,095	48	(Note 1)
			Purchase	1,815,552	(Note 2)	Based on contract terms	—	—	(277,317)	44	(Note 1)
	TFN Media Co., Ltd.	The same parent company	Sale	(142,287)	1	Based on contract terms	—	—	24,945	3	
	Taiwan Teleservices & Technologies Co., Ltd.	The same parent company	Purchase	100,848	(Note 4)	Based on contract terms	—	—	(7,901)	(Note 3)	
Taiwan Digital Service Co., Ltd.	TWM	Ultimate parent	Sale	(11,762,007)	70	Based on contract terms	—	—	1,819,888	99	
			Purchase	12,811,112	(Note 2)	Based on contract terms	—	—	(1,677,203)	99	(Note 1)
Taiwan Kuro Times Co., Ltd.	TWM	Ultimate parent	Sale	(355,702)	44	Based on contract terms	—	—	86,895	100	(Note 1)
TFN Media Co., Ltd.	Phoenix Cable TV Co., Ltd.	Subsidiary	Channel leasing fee	(466,136)	15	Based on contract terms	(Note 5)	(Note 5)	-	-	
	Yeong Jia Leh Cable TV Co., Ltd.	Subsidiary	Channel leasing fee	(419,902)	13	Based on contract terms	(Note 5)	(Note 5)	-	-	
	Union Cable TV Co., Ltd.	Subsidiary	Channel leasing fee	(214,288)	7	Based on contract terms	(Note 5)	(Note 5)	-	-	
	Globalview Cable TV Co., Ltd.	Subsidiary	Channel leasing fee	(182,606)	6	Based on contract terms	(Note 5)	(Note 5)	-	-	
	Taiwan Fixed Network Co., Ltd.	The same parent company	Operating costs	137,565	11	Based on contract terms	—	—	(24,318)	5	
Yeong Jia Leh Cable TV Co., Ltd.	TFN Media Co., Ltd.	Parent	Royalty for copyright	419,902	56	Based on contract terms	(Note 5)	(Note 5)	-	-	
Phoenix Cable TV Co., Ltd.	TFN Media Co., Ltd.	Parent	Royalty for copyright	466,136	58	Based on contract terms	(Note 5)	(Note 5)	-	-	
Union Cable TV Co., Ltd.	TFN Media Co., Ltd.	Parent	Royalty for copyright	214,288	50	Based on contract terms	(Note 5)	(Note 5)	-	-	
Globalview Cable TV Co., Ltd.	TFN Media Co., Ltd.	Parent	Royalty for copyright	182,606	53	Based on contract terms	(Note 5)	(Note 5)	-	-	
Mangrove Cable TV Co., Ltd.	Dai-Ka Ltd.	Related party in substance	Royalty for copyright	151,606	49	Based on contract terms	(Note 5)	(Note 5)	(37,901)	86	
momo.com Inc.	Taiwan Pelican Express Co., Ltd.	Equity-method investee	Purchase	438,046	2	Based on contract terms	—	—	(41,259)	2	
	TWM	Ultimate parent	Purchase	99,042	1	Based on contract terms	—	—	(16,396)	1	

Note 1: Accounts receivable (payable) was the net amount of accounts receivable minus accounts payable, custodial receipts, and payment on behalf of others.

Note 2: Including operating costs and operating expenses.

Note 3: Including accounts payable and other payables.

Note 4: Recognized as operating expenses.

Note 5: 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. AND SUBSIDIARIES**  
**RECEIVABLES FROM RELATED PARTIES OF AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL**  
**DECEMBER 31, 2014**

TABLE 7  
(In Thousands of New Taiwan Dollars)

Company Name	Related Party	Nature of Relationship	Ending Balance		Turnover Rate	Overdue		Amount Received in Subsequent Period	Allowance for Bad Debts
						Amount	Action Taken		
TWM	Taiwan Fixed Network Co., Ltd.	Subsidiary	Accounts receivable	\$ 277,712	6.26	\$ -	-	\$ -	-
			Other receivables	33,260		-	-	30,064	-
	Taiwan Digital Service Co., Ltd.	Subsidiary	Accounts receivable	1,677,203	5.57	-	-	1,677,203	-
			Other receivables	284,053		-	-	275,249	-
Taiwan Cellular Co., Ltd.	TWM	Parent	Other receivables	300,582		-	-	-	-
Wealth Media Technology Co., Ltd.	TWM	Parent	Other receivables	1,802,905		-	-	80,054	-
	Win TV Broadcasting Co., Ltd.	Subsidiary	Other receivables	250,988		-	-	-	-
	TFN Media Co., Ltd.	Subsidiary	Other receivables	1,507,870		-	-	-	-
Taiwan Fixed Network Co., Ltd.	TWM	Ultimate parent	Accounts receivable	405,095	12.68	-	-	373,382	-
			Other receivables	8,286,612		-	-	2,242	-
Taiwan Digital Service Co., Ltd.	TWM	Ultimate parent	Accounts receivable	1,819,888	6.99	-	-	398,647	-
			Other receivables	2,887		-	-	111	-
Phoenix Cable TV Co., Ltd.	TFN Media Co., Ltd.	Parent	Accounts receivable	4,957	7.35	-	-	-	-
			Other receivables	540,161		-	-	-	-
Globalview Cable TV Co., Ltd.	TFN Media Co., Ltd.	Parent	Accounts receivable	2,207	6.94	-	-	-	-
			Other receivables	260,001		-	-	-	-
Yeong Jia Leh Cable TV Co., Ltd.	TFN Media Co., Ltd.	Parent	Accounts receivable	5,492	6.61	-	-	-	-
			Other receivables	425,001		-	-	-	-
momo.com Inc.	Taiwan Pelican Express Co., Ltd.	Equity-method investee	Accounts receivable	360	9.87	-	-	360	-
			Other receivables	109,183		-	-	109,183	-

**TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES**

**NAMES, LOCATIONS AND RELATED INFORMATION OF INVESTEEES ON WHICH TWM EXERCISED SIGNIFICANT INFLUENCE  
(EXCLUDING INFORMATION ON INVESTMENT IN MAINLAND CHINA)  
FOR THE YEAR ENDED DECEMBER 31, 2014**

TABLE 8

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

Investor	Investee	Location	Main Businesses and Products	Investment Amount		Balance as of December 31, 2014			Net Income (Loss) of the Investee	Investment Income (Loss)	Note
				December 31, 2014	December 31, 2013	Shares (Thousands)	Percentage of Ownership	Carrying Value			
TWM	Taiwan Cellular Co., Ltd.	Taiwan	Investment	\$ 41,872,288	\$ 44,767,288	371,196	100	\$ 24,912,476	\$ 7,383,016	\$ 8,351,285	Note 1
	Taipei New Horizon Co., Ltd.	Taiwan	Real estate leasing and hotel business	1,918,655	1,746,500	191,866	49.9	1,722,927	(32,425)	(16,180)	
	Wealth Media Technology Co., Ltd.	Taiwan	Investment	16,802,000	13,802,000	42,065	100	20,626,589	2,703,674	2,703,674	
	Alliance Digital Tech Co., Ltd.	Taiwan	Technology development of mobile payment and information processing services	30,000	30,000	3,000	13.33	23,139	(44,991)	(7,297)	
Wealth Media Technology Co., Ltd.	momo.com Inc.	Taiwan	Wholesale and retail sales	8,129,394	8,347,949	63,047	44.38	9,352,414	1,170,042	-	Note 2
	Win TV Broadcasting Co., Ltd.	Taiwan	TV program provider	222,417	222,417	18,177	100	256,861	37,942	-	Note 2
	TFN Media Co., Ltd.	Taiwan	Cable broadband and value added service provider	5,210,443	5,210,443	230,921	100	7,082,165	2,196,291	-	Note 2
	Global Wealth Media Technology Co., Ltd.	Taiwan	Investment	92,189	92,189	8,945	100	97,391	5,326	-	Note 2
	Global Forest Media Technology Co., Ltd.	Taiwan	Investment	16,984	16,984	1,500	100	17,644	535	-	Note 2
Global Wealth Media Technology Co., Ltd.	Globalview Cable TV Co., Ltd.	Taiwan	Cable TV service provider	91,910	91,910	3,825	6.83	95,841	80,554	-	Note 2
Global Forest Media Technology Co., Ltd.	Union Cable TV Co., Ltd.	Taiwan	Cable TV service provider	16,218	16,218	1,300	0.76	15,968	104,740	-	Note 2
momo.com Inc.	Fu Sheng Travel Service Co., Ltd.	Taiwan	Travel agent	6,000	6,000	2,500	100	50,419	21,157	-	Note 2
	Fuli Life Insurance Agent Co., Ltd.	Taiwan	Life insurance agent	3,000	3,000	300	100	11,284	2,788	-	Note 2
	Fuli Property Insurance Agent Co., Ltd.	Taiwan	Property insurance agent	3,000	3,000	300	100	12,531	3,634	-	Note 2
	Asian Crown (BVI)	British Virgin Islands	Investment	789,864	690,824	26,500	76.26	193,473	(191,776)	-	Note 2
	Taiwan Pelican Express Co., Ltd.	Taiwan	Logistics industry	337,860	337,860	16,893	17.70	455,426	155,092	-	Note 2
	TVD Shopping	Thailand	Wholesale and retail sales	150,797	-	31,150	35.00	150,803	15,180	-	Note 2
				(THB 155,750)							
Asian Crown(BVI)	Fortune Kingdom	Samoa	Investment	1,035,051	690,824	33,633	100	248,827	(192,008)	-	Note 2
Fortune Kingdom	HK Fubon Multimedia	Hong Kong	Investment	1,035,051	690,824	33,633	100	248,827	(192,008)	-	Note 2
Taiwan Cellular Co., Ltd.	TWM Holding	British Virgin Islands	Investment	347,951	347,951	-	100	261,225	9,548	-	Notes 2 & 7
	Taiwan Fixed Network Co., Ltd.	Taiwan	Fixed line service provider	21,000,000	21,000,000	2,100,000	100	54,057,276	5,379,331	-	Note 2
	Taiwan Digital Communication Co., Ltd.	Taiwan	TV program production and mobile phone wholesaling	112,000	112,000	11,200	100	116,240	(126)	-	Note 2
	TCC Investment Co., Ltd.	Taiwan	Investment	17,785,441	20,680,441	22,103	100	29,130,683	1,485,742	-	Note 2
	Taiwan Teleservices & Technologies Co., Ltd.	Taiwan	Call center service and telephone marketing	56,210	56,210	2,484	100	106,967	60,057	-	Note 2
	Taiwan Digital Service Co., Ltd.	Taiwan	Telecommunications service agencies and retail business	1,000,000	1,000,000	20,000	100	1,490,123	467,479	-	Note 2
Taiwan Teleservices & Technologies Co., Ltd.	TT&T Holdings	Samoa	Investment	36,284	36,284	1,300	100	52,284	3,260	-	Note 2
	Taiwan Mobile Basketball Co., Ltd.	Taiwan	Basketball team management	-	3,511	-	-	-	959	-	Notes 2 & 3

(Continued)

**TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES**  
**NAMES, LOCATIONS AND RELATED INFORMATION OF INVESTEES ON WHICH TWM EXERCISED SIGNIFICANT INFLUENCE**  
**(EXCLUDING INFORMATION ON INVESTMENT IN MAINLAND CHINA)**  
**FOR THE YEAR ENDED DECEMBER 31, 2014**

Investor	Investee	Location	Main Businesses and Products	Investment Amount		Balance as of December 31, 2014			Net Income (Loss) of the Investee	Investment Income (Loss)	Note
				December 31, 2014	December 31, 2013	Shares (Thousands)	Percentage of Ownership	Carrying Value			
TCC Investment Co., Ltd.	TCCI Investment and Development Co., Ltd.	Taiwan	Investment	\$ 3,602,782	\$ 6,498,076	400	100	\$ 8,010,126	\$ 1,159,077	-	Note 2
TFN Media Co., Ltd.	Yeong Jia Leh Cable TV Co., Ltd.	Taiwan	Cable TV service provider	2,061,522	2,061,522	33,940	100	2,258,904	212,371	-	Note 2
	Mangrove Cable TV Co., Ltd.	Taiwan	Cable TV service provider	510,724	510,724	6,248	29.53	648,198	103,652	-	Notes 2 & 4
	Phoenix Cable TV Co., Ltd.	Taiwan	Cable TV service provider	3,261,073	3,261,073	68,090	100	3,411,121	209,332	-	Note 2
	Union Cable TV Co., Ltd.	Taiwan	Cable TV service provider	1,986,250	1,986,250	169,141	99.22	2,077,057	104,740	-	Note 2
	Globalview Cable TV Co., Ltd.	Taiwan	Cable TV service provider	1,221,002	1,221,002	51,733	92.38	1,269,405	80,554	-	Note 2
	Taiwan Kuro Times Co., Ltd.	Taiwan	Online music and game service	129,900	129,900	14	100	246,103	98,659	-	Note 2
	Kbro Media Co., Ltd.	Taiwan	Film distribution, arts and literature service, and entertainment	292,500	292,500	29,250	32.5	267,878	(36,707)	-	Note 2
Taiwan Fixed Network Co., Ltd.	TFN Union Investment Co., Ltd.	Taiwan	Investment	22,314,536	22,314,536	400	100	37,527,081	(137)	-	Note 2
	TFN HK LIMITED	Hong Kong	Telecommunications service provider	3,041	3,041	1,300	100	16,878	3,200	-	Note 2
				(HK\$744)	(HK\$744)						

Note 1: Downstream transactions, upstream transactions, and consolidated unrealized gain or loss with intercompany effect are included.

(Concluded)

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: The investee was disposed of in September 2014. The net income or loss for the period from January 1, 2014, to the disposal date of the subsidiary was listed in the net income (loss) of the investee.

Note 4: 70.47% of shares are held under trustee accounts.

Note 5: The above amounts were translated into New Taiwan dollars at the exchange rate of HK\$1=NT\$4.087 and THB1=NT\$0.9682 at the end of the period.

Note 6: For information on investment in Mainland China, please refer to table 10.

Note 7: Held 1 share on December 31, 2014.

**TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES**  
**BUSINESS RELATIONSHIPS AND SIGNIFICANT INTERCOMPANY TRANSACTIONS**  
**FOR THE YEAR ENDED DECEMBER 31, 2014**

TABLE 9  
(In Thousands of New Taiwan Dollars)

Number	Company Name	Counterparty	Nature of Relationship (Note)	Transaction Details			Percentage of Consolidated Total Operating Revenues or Total Assets
				Account	Amount	Transaction Terms	
0	TWM	Taiwan Digital Service Co., Ltd.	1	Accounts and notes receivable, net	\$ 214,280	The terms of transaction are determined in accordance with mutual agreements or general business practices	-
	TWM	Taiwan Fixed Network Co., Ltd.	1	Accounts and notes receivable, net	26,560	"	-
	TWM	momo.com Inc.	1	Accounts and notes receivable, net	13,097	"	-
	TWM	Taiwan Kuro Times Co., Ltd.	1	Accounts and notes receivable, net	1,612	"	-
	TWM	Taiwan Digital Service Co., Ltd.	1	Other receivables	284,053	"	-
	TWM	Taiwan Fixed Network Co., Ltd.	1	Other receivables	33,260	"	-
	TWM	Taiwan Kuro Times Co., Ltd.	1	Other receivables	3,984	"	-
	TWM	momo.com Inc.	1	Other receivables	3,473	"	-
	TWM	Taiwan Digital Service Co., Ltd.	1	Prepayments	53,253	"	-
	TWM	Taiwan Digital Service Co., Ltd.	1	Proceeds from disposal of property, plant and equipment and intangible assets	24,916	"	-
	TWM	TFN Media Co., Ltd.	1	Acquisition price of property, plant and equipment	1,442	"	-
	TWM	Taipei New Horizon Co., Ltd.	1	Other non-current assets	16,756	"	-
	TWM	Taiwan Fixed Network Co., Ltd.	1	Short-term borrowings	8,180,000	"	5%
	TWM	Wealth Media Technology Co., Ltd.	1	Short-term borrowings	1,800,000	"	1%
	TWM	Taiwan Cellular Co., Ltd.	1	Short-term borrowings	300,000	"	-
	TWM	Taiwan Kuro Times Co., Ltd.	1	Accounts payable	86,717	"	-
	TWM	Taiwan Fixed Network Co., Ltd.	1	Accounts payable	1,916	"	-
	TWM	Taiwan Fixed Network Co., Ltd.	1	Other payables	457,759	"	-
	TWM	Taiwan Teleservices & Technologies Co., Ltd.	1	Other payables	94,368	"	-
	TWM	Wealth Media Technology Co., Ltd.	1	Other payables	2,905	"	-
	TWM	Taiwan Digital Service Co., Ltd.	1	Other payables	2,887	"	-
	TWM	Taipei New Horizon Co., Ltd.	1	Other payables	2,218	"	-
	TWM	Yeong Jia Leh Cable TV Co., Ltd.	1	Other payables	2,207	"	-
	TWM	Taiwan Kuro Times Co., Ltd.	1	Other payables	1,465	"	-
	TWM	Phoenix Cable TV Co., Ltd.	1	Other payables	1,218	"	-
	TWM	Taiwan Digital Service Co., Ltd.	1	Advance receipts	9,033	"	-
	TWM	Taiwan Fixed Network Co., Ltd.	1	Other current liabilities	43,349	"	-
	TWM	Taiwan Kuro Times Co., Ltd.	1	Other current liabilities	2,644	"	-

(Continued)



**TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES**  
**BUSINESS RELATIONSHIPS AND SIGNIFICANT INTERCOMPANY TRANSACTIONS**  
**FOR THE YEAR ENDED DECEMBER 31, 2014**

Number	Company Name	Counterparty	Nature of Relationship (Note)	Transaction Details			Percentage of Consolidated Total Operating Revenues or Total Assets
				Account	Amount	Transaction Terms	
	TWM	Taiwan Digital Service Co., Ltd.	1	Operating revenues	\$ 12,811,112	The terms of transaction are determined in accordance with mutual agreements or general business practices	11%
	TWM	Taiwan Fixed Network Co., Ltd.	1	Operating revenues	1,815,552	"	2%
	TWM	momo.com Inc.	1	Operating revenues	101,189	"	-
	TWM	Taiwan Kuro Times Co., Ltd.	1	Operating revenues	5,372	"	-
	TWM	Phoenix Cable TV Co., Ltd.	1	Operating revenues	2,439	"	-
	TWM	Yeong Jia Leh Cable TV Co., Ltd.	1	Operating revenues	2,295	"	-
	TWM	Union Cable TV Co., Ltd.	1	Operating revenues	1,688	"	-
	TWM	Globalview Cable TV Co., Ltd.	1	Operating revenues	1,237	"	-
	TWM	Mangrove Cable TV Co., Ltd.	1	Operating revenues	1,004	"	-
	TWM	Taiwan Fixed Network Co., Ltd.	1	Operating costs	7,383,669	"	7%
	TWM	Taiwan Kuro Times Co., Ltd.	1	Operating costs	355,702	"	-
	TWM	Taipei New Horizon Co., Ltd.	1	Operating costs	28,996	"	-
	TWM	Yeong Jia Leh Cable TV Co., Ltd.	1	Operating costs	9,103	"	-
	TWM	TFN Media Co., Ltd.	1	Operating costs	5,016	"	-
	TWM	Globalview Cable TV Co., Ltd.	1	Operating costs	2,640	"	-
	TWM	momo.com Inc.	1	Operating costs	1,617	"	-
	TWM	Mangrove Cable TV Co., Ltd.	1	Operating costs	1,217	"	-
	TWM	Taiwan Digital Service Co., Ltd.	1	Realized gain on sales	30,533	"	-
	TWM	Taiwan Digital Service Co., Ltd.	1	Unrealized gain on sales	42,761	"	-
	TWM	Taiwan Digital Service Co., Ltd.	1	Operating expenses	11,761,940	"	10%
	TWM	Taiwan Teleservices & Technologies Co., Ltd.	1	Operating expenses	1,076,335	"	1%
	TWM	Taiwan Fixed Network Co., Ltd.	1	Operating expenses	69,771	"	-
	TWM	Taipei New Horizon Co., Ltd.	1	Operating expenses	58,792	"	-
	TWM	Taiwan Mobile Basketball Co., Ltd.	1	Operating expenses	34,057	"	-
	TWM	Taiwan Digital Communications Co., Ltd.	1	Operating expenses	20,481	"	-
	TWM	TCC Investment Co., Ltd.	1	Operating expenses	6,732	"	-
	TWM	Taiwan Fixed Network Co., Ltd.	1	Other income	64,584	"	-
	TWM	momo.com Inc.	1	Other income	37,364	"	-
	TWM	Taiwan Digital Service Co., Ltd.	1	Other income	12,928	"	-
	TWM	TFN Media Co., Ltd.	1	Other income	11,174	"	-
	TWM	Taiwan Kuro Times Co., Ltd.	1	Other income	5,998	"	-
	TWM	Taiwan Fixed Network Co., Ltd.	1	Finance costs	94,529	"	-
	TWM	Wealth Media Technology Co., Ltd.	1	Finance costs	8,791	"	-
	TWM	Taiwan Cellular Co., Ltd.	1	Finance costs	1,830	"	-
1	Wealth Media Technology Co., Ltd.	TFN Media Co., Ltd.	1	Other receivables	1,507,870	"	1%
	Wealth Media Technology Co., Ltd.	Win TV Broadcasting Co., Ltd.	1	Other receivables	250,988	"	-
	Wealth Media Technology Co., Ltd.	TFN Media Co., Ltd.	1	Other income	10,601	"	-
	Wealth Media Technology Co., Ltd.	Win TV Broadcasting Co., Ltd.	1	Other income	1,362	"	-

(Continued)

**TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES**  
**BUSINESS RELATIONSHIPS AND SIGNIFICANT INTERCOMPANY TRANSACTIONS**  
**FOR THE YEAR ENDED DECEMBER 31, 2014**

Number	Company Name	Counterparty	Nature of Relationship (Note)	Transaction Details			Percentage of Consolidated Total Operating Revenues or Total Assets
				Account	Amount	Transaction Terms	
2	momo.com Inc.	Fu Sheng Travel Service Co., Ltd.	1	Accounts and notes receivable, net	\$ 18,917	The terms of transaction are determined in accordance with mutual agreements or general business practices	-
	momo.com Inc.	Fu Sheng Travel Service Co., Ltd.	1	Operating revenues	9,842	"	-
	momo.com Inc.	TFN Media Co., Ltd.	3	Operating costs	89,856	"	-
	momo.com Inc.	Mangrove Cable TV Co., Ltd.	3	Operating costs	8,664	"	-
	momo.com Inc.	Taiwan Teleservices & Technologies Co., Ltd.	3	Operating costs	1,720	"	-
	momo.com Inc.	Phoenix Cable TV Co., Ltd.	3	Operating costs	1,125	"	-
	momo.com Inc.	Win TV Broadcasting Co., Ltd.	3	Operating costs	1,020	"	-
3	TFN Media Co., Ltd.	Phoenix Cable TV Co., Ltd.	1	Accounts and notes receivable, net	35,776	"	-
	TFN Media Co., Ltd.	Yeong Jia Leh Cable TV Co., Ltd.	1	Accounts and notes receivable, net	35,611	"	-
	TFN Media Co., Ltd.	Union Cable TV Co., Ltd.	1	Accounts and notes receivable, net	21,857	"	-
	TFN Media Co., Ltd.	Globalview Cable TV Co., Ltd.	1	Accounts and notes receivable, net	13,963	"	-
	TFN Media Co., Ltd.	Mangrove Cable TV Co., Ltd.	1	Accounts and notes receivable, net	12,480	"	-
	TFN Media Co., Ltd.	Phoenix Cable TV Co., Ltd.	1	Short-term borrowings	540,000	"	-
	TFN Media Co., Ltd.	Yeong Jia Leh Cable TV Co., Ltd.	1	Short-term borrowings	425,000	"	-
	TFN Media Co., Ltd.	Globalview Cable TV Co., Ltd.	1	Short-term borrowings	260,000	"	-
	TFN Media Co., Ltd.	Win TV Broadcasting Co., Ltd.	3	Notes payable	15,542	"	-
	TFN Media Co., Ltd.	Yeong Jia Leh Cable TV Co., Ltd.	1	Accounts payable	1,946	"	-
	TFN Media Co., Ltd.	Phoenix Cable TV Co., Ltd.	1	Accounts payable	1,814	"	-
	TFN Media Co., Ltd.	Union Cable TV Co., Ltd.	1	Accounts payable	1,110	"	-
	TFN Media Co., Ltd.	Yeong Jia Leh Cable TV Co., Ltd.	1	Other payables	3,547	"	-
	TFN Media Co., Ltd.	Phoenix Cable TV Co., Ltd.	1	Other payables	3,306	"	-
	TFN Media Co., Ltd.	Union Cable TV Co., Ltd.	1	Other payables	2,315	"	-
	TFN Media Co., Ltd.	Globalview Cable TV Co., Ltd.	1	Other payables	1,468	"	-
	TFN Media Co., Ltd.	Mangrove Cable TV Co., Ltd.	1	Other payables	1,271	"	-
	TFN Media Co., Ltd.	Phoenix Cable TV Co., Ltd.	1	Operating revenues	507,976	"	-
	TFN Media Co., Ltd.	Yeong Jia Leh Cable TV Co., Ltd.	1	Operating revenues	457,479	"	-
	TFN Media Co., Ltd.	Union Cable TV Co., Ltd.	1	Operating revenues	214,288	"	-
	TFN Media Co., Ltd.	Globalview Cable TV Co., Ltd.	1	Operating revenues	199,371	"	-
	TFN Media Co., Ltd.	Mangrove Cable TV Co., Ltd.	1	Operating revenues	16,783	"	-
	TFN Media Co., Ltd.	Win TV Broadcasting Co., Ltd.	3	Operating revenues	1,328	"	-
	TFN Media Co., Ltd.	Win TV Broadcasting Co., Ltd.	3	Operating costs	59,207	"	-
	TFN Media Co., Ltd.	Phoenix Cable TV Co., Ltd.	1	Operating costs	35,308	"	-
	TFN Media Co., Ltd.	Yeong Jia Leh Cable TV Co., Ltd.	1	Operating costs	33,795	"	-
	TFN Media Co., Ltd.	Union Cable TV Co., Ltd.	1	Operating costs	20,152	"	-

(Continued)

**TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES**  
**BUSINESS RELATIONSHIPS AND SIGNIFICANT INTERCOMPANY TRANSACTIONS**  
**FOR THE YEAR ENDED DECEMBER 31, 2014**

Number	Company Name	Counterparty	Nature of Relationship (Note)	Transaction Details			Percentage of Consolidated Total Operating Revenues or Total Assets
				Account	Amount	Transaction Terms	
	TFN Media Co., Ltd.	Globalview Cable TV Co., Ltd.	1	Operating costs	\$ 14,063	The terms of transaction are determined in accordance with mutual agreements or general business practices	-
	TFN Media Co., Ltd.	Mangrove Cable TV Co., Ltd.	1	Operating costs	6,673	"	-
	TFN Media Co., Ltd.	Yeong Jia Leh Cable TV Co., Ltd.	1	Operating expenses	2,971	"	-
	TFN Media Co., Ltd.	Phoenix Cable TV Co., Ltd.	1	Operating expenses	1,842	"	-
	TFN Media Co., Ltd.	Globalview Cable TV Co., Ltd.	1	Operating expenses	1,247	"	-
	TFN Media Co., Ltd.	Union Cable TV Co., Ltd.	1	Operating expenses	1,230	"	-
	TFN Media Co., Ltd.	Mangrove Cable TV Co., Ltd.	1	Operating expenses	1,072	"	-
	TFN Media Co., Ltd.	Phoenix Cable TV Co., Ltd.	1	Finance costs	6,475	"	-
	TFN Media Co., Ltd.	Yeong Jia Leh Cable TV Co., Ltd.	1	Finance costs	4,684	"	-
	TFN Media Co., Ltd.	Globalview Cable TV Co., Ltd.	1	Finance costs	2,986	"	-
4	Union Cable TV Co., Ltd.	Yeong Jia Leh Cable TV Co., Ltd.	3	Operating revenues	1,168	"	-
5	Phoenix Cable TV Co., Ltd.	Yeong Jia Leh Cable TV Co., Ltd.	3	Operating revenues	1,002	"	-
6	Taiwan Fixed Network Co., Ltd.	TFN Media Co., Ltd.	3	Accounts and notes receivable, net	24,945	"	-
	Taiwan Fixed Network Co., Ltd.	momo.com Inc.	3	Accounts and notes receivable, net	2,529	"	-
	Taiwan Fixed Network Co., Ltd.	Taiwan Digital Service Co., Ltd.	3	Other receivables	2,178	"	-
	Taiwan Fixed Network Co., Ltd.	Taipei New Horizon Co., Ltd.	3	Prepayments	9,242	"	-
	Taiwan Fixed Network Co., Ltd.	Taipei New Horizon Co., Ltd.	3	Other non-current assets	8,778	"	-
	Taiwan Fixed Network Co., Ltd.	TFN HK LIMITED	1	Other payables	17,234	"	-
	Taiwan Fixed Network Co., Ltd.	Taiwan Teleservices & Technologies Co., Ltd.	3	Other payables	7,901	"	-
	Taiwan Fixed Network Co., Ltd.	Taiwan Digital Service Co., Ltd.	3	Advance receipts	1,333	"	-
	Taiwan Fixed Network Co., Ltd.	TFN Media Co., Ltd.	3	Operating revenues	142,287	"	-
	Taiwan Fixed Network Co., Ltd.	momo.com Inc.	3	Operating revenues	21,023	"	-
	Taiwan Fixed Network Co., Ltd.	Taiwan Kuro Times Co., Ltd.	3	Operating revenues	5,752	"	-
	Taiwan Fixed Network Co., Ltd.	Phoenix Cable TV Co., Ltd.	3	Operating revenues	4,844	"	-
	Taiwan Fixed Network Co., Ltd.	Union Cable TV Co., Ltd.	3	Operating revenues	4,221	"	-
	Taiwan Fixed Network Co., Ltd.	Mangrove Cable TV Co., Ltd.	3	Operating revenues	2,166	"	-
	Taiwan Fixed Network Co., Ltd.	Globalview Cable TV Co., Ltd.	3	Operating revenues	1,715	"	-
	Taiwan Fixed Network Co., Ltd.	Yeong Jia Leh Cable TV Co., Ltd.	3	Operating costs	1,772	"	-
	Taiwan Fixed Network Co., Ltd.	Union Cable TV Co., Ltd.	3	Operating costs	1,769	"	-
	Taiwan Fixed Network Co., Ltd.	TFN HK LIMITED	1	Operating costs	88,892	"	-
	Taiwan Fixed Network Co., Ltd.	Taiwan Teleservices & Technologies Co., Ltd.	3	Operating expenses	100,848	"	-
	Taiwan Fixed Network Co., Ltd.	Taipei New Horizon Co., Ltd.	3	Operating expenses	29,608	"	-
	Taiwan Fixed Network Co., Ltd.	Win TV Broadcasting Co., Ltd.	3	Other income	5,459	"	-
7	Taiwan Teleservices & Technologies Co., Ltd.	Taiwan Kuro Times Co., Ltd.	3	Operating revenues	4,835	"	-
8	Taiwan Digital Service Co., Ltd.	Taipei New Horizon Co., Ltd.	3	Other non-current liabilities	5,841	"	-
	Taiwan Digital Service Co., Ltd.	Yeong Jia Leh Cable TV Co., Ltd.	3	Other payables	1,218	"	-
	Taiwan Digital Service Co., Ltd.	Taipei New Horizon Co., Ltd.	3	Operating costs	4,941	"	-
	Taiwan Digital Service Co., Ltd.	Taipei New Horizon Co., Ltd.	3	Operating expenses	24,015	"	-

(Concluded)

Note: 1. Parent to subsidiary  
2. Subsidiary to parent  
3. Between subsidiaries

**TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES**  
**INFORMATION ON INVESTMENT IN MAINLAND CHINA**  
**FOR THE YEAR ENDED DECEMBER 31, 2014**

TABLE 10

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

Investee Company Name	Main Businesses and Products	Total Amount of Paid-in Capital	Investment Type	Accumulated Outflow of Investment from Taiwan as of January 1, 2014	Investment Flows		Accumulated Outflow of Investment from Taiwan as of December 31, 2014	Net (Loss) Income of Investee	% Ownership through Direct or Indirect Investment	Investment Income (Loss)	Carrying Value as of December 31, 2014	Accumulated Inward Remittance of Earnings as of December 31, 2014
					Outflow	Inflow						
Xiamen Taifu Teleservices & Technologies Co., Ltd.	System integration, management, analysis and development of CRM application and information consulting services	\$ - (Note 3)	2	\$ 41,223 (US\$1,300)	\$ -	\$ -	\$ 41,223 (US\$1,300)	\$ -	100% indirect ownership through TWM's subsidiary	\$ -	- (Note 3)	\$ -
TWM Communications (Beijing) Co. Ltd.	Mobile application development and design	95,130 (US\$3,000)	2	154,491 (US\$4,872)	-	-	154,491 (US\$4,872)	105	100% indirect ownership through TWM's subsidiary	105	114,049	-
Fubon Gehua (Beijing) Enterprise Ltd.	Wholesaling	1,171,850 (RMB230,000)	2	697,370 (US\$14,000, RMB49,741)	101,900 (RMB20,000)	-	799,270 (US\$14,000, RMB69,741)	(216,774)	69.63% indirect ownership through TWM's subsidiary	(179,541)	189,304	-

Investee Company Name	Accumulated Investment in Mainland China as of December 31, 2014	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on Investment Authorized by Investment Commission, MOEA
Xiamen Taifu Teleservices & Technologies Co., Ltd.	41,223 (US\$1,300)	41,223 (US\$1,300)	\$80,000
TWM Communications (Beijing) Co., Ltd.	154,491 (US\$4,872)	154,491 (US\$4,872)	\$51,340,140
Fubon Gehua (Beijing) Enterprise Ltd.	799,270 (US\$14,000, RMB69,741)	883,250 (US\$15,000, RMB80,000)	\$3,836,917

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: The above amounts were translated into New Taiwan dollars at the exchange rate of US\$1 = NT\$31.71 and RMB1 = NT\$5.095 at the end of the period.

Note 3: Xiamen Taifu Teleservices & Technologies Co., Ltd. was dissolved in November 2013 and contributed capital to the parent company, TT&T Holdings.

Note 4: The amount was calculated based on the audited financial statements.

