

Chapter 4 Operational Highlights

Macro Environment

Consumer spending on communication and broadcasting related services is largely influenced by the macroeconomic environment. According to the Directorate-General of Budget, Accounting and Statistics (DGBAS), private consumption maintained a healthy growth momentum last year due to falling unemployment and rising wages. However, as the European debt crisis continued to cast a shadow over the global economy in the second half of 2011, corporate earnings and employment took a hit, affecting consumer confidence and buying willingness. As a result, private consumption growth moderated to 3.10% in 2011 from 3.67% in 2010. Although growth in the emerging markets should help prop up the global economy this year, consumer confidence is expected to remain weak due to continuing uncertainty. Private consumption growth is thus forecast to slow further to 2.69% in 2012.

Overall Operating Results

In 2011, in spite of the impact of the National Communications Commission's (NCC) mandatory tariff cuts on mobile operators' voice service revenue, the Company still saw a 16% YoY rise in consolidated revenue, as it pushed wireless data, cable broadband and other promising businesses. In terms of profitability, despite increased handset subsidies to boost smartphone penetration, the Company managed to post stable earnings due to: 1) rising revenue, 2) contained network cost and administration expenses, which were lower than a year ago, and, 3) earnings contribution from momo (51% owned by the Company and consolidated into TWM since July 13, 2011, contributing 2% to TWM's full-year consolidated EBITDA in 2011). The following is a description of the performance of the Company's three major business groups: Consumer Business Group (CBG), Home Business Group (HBG) and Enterprise Business Group (EBG).

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
2011 revenue*	58,109	5,914	9,861
As a % of group revenue	71%	7%	12%
2011 EBITDA*	20,494	3,038	2,688
As a % of group EBITDA	76%	11%	10%

	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 155K cable broadband subscribers from its cable business)
Subscriber base	<ul style="list-style-type: none"> ● 6,663K mobile subscribers 	<ul style="list-style-type: none"> ● 575K CATV subscribers ● 155K cable broadband subscribers 	<ul style="list-style-type: none"> ● Around 150K ADSL/FTTx internet access users

* Source: segment information of financial reports.

Operating Results Review

Consumer Business Group

Mandatory tariff cuts imposed by the National Communications Commission (NCC) weighed on mobile voice revenue in 2011. However, with mobile data revenue surging 47% from a year ago – accounting for 27% of overall mobile service revenue – mobile service revenue still grew 1% YoY. This, together with handset sales, lifted CBG's total revenue by 5% from a year ago.

Home Business Group

HBG's 2011 revenue rose 4% 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 9% YoY due to expanding economies of scale.

Enterprise Business Group

EBG's 2011 revenue grew 4% YoY, largely from a 2% YoY increase in enterprise customers' mobile revenue and rising IP transit and internet data center (IDC) businesses. In addition, EBG's 2011 EBITDA rose 15% from a year ago because of rising revenue and cost/expense control.

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	2011	
	Amount	%
Telecom service	52,191	90%
Handset sales and others	5,918	10%
Total	58,109	100%

3. New products and services

- (1) Voice services: Continue to roll 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 by 6 ppts.

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 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 addition to the continuous promotion of discounts for on-net calls, outgoing calls to fixed-line and on-net video calls from 2010, the Company launched a campaign offering free text messages to target the youth market, providing more choices for pre-paid card customers. This helped boost the Company's number of prepaid subscribers by nearly 20% in 2011.

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 over 40% in 2011.

(3) Value-added services

The Company saw a significant increase in VAS revenue in 2011, surging 47% from a year ago. In particular, revenue from mobile internet access rose 93%, thanks to high-quality mobile internet services and flexible data rate plans, as well as the popularity of smartphones, tablets, 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 2011, the Company introduced a large number of innovative and popular VAS products. These include: One, "match Market," an app store for major smartphone platforms such as Android, iPhone, Windows Mobile, Blackberry and Symbian. Two, "MoFun," an application designed to enrich users' lifestyle by allowing them to use their smartphones to access the latest information on MoFun's channels, including leisure, entertainment and shopping. Three, "myBook store," a 24-hour online bookstore where users can easily purchase e-books in two easy clicks. In 2011, myBook was ahead of its peers in offering sales of hard-copies of books, providing an integrated platform where users can easily switch between traditional and digital environment to enhance their reading experience. And four, "TV GO HD" & "Formosan TV Show," a platform offering more than 40 mobile channels, including news, finance, drama and variety shows, as well as a user friendly interface and 3G and WiFi support, to meet smartphone and tablet users' demand for TV on the go.

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 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, enabling it 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	<ol style="list-style-type: none"> 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	Provides both analog TV and "new TV" digital CATV services, distributes high-quality domestic and international TV channels by licensing the broadcast rights of these channels to other CATV system operators and video service platforms.

2. Revenue breakdown by service

Unit: NT\$mn

Item \ Year	2011	
	Amount	%
Pay TV service	4,181	71%
Cable internet service	924	15%
TV content distribution and others	809	14%
Total	5,914	100%

3. New products and services

(1) Digital TV recorder:

Subscribers can use the set-top box provided by TWM Broadband to record any program broadcast on TV onto an external hard driver, as well as pause, fast forward and rewind. This device should enhance customer stickiness and boost digital TV service penetration rate.

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

TWM Broadband will continue to enhance network quality to provide stable, reasonably priced high-speed fiber-optic broadband internet access to meet customers' demand for high-speed bandwidth to view or use various multimedia services via TV or computer. This is expected to attract a large number of new subscribers and increase customer satisfaction.

(3) Digital TV value-added services:

TWM Broadband will develop and offer more innovative value-added services, such as viewing popular video content (e.g., local dramas and movies) online, playing online games, accessing the latest information on fashion and trends, and e-learning via TV, to increase its digital TV service subscriber numbers and penetration rate.

(4) Innovative digital convergence services:

TWM Broadband is making use of the Company's extensive mobile communications, fixed-line network and cable TV service resources, while continuously monitoring new trends and developments in the global digital convergence services industry, and cooperating with upstream to downstream players – from digital content to terminal device and internet platform providers – to form the "Cloud and Connect TV forum" to explore new business opportunities and enable subscribers to enjoy the benefits of digital convergence services anytime, anywhere.

Enterprise Business Group

1. Products and services

The Enterprise Business Group (EBG) offers enterprise customers integrated information and communications technology (ICT) solutions and mobile/fixed network services under the name "TWM Solution."

Service category	Description
Fixed-line voice	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	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	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	Regular voice services, mobile VPN, intelligent transportation system (ITS), BlackBerry enterprise solution, mobile audio conference and MVPN data services.
Systems integration	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\$m

Item	Year	2011	
		Amount	%
Mobile service		4,046	41%
Fixed-line service		3,675	37%
ISR and others		2,140	22%
Total		9,861	100%

3. New products and services

- (1) Information security manager: New functions include scanning for potential flaws in webpage application codex to avoid information leaks and guard against social network engineering attacks.
- (2) Cloud content-delivery service: A cost-efficient digital content platform that enables IDC customers to download large volumes of digital content quickly and deliver them to end users in a fast and stable manner.
- (3) Cloud information-security service: Provides physical and virtual system protection against many types of attacks.
- (4) Cloud learning service : An online platform that can make quick and easy audio-visual presentations of new business ideas and products.

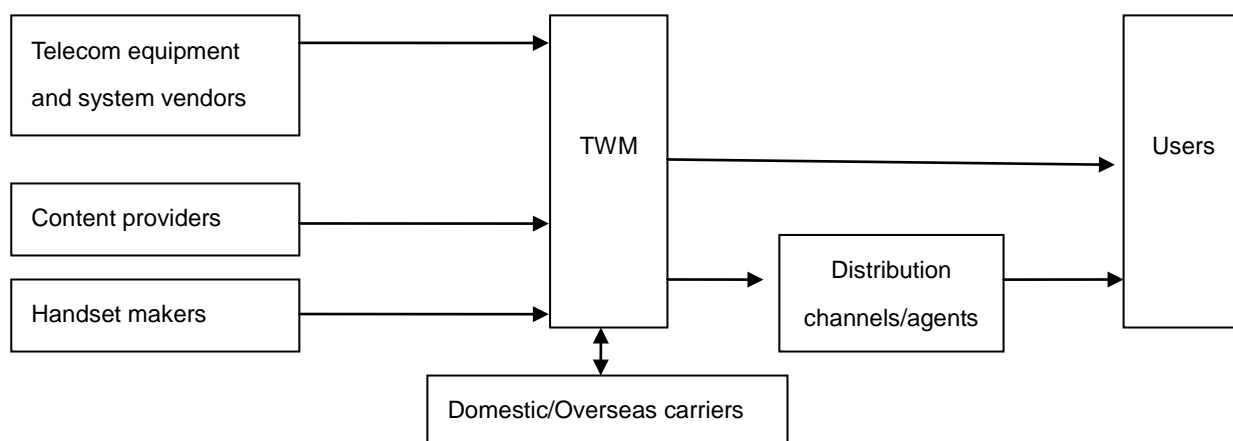
Industry overview

Consumer Business Group

1. Industry status and development

The three leading players continue to dominate Taiwan's mobile telecommunications market. However, the smaller operators offering free on-net calls and other promotions increase competitions. The National Communications Commission (NCC) has been introducing mandatory mobile tariff cuts on certain 3G tariffs since 2010, which weighed on the revenue of mobile operators.

2. Industry value chain



3. Product development trends and competitive landscape

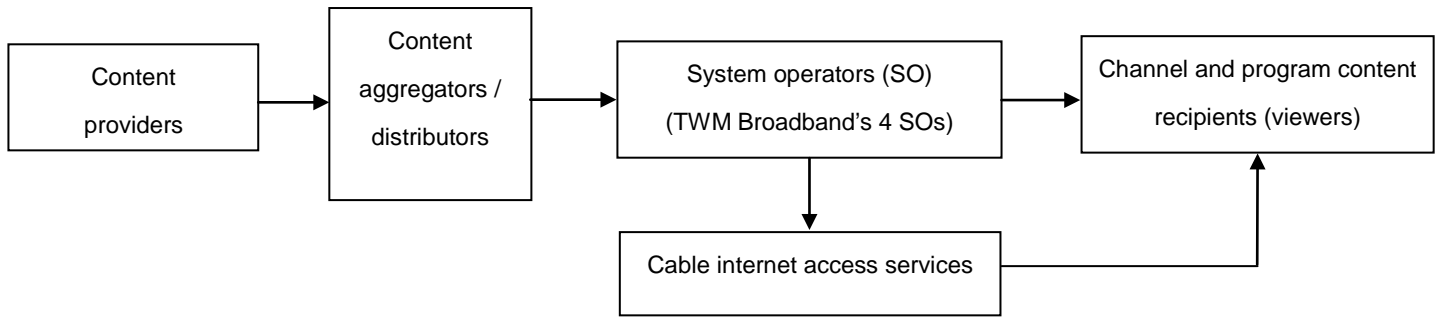
The operators are seeking to expand the mobile broadband market. A variety of new rate plans for data services, combined with new terminal devices and new VAS, have been introduced to stimulate subscriber take-up. This should be an important future revenue growth driver. As for the prepaid segment, competition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

Home Business Group

1. Industry status and development

Cable TV has become a mainstream video platform, but it faces challenges from alternative services such as IPTV, internet TV and other emerging media that have successively entered the market. The cable TV industry must digitalize aggressively and continue to provide innovative digital TV value-added services to attract traditional cable TV subscribers to switch to digital TV; form strategic alliances or integrate with upstream, midstream and downstream providers to explore new business opportunities and stay on top of the value chain; and provide super high-speed and stable quality broadband service to secure its position in this highly competitive market.

2. Industry value chain



TWM Broadband has the advantage of controlling “last mile” access to customers and has mobile communications, fixed-line network services and cable TV service group resources. TWM Broadband also takes the lead in vertical integration in order to build up its core competitiveness and explore new business opportunities in the age of digitalization.

3. Product development trends and competitive landscape

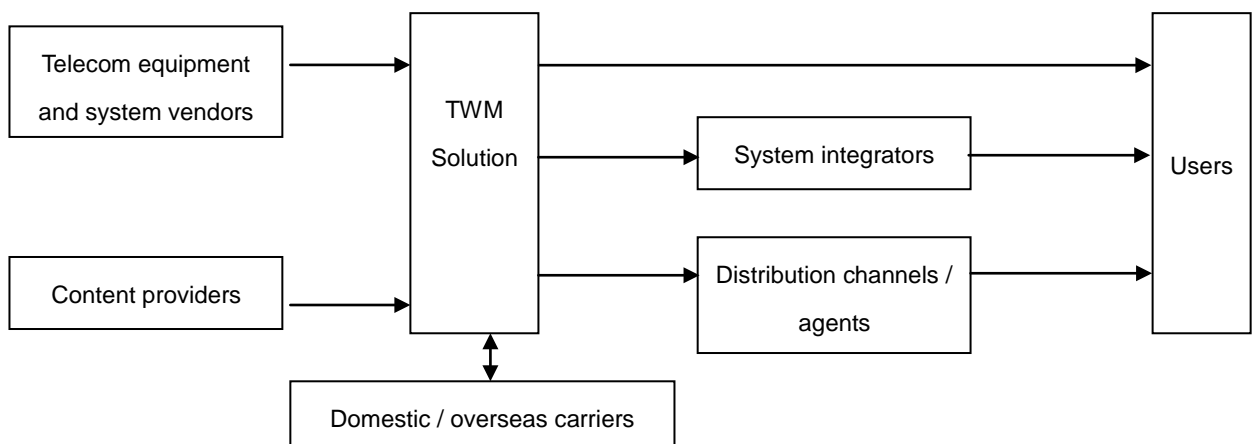
Despite the intense competition in the broadband internet access market, HBG’s cable internet service subscriber number has continued to grow rapidly. To counter the competition, TWM Broadband has provided super broadband internet access service of 60Mbps and above since December 2011 and developed more innovative digital value-added services to let subscribers enjoy a whole new experience in home entertainment.

Enterprise Business Group

1. Industry status and development

According to NCC statistics, there were 83 Type I telecommunication providers, including four fixed-line operators, six mobile operators and 62 circuit leasing operators; and 454 Type II telecommunication providers, including international simple resale (ISR), internet service providers (ISP), VoIP and other value-added service providers. All these have resulted in keen competition. And as the trend toward digital convergence expands, the boundaries among telephone, cable TV, wireless and PC are getting increasingly blurry, intensifying cross-industry competition.

2. Industry value chain



3. Product development trends and competition landscape

Since CHT has the “last mile” advantage, other ISPs find it hard to effectively compete with the firm. Based on NCC statistics, Chunghwa Telecom (CHT) had a virtual monopoly of the local network, long-distance network and international network service markets, accounting for 97.57%, 70.08% and 59% of the revenue in these three areas, respectively. xDSL is the most popular type of broadband internet access in Taiwan, with an increasing number of users choosing higher bandwidths ($\geq 10\text{M}$).

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 forecast to decline.

As the popularity of smart devices rises and network infrastructure matures, the government is planning to invest in upgrading the telecommunications industry into a cloud computing industry. Aside from continuing to promote mobile applications for enterprise customers, all carriers will build cloud centers to provide various cloud application services. Henceforth, cloud, mobile internet and ICT services will be the main future revenue growth driver.

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 2012, the Company plans to spend NT\$834mn 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	2010	2011	2012 (As of Feb. 29)
R&D expense (NT\$'000)	641,928	563,461	96,331
As a % of total revenue	1.10%	0.91%	0.87%

Major research and development achievements

Project name	Description
Mobile VoIP and IP message app technologies	Develop technologies for monitoring the flow of traffic of the major mobile VoIP and IP message apps.
Cooperative multiple-input and multiple-output (MIMO) relay and carrier aggregation for long-term evolution (LTE) technology	The project comprises two parts: (1) carrier aggregation for LTE-advanced mobile communication systems (2) coordinated multipoint transmission/reception techniques for LTE
Investigation of data throughput improvement at base station cell edge	The project comprises of four parts: (1) tracking algorithms based on Kalman filter to determine the location of the mobile device (2) cooperative communication techniques to improve data throughput (3) virtual MIMO to improve data throughput (4) hybrid automatic repeat request (HARQ) mechanism to correct data error and reduce bit error rate (BER)
Customer-facing trouble ticket management system(CF-TTMS)	Build a CF-TTMS to support all business lines. The objective is to provide a customer-centric trouble ticket management system for triple/quad play in order to improve customer service quality and construct a scalable and extendable infrastructure to meet future business needs.
Electronic customer relationship management (eCRM)	Set up embedded product links on TWM's website that best meet a customer's personal preferences and needs. Customers can easily click on the link to complete an order.
Single SIM card with dual numbers for roaming	Develop a more cost-efficient single SIM card with dual numbers for roaming to attract new users. Customers traveling overseas can use the secondary number to make and receive calls and avail of local rates through TWM's roaming partner's network.
IT reusable assets	Develop IT reusable assets – e.g., workflow engine integrated with customer order management (COM) system to facilitate order execution – to avoid system duplication, save on development costs and raise productivity and quality.
Private cloud computing	Integrate infrastructure/platform/software as a service (IaaS/PaaS/SaaS) to provide users with a private cloud computing environment.
Green IT data center and network optimization	Provide a high-efficiency, environmentally friendly data center: (1) Upgrade IT data center's electrical system (high voltage) (2) Utilize variable primary flow chilled water system, T5 tube for light system. (3) Enable both dense wavelength division multiplexing (DWDM) and fiber channel over Ethernet (FCoE) for IT network.
Systems service monitoring system upgrade	Build an end-to-end monitoring system to track customer service system performance and in-store IT status. The upgraded system provides complete maintenance information and detail single failure point to provide reliable, high-quality IT services for businesses.
Build web application firewall (WAF), store information network and computer security management policy	Enhance network security protection to guard against data theft, network hacking and virus attacks: (1) Deploy WAF to all external website services. (2) Install device control system in all retail stores, including MAC (Media Access Control) list and computer authority auto report system.
3C merchandise, e-invoice and shopping	Introduce new functions for myfone's e-commerce system so customers can purchase 3C (computers, communications and consumer electronics) merchandise and receive e-invoice billing. Set up a "Mofun Shopping via Handset" function to let customers purchase merchandise using their mobile phones.
Handset operation guide, search engine optimization and e-payment via TWM brand portal	Provide a "handset operation guide" on the TWM portal as a self-help service for customers; establish search optimization rules to increase the visibility of the TWM website; and introduce a new function that allows customers to pay their bills via e-payment.
TWM new sales channel on momo e-commerce	Create new TWM sales channel to sell 3C merchandise over momo's e-commerce platform. Provide simple and convenient shopping experience for customers.
Electronic payment hub (EPH) and fraud prevention	Customers can use the interactive voice response (IVR) or website to pay their phone bills, e-commerce transactions and value-added-services using their credit/ATM cards. A stringent bank review process has been implemented to prevent

Project name	Description
	card fraud.
Sales management and channel commission system	Set up a sales management system e-platform to replace most manual work in order to increase the accuracy of commission calculation and enhance overall efficiency. By integrating associated resources to strengthen back office management, the system is designed to enhance support for salespeople and boost their performance.
Direct store real-time customer feedback system	Install touch panel screens in stores where customers can provide immediate feedback on service quality. This helps store managers monitor sales agents' work and provide a timely response to promote customer satisfaction. It also provides analysis reports for upper management to further improve overall service quality.
Prepaid card system for independent travelers from China	Visitors from China can order TWM prepaid cards via TWM portal and pick up the cards when they arrive in Taiwan. The commission system applies for purchases made through travel agencies in China.
Revenue assurance project	Cross-check data provided by network equipment and application system to track discrepancies in call detail records and defects in system/workflow design. The objective is to enhance billing accuracy and promote trust among customers so as to boost the Company's revenue.
Bill formatting system	Convert all types of mail sent to customers – including bills, invoices, receipts, call detail reports, registered mail and collections letters –into printable or PDF formats to enhance information security and reduce printing costs.
Subscriber usage reminder system	The system sends an SMS to remind subscribers when their voice or data usage is nearing their monthly threshold. This service helps subscribers keep track of their expenses as well as give them a better idea of which tariff plan to choose in the future. It also minimizes potential disputes over billing, enhances customer satisfaction and boosts TWM's revenue.
myBook	Launched Taiwan's first mobile book store. Customers – both TWM and non-TWM users – can buy e-books or hard copies via their mobile devices anytime, anywhere.
Taiwan Mobile TV	Build a new live streaming system to provide real time video programs with dynamic bit rate adaptation for smartphone and tablet users.
Taiwan customer care mobile app	Launched Taiwan's first mobile customer self-help service app. Subscribers can use this to check their bills, locate nearest TWM store and check international roaming rates among others. It is a convenient tool for subscribers and reduces call-center costs for TWM.
myPhoto service	Based on TWM's new digital convergence platform, it provides a Photo Society cloud service for users to store their photos and view the photos via TV / mobile phones / tablets / PCs. This service is open to TWM and non-TWM users.
Appguru	Provide an online forum for new apps discussion. Users can share their experiences and suggestions as well as receive the latest software information updates..
Taiwan Mobile member center	Build a new TWM member center to manage the Company's mobile, cable internet and digital TV subscribers, as well as open select services to non-TWM users, such as myBook, matchApps and Mofun to expand its market reach.

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 platforms 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 products and services to integrate mobile handsets, high-quality mobile networks and cloud computing technology so as to expand our service range and support the development of innovative, profitable business models.
- (3) Increasing the number of company stores and providing extensive training to the franchise shops to enhance the availability and quality of our services, and aiming to fulfill customers’ mobile needs with a wider variety of services as well as supplying more ways to experience them.

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, digital TV, digital TV recorder, high-speed fiber-optic internet access services and innovative digital convergence services.
- (2) TWM Broadband will continue to level up the penetration rate of cable internet to raise the percentage of high-speed service users and increase the number of “new TV” digital TV service subscribers.

2. Long-term plan

TWM Broadband will launch 100Mbps and above super high-speed internet access service and will integrate digital content, internet terminal devices, and cloud technology to provide cloud related value-added services in 2012. Through the implementation of the long-term product and service development plan, TWM Broadband aims to let families and individual subscribers enjoy the benefits of the integration of mobile phones, PCs, handheld devices and TV, or “four screens and a cloud” converged digital services, and establish a new milestone in the evolution of cable TV.

Enterprise Business Group

1. Short-term plan

The popularity of smart devices has gradually changed enterprise communication patterns. To meet the needs of mobile offices, the Company will not only provide mobile applications, but also better cloud computing services after a 26,000sq.m. cloud internet data center (IDC) officially opens in 2013. In addition, the company will promote mobile

virtual private network (MVPN) services through TWM channels to help corporate users reduce expenses and enhance operating efficiency.

Given the increasing demand for cloud computing services, transnational bandwidth traffic is also growing rapidly. The company has invested in the Tam-Fu underwater cable project, which will establish a direct link across the Taiwan Strait, to strengthen its position in Asia.

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) Grow revenue from cloud computing and mobile applications.
- (2) Raise sales productivity and expand the small-and-medium enterprise market segment by integrating channels.
- (3) Improve the international business division's operating efficiency by increasing direct peering coverage, managing quality and reducing international IP cost.

Customer satisfaction

To create the best experience for customers, TWM conducts annual customer satisfaction surveys by telephone to better 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	2009	2010	2011
Overall satisfaction	3.6	3.7	3.7
Call quality	3.7	3.7	3.6
Customer hotline service	4.2	4.3	4.3
Store service	4.0	4.1	4.0
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 2011, the penetration rate for mobile subscribers had reached 124%. 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 venture into this market.

3. Competitive advantages

(1) Better customer mix

In 2011, the Company succeeded in improving its subscriber base structure. The percentage of low usage subscribers fell by 6 ppts from a year ago, while the percentage of mid-to-high usage subscribers continued to increase.

(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 2011, the Company had a 3G subscriber base of 5 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 entrepreneurs and professionals to ordinary consumers, contributing to a 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) The popularity of smart devices has boosted the number of data users and their data usage, but has also increased pressure on the carriers' network capacity and planning.

Countermeasures

- (1) The Company rolled out its HSPA+ network to provide high-speed internet access, as well as closely monitored the development of 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 62.82% of households as of 4Q 2011, 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

Due to the government's digitization policy, increasing public demand for high-definition video services, development of new TV features and functions, cable TV system operators' aggressive promotion of digital TV services and the termination of analog terrestrial TV broadcasts by end-June 2012, TV digitization has become an inevitable trend. TWM Broadband had a digital TV penetration rate of 8% at the end of 2011, implying ample room for growth in this industry.

(3) Broadband internet access

With the broadband internet access market moving toward higher bandwidths, the migration of low- and mid-bandwidth users to higher bandwidth services will be the main growth driver for the market.

3. Competitive advantages

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

TWM Broadband will continue to deploy a dense, ring-type fiber-optic backbone network and provide back-up systems for its bi-directional network with advanced DOCSIS 3.0 network technology. TWM Broadband is able to provide high-speed (100MB or higher) internet access services. Unlike ADSL with its range constraints, cable internet provides lower cost but premium quality super high-speed broadband services.

- (2) Introduction of "4 screens and a cloud" digital convergence services to stimulate digital TV subscriber growth

TWM Broadband has set up a digital convergence platform to provide subscribers with various interactive and connected value-added services, including entertainment, fashion, information, video and other popular apps and services. This interesting and diverse range of audiovisual entertainment should help the Company raise its penetration rate and subscriber numbers, as well as customer satisfaction and loyalty.

- (3) Taiwan Mobile Group's integrated resources facilitate development of 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) Relaxing restrictions on regional operations

CATV penetration rate has reached over 60%. In line with the government's digitalization policy, restrictions on regional operations will be eased. This should help TWM Broadband further expand its footprint and raise its penetration rate and subscriber numbers.

- (2) Government speeding up digitization policy to promote digital TV

Analog terrestrial TV broadcasting will cease by end-June 2012 under the government's digitalization policy. It should help TWM Broadband promote its CATV services as viewers switch and upgrade to digital TV services, increasing both its digital TV subscriber numbers and penetration rate. At the same time, TWM Broadband will provide more digital TV value-added services to increase its revenue stream.

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

TWM Broadband has completed upgrading its ring-type fiber-optic backbone network and infrastructure in all operating areas. It can provide super high-speed broadband internet access services of 60 Mbps, 100 Mbps and above to help it expand its market share.

Negative factors

- (1). There is still a risk that local governments might lower the cap on cable TV fees during their annual review.
- (2) The NCC might support the airing of CATV content on Chunghwa Telecom's MOD and, thus, allowing CHT to produce its own programs and operating channels, posing a threat to other operators.

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 market digital convergence services with 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 order to boost its cable TV, broadband internet access and digital TV subscriber numbers and their contributions to revenue.
- (2) TWM Broadband will be using its digital cable TV platform to cultivate Taiwan's cultural and creative industries, enrich the nation's digital channel and Connected TV content, and stimulate the development of digital content and innovative Connected TV services to boost digital TV's penetration rate.
- (3) TWM Broadband seeks to foster good relations with local governments and communities. With the assistance of Taiwan Mobile Group's extensive resources – such as the Taiwan Mobile Foundation – TWM Broadband sponsors local artistic, cultural and charitable activities, while also subsidizing the cost of network deployment in remote areas, working to bridge the digital divide, and fulfilling its responsibilities as a good corporate citizen, thereby strengthening its corporate image of "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 on digitization and new developments in the formulation of relevant laws and regulations. TWM Broadband will take the initiative in formulating any response or measure to deal with changes in the market.

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. As of the end of 2011, the company's roaming services covered the following: GSM: 150 countries, 299 networks; 3G: 67 countries, 145 networks; GPRS: 122 countries, 244 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: Fixed lines' local and international calls and average revenue per minute (ARPM) are expected to continue to decline because of rising competition from VoIP and mobile services in recent years and the

introduction of new long-distance call rates in 2012.

- (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, enterprise demand for FTTx is fast replacing ADSL service. However, fierce competition will result in moderate revenue growth.
- (4) Mobile service: As demand for mobility increases, data revenue from smartphones, tablets and 3.5G data cards is expected to continue increasing. As enterprise users increasingly access intranet information via their smart devices, mobile voice revenue should benefit from the rise of mobile internet services.
- (5) Cloud computing service: As cloud computing technology gradually matures and benefits from government support, operators are actively venturing into cloud computing services, strengthening the software and hardware supply chain. The diverse range of mobile devices and digital content should also boost demand for cloud services, underpinning growth in cloud app subscriber numbers and revenue.

3. Competitive advantages

- (1) Premium brand equity: The Company provides customer-centric quality services. TWM 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 communications technology for business expansion.
- (3) Effective sales teams and channels: The Company's direct sales teams and retail chains across the nation are an effective channel for developing and expanding services.
- (4) Expanding resources from international alliances: The Company is the sole Taiwanese member of the Bridge Alliance, the largest mobile alliance in the Asia-Pacific region with a combined customer base of about 340 million.

4. Opportunities and challenges

Positive factors

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. It should also benefit from rising demand for integrated telecommunications and network efficiency from Taiwanese businesses in China.

Negative factors

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

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 its international/domestic IP and international undersea cable strategies 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 last two years

Major suppliers

Unit: NT\$'000

	2010				2011			
	Company	Amount	% of operating costs	Nature of relationship	Company	Amount	% of operating costs	Nature of relationship
1	Chunghwa Telecom	4,842,460	15	Third party	Chunghwa Telecom	4,003,111	11	Third party
2	Taiwan Fixed Network	2,015,734	6	Subsidiary	Taiwan Fixed Network	3,312,417	9	Subsidiary
3	Fubon Insurance Co., Ltd.	43,889	-	Related party in substance	Fubon Insurance Co., Ltd.	36,344	-	Related party In substance
4	Taiwan Kuro Times Co., Ltd.	11,920	-	Subsidiary	Taiwan Kuro Times Co., Ltd.	105,157	-	Subsidiary
	Others	25,894,709	79		Others	30,336,845	80	
	Total	32,808,712	100		Total	37,793,874	100	

Major customers

Unit: NT\$'000

	2010				2011			
	Company	Amount	% of operating revenues	Nature of relationship	Company	Amount	% of operating revenues	Nature of relationship
1	Chunghwa Telecom	8,226,198	14	Third party	Chunghwa Telecom	6,095,559	10	Third party
2	Taiwan Fixed Network	2,216,854	4	Subsidiary	Taiwan Fixed Network	2,372,054	4	Subsidiary
3	Taipei Fubon Commercial Bank Co., Ltd.	11,732	-	Related party in substance	Taipei Fubon Commercial Bank Co., Ltd.	12,859	-	Related party in substance
	Others	48,092,501	82		Others	53,438,801	86	
	Total	58,547,285	100		Total	61,919,273	100	

Reasons for variation

Since 2011, fixed-to-mobile (F2M) call revenue has been collected by fixed-line operators instead of mobile operators. As such, call revenues collected by CHT on behalf of TWM (operating revenue earned from CHT) and F2M interconnecting fees that TWM paid CHT (operating cost paid to CHT) both declined from 2010.

The Company's operating cost for leasing lines from Taiwan Fixed Network increased from 2010 as the group continued to work on integrating its resources.

The Company's operating cost paid to Taiwan Kuro Times increased from a year ago as more TWM's subscribers signed up for Kuro's online music services.

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

Sales volume in the last two years

	2010				2011			
	Domestic		Overseas		Domestic		Overseas	
	Average No. of subscribers	Revenue (NT\$'000)	Average No. of subscribers	Revenue (NT\$'000)	Average No. of subscribers	Revenue (NT\$'000)	Average No. of subscribers	Revenue (NT\$'000)
Telecom service	6,389,361	55,001,883	--	--	6,497,799	55,916,663	--	--

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		2010	2011	2012 (as of Feb. 29)	
Number of employees	Consolidated	4,498	6,055	5,941	
	Stand-alone	2,496	2,651	2,647	
Stand-alone	Average age	36.8	36.8	36.9	
	Average years of service	7.0	7.22	7.24	
	Education level	Ph.D.	0.36%	0.26%	0.26%
		Master	19.99%	20.67%	20.63%
		University	50.76%	50.92%	50.89%
		College	26.89%	23.84%	23.61%
Others		2.00%	4.30%	4.61%	

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 only recipient in the service industry of the R.O.C. Enterprise Environmental Protection (EEP) Award for three years in a row – 2009 to 2011 – from the Environmental Protection Administration of the 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 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 maintain the Company's competitiveness, employees are required to sign a "Confidentiality and Intellectual Property Rights Statement" and "Employment Contract" as a safeguard against potential damage arising from the disclosure of trade secrets. The Company provides employees with the required information and training courses to strengthen their understanding of information security.

Sexual harassment prevention and handling procedures

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

Code of Conduct

The Company 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 Employee 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 2011 and up to the publication date totaled NT\$14,732,933, with 59,266 in training hours and 10,524 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, innovative thinking, team dynamics skills and organizational development skills.
5. The Company sends large numbers of employees to local and international telecommunications 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 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 perform health checks, track the progress of staff who fails 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 held 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 protect staff, property and information security.
6. Energy-saving policies have been established to reduce carbon emissions.

Labor negotiations and protection of employee benefits

The Company, working under the management and labor as one concept and 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.

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

Year	2010	2011
Number of disabilities	1	2
Disabling Frequency Rate (FR, Note 1)	0.19	0.42
Disabling Severity Rate (SR, Note 2)	4	1.5

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

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

Major Contracts

Nature	Counterpart	Contract period	Description	Restriction clauses
Sales & distribution	Synnex Technology International Corp	2005.02.01~2006.01.31 (Note 1)	Synnex is authorized to distribute TWM's mobile services.	Non-disclosure
	Aurora Telecom Corp	2011.07.01~2012.06.30	Aurora is authorized to distribute TWM's mobile services.	Non-disclosure
	Tsann Kuen Enterprise Co., Ltd.	2011.04.01~2012.03.31	Tsann Kuen is authorized to distribute TWM's mobile services.	Non-disclosure
	First International Computer, Inc. (FIC)	2011.07.01~2012.06.30	FIC is authorized to distribute TWM's mobile services.	Non-disclosure
Network interconnection	Chunghwa Telecom Co., Ltd.	2011.06.01~2012.05.31 (Note 2)	Network interconnection contract	Non-disclosure
	New Century InfoComm Tech Co., Ltd.	2005.05.01~2006.04.30 (Note 3)	Network interconnection contract	Non-disclosure
	Taiwan Fixed Network Co., Ltd.	2011.01.01~2011.12.31 (Note 1)	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 Telecom Co., Ltd.	2011.08.01~2012.07.31 (Note 2)	Network interconnection contract	Non-disclosure
	Far EasTone Telecommunications Co., Ltd.	2004.02.10~2005.02.09 (Note 1)	Voice and SMS contract	Non-disclosure
	First International Telecom Corp.	2005.05.01~2006.04.30 (Note 1)	Voice and SMS contract	Non-disclosure
	Global Mobile Corp.	2011.05.01~2012.04.30 (Note 1)	Network interconnection contract	Non-disclosure

Nature	Counterpart	Contract period	Description	Restriction clauses
Handset purchase	Synnex Technology International Corp.	2004.05.01~2005.04.30 (Note 1)	TWM accepts Synnex's consignment to sell handsets and related products	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, equities net of intangible assets
Corporate bond offering	Chinatrust Securities and 9 other securities companies	2008.11.14~2013.11.14	The total amount of the second unsecured ordinary corporate bond issue is NT\$8 billion.	Non-disclosure
Equipment purchase	Nokia Siemens Networks Taiwan Co., Ltd.	2011.02.01~2014.12.31	3G equipment supply contract amounting to NT\$6.65 billion	Non-disclosure
Customer service	Taiwan Teleservices & Technologies Co., Ltd. (TT&T)	2006.01.01~2010.12.31 (Note 1)	TT&T accepts TWM's consignment to handle customer services and product sales	Non-disclosure

Note 1: The current contract will remain valid if both parties do not issue any objection for the continuation of such contract before the current contract expires.

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

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

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