

## 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<br>(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%                   |        |