

## 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.

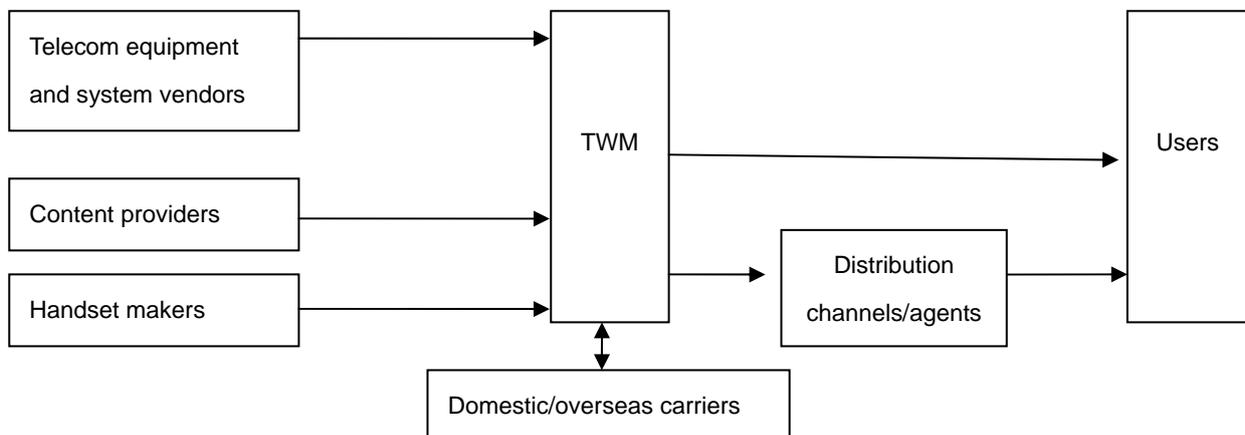
## Industry overview

### 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

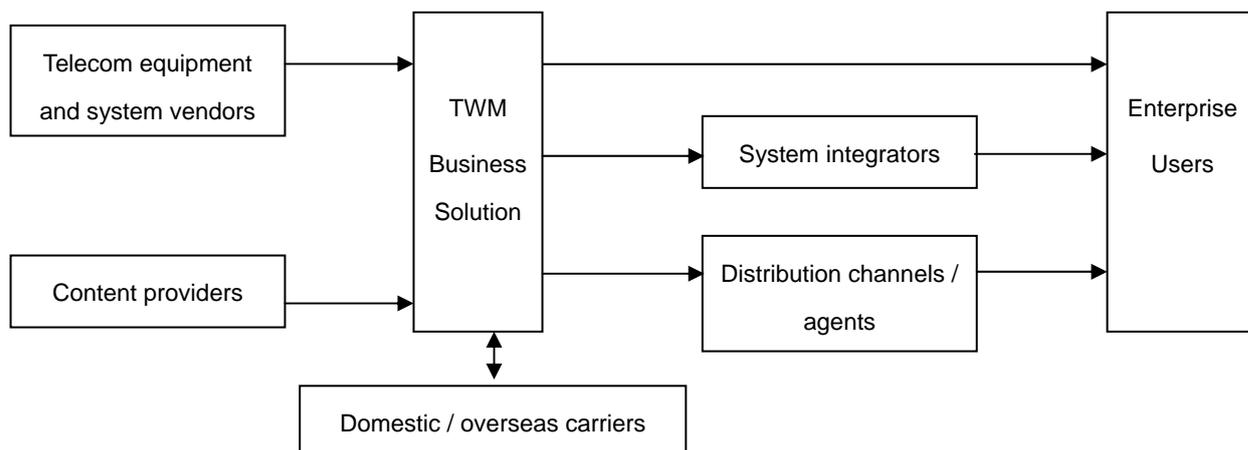
The operators are seeking to further expand the mobile broadband market in the 4G era. A variety of new rate plans for data services, combined with new terminal devices and new value-added services, has been introduced to stimulate subscriber take-up. This should be an important future revenue growth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

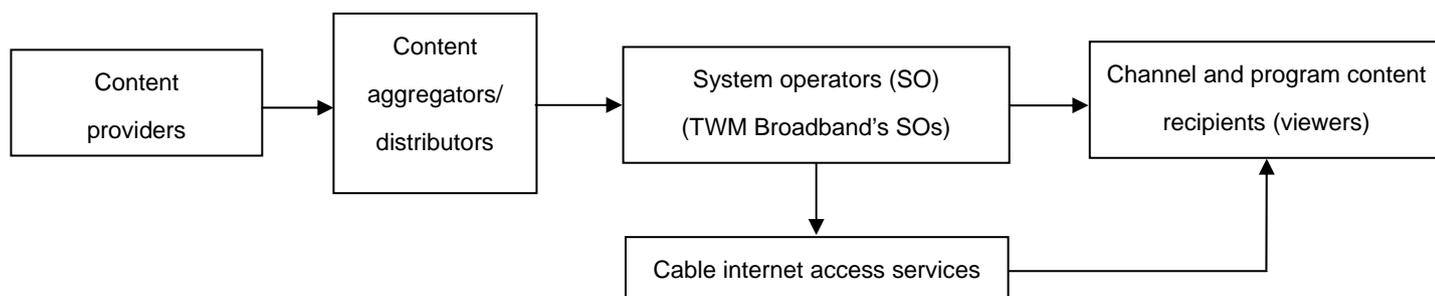
Along with the rising popularity of smart devices and as network infrastructure matures, the government is planning to invest in the transformation of the information/telecommunication industry into a cloud computing industry. Carriers promoting enterprise customer applications will contribute to the 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

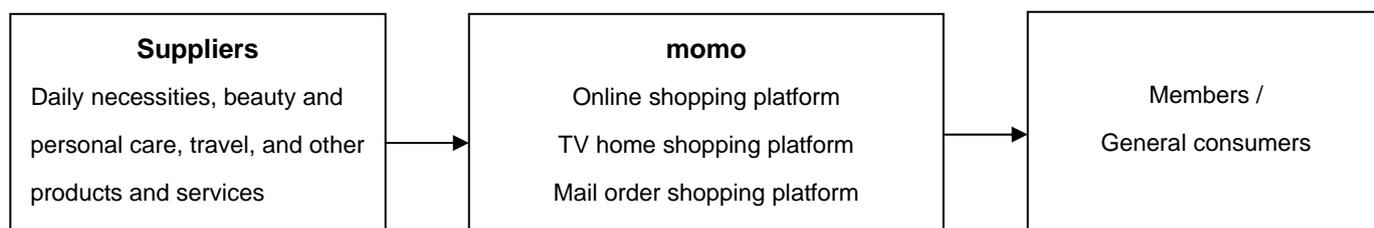
Despite a saturated market that is dominated by Chunghwa Telecom, HBG managed to grow its subscriber numbers in the cable internet business by bundling cable broadband products with HD DTV services in its cable TV service areas, following the example of leading global operators such as PCCW in Hong Kong, 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.

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

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.