

Chap. 5 Operating Strategy

Macro Environment

Consumer spending in communication and broadcasting related services is largely influenced by the macroeconomic environment. The statistics released by the Directorate-General of Budget, Accounting and Statistics showed that private consumption in 2009 recovered by 0.86%, as the stock market bottomed out and consumer wealth expanded. Looking at 2010, the DGBAS expects private consumption to rise 1.77% YoY on strengthening consumer confidence, as the domestic and global economies continue to recover. Nonetheless, the Company expects stiff challenges ahead from regulatory interventions in mobile tariff cuts inevitably.

Overall Operating Results

In 2009, the Company's consolidated revenue dropped 1% YoY, affected by falling revenues in the wireless market amid the financial crisis as well as the third year of mandatory mobile tariff cuts for certain mobile voice rate plans. The revenue growth in mobile value-added services (VAS) and cable TV services failed to offset the decline in voice revenue. As such, consolidated EBITDA declined 3% from a year ago. Due to continuous 3G and 3.5G network deployment and 2G telecom equipment upgrades, rising 3G depreciation expenses and 2G asset write-off losses weighed on net income, which fell 10% from a year ago.

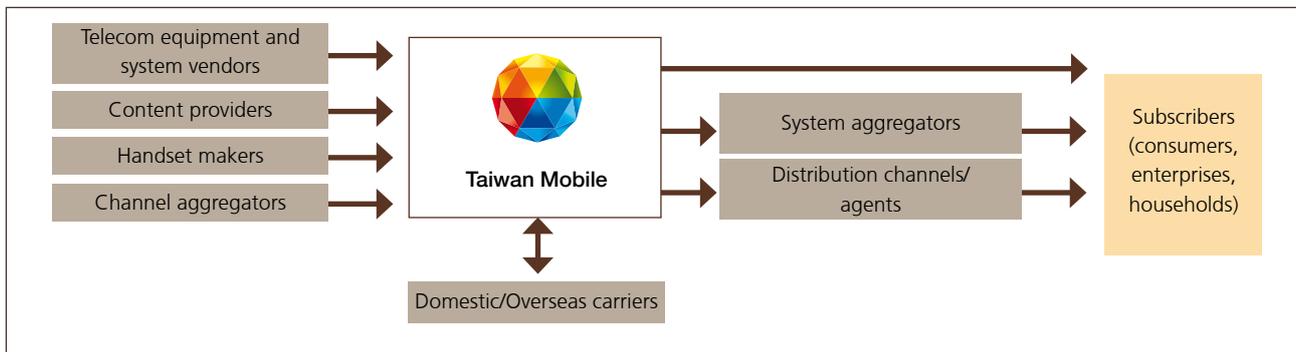
The Company's business is divided into three main groups: Consumer Business Group (CBG), Home Business Group (HBG) and Enterprise Business Group (EBG).

Performance by division

As of Dec. 31, 2009

By business group	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 international direct dialing (IDD) service 	<ul style="list-style-type: none"> Pay TV Cable broadband Others 	<ul style="list-style-type: none"> Voice and data mobile services for enterprises Fixed-line International simple resale (ISR) services
2009 revenue (NT\$m)	53,931	5,336	9,282
As a % of group revenue	78%	8%	14%
2009 EBITDA margin	45.7%	46.6%	22.2%
By business	Mobile business	Cable TV business	Fixed-line business
Market position	One of the top three mobile operators, with around 30% market share in terms of mobile revenue and subscriber numbers	Fourth-largest multi-system operator (MSO), covering 11% of households in Taiwan	Second-largest internet service provider (ISP) with 5% share (TFN+TTN) of the market after Chunghwa Telecom
Subscriber base	<ul style="list-style-type: none"> 6,409K mobile subscribers 	<ul style="list-style-type: none"> 551K CATV subscribers 114K cable broadband subscribers 	<ul style="list-style-type: none"> Around 200K ADSL/FTTx internet access users

Industry value chain



Consumer Business Group

1. Industry Overview

1. The three leading players continue to dominate Taiwan's mobile communications market. However, the smaller operators are gradually growing their market share by offering free on-net calls and promotional deals, resulting in intensified competition. With the number of 3G subscribers in Taiwan surpassing that of 2G users in February 2009, the National Communications Commission (NCC) has called for expanding mobile tariff cuts to 3G services starting 2010, which would weigh on the revenue of mobile operators.
2. In the postpaid segment, 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.

2. Products and Services

The Company's Consumer Business Group (CBG) is mainly engaged in providing mobile communications services to individual consumers. The Company provides mobile services nationwide, covering Taiwan and the outlying islands of Kinmen and Matsu. The Company offers a range of derivative products that includes SIM cards for postpaid subscribers, SIM and reloadable cards for prepaid subscribers to make/receive calls and uses its voice, data, SMS, multimedia and video-messaging services.

▼ Launched first Android phone to bring customers into the mobile internet G era



1. Products and Services

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

2. Revenue breakdown by service

	2009		2008	
	Amount (NT\$'000)	% of total	Amount (NT\$'000)	% of total
Telecom service revenue	55,159,348	96.74%	53,609,372	98.71%
Other revenue*	1,856,104	3.26%	702,233	1.29%
Total revenue	57,015,452	100.00%	54,311,605	100.00%

Includes revenue from handset sales and commissions from receipts under custody and payment on behalf of others

3. Mobile subscriber number and revenue for the past two years

	2009				2008			
	Domestic		Overseas		Domestic		Overseas	
	Average No. of subscribers	Revenue (NT\$'000)						
Telecom service	6,373,580	55,159,348	-	-	5,694,536	53,609,372	-	-

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

4. Major contracts

	Counterpart	Contract period	Description	Restriction clauses
Sales & distribution	Synnex Technology International Corp.	2005.02.01~ (Under negotiation) (Note 1)	Synnex is authorized to distribute TWM's mobile phone services	Non-disclosure
	Aurora Telecom Corp.	2009.07.01~ 2010.06.30	Aurora is authorized to distribute TWM's mobile phone services	Non-disclosure
	Tsann Kuen Enterprise Co., Ltd.	2009.04.01~2010.03.31	Tsann Kuen is authorized to distribute TWM's mobile phone services	Non-disclosure

Nature	Counterpart	Contract period	Description	Restriction clauses
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 messaging 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
Handset purchase	Synnex Technology International Corp.	2008.01.01~2008.12.31 (Note 1)	Synnex is a consignee selling TWM handsets and other communication products	Non-disclosure
Purchase and merger agreement	<ul style="list-style-type: none"> PX Capital Partners B.V. Wealth Media Technology Co., Ltd. (Wealth Media) Cheng Ting Co., Ltd. (Cheng Ting) Wei Mao Co., Ltd. Taiwan Fixed Network Co., Ltd. (TFN) TCC Investment Co., Ltd. (TCCI) TFN Union Investment Co., Ltd. (TUI) TCCI Investment & Development Co., Ltd. (TID) 	2009.09.16 till the Agreement is terminated by TWM or PX Capital Partners B.V. in accordance with the termination clause of this Agreement	<ul style="list-style-type: none"> Wealth Media, the wholly owned subsidiary of TWM, purchased shares of Cheng Ting, owned by PX Capital TUI and TID were merged with Wei Mao, with Wei Mao as the surviving company 	Non-disclosure
Syndicated loan	Chinatrust Commercial Bank and 8 other banks	2008.02.21~2011.02.21	Syndicated credit line of NT\$13.5 billion	Certain restrictions on debt ratios, interest coverage ratio, net value of tangible assets
Corporate bonds issuance	Chinatrust Securities and 9 other securities companies	2008.11.14~2013.11.14	The total amount of issuing the second unsecured ordinary corporate bond is NT\$8,000,000,000	Non-disclosure
Equipment purchase	Nokia Siemens Networks Taiwan Co., Ltd.	2006.09.26~2009.12.31	Contract for 3G equipment and service supply: Total contract amounted to NT\$4.8 billion	Non-disclosure
	Nokia Siemens Networks Taiwan Co., Ltd.	2009.04.01~2010.12.31	Contract for 3G equipment supply: Total contract amounted to NT\$3.22 billion.	Non-disclosure
Customer service	Taiwan Teleservices & Technologies Co., Ltd. (TT&T)	2006.01.01~2010.12.31	TT&T to handle TWM's customer service and product sales	Non-disclosure

Note 1: The contract will be automatically extended if neither party objects to its extension.

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:

(a) 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.

(b) 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 a new agreement shall commence three months prior to the expiry date of the original agreement. If negotiations are not completed prior to the expiry date, the parties agree to perform their obligations based on the original agreement until such time when a new agreement is finalized.

3. Operating Status

1. Postpaid products and services

Following the successful launch of the “New Line 299” rate plan in 2008, the “My Saving 699” rate plan was introduced in August 2009, which offers 10 minutes of free service for each on-net call, 80 minutes of free domestic calls (both on-net and off-net) and a low charge of NT\$1.50 for every 3-minute mobile-to-fixed line call. The new rate plan helped boost the percentage of mid-to-high rate plan subscribers to the total number of new subscribers by 5ppts to more than 60% in 2009.

The Company is focused on attracting high-end users. The percentage of mid-to-high rate plan subscribers to the total number of new subscribers held steady at over 60% in 2009 despite the global economic slow recovery. The Company also has excellent loyalty programs in place to help secure its customer base and minimize churn rates. For high average revenue per user (ARPU) customers, the Company has an exclusive program called “my VIP.” It also offers a credit card program that allows customers to earn rebates based on their phone bills.

2. Prepaid products and services

In 2008, the Company launched the first pre-paid card for 3G services in Taiwan, enabling subscribers to experience the high transmission speed and new audiovisual services that 3G provides. In 2009, the “Tri-Service Hotline” expanded on-net voice call discounts to include mobile-to-fixed-line calls and on-net video calls. These packages have helped the Company maintain its brand leadership.

In the foreign worker segment, the Company has continued to strengthen its dominant position in the Thai and Vietnamese contract worker markets. To better serve Indonesian and Filipino contract workers in Taiwan, the Company has collaborated with

Indonesia’s Telkomsel and the Philippines’ Globe Telecom (both are members of the Bridge Alliance, the largest alliance of telecommunications service providers in the Asia-Pacific region) to introduce the first transnational co-branded prepaid cards in Taiwan: the “OK Simpati-Kagen” card and the “OK Kababayan” card. Working on improving call quality and network capacity for international calls, the Company became the first mobile operator in Taiwan to launch international video call service, further strengthening its position in these markets.

Thanks to the introduction of new products, flexible marketing of prepaid cards and effective control of operating costs, the Company was able to grow both its prepaid subscriber base and prepaid VAS revenue in 2009.

3. Value-added services

The Company posted a significant increase in VAS revenue in 2009. In particular, revenue from mobile internet access rose 65%, 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 value-added services.

In 2009, the Company introduced a large number of innovative and popular VAS products, including: “Catch Music”

- ▼ “My Mobile Secretary”, a new value-added service, allows users to update their phone books and calendar any time anywhere.



service that enables subscribers to listen to music wherever and whenever they want; Taiwan's first integrated advertising service with mobile ring-back-tones; an integrated system for consolidating 3G SIM card and mobile phone book addresses, as well as allow users to import external contact lists (e.g., from Yahoo!, Google, Hotmail and Outlook), effectively giving subscribers a round-the-clock "mobile personal assistant," an internet portal and applications designed especially for smartphone users. In addition, the consolidation of TWM, Mobitai and TAT's value-added service platform has helped the Company lift operating efficiency as well as VAS revenue growth.

4. Opportunities and Challenges

The Company enjoys several advantages that will facilitate its development of the mobile communications markets, as detailed below:

1. 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. With the rapid growth of the internet, many innovative technologies and business models have been extended to the mobile internet.

2. Negative factors

1. NCC's mandatory tariff cuts have added a degree of uncertainty to the outlook for future earnings growth.
2. In 2009, both Tatung InfoComm and FarEasTone began to roll out WiMAX services. With its high bandwidth, WiMAX is expected to stimulate increased demand for wireless internet access, creating new challenges for existing players.

3. With slow pickup of the economy, consumers have become more cautious in spending, weighing on revenue growth in voice services.

3. Countermeasures

1. In 2010, the Company will closely monitor the rollout of its 3.5G network to provide high-speed internet access, as well as 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 to stimulate data service revenue growth and compensate for voice revenue shortfalls.
4. The Company announced its acquisition of Kbro in 2009, adding 1 million new cable TV subscribers and creating new opportunities for cross-selling of mobile, fixed-line, cable TV and entertainment services. The deal should help attract new subscribers and create new revenue streams from content integration.

4. Competitive edges

1. Better customer mix:
Although the global economic downturn led to a slight decline in the number of new subscribers in 2009, the Company succeeded in improving its subscriber base structure. The percentage of low usage subscribers fell by 2.5ppts from a year ago, while the percentage of mid-to-high usage subscribers continued to rise.
2. Market leader in wireless broadband services:
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 phone handsets, and a wide range of value-added services. By the end of 2009, the Company had a 3G subscriber base of 3.65 million users, who contributed more significantly to value-

added service ARPU than 2G subscribers and have become the main driver of VAS revenue growth.

3. Industry leader in offering customer satisfaction:

In 2009, the Company won, for the sixth year in a row, two Reader's Digest Gold Trusted Brand awards for best mobile service provider and best telecom company. The Company will continue to pursue high service quality and efficiency to "create the best user experience" and achieve even higher levels of customer satisfaction.

5. Operating Results Review

Affected by an NCC-mandated price cut on certain mobile rate plans for the third year in a row and lackluster private consumption, which only recovered in the second half of 2009, CBG's revenue last year dropped 2% from a year ago. The Group continued pushing mobile internet services by offering diversified data rate plans and catering to different customer needs. The popularity of smartphones, data cards and netbooks boosted VAS revenue by 24% from a year ago, far ahead of its major competitors.

6. Short and Long-term Business Development Plans

1. Short-term development 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 innovative new services. At the same time, network quality will be maintained and further optimized. New, high-quality, affordable smartphones will be introduced for closer integration of mobile devices and value-added services enabling customers to embrace an all mobile lifestyle.

2. Mid-to-long-term development plan

The Company aims to integrate the mobile phone, TV 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 M2M (machine-to-machine) technology into our product and services to integrate mobile handsets, high-quality mobile networks and cloud computing technology to expand service range and support the development of innovative, profitable business models.

3. Implementing market segmentation to provide customers with differentiated service to meet their personalized demands.

Home Business Group

1. Industry Overview

1. New trends in digital convergence: Digital TV ready to take off

Leading service operators in the US, Europe, Japan and South Korea are aggressively rolling out digital TV services. This expansion into the media and entertainment sectors is expected to bring new sources of innovation-driven revenue growth. In line with this trend, TWM Broadband launched its "New TV" digital cable TV service in July 2009, offering a wide range of high-quality digital video content, including a number of exciting channels that are only available from TWM Broadband. "New TV" promises to provide local households with a brand-new entertainment experience.

With several other leading Taiwanese MSOs rolling out similar services last year, digital TV services have opened up a whole new world of high-definition (HD) video for local viewers.

2. Movement toward free competition, establishment of a regulatory framework

In August 2009, the NCC approved an amendment to the Radio and Television Act that analog broadcasting for terrestrial TV be switched off in 2011. In addition, the Commission proposes "issuance of wireless digital TV second single-channel-network license plan" to give consumers more choices and encourage free competition in the digital TV service market.

In preparation for the new era of digital convergence, the NCC has invited experts from industry, government, and institution to form an integration task force team (“convergence development policy study team”) to discuss major issues and receive public opinions for the reference of future law making.

2. Products and Services

The Home Business Group (HBG) holds cable TV system operating licenses and a Type II telecommunications business license. It mainly provides analog and digital cable service, as well as cable broadband internet access in the cities of Sinjhuang and Sijhih in Taipei County, Yilan County and Fengshan City in Kaohsiung County.

HBG is also the operator of the “Momo Kids Channel” (which provides family-friendly TV content) through the Company’s subsidiary, Win TV Broadcasting Co., Ltd., and serves as a distribution agent for a number of popular domestic and international TV channel contents. The Group aims to provide its customers with a comprehensive range of digital audiovisual entertainment services.

- ▼ Taiwan Mobile launched “New TV” digital TV service ushering in the media entertainment business and a content integrator.

Products and Services

Service category	Products/ Services	Details
Pay TV	Analog cable TV	Using broad bandwidth coaxial cables, a wide range of analog TV content is transmitted to customers’ terminals.
	Digital cable TV	Transmitting domestic and international digital TV content through cable TV networks to customers’ homes. Customers can use a set-top box and smart card provided by TWM Broadband to receive HD digital videos.
Broadband internet access	Cable broadband access (FTTx)	Using cable TV system operators’ hybrid fiber-coaxial networks and new-generation DOCSIS 3.0 broadband access technology to provide high-speed internet access.
Content distribution	Cable and digital TV channel content	Distributing high-quality domestic and international TV channel content for the Group’s own analog cable TV, digital TV and “New TV” services, as well as other system operators and video service platforms.

3. Operating Status

1. Products and Services

1. Cable TV

To maintain its customer base, HBG has launched a



special initiative to encourage existing customers to continue subscribing to analog cable TV services.

2. Cable broadband Internet access

Fiber optic subscription is the major contributor to 2009 broadband access revenue growth. To stimulate broadband subscriber growth and raise the cable broadband penetration rate, the Group has launched special promotions and incentive programs to encourage customers to upgrade to higher speed services in order to boost overall cable broadband subscribers' ARPU.

3. Digital cable TV

In July 2009, TWM Broadband launched its "New TV" digital TV service, which offers users HD digital content, including select exclusive programs. "New TV" is expected to develop new revenue streams for the Group.

2. Management

1. TWM Broadband brand re-engineering

The Group continued to carry out its Excel Customer Experience (ECE) program aimed at providing the best experience to increase customer satisfaction and loyalty.

2. Expanding distribution channels

In July 2009, the Group started promoting its "New TV" digital TV display and experience at Taiwan Mobile "myfone" shops located in TWM's CATV operating areas. Giving customers a taste of this service at "myfone" stores enhances their willingness to subscribe to DTV services.

4. Opportunities and Challenges

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

1. Positive factors

1. CATV operators still benefit from local features and rich content: CATV operators in Taiwan still enjoy

a local edge. NCC statistics shows that the CATV penetration rate in Taiwan as of the end of 2009 was a high 63.80%, underlining local consumers' heavy reliance on this service. A survey of digital TV service demand among Taiwanese households that was conducted in 2009 by the Market Intelligence Center (MIC) of the Institute for Information Industry showed that consumers enjoyed having a wide range of cable TV channels to choose from and that their preferences in regard to cable TV content was very distinctive.

CHT's MOD service suffers from a low take-up rate given a lack of variety of content and thus does not pose a threat to the CATV industry.

2. Higher speed broadband services becoming the mainstream: The Group has continued to invest in two-way fiber optic network deployment and to promote its cable broadband access service. In 2009, the Group adopted the latest DOCSIS 3.0 broadband network access technology, offering subscribers data transmission speeds of up to 20M, which can be upgraded to 160M in the future. This meets users' need for ever-faster broadband connection and should help boost revenue from cable broadband.
3. Expanding regional operation scale: The NCC has begun studying the feasibility of expanding CATV operators' licensing zones to facilitate multi-zone CATV network operation and redefine operating regions in order to create a level playing field for CATV and MOD operators.

2. Negative factors

1. The cable TV market in Taiwan is saturated and subscriber growth is decelerating. There is still the risk that local governments could lower the CATV price cap during their annual review.
2. The NCC has yet to clarify its policy on digitalization, e.g., will CATV operators be required to subsidize at least two set-top boxes? The Group will continue monitoring the commission's digitalization policy and related legislation.

3. Countermeasures

1. The ongoing deployment of two-way fiber optic networks will help improve connection quality and signal stability, facilitating the adoption of DTV services.
2. The Group will continue to maintain friendly relations with local government authorities and residents. It will work with other organizations within the Taiwan Mobile Group, such as the Taiwan Mobile Foundation, to sponsor local cultural and charitable activities and improve network infrastructure in remote districts, thereby helping to reduce the digital divide and fulfill its responsibilities as a good corporate citizen as well as strengthening the Taiwan Mobile Group's corporate image as an enterprise that "draws from its strengths and gives back to the local community."
3. The Group will closely monitor changes in the regulatory authorities' policies on digitalization and the revision of related laws and regulations, and will actively lobby for and communicate with the authorities, while also planning appropriate countermeasures in advance.

4. Competitive edges

1. Building brand value through a customer-focused approach

The Group will continue to adhere to the ECE philosophy to create the best user experience. At the same time, it will continue to strengthen frontline personnel's understanding of the industry environment and their professional expertise through regular internal training activities to serve customers.

2. Advanced fiber optic cable broadband access

The Group acquired more high speed service customers with the introduction of cutting-edge DOCSIS 3.0 technology. With a single coaxial cable connection, consumers can enjoy cable TV, ultra-high-speed internet access and a wide range of audiovisual entertainment services and other digital interactive services in the comfort of their own home.

3. Using HD digital content to stimulate DTV subscriber growth

The Group will continue to secure high-quality HD digital channel content (both domestic and international) to provide consumers with a wide choice of content and a superior audiovisual experience to stimulate digital TV subscriber growth, enhance viewing satisfaction and increase customer loyalty.

4. Integrating Group resources to develop innovative digital convergence products and services

The Taiwan Mobile Group possesses significant mobile, fixed network, CATV, ISP and content resources. These resources, combined with the support provided by the Group's strong technology team and its effective integration of marketing and sales

- ▼ Taiwan Mobile exclusively offers the first touch screen BlackBerry® Storm™, the best mobile solution for the business people.



resources, represent a significant source of competitive advantage for HBG in the household market segment.

5. Operating Results Review

HBG's revenue is largely derived from CATV and cable broadband services. On the CATV front, revenue rose 20% YoY, bolstered by its new content distribution business, steady growth in pay TV subscriber numbers and rising channel leasing revenue from a year ago. The Group offered premium quality cable broadband service at a lower price and was able to boost its subscriber mix in high-speed service. In 2009, cable broadband subscribers and revenue grew 31% and 44% YoY, respectively, boosting total HBG revenue by 22% YoY.

6. Short and Long-term Business Development Plans

HBG will continue to focus on the home market, positioning itself as a provider of integrated home communications and audiovisual entertainment solutions. It will continue working to raise the broadband penetration rate, increase the percentage of broadband subscribers who use high bandwidth connections, and grow the number of "New TV" digital TV service subscribers.

1. Short-term development plan

1. The Group will continue using cable access to challenge the effective oligopoly that Chunghwa Telecom enjoys on last-mile access. In addition, the Group will launch special promotions targeting customer segments and work to develop its cable broadband Internet service.
2. The Group will expand deployment of DOCSIS 3.0 to boost the number of high bandwidth users and satisfy home users' need for both high-speed Internet access and HD audiovisual and multimedia applications.
3. The Group will increase popular HD digital video channel content (both domestic and international) to enrich its "New TV" digital TV service. It will also work to develop a wide range of interactive audiovisual content and other new digital content.

2. Mid-to-long-term development plan

1. The Group will continue to monitor changes in consumer needs and pursue collaborations with content service providers on the deployment of new services for online platforms. It will also monitor new trends in global digital convergence and strategies adopted by the world's leading players to facilitate the Group's development of innovative digital convergence services that leverage the Taiwan Mobile Group's extensive mobile, fixed network and digital cable TV resources.
2. In response to the global trend towards the "TV-ization of the internet and the diversification of TV," the Group will undertake in-depth studies of digital convergence services that have been rolled out by telecommunications service providers and ISPs in other parts of the world. Analyzing the experience of mature markets and the business models that have been adopted in these markets will help the Group evaluate the opportunities that exist in the digital convergence services market in Taiwan. These can help the Group roll out integrated digital TV product offerings in stages in line with market demand.

Enterprise Business Group

1. Industry Overview

The Enterprise Business Group (EBG) offers enterprise customers voice, internet and data services. Given the rising demand for integrated information and communication technologies (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) 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 forecasted to expand. The market saturation and price decline is expected to weigh on revenue growth.

4. Mobile service

As demand for mobile office increases, data revenue from smartphones and 3.5G data cards is expected to remain on the rise. Mobile voice revenue from enterprise should benefit from the economic recovery and maintain moderate growth.

5. System integration service

The current trend is for telecom operators to offer both data and internet services along with unified threat management (UTM), and firewall facilities. With the demand for enterprise data and internet services increasing, the Company expects a steady increase in subscriber numbers and revenue.

2. Products and Services

EBG offers enterprise customers integrated ICT solutions and services under the name "TWM Solution." The Group's main market is Taiwan, but also offers international services covering 231 countries. By the end of 2009, its roaming services covered: GSM: 142 countries, 269 networks; 3G: 46 countries, 84 networks; GPRS: 105 countries, 200 networks.

Products and Services

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 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 managing/maintenance services for customers.
Mobile	EBG offers enterprise customers the following mobile services: regular voice services, mobile virtual private network (VPN), intelligent transportation system (ITS), BlackBerry enterprise solution and mobile data VPN service.
System integration	EBG provides sales, implementation, network manager and maintenance services for PBX, VoIP customer premises equipment (CPE), WAN and LAN CPE for customers.

3. Operating Status

In May 2009, EBG launched its “Company Saving Package,” a comprehensive enterprise and government solution package, comprising voice, mobile, data, internet and system integration services in line with the growing demand of small-medium enterprises for cost-saving telecom services amid the economic slowdown. To meet businesses’ need for instant info-com trouble shooting, EBG introduced its “Network Manager” automatic network management system to provide automatic monitoring, alarm and problem reporting services in July 2009. In addition, the Company launched Chinese BlackBerry touch panel handset “Storm” in August 2009 to meet customers’ needs.

4. Opportunities and Challenges

The Company believes that the overall macro environment remains neutral in terms of growth for the fixed-line industry.

1. Positive factors

1. 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.
2. Enterprises trading in the Greater China area will boost demand for integrated telecommunications and network efficiency.

2. Negative factors

1. The local loop bottleneck is a major obstacle to fixed-line operators’ business expansion, as market leader CHT continues to dominate with its last mile advantage.
2. NCC is pushing for rationalization of telecom tariffs and has demanded telecom operators lower retail

rates gradually, adding to operation difficulties.

3. Countermeasures

1. Raising ARPU: Target high-usage customers by providing services such as “Information and Communications Integrated Solution” that meet customers’ varying needs; establish partnership with customers to enhance customer loyalty.
2. Targeting high-quality services: Focus on IP VPN and Metro Ethernet solutions to provide high-quality integrated platform infrastructure and voice/network CPE; provide device-monitoring service, CPE maintenance and “Network Manager” (automatic network management service), as well as trouble shooting and immediate status response.
3. Expanding cost and operation synergy: Carefully evaluate project expansion and revision of IP policy and submarine cable strategy to ensure short, mid and long-term benefits and improve core competence. In order to reduce costs and enhance network quality, TWM expanded its point of presence (POP) to the US and Singapore in 2009 and hooked up with several Tier-1 operators.
4. Providing integrated services: The Company aims not only to provide customers with premium services and stable network quality, but also to develop new VoIP products (e.g. Enterprise E phone and PBX E phone) to meet users’ needs. EBG will keep leveraging the resources of the group to the benefit and satisfaction of its customers.

4. Competitive edges

1. Premium brand equity

The Company insists on providing customer-centric quality services to its customers. A new brand, called “TWM Solution,” was launched and has

gained the recognition of major enterprises. TWM Solution received the highest rating in an online satisfaction survey on companies conducted by Foreseeing Innovative New Digiservices (FIND) of the Institute for Information Industry in 2009.

2. Professional management team and efficient support group

The Company leads the competition in achieving synergies from the integration of group resources, including mobile telephony, fixed network and cable TV network, with integrated back-office functions, e.g., network planning, operation and maintenance, information technology and procurement, to support its frontline operations and provide enterprise customers with exclusive integrated information and communication technology for business expansion.

3. Effective sales teams and channels

Expand services through direct sales teams, channel partners, and retail chains across the nation.

4. Expanding resources from international alliances

The Company is the sole Taiwanese member of the Bridge Alliance, the largest mobile alliance in Asia Pacific with a combined customer base about 300 million.

5. Operating Results Review

In 2009, affected by the financial crisis, enterprise customers reduced usage of mobile / fixed-line voice, leased lines and internet services. Although it has picked up since 2H09, EBG's revenue was still down 4% from a year ago.

Despite revenue contraction, EBG's EBITDA margin rose to 22.2% in 2009 from 19% the previous year, aided by good opex controls.

6. Short and Long-term Business Development Plans

1. Short-term development plan

The Company will continue developing integrated telecom applications to provide enterprises with a new network security service, data-voice integrated services and advanced Metro Ethernet services to help users reduce expenses and enhance operating efficiency.

2. Mid-to-long-term development plan

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

1. Speed up revenue growth of selective products by providing enterprises with end-to-end managed services and security operating center service. The Group has started developing cloud computing related services.
2. Raise the productivity of key accounts. Develop network-centric enterprise solutions. 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.

