

Chapter 4 Operating Strategy

Macro Environment

Consumer spending on communication and broadcasting related services is largely influenced by the macroeconomic environment. As the economy recovered, corporate earnings rose last year, boosting employment and wages. This in turn lifted consumer confidence and, as a result, private consumption growth further picked up from 1.08% in 2009 to 3.43% in 2010, according to the Directorate-General of Budget, Accounting and Statistics (DGBAS). For 2011, the DGBAS expects rapid advances in consumer electronics and an expanding consumer base to stimulate and lift private consumption by 3.51% YoY.

Overall Operating Results

In 2010, the Company's consolidated revenue rose 2% YoY, as revenue from its three major divisions – Consumer Business Group (CBG), Home Business Group (HBG) and Enterprise Business Group (EBG) – rose across the board. While operating and administrative expenses decreased, consolidated EBITDA declined 6% due to increased handset subsidies to support the Company's smartphone campaigns. Given lower tax expenses resulting from the cut in the corporate statutory tax rate to 17%, 2010 net income remained flat compared with a year ago.

Performance by division

Unit: NT\$m

	CBG	HBG	EBG
Brand name	Taiwan Mobile	TWM Broadband	TWM Solution
Services	<ul style="list-style-type: none"> ● Voice and data mobile services for consumers ● Mobile to international direct dialing (IDD) services 	<ul style="list-style-type: none"> ● Pay TV services ● Cable broadband services ● Others 	<ul style="list-style-type: none"> ● Voice and data mobile services for enterprises ● Fixed-line services ● International simple resale (ISR) services
2010 revenue	55,025	5,699	9,495
As a % of group revenue	78%	8%	14%
2010 EBITDA	22,289	2,795	2,332
As a % of group EBITDA	81%	10%	9%

	Mobile business	Cable business	Fixed-line business
Market position	One of the top three mobile operators, with a market share of around 30% in terms of mobile revenue and subscriber numbers	Fourth-largest multisystem operator (MSO), covering about 11% of the households in Taiwan	A market share of around 3% for ADSL/FTTx business. Second-largest internet service provider (ISP), with a market share of 6% (including 137K cable broadband subscribers from its cable business)
Subscriber base	<ul style="list-style-type: none"> ● 6,399K mobile subscribers 	<ul style="list-style-type: none"> ● 566K CATV subscribers ● 137K cable broadband subscribers 	<ul style="list-style-type: none"> ● Around 170K ADSL/FTTx internet access users

Operating Results Review

Consumer Business Group

For 2010, mandatory tariff cuts introduced by the National Communications Commission (NCC) weighed on mobile voice revenue. However, mobile data revenue rose 26% from a year ago, aided by aggressive smartphone campaigns and an expanding mobile internet business, which mitigated the adverse impact of the regulatory cuts. As a result, mobile service revenue YoY growth turned positive in 4Q 2010 and CBG's revenue rose 2% from a year earlier.

Home Business Group

HBG's 2010 revenue rose 7% from a year ago due to revenue growth from its pay TV (including analog and digital channels) and cable broadband businesses. Growth is attributed to an expanding subscriber base, additional revenue stream from digital TV services, increasing channel leasing and higher adoption rate for high-speed cable broadband services. EBITDA climbed 12% YoY due to expanding economies of scale and contribution to group EBITDA rose to 10%, from 8% in 2009.

Enterprise Business Group

EBG's 2010 revenue grew 2% YoY, as the economic recovery boosted corporate demand for mobile services, fixed-line voice, leased lines and internet-related services. Coupled with operating expense controls, EBG's EBITDA rose 11% YoY.

Scope of Business

Business overview

Consumer Business Group

1. Products and services

The Consumer Business Group (CBG) 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 voice, data, short messaging service (SMS), multimedia and video messaging.

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 services (e.g., ringtones, games, screensavers, MP3, video clips, video streaming), and internet access using GPRS/3G/HSDPA transmission
	IDD	International direct dialing services	

2. Revenue breakdown by service

Unit: NT\$m

Item	Year	2010	
		Amount	%
Telecom service		51,576	94%
Handset sales and others		3,449	6%
Total		55,025	100%

3. New products and services

- (1) Voice services: Continue rolling out innovative rate plans to better meet customers' different calling patterns, personal demands.
- (2) Value-added services: Focus on mainstream smart devices, develop a diverse range of services and content to enrich the app store and provide customers with a more pleasant user experience.

4. Operating status

(1) Postpaid products and services

To offset the impact of the NCC's mandatory tariff cut on revenues, the Company focused on improving the percentage of mid-to-high rate plan subscribers and sales of smart devices to raise its average revenue per user (ARPU). By the end of 2010, mid-to-high rate plan users as a percentage of total subscribers had increased 4 pts.

The Company also has excellent loyalty programs in place to secure its customer base and minimize churn rates. With the aid of business intelligence tools and its direct marketing network, the Company used market segmentation to target and provide customers with services that better match their needs. For instance, for high ARPU customer, the Company has an exclusive program called "my VIP." It also offers a credit card program that allows customers to earn rebates based on their phone bills.

(2) Prepaid products and services

In 2010, the Company gave users a new choice for prepaid services with its "Flat-rate prepaid card," which offers a flat rate for on-net and off-net mobile calls and mobile to fixed-line calls. This helped boost the Company's number of prepaid subscribers by 6% in 2010.

The Company also aggressively promoted value-added services (VAS) usage to raise its penetration rate. Selected VAS services were offered for free as a promotion for recharge cards and prepaid cards. Non-SMS VAS revenue for prepaid business rose nearly 10% in 2010.

(3) Value-added services

The Company saw a significant increase in VAS revenue in 2010. In particular, revenue from mobile internet access rose 67%, thanks to high-quality mobile internet services and flexible data rate plans, as well as the popularity of customized handsets, 3.5G data cards and netbooks. These helped attract a large number of mobile internet users and also encouraged existing subscribers to use VAS.

In 2010, the Company introduced a large number of innovative and popular VAS products, including: "match Market," an app store for major smartphone platforms such as Android, iPhone, Windows Mobile, Blackberry and Symbian; "MoFun," designed to enrich users' lifestyle by allowing them to use their smartphones to access the latest information on MoFun's channels, including news, entertainment and financial information; "Phone Guard," a software that provides data backup (including SMS, MMS, calendar and contacts) and other functions such as find handset, lock & alarm, warning message, data purge and restore; "myBook store," a 24-hour online bookstore where users can easily make a purchase in two easy clicks; and other services such as buying movie tickets at 20 cinemas islandwide or joining popular online games.

Home Business Group

1. Products and services

TFN Media (TFNM), a subsidiary of the Company, holds a cable television system operator's license and a Type II telecommunications enterprise license. TFNM runs its business under the brand name TWM Broadband. Its main products and services cover analog cable TV services, digital cable TV services and cable broadband services. Its subsidiary, Win TV Broadcasting, a TV production company, operates a family channel – Momo. It also holds the Taiwan distribution rights for a large number of outstanding domestic and international TV channels, and is able to provide subscribers with a comprehensive 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.
	Digital cable TV	1. TWM Broadband's CATV networks transmit domestic and international digital TV channels to subscribers' homes; subscribers can use the set-top box and smart card provided by TWM Broadband to view high-definition digital video content. 2. Broadband Internet access allows subscribers to make use of TWM Broadband's internet TV service. Subscribers can access the internet using their TV and remote control to view a wide range of multimedia entertainment content and enjoy "4 screens and a cloud" digital convergence services.
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 international TV channels, provides both analog TV and "new TV" digital CATV services, and sells rights to broadcast channels to other CATV system operators and video service platforms.

2. Revenue breakdown by service

Unit: NT\$m

Item	Year	2010	
		Amount	%
Pay TV service		4,103	72%
Cable internet service		770	14%
TV content distribution and others		826	14%
Total		5,699	100%

3. New products and services

- (1) Offer analog and digital versions of the same channel:

TWM Broadband is planning to undertake digitization of its wide range of analog CATV channels. These channels will gradually be brought onto TWM Broadband's digital TV service platform to provide subscribers with a seamless digital viewing experience, strengthen subscriber viewing habits, and enhance the digital TV service penetration rate.

- (2) High-speed fiber-optic internet access service:

TWM Broadband provides high-speed, stable, reasonably priced, high-bandwidth fiber-optic broadband internet access. It integrates TWM Broadband's wealth of digital TV channel content and internet TV value-added services to enable subscribers to enjoy both high-speed internet access and high-definition video as well as a range of other multimedia application services. This service is expected to attract a large number of new subscribers.

- (3) Digital TV value-added services:

TWM Broadband integrates its broadband internet access service and digital cable TV platform to launch "Connected TV" service. Subscribers will be able to view popular video content, play a range of TV games suitable for the whole family, experience digital learning, and enjoy a wealth of other educational and leisure content available with this "New TV" digital TV service.

- (4) Innovative digital convergence services:

TWM Broadband is negotiating with a number of content and service providers to make their content and services available on TWM Broadband's online platform. At the same time, TWM Broadband is continuing to monitor new trends and developments in the global digital convergence services industry, making use of the Company's extensive mobile communications, fixed-line network services and cable TV service resources to develop a cross-platform "4 screens and a cloud" service (the four screens refer to the mobile phone screen, PC screen, TV and other handheld device/tablet PC screen) that enables subscribers to enjoy a wide range of entertainment, music, video and photo content any time, any place.

Enterprise Business Group

1. Products and services

The Enterprise Business Group (EBG) offers enterprise customers integrated ICT (Information and Communication Technology) solutions and mobile/fixed network services under the brand name "TWM Solution."

Service category	Description
Fixed-line voice	EBG provides integrated voice solutions, including Enterprise E phone, PBX E phone (VoIP service), local calls, long-distance calls, international calls, Centrex, 080 domestic toll-free service, audio conference, intelligent network services (e.g., 0209 services) and ISR, enabling users to save on calling costs. TWM Solution continues to develop advanced technologies to enhance reliability and provide instant response to ensure customer satisfaction.
Fixed-line data	EBG offers different types of circuits for information transmission, including leased line, Metro Ethernet, IP virtual private network (VPN), IPLC and ADSL VPN. These circuits and bandwidth for data transmission among terminals enable users to build a communications network and expand their business opportunities.
Internet	EBG offers internet access via leased line, Metro Ethernet, ADSL, FTTx and dial-up. The Company also provides internet data center (IDC) services, including co-location, web hosting, super mail and domain name registration. EBG's IDC services not only cover carrier-level facilities, but also management/maintenance services for customers.
Mobile	EBG offers regular voice services, mobile VPN, intelligent transportation system (ITS), BlackBerry enterprise solution, mobile audio conference and MVPN data service.
System integration	EBG provides video conference services, information security services (Security Operation Center), network manager and sales, implementation and maintenance services for PBX, VoIP customer premises equipment (CPE), wide area network (WAN) and local area network (LAN) CPE.

2. Revenue breakdown by service

Unit: NT\$mn

Item	Year	2010	
		Amount	%
Mobile service		3,978	42%
Fixed-line service		3,468	37%
ISR and others		2,049	21%
Total		9,495	100%

3. New products and services

- (1) My DJ: Offers a database of over 18,000 copyrighted songs.
- (2) Information security manager: New functions include scanning for potential flaws in webpage application codex (ex. SQL injection) to avoid information leaks and guard against social network engineering attacks.
- (3) Mobile backup service for local calls: When the local call channel is busy or breaks down, this service automatically redirects incoming calls to MVPN numbers that the customer has assigned in advance.
- (4) Cloud services-digital copyright management: Controls access to digital files and can be used to track data leakage.
- (5) Cloud services-video conference: Provides video-conference functions, sparing customers the burden of installing hardware to support such services.
- (6) Green energy conservation: Monitors and analyzes power usage patterns and recommends measures to

conserve energy.

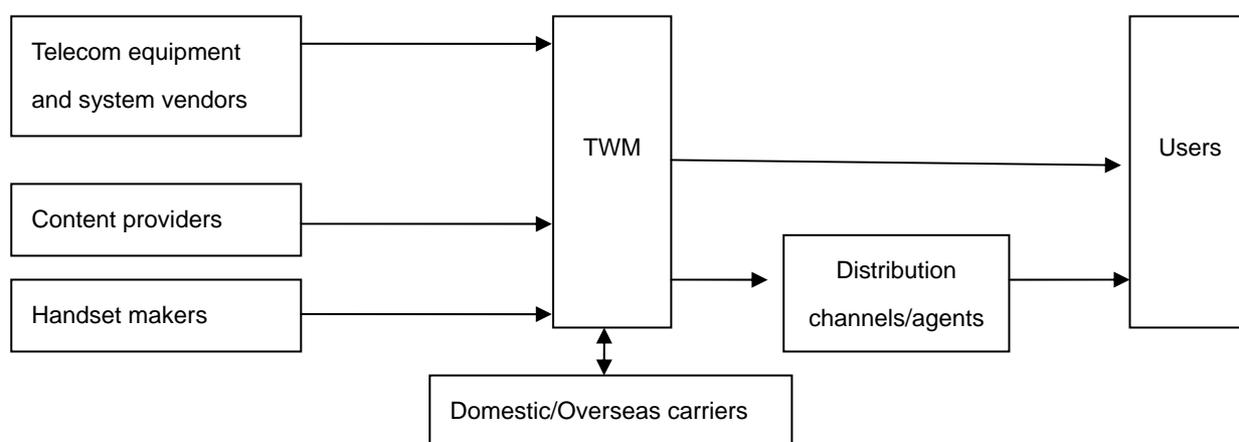
Industry Overview

Consumer Business Group

1. Industry status and development

The three leading players continue to dominate Taiwan's mobile telecommunications market. However, the smaller operators are gradually growing their market share by offering free on-net calls and other deals, resulting in intensified competition. The National Communications Commission (NCC) has introduced mandatory mobile tariff cuts, including 3G services, for three years from 2010, which would weigh on the revenue of mobile operators.

2. Industry value chain



3. Product development trends and competition landscape

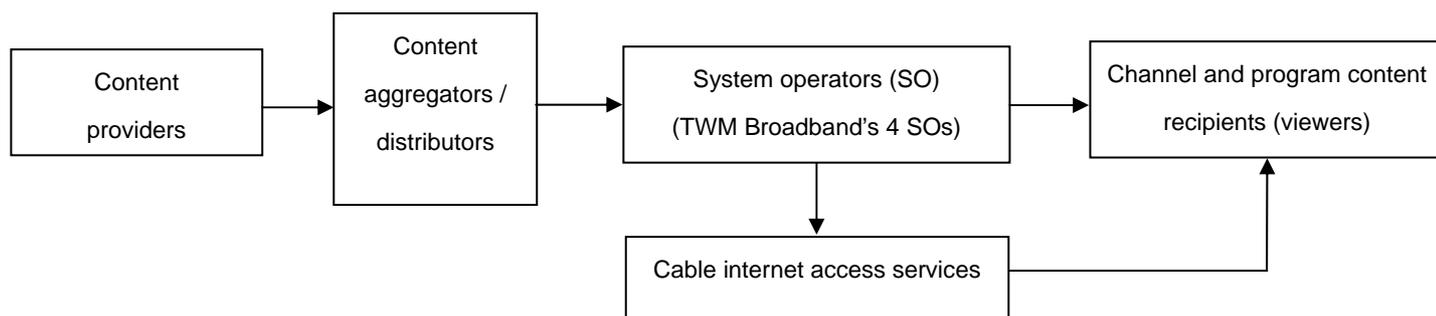
The operators are seeking to expand the mobile broadband market. A variety of new rate plans for data services, combined with new terminal devices and new VAS, have been introduced to stimulate subscriber take-up. This will be an important driver of revenue growth in the future. As for the prepaid segment, competition is intensifying due to continuous low-priced promotions from other existing operators and new entrants.

Home Business Group

1. Industry status and development

Due to changes in the domestic CATV industry and mass media development, cable TV services have grown in popularity, turning it into a mainstream video platform in recent years. At the same time, with the rising trend toward digital convergence, telecom companies' IPTV (MOD), wireless and digital TV and other new forms of media such as internet and mobile phones have added to the intense industry competition. The cable industry is facing a new wave of digitization. Only by continuously providing convenient and innovative value-added cable services and actively supporting the government's efforts to promote digitization can a company maintain its leading position in the video market. Meanwhile, the broadband business is moving toward cooperations with fixed-line telecommunication operators with the aim of providing consumers with high-speed internet access and better quality services to carve out a niche in this market.

2. Industry value chain



TWM Broadband is positioned within the segment of the industry value chain that is closest to cable TV subscribers; it has the advantage of controlling “last mile” access to customers. TWM Broadband has been actively building a cable TV multimedia service environment that integrates the upstream, midstream and downstream segments of the industry, striving to realize its vision of digitization that would offer almost unlimited business opportunities.

3. Product development trends and competition landscape

As the broadband internet access penetration rate has risen, competition in the broadband services market has grown steadily more intense. Faced with a saturated market and falling subscriber growth rates, competition in the broadband services industry is shifting away from one based on prices to bandwidth and service quality. Leading broadband operators around the world are starting to focus on high-bandwidth services and integrated, value-added services. For example, PCCW in Hong Kong, AT&T (the US' largest telecommunications service provider) and Comcast (the US' No. 1 CATV service provider) have all rolled out high-speed internet services. In Taiwan, while fixed-line network operators and CATV system operators continue to engage in price competition, they are also working to increase their bandwidth and network quality, as well as introducing more diverse value-added services, with the twin aims of encouraging existing subscribers to upgrade and attracting new subscribers.

Given the spectacular development of digital cable TV over the past few years, the maturing of broadband fiber-optic network technology, and the gradual trend toward convergence between TV (and other video media) and broadband networks, major telecommunications service providers worldwide have been rolling out cross-platform audiovisual services, video on demand (VoD), “Connected TV,” and other innovative services, offering consumers a brand-new viewing experience and a whole new form of home entertainment.

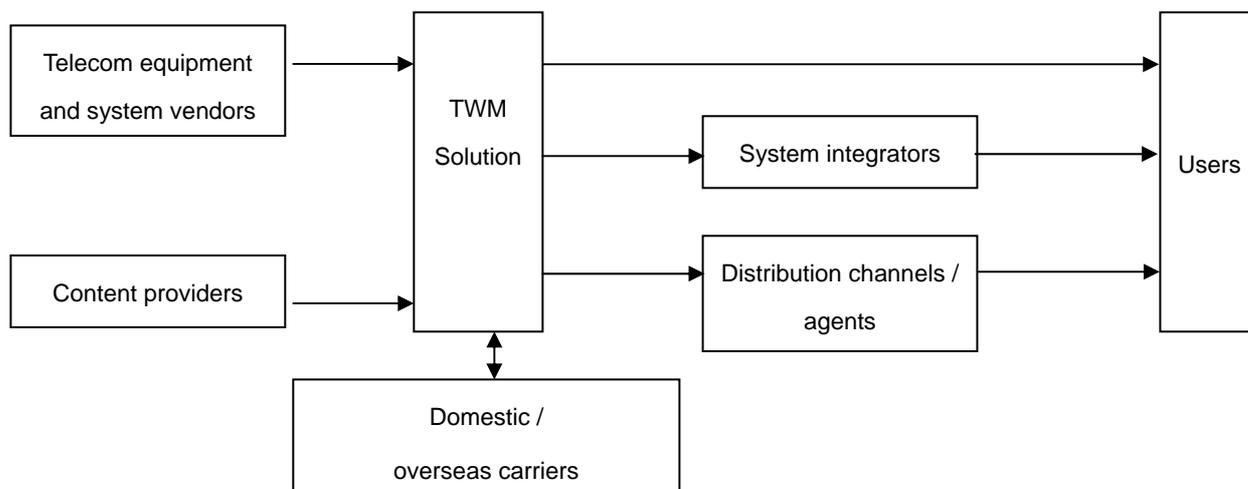
While continuing to introduce high-definition channel content and popular digital video programs, TWM Broadband has also gradually been expanding into the media and entertainment content businesses, leading the way in the industry by integrating the “Connected TV” with “4 screens and a cloud” services to plan the rollout of a new home entertainment experience.

Enterprise Business Group

1. Industry status and development

As of October 2010, there were 83 Type I telecommunication providers, including four fixed-line operators, six mobile operators and 62 circuit leasing operators; and 476 Type II telecommunication providers, including ISRs (International Simple Resale), internet service providers (ISP), VoIP and other value-added service providers. All these have resulted in keen competition.

2. Industry value chain



3. Product development trends and competition landscape

Taiwan Fixed Network (TFN), Chunghwa Telecom (CHT), NCIC (Sparq) and Asia-Pacific Telecom (APT) are the four fixed network service providers in Taiwan. Based on the NCC's 2010 data, CHT's share of the local network, long-distance network and international network service markets in terms of revenue were 97.76%, 63.25% and 55.95%, respectively, making it a virtual monopoly. xDSL is the most popular type of broadband internet access in Taiwan, with an increasing number of users choosing higher bandwidths (>=8M). Since CHT has the "last mile" advantage, other ISPs find it hard to effectively compete with CHT. Revenue from data circuit and internet access/value-added services is expected to rise slightly in the future, while revenue from fixed voice services is likely to slowly decline.

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 2011, the Company plans to spend NT\$678mn on the research and development of more advanced technologies designed to increase customer satisfaction, which in turn should boost value-added service revenue and overall operations growth.

Year	2009	2010	2011 (As of Jan. 31)
R&D expense (NT\$'000)	594,509	641,928	43,723
As a % of total revenue	1.04%	1.10%	0.86%

Major Research and Development Achievements

Project name	Description
IP video service network architecture proof of concept (PoC)	Proof of concept (PoC) prototype of an IP-based video service network architecture that supports web-based video conference and the capability to integrate with IMS.
3G Probe-based WiFi hot spot notification system	Develop a 3G Probe-based system that notifies users via SMS that a WiFi hotspot is in the vicinity.
Enterprise resource planning (ERP) integration	Develop an enterprise resource planning system for CBG, EGB and HBG to integrate their corporate finance, accounting, inventory, purchasing, human resources and other related processes and use the same platform to raise management efficiency.
Enhanced sales support system	Strengthen the sales support system to improve sales channels' efficiency. This includes customized instant messaging for sales agents, a marketing database, myfone e-paper, online polls, store equipment/ renovation reporting system, sales and store performance evaluation, inquiry and feedback , mobile handset/ 3C product ordering system and mobile handset pre-order system.
Service-oriented architecture (SOA) enabling	Establish an SOA-based infrastructure and service-oriented modeling methodology for rapid development of features and functions that are flexible, reusable and less costly to maintain.
TWM brand website system	A TWM brand portal was set up to serve as the overall entry for CBG, EBG and HBG. Products, services and other related information are placed together for better content management.
OA virtualization project	Establish an OA solution to dynamically generate resources to serve multiple business requirements. By reducing the total number of stand-alone servers, it can increase hardware utilization and fault tolerance, save space and reduce energy consumption.
Customer contact history system (CCHS)	Build an integrated customer contact history platform to support all business lines. The objective is to provide customer centric and integrated customer contact history data for triple/quad play. It should also provide a scalable and extendable infrastructure to fulfill future business needs.
Analysis of URL destination of mobile internet subscriber	Collect internet web access logs of mobile subscribers into a data warehouse. Analyze logs of the most frequently websites, including the number of visits and other data, to plan and design more value-added services.
Front-end event-based marketing (F/E EBM) - potential sales index	Use data mining to forecast the probability of success in marketing select products to target users (PSI). Store clerks can use this index as a sales lead to achieve higher success rates.
match Market	Launched TWM application store for major smartphone platforms such as Android, iPhone, Windows Mobile, Blackberry and Symbian.

Project name	Description
MoFun	Customers can use their smartphones to access the latest information on MoFun's channels, including news, entertainment and financial information.
Phone Guard	Software provides data backup (including SMS/ MMS/ calendar/ contacts) and other functions such as find handset, lock&alarm, warning message, data purge and restore.
myBook	Launched e-book services for TWM subscribers, allowing users to purchase and read digital content (books, magazines, newspapers) using different digital reading devices (e.g. smartphones, tablet computers). The ebooks are protected using a digital rights management mechanism.
Call information Manager	This service integrates functions such as caller identification, call filter and voice mail into one smartphone application. Subscribers can easily access voice mail or set a caller block list.

Sales development plans

Consumer Business Group

1. Short-term plan

Besides encouraging existing subscribers to upgrade to 3G services, the Company will also seek to boost mobile broadband and mobile internet access penetration rates through new innovative services. At the same time, network quality will be maintained and further optimized. New, high-quality, affordable smartphones will be introduced for customers to embrace an all mobile lifestyle.

2. Long-term plan

The Company aims to integrate the mobile phone, TV, tablet and computer platform to provide subscribers with a variety of digital convergence services. The focus will be on the following:

- (1) Establishing a "quadruple-play" platform that integrates mobile communications, 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 machine-to-machine (M2M) technology into our product and services to integrate mobile handsets, high-quality mobile networks and cloud computing technology to expand our service range and support the development of innovative, profitable business models.

Home Business Group

1. Short-term plan

- (1) TWM Broadband will continue to expand its network infrastructure in those regions where it is already operating cable TV systems, providing residential subscribers with CATV and fiber-optic internet access services.
- (2) TWM Broadband will continue to level up the penetration rate of cable internet in 2011 to raise the percentage of high-speed service users and increase the number of “new TV” digital TV service subscribers.

2. Long-term plan

In March 2011, TWM Broadband will launch its “Connected TV” service – the first of its kind not only in Taiwan but in the wider Asia region – integrating mobile phones, PCs, handheld devices and TV to create a “4 screens and a cloud” converged digital service. Through the implementation of its long-term product and service development plan, TWM Broadband aims to give families and individual subscribers a seamless digital convergence experience, establishing a new milestone in the evolution of cable TV.

Enterprise Business Group

1. Short-term plan

In 2011, the Company will continue developing integrated telecom applications, mobile backup service for local calls (Primary Rate Interface), MyDJ (provides copyright music for public use), Infrastructure as a Service (IaaS), and advanced information security services. It will also push MVPN services through TWM channels to help corporate users reduce expenses and enhance operating efficiency.

2. Long-term plan

EBG’s vision is to expand its enterprise services from network-centric to ICT-centric solutions and services by implementing the following:

- (1) Speed up revenue growth of select products by providing enterprises with end-to-end managed services and a security operating center service.
- (2) Raise the productivity of key accounts, develop network-centric enterprise solutions, and expand small-and-medium enterprise segment by improving service quality.
- (3) Improve the international business division’s operating efficiency by increasing direct peering coverage, managing quality and reducing international IP cost.
- (4) Provide cloud services based on the IaaS core and start developing cloud computing-related services to help users reduce IT operating cost.

Customer satisfaction

To create the best experience for customers, TWM conducts annual customer satisfaction surveys by telephone to understand customer needs and expectations. Customers are asked to evaluate call quality, rates, bills, customer hotline service, store service, value-added services, and 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	2008	2009	2010
Overall satisfaction	3.8	3.6	3.7
Call quality	3.9	3.7	3.7
Customer hotline service	4.5	4.2	4.3
Store service	4.1	4.0	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 2010, the penetration rate for mobile subscribers had reached 116%. To attract users, smaller operators offered free on-net calls and other promotional deals, resulting in intense competition in the post-paid voice market. The rapid innovations in mobile devices and the rising demand for mobile internet and value-added services further encouraged newcomers to tap into this market.

3. Competitive advantages

(1) Better customer mix

In 2010, the Company succeeded in improving its subscriber base structure. The percentage of low usage subscribers fell by 4 pts from a year ago, while the percentage of mid-to-high usage subscribers continued to rise.

(2) Market leader in wireless broadband

In 2005, the Company became the first mobile communications operator in Taiwan to launch 3G services, and in 2007, it rolled out Taiwan's first 3.5G service. Subscribers enjoy flexible rate plans, high-quality mobile handsets, and a wide range of value-added services. By the end of 2010, the Company had a 3G subscriber base of 4.4 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 faster data transmission speeds, lower prices for smart devices and data rate plans and the emergence of new, varied applications, mobile internet access is rapidly spreading from business people and professionals to ordinary consumers, contributing to the rapid growth in non-voice revenue.
- (2) With information technology, communications and media trends converging, mobile communications operators have an important role to play in the supply chain, providing consumers with multimedia content through wireless transmission.
- (3) Many innovative technologies and business models have been extended to the mobile internet.

Negative factors

- (1) The NCC's mandatory tariff cuts have added a degree of uncertainty to the outlook for future earnings growth.
- (2) In 2009, WiMAX services started to roll out in Taiwan. With its high bandwidth, WiMAX is expected to stimulate increased demand for wireless internet access, creating new challenges for existing players.

Countermeasures

- (1) In 2010, the Company rolled out its 3.5G network to provide high-speed internet access, as well as closely monitored the development of long-term evolution (LTE) technology.
- (2) The Company will draft appropriate strategies in response to government policy changes and new laws and regulations.
- (3) The Company will introduce innovative value-added services for smartphones to stimulate data service revenue growth and offset the impact of falling voice revenue.

Home Business Group

1. Main products and service areas

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

2. Market status

- (1) Cable TV

The cable TV penetration rate has been rising steadily over the years, reaching 64.06% of households as of 4Q 2010, according to NCC data. Watching cable TV shows has become a major leisure activity for Taiwanese – one that is relatively unaffected by fluctuations in the economy, ensuring stable market demand.

(2) Digital cable TV

Digitization is an important trend in the cable TV business and, based on the Executive Yuan's National Digitization Plan, analog terrestrial TV broadcasting will cease in 2012. The outlook for digital cable TV and related value-added services is bright, with strong potential for the development of new application services that integrate cable TV with entertainment, IT, content delivery, network interconnection, online gaming, online video and music services, lifestyle information and e-learning among others. Add in the growing demand for personalized digital audiovisual entertainment services, business opportunities in this area appear to be unlimited.

(3) Broadband internet access

Statistics compiled by the Taiwan Network Information Center as of Q4 2010 showed that nearly 5.85 million households in Taiwan were using broadband internet access and that the broadband penetration rate had risen to 69%. The overall trend in the broadband internet access industry is toward high-bandwidth services.

3. Competitive advantages

(1) Ongoing implementation of broadband network service optimization quality indicators:

TWM Broadband has been implementing a quality assurance management (QAM) initiative and working to optimize network bandwidth management in order to provide subscribers with high-quality broadband internet access service and create a better user experience. This initiative has helped reduce overall bandwidth usage costs for Taiwan Mobile Group as a whole, while at the same time enhancing TWM Broadband's competitiveness in the broadband access market and the digital convergence services market.

(2) Continued enhancement of TWM Broadband's strength in fiber-optic broadband cable networks:

TWM Broadband has spent several hundred million NT dollars to deploy a dense, ring-type fiber-optic backbone network and provide back-up systems for its bi-directional network. This guards against the risk of transmission quality being affected by cable breaks caused by external factors, and thus ensures stable network quality. By replacing traditional copper cable with fiber-optic cable and deploying advanced DOCSIS 3.0 network technology, TWM Broadband is able to provide high speed (100MB or higher), stable internet access service which, unlike ADSL, is free from range constraints. As subscriber numbers grow, TWM Broadband will continue to roll out an even denser network of fiber-optic nodes to meet subscribers' bandwidth requirements, while at the same time ensuring that internet access speeds will not be affected by the increase in traffic.

The upgrading of TWM Broadband's network to a bi-directional fiber-optic cable network has numerous advantages in terms of internet access speed (bandwidth), network quality and cost among others. With just one single cable connection, a household can have access to cable TV, ultra-high-speed internet access, digital TV channels, Connected TV and a wide range of other interactive digital entertainment services.

(3) Stimulating digital TV subscriber growth through the introduction of Connected TV digital TV service:

TWM Broadband has established a digital convergence platform to facilitate the coordinated launch of Connected TV digital TV services and "4 screens and a cloud" digital convergence services integrating mobile

phones, PCs, handheld devices and TV sets. This will introduce users to more interactive content and more exclusive and popular video clips in addition to digital cable TV programs. With interesting and diverse audiovisual entertainment, the number of digital TV viewers expects to rise as well as the satisfaction and loyalty of the customers.

- (4) Integrating the resources of the Taiwan Mobile Group to develop new innovative digital convergence products and services:

TWM Broadband's resources cover mobile communications, fixed network, CATV, ISP and channel content. The integration of these resources, together with the 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 consumer market.

4. Opportunities and challenges

Positive factors

- (1) Regional operations and rich program content

Cable TV system operators continue to operate by region, with the CATV penetration rate reaching over 60%, according to NCC data. A survey by the Market Intelligence Center on consumer preferences with regards to residential digital TV services shows that Taiwanese households enjoy the wide selection of channels that cable TV provides and the content that they offer.

Among TWM Broadband's competitors, CHT offers a video-on-demand (VoD) service called MOD. With most of the content obtained from overseas distributors, it does not provide the breadth of content that cable TV offers. As Taiwanese consumers tend to prefer locally developed content, CHT has yet to see significant growth in its MOD subscriber numbers. Given a low penetration rate, MOD currently poses no serious threat to CATV operators. However, TWM Broadband will continue to monitor CHT's strategies in digital convergence and developing digital content.

- (2) New innovative digital cable TV services to facilitate digitization

Impressed by the potential business opportunities that the convergence of the internet and television is creating, telecommunications service providers, CATV operators, ISPs and TV manufacturers throughout the world are working on developing on Connected TV platforms. Connected TV has become a major new global trend.

TWM Broadband has extensive experience in providing broadband internet access and digital TV services. Currently, TWM Broadband is focusing on the development of Connected TV functions and services, seeking to bring more local digital content providers and diversified, real-time online content onto its platform, so that consumers can make use of TWM Broadband's Connected TV portal to easily and conveniently access a wide range of audiovisual content, including movies, music, games, lifestyle information and e-learning content.

- (3) High-bandwidth services for consumers to enjoy multimedia audiovisual services through the integration of

home PC and TV:

Consumers today want to be able to download, upload and share large quantities of high-definition video and audio content; as such, high-bandwidth (10M or higher) services have become the mainstream. Besides providing stable, high-speed fiber-optic Internet access, TWM Broadband is also preparing to roll out digital convergence and Connected TV services that can be accessed by the members of a household using their TV and computers to experience a wide range of digital audiovisual entertainment application services. This is expected to increase the contribution that residential customers make toward TWM Broadband's overall sales revenue.

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 CATV market is already saturated, and subscriber growth has slowed dramatically. It remains to be seen whether the recent establishment of four new special municipalities – New Taipei City, Greater Taichung, Greater Kaohsiung and Greater Tainan – will lead to an adjustment of cable TV system operation zone boundaries.
- (3) The NCC has yet to clarify its digitization strategy. Media reports have said the commission wants cable TV system operators to loan at least two set-top box devices to each subscriber for free. Developments relating to the NCC's digitalization strategy and relevant laws and regulations need careful monitoring.

Countermeasures

- (1). TWM Broadband has been able to utilize the extensive resources of its parent company (in terms of technology, marketing, sales, distribution, etc.) to develop high-bandwidth internet access services and to undertake converged service cross-marketing of the Taiwan Mobile Group's telecommunications, information and media content services. TWM Broadband's aim is to provide a "one-stop shopping" service that meets all of its customers' needs. In the future, TWM Broadband will continue to increase the number of its cable TV, broadband internet access and digital TV subscribers and their contributions to the revenue.
- (2) TWM Broadband will keep monitoring developments in the local as well as global digital content industry. TWM Broadband will be using its digital cable TV platform to cultivate Taiwan's cultural and creative industries, enrich Taiwan's digital channel and Connected TV content, and stimulate the development of digital content and innovative Connected TV services that are tailored to meet the needs of the local market.
- (3) TWM Broadband will continue to build good relations with local government authorities and communities. Assisted by the resources of the Taiwan Mobile Group – such as the Taiwan Mobile Foundation – it 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 TWM Broadband's corporate image of "Basing our growth on the local community and giving back to the local community."

- (4) TWM Broadband will closely monitor changes in the regulatory authorities' policies relating to digitization and new developments in the formulation of relevant laws and regulations. TWM Broadband will engage in communication and lobbying where necessary and will formulate any necessary response and measures in advance.

Enterprise Business Group

1. Main products and service areas

EBG mainly offers its products and services in Taiwan, but also provides international services in 253 countries. By the end of 2010, the company's roaming services covered the following: GSM: 147 countries, 291 networks; 3G: 52 countries, 106 networks; GPRS: 113 countries, 223 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 mild growth for the domestic telecommunications market.

- (1) Voice service: Because of the rise of VoIP and mobile telecom services, revenue from traditional telecom services has been dropping. In contrast, subscribers to and revenue from Enterprise E phone (VoIP) service are expected to keep on increasing.
- (2) Data service: Rising demand for enterprise data access will result in steady growth in IP VPN and Metro Ethernet revenue.
- (3) Internet service: As internet content services boom, FTTx is taking the place of ADSL. Moreover, 3G/3.5G mobile broadband businesses are expected to expand. Therefore, revenue from internet services should post stable growth.
- (4) Mobile service: As demand for mobile office increases, data revenue from smartphones, tablet PCs and 3.5G data cards is expected to continue increasing. Since enterprise users need to access information on intranet via their smart devices, mobile voice revenue from enterprise should benefit from the rise of mobile internet and BlackBerry services.
- (5) System integration service: With the demand for enterprise data and internet services increasing, the Company expects a steady rise in subscriber numbers and revenue from network devices, data/voice integration, network management and network value-added services.

3. Competitive advantages

- (1) Premium brand equity: The Company insists on providing customer-centric quality services to its customers. TWM Solution is well connected with the Enterprise Business Unit of Taiwan Mobile and has gained the recognition of 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: Expand services through direct sales teams and retail chains across the nation.
- (4) Expanding resources from international alliances: The Company is the sole Taiwanese member of the Bridge Alliance, the largest mobile alliance in Asia Pacific with a combined customer base of about 340 million.

4. Opportunities and challenges

Positive factors

Future convergence products will be aimed at consolidating intranet, broadband management and information security into a one-stop shop for customers. The Company has the advantage of possessing resources for both mobile and fixed-line services. Enterprises trading in the Greater China area will boost demand for integrated telecommunications and network efficiency.

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. The NCC is pushing for rationalization of telecom tariffs and has demanded telecom operators lower retail rates gradually, adding to operation difficulties.

Countermeasures

EBG aims to raise ARPU by targeting high-usage customers and providing them with services such as "Information and Communications Integrated Solution"; establish long-term partnerships with customers to enhance customer loyalty; develop cloud applications and power-saving solutions that meet customers' varying needs; focus on IP VPN and Metro Ethernet solutions to provide information security services and CPE maintenance services and "Network Manager" (automatic network management service), as well as trouble shooting and immediate status response; and adjust the strategies for international/ domestic IP and international undersea cable implementation to reduce costs and enhance network quality.

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 most two recent years

Major suppliers

Unit: NT\$'000

	2009				2010			
	Company	Amount	% of operating costs	Nature of relationship	Company	Amount	% of operating costs	Nature of relationship
1	Chunghwa Telecom	5,032,712	19	Third party	Chunghwa Telecom	4,842,460	15	Third party
2	Taiwan Fixed Network	1,390,303	5	Subsidiary	Taiwan Fixed Network	2,015,734	6	Subsidiary
3	Fubon Insurance Co., Ltd.	51,412	-	Related party	Fubon Insurance Co., Ltd.	43,889	-	Related party
4					Taiwan Kuro Times Co., Ltd.	11,920	-	Subsidiary
	Others	20,691,498	76		Others	25,894,709	79	
	Total	27,165,925	100		Total	32,808,712	100	

Major customers

Unit: NT\$'000

	2009				2010			
	Company	Amount	% of operating revenues	Nature of relationship	Company	Amount	% of operating revenues	Nature of relationship
1	Chunghwa Telecom	8,730,057	15	Third party	Chunghwa Telecom	8,226,198	14	Third party
2	Taiwan Fixed Network	2,276,319	4	Subsidiary	Taiwan Fixed Network	2,216,854	4	Subsidiary
3	Taipei Fubon Commercial Bank Co., Ltd.	9,796	-	Related party	Taipei Fubon Commercial Bank Co., Ltd.	11,732	-	Related party
	Others	45,999,280	81		Others	48,092,501	82	
	Total	57,015,452	100		Total	58,547,285	100	

Reasons for variation

The Company's operating cost for leasing lines from Taiwan Fixed Network increased from 2009 as the group continued to work on integrating its resources.

Production volume for the most two recent years: NA

Sales volume for the most two recent years

	2009				2010			
	Domestic		Overseas		Domestic		Overseas	
	Average No. of subscribers	Revenue (NT\$'000)						
Telecom service	6,373,580	55,159,348	--	--	6,389,361	55,001,883	--	--

Note: Average number of subscribers = (sum of monthly average number of subscribers) / 12

Human Resources

Employee statistics for the past two years until the publication date

Year		2009	2010	2011 (as of Jan. 31)
Number of employees	Male	1,458	1,481	1,475
	Female	1,038	1,067	1,066
	Total	2,496	2,548	2,541
Average age		36.7	36.8	37.0
Average years of service		6.8	7.0	7.1
Education level	Ph.D.	0.36%	0.35%	0.35%
	Master	19.99%	20.05%	20.07%
	University	50.76%	51.14%	51.12%
	College	26.89%	25.67%	25.58%
	Others	2.00%	2.79%	2.87%

Note: The numbers above were based on Taiwan Mobile alone.

Employee statistics by division

As of Jan. 31, 2011

Division	Number	Percentage (%)
Corporate Support	564	22.20%
Finance	197	7.75%
Technology	829	32.62%
Consumer Business Group (Note)	950	37.39%
Enterprise Business Group (Note)	1	0.04%
Home Business Group (Note)	0	0.00%
Total	2,541	100%

Note: The Consumer Business Group does not include the 797 employees from TT&T. The Enterprise Business Group does not include the 386 employees from TFN. The Home Business Group does not include 140 employees from TFNM and 347 employees from the four CATV subsidiaries.

Environmental Protection Expenditure

Loss or penalty due to environmental pollution in the past two years until the publication date: 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 relating to 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 IDCs, minimizing the use of paper in offices and stores, recycling waste cable, batteries and handsets, and encouraging users to switch to e-billing and online services. TWM is the recipient of the R.O.C. Enterprise Environmental Protection (EEP) Award for two years in a row – 2009 and 2010 – from the Environmental Protection Administration of Executive Yuan.

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 as well as 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 plan.

Work regulations

The Company's work regulations clearly define the rules and responsibility of management and labor. The Company's modern management approach has effectively 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 Article 14 and Articles 47 to 58 in the Company's "Work Regulations."

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 safeguard the Company's competitive advantages, employees are required to sign a "Confidentiality and Intellectual Property Rights Statement" and "Employment Contract" in order to protect the Company against potential damage 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 Regulations" include rules designed to prevent sexual harassment in the workplace and promote gender equality. The Company disseminates information on laws and procedures for filing complaints of sexual harassment on the intranet to serve as a guideline for employees.

Code of Conduct

The Company has 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 treasury stock subscription plan, an annual bonus plan, and an employee profit-sharing plan. As a further incentive, the Company has transferred treasury shares representing 4.69% of total outstanding shares to employees at cost.
3. An Employees' Welfare Committee was established in July 1998 to handle and implement employee benefits programs. 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. The Company appropriates around NT\$70mn to the Welfare Committee annually.

Employee training and education program

1. Training expense in 2010 totaled NT\$19,328,797 (including travel expense), 64,885 training hours, with 9,829 participants.
2. Orientation for new employees includes introduction into the corporate culture, company organization, telecommunications 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 telecommunications 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, project management, team dynamics skills 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 effect on upgrading the Company's technologies, developing new products, introducing new and innovative ideas, and improving managerial skills.
6. To help employees develop their expertise in telecommunication technologies and business administration, the Company has a scholarship program designed to provide employees with on-the-job training.
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 specific Employee Retirement Guidelines.
2. The Company has set up a Labor Pension Supervisory Committee, which was approved by the Taipei City Government in February 1998.
3. The Company implemented the New Labor Pension System in July 2005.
4. In accordance with No. 18 of the Financial Accounting Standards of the ROC, the Company retains the services of an actuary to assess and calculate the labor pension reserve and provide a detailed report.

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 review related rules on employee health and sanitary improvement solutions through periodic meetings.
3. Full-time professional nursing personnel are employed to conduct health examinations for employees, track the progress of staff who fail to pass their health examination, and hold talks on how to promote health. Staffers who are able to administer first aid treatment have been placed in each work area.
4. Fire/ flood protection exercises are performed periodically to reduce risks of employee injury and property loss from natural disasters.
5. Guards and security systems have been placed at all main base stations and work offices to secure staff, property and information security.
6. Energy-saving policies have been set to reduce carbon emissions.

Labor negotiations and protection of employee benefits

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

Losses caused by labor disputes in the recent year: None, and expects none in the future as well.

Number of disabilities due to on-the-job injuries/fatalities in the recent year up to publication date

Year	2009	2010
Number of disabilities	1	1
Disabling Frequency Rate (FR, Note 1)	0.34	0.19
Disabling Severity Rate (SR, Note 2)	2	4

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
Sale & distribution	Synnex Technology International Corp	2005.02.01~2006.01.31 (Note 1)	Synnex is authorized to distribute TWM's mobile phone services	Non-disclosure
	Aurora Telecom Corp	2010.07.01~2011.06.30	Aurora is authorized to distribute TWM's mobile phone services	Non-disclosure
	Tsann Kuen Enterprise Co., Ltd.	2010.09.01~2011.09.01	Tsann Kuen is authorized to distribute TWM's mobile phone services	Non-disclosure
Network interconnection	Chunghwa Telecom Co., Ltd.	2005.01.01~2005.12.31 (Note 2)	Network interconnection contract	Non-disclosure
	New Century InfoComm Tech Co., Ltd.	2005.05.01~2006.04.30 (Note 2)	Network interconnection contract	Non-disclosure
	Taiwan Fixed Network Co., Ltd.	2007.07.01~2008.06.30 (Note 2)	Network interconnection contract	Non-disclosure
	Asia Pacific Telecom Co., Ltd.	2005.10.15~2006.10.14 (Note 2)	Network interconnection contract	Non-disclosure
	VIBO Telecom Inc.	2006.01.16~2007.01.15 (Note 3)	Voice and short message service contract	Non-disclosure
	Asia Pacific Broadband Wireless Communications Inc.	2003.07.23~2004.07.22 (Note 3)	Voice and short message service contract	Non-disclosure
	Far EasTone Telecommunications Co., Ltd.	2004.02.10~2005.02.09 (Note 3)	Voice and short message service contract	Non-disclosure
	KG Telecommunications Co., Ltd.	2004.03.01~2005.02.28 (Note 3)	Voice and short message service contract	Non-disclosure
	First International Telecom Corp.	2005.05.01~2006.04.30 (Note 3)	Voice and short message service contract	Non-disclosure

Nature	Counterpart	Contract period	Description	Restriction clauses
Handset purchase	Synnex Technology International Corp	2008.01.01~2008.12.31 (Note 1)	TWM accepts Synnex's consignment to sell handsets and related products	Non-disclosure
Purchase and merger agreement	<ul style="list-style-type: none"> • PX Capital Partners B.V. • Wealth Media Technology Co., Ltd. • Cheng Ting Co., Ltd. • Wei Mao Co., Ltd. • Taiwan Fixed Network Co., Ltd. • TCC Investment Co., Ltd. • TFN Union Investment Co., Ltd. (TUI) • TCCI Investment & Development Co., Ltd. (TID) 	2009.09.16~2010.06.30	<ul style="list-style-type: none"> • Wealth Media, the wholly owned subsidiary of TWM, agrees to purchase the outstanding ordinary shares of Cheng Ting held by PX Capital. • TUI, TID and Wei Mao agree to merge with each other whereby Wei Mao will be the surviving company. 	Non-disclosure
Syndicated loan	Chinatrust Commercial Bank and 8 other banks	2008.02.21~2011.05.20	Syndicated loan of NT\$13.5 billion	Certain restrictions on debt ratios, interest coverage ratio, tangible equity
Corporate bond offering	Chinatrust Securities and 9 other security companies	2008.11.14~2013.11.14	The total amount of the second unsecured ordinary corporate bond issue is NT\$8bn	Non-disclosure
Equipment purchase	Nokia Siemens Networks Taiwan Co., Ltd.	2006.09.26~2010.09.25	3G equipment and service supply contract amounting to NT\$4.8bn	Non-disclosure
	Nokia Siemens Networks Taiwan Co., Ltd.	2009.04.01~2010.12.31	3G equipment supply contract amounting to NT\$3.217bn	Non-disclosure
Customer service	Taiwan Teleservices & Technologies Co., Ltd. (TT&T)	2006.01.01~2010.12.31	TT&T accepts TWM's consignment to handle customer services and product sales	Non-disclosure

Note 1: If both parties fail to sign a new contract before the current contract expires, the current contract will remain valid.

Note 2: When the network interconnection contract expires, should the two parties not be able to conclude their negotiations within three months after their commencement, the process shall be as follows:

- (1) If the two parties concur to continue their negotiations, the contract terms will be the same as the originally negotiated terms or such other terms agreed by both parties, until a new agreement is reached.

(2) Either party can appeal to the NCC for a ruling. Prior to the date of such a ruling, the contract terms shall be the same as those originally negotiated. Following the ruling, the new contract terms will be formed based on the ruling.

Note 3: Negotiations for next year's contract shall commence three months prior to the expiry date of the original agreement. If the negotiation is not finalized prior to the said expiry date, the parties agree to perform their obligations based on the original agreement until such time when the negotiation is finalized by the parties.