

## 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 short messaging service (SMS), data, multimedia and other value-added services.

Target customers	Service category	Description	Highlights
Individual consumers	Mobile	Voice	Basic telecommunication voice services, including calling and receiving calls from fixed-line and mobile phones
		Data	Value-added services, including voice mail, call forwarding, call waiting, conferencing, SMS, roaming, call barring, video calls, multimedia and content (e.g. mobile TV, music, games, finance information, online bookstore, messaging apps, video clips, video streaming), and internet access using GPRS/3G/HSDPA transmission
	IDD	International direct dialing services	

##### 2. Revenue breakdown by service

Unit: NT\$mn

Item \ Year	2013	
	Revenue	% of total
Telecom service	49,200	69%
Handset sales and others	21,999	31%
Total	71,199	100%

##### 3. New products and services

- (1) Voice services: Continue to roll out innovative rate plans to better meet customers' different calling patterns and personal demands.
- (2) Value-added services: Focus on mainstream smart devices; develop a diverse range of services and digital content to better meet customers' various mobile needs.

##### 4. Operating status

(1) Postpaid products and services

To offset the impact of the voluntary tariff cuts imposed by the National Communications Commission (NCC) on voice revenue, 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 2013, mid-to-high rate plan users as a percentage of total subscribers had increased by 4 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 uses market segmentation to target and provide customers with services that better match their needs. For instance, the Company provides discounts on handsets or phone bills as incentives for clients renewing their contracts. For high ARPU customers, the Company has an exclusive program called "myVIP". The Company also offers a credit card program that allows customers to earn rebates based on their phone bills.

(2) Prepaid products and services

The Company launched a prepaid card that can be used for voice and mobile internet (1GB data) for only NT\$180 in 2013. This helped boost the Company's prepaid subscriber numbers by 12% in 2013.

The Company also aggressively promoted VAS usage and adoption rate. Various mobile internet data packs and daily charge mobile data products were sold through different channels. The Company was the first Taiwanese telecom carrier to offer international voice roaming service for prepaid card users. All these efforts contributed to the 89% growth in non-SMS VAS revenue for the Company's prepaid business in 2013.

(3) Value-added services

The Company saw a significant increase in VAS revenue in 2013, surging 30% from a year ago. In particular, revenue from mobile internet access rose 39%, thanks to high-quality mobile internet services and flexible data rate plans, as well as a growth in 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.

## 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 telecommunication license. Its main products and services cover analog cable TV service, high-definition digital cable TV service, high-speed cable broadband service, HomePlay (a multi-screen sharing service), Super MOD (multimedia on demand) service, internet TV and Connect TV. Combining the group's resources – from mobile and fixed-line to innovative cloud technology – HBG provides digital convergence services across “four screens and a cloud” to home users. Its subsidiary, TV production company Win TV Broadcasting, operates the “momo family channel” and owns distribution rights to a large number of outstanding domestic and foreign TV content, enabling it to provide subscribers with a wide range of digital audiovisual entertainment services.

Service category	Products / Services	Description
Pay TV	Analog cable TV	Uses high bandwidth coaxial cable to transmit a wide range of TV channels and programs to home TVs.
	Digital cable TV	TWM Broadband's CATV networks transmit domestic and international digital TV channels to subscribers' homes; subscribers can use the set-top box provided by TWM Broadband to view high-definition digital video content.
Broadband internet access	Cable fiber-optic broadband internet access	Provides high-speed internet access service via a hybrid fiber/coaxial (HFC) network deployed by the CATV system operator in combination with new-generation DOCSIS 3.0 broadband internet access technology.
Content distribution	Analog and digital TV channels	Distributes high-quality domestic and foreign TV content on both analog and digital TV services by licensing the broadcasting rights of these channels to other CATV system operators and video service platforms.
Digital home service	Super MOD service	The first in Taiwan to provide high-definition on-demand video, audio and interactive applications/content by combining video on demand, internet TV and digital TV onto a single platform. Subscribers can access Super MOD content on their TVs, computers, smartphones and tablets anytime, anywhere.
	HomePlay service	A multi-screen sharing service that enables subscribers to share and watch TV programs, HD video on demand and internet video content via multiple screens such as TVs, tablets and smartphones. Subscribers can access any content through any device via HomePlay's user-friendly application at home.

## 2. Revenue breakdown by service

Unit: NT\$mn

Item \ Year	2013	
	Revenue	% of total
Pay TV service	4,308	69%
Cable broadband service	1,161	19%
TV content distribution and others	775	12%
Total	6,244	100%

## 3. New products and services

(1) High-definition digital TV channels and programs:

With the government pushing for 100% digital cable TV penetration rate by 2016, TWM Broadband has positioned itself to maximize the opportunity by expanding the economic scale of HDTV and digitizing audio-visual home entertainment.

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

Consumer demand for high-speed Internet access has soared with the fast-growing popularity of online videos and social media. TWM Broadband was ahead of the trend in upgrading its fiber-optic network, enabling it to provide 100M and 120M high-speed broadband access services in 2012 and 2013, respectively.

(3) Digital home service:

In 2012, TWM Broadband launched the first platform integrating internet TV, video on demand and connected TV called Super MOD. The platform enables subscribers to watch high-definition video on demand and use interactive digital applications across multiple devices, from televisions and smartphones to tablets and computers, offering the convenience of “four screens and a cloud” digital home service. In 2013, TWM Broadband again led the industry in introducing a multi-screen sharing service called “HomePlay,” ushering in the digital home 2.0 era by giving users a true “TV Everywhere” experience.

## Enterprise Business Group

### 1. Products and services

The Enterprise Business Group (EBG) offers enterprise customers integrated mobile/fixed and cloud services.

Service category	Description
Fixed-line voice	EBG provides integrated voice solutions, including Enterprise E phone, local calls, long-distance calls, international calls, Centrex, 080 domestic toll-free service, audio conference, intelligent network services (e.g., 0209 services) and ISR, enabling users to save on calling costs. TWM Solution continues to develop advanced technologies to enhance reliability and provide instant response to ensure customer satisfaction.
Fixed-line data	EBG offers different types of circuits for information transmission, including leased line, Metro Ethernet, IP virtual private network (VPN), international private leased circuit (IPLC) and ADSL VPN. These circuits and bandwidth for data transmission among terminals enable users to build a communication network and expand their business opportunities.
Internet	EBG offers internet access via leased line, Metro Ethernet, ADSL, FTTx and dial-up.
Mobile	EBG offers regular voice services, mobile VPN, intelligent transportation system (ITS), BlackBerry enterprise solution, mobile audio conference and MVPN data service.
Systems integration and cloud service	EBG 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. In addition, EBG provides video conference services, information security services (Security Operation Center), network management, and infrastructure as a service (IaaS).

### 2. Revenue breakdown by service

Unit: NT\$m

Item	Year	2013	
		Revenue	% of total
Mobile service		4,700	43%
Fixed-line service		3,478	32%
ISR and others		2,556	24%
Total		10,734	100%

### 3. New products and services

- (1) Remote desktop service: A productivity-enhancing service that allows business travelers to use their mobile devices to access their office files and applications anywhere.
- (2) Cloud storage service: A cost-effective solution for enterprise customers to build a disaster recovery site and off-site backup in order to enhance data security, protection and compliance.
- (3) Enterprise mobility applications service: The proliferation and popularity of smart devices have made "Bring Your Own Device" (BYOD) a common corporate policy. TWM has responded to this trend by providing customers a variety of productivity and efficiency-enhancing applications. With the launch of the Company's high-speed 4G service this year, clients can look forward to even faster and easier mobile data transmission services.

## Fubon Multimedia Technology (momo)

### 1. Products and services

Momo offers TV home shopping, online shopping, mail order service, travel services, and property and life insurance sales.

### 2. Revenue breakdown by service

Unit: NT\$mn

Item	Year	2013	
		Revenue	% of total
Online shopping		11,522	54%
TV home shopping and mail order service		8,713	41%
Brick-and-mortar channels* and others		1,043	5%
Total		21,278	100%

\* momo sold its cosmetic chain store operation in March 2014.

### 3. New products and services

- (1) Develop new product categories: As online shopping takes off, offering product variety is critical to maintaining view rates and targeting the right customers. Momo has successfully explored and developed new product categories, including food, men's wear and artworks, to sustain buyers' interest.
- (2) Introduce new brands: Backed by its rich marketing resources and a stable supply chain, momo has launched new quality brands, such as Laneige, Brand's, Dyson and Philips. Momo aims to continue this strategy of introducing famous local and foreign brands.
- (3) Expand business platforms: With CATV penetration nearly saturated and traditional TV viewership falling while digital TV and mobile devices rise in popularity, TV home shopping is adapting to changes in consumer lifestyle and trends by expanding into other broadcasting platforms, such as Super MOD (a high-definition digital content and TV application platform launched by TWM), shopping via remote control, interactive digital shopping and mobile apps.

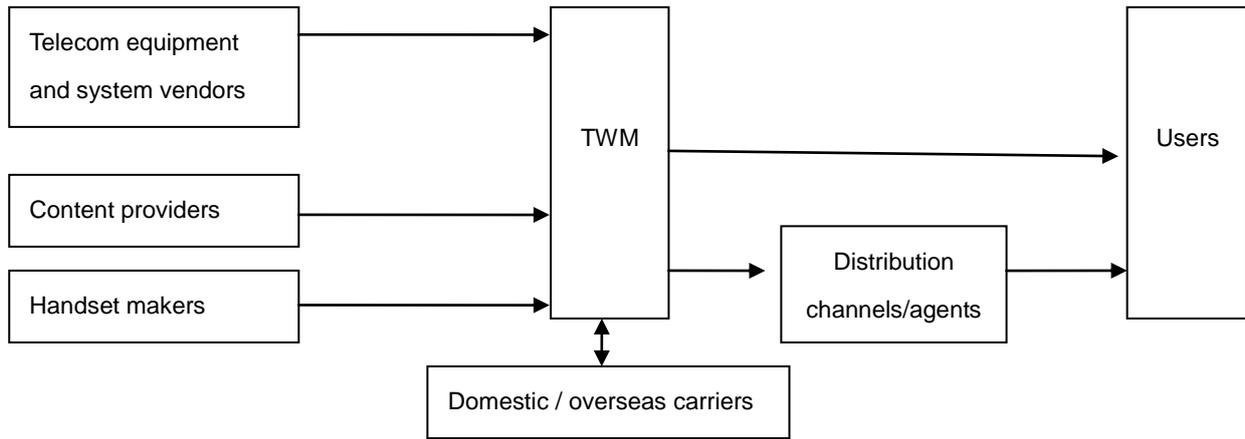
## Industry overview

### Consumer Business Group

#### 1. Industry status and development

The three leading players continued to dominate Taiwan's mobile telecommunication market, and smaller players' share of mobile service revenue declined in 2013. However, the National Communications Commission's request that the three leading players offer voluntary mobile tariff reductions could weigh on their revenue going forward.

**2. Industry value chain**



**3. Product development trends and competitive landscape**

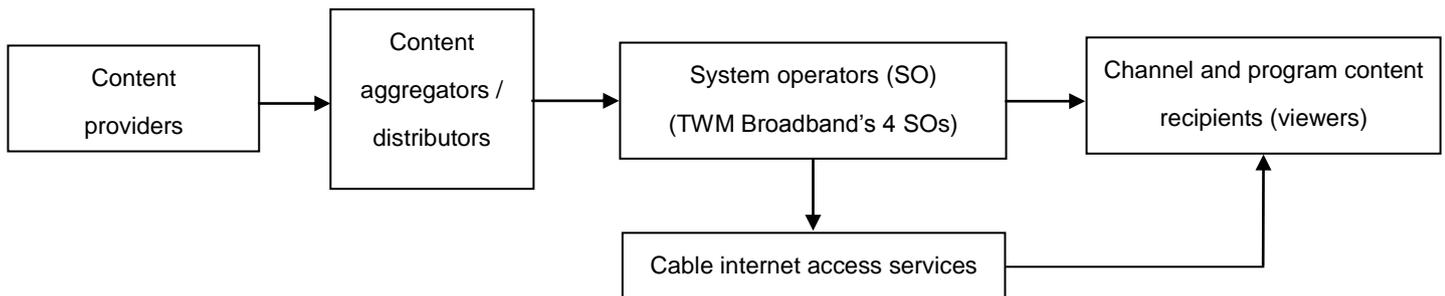
The operators are seeking to further expand the mobile broadband market in the 4G era. A variety of new rate plans for data services, combined with new terminal devices and new VAS, have been introduced to stimulate subscriber take-up. This should be an important future revenue growth driver. As for the prepaid segment, pricing competition is intensifying.

**Home Business Group**

**1. Industry status and development**

Cable TV has become a must-have video platform, but it faces challenges from alternative services such as IPTV, digital terrestrial TV and other emerging media that have successively entered the market. The cable TV industry must digitalize aggressively and continue to provide innovative digital TV value-added services to attract traditional cable TV subscribers to switch to digital TV.

**2. Industry value chain**



TWM Broadband has the advantage of controlling “last mile” access to customers. TWM Broadband aims to take the lead in vertical integration to build up its core competitiveness and explore new business opportunities in the age of digitalization.

**3. Product development trends and competitive landscape**

Despite a saturated market which is dominated by Chunghwa Telecom, HBG managed to grow its subscriber number

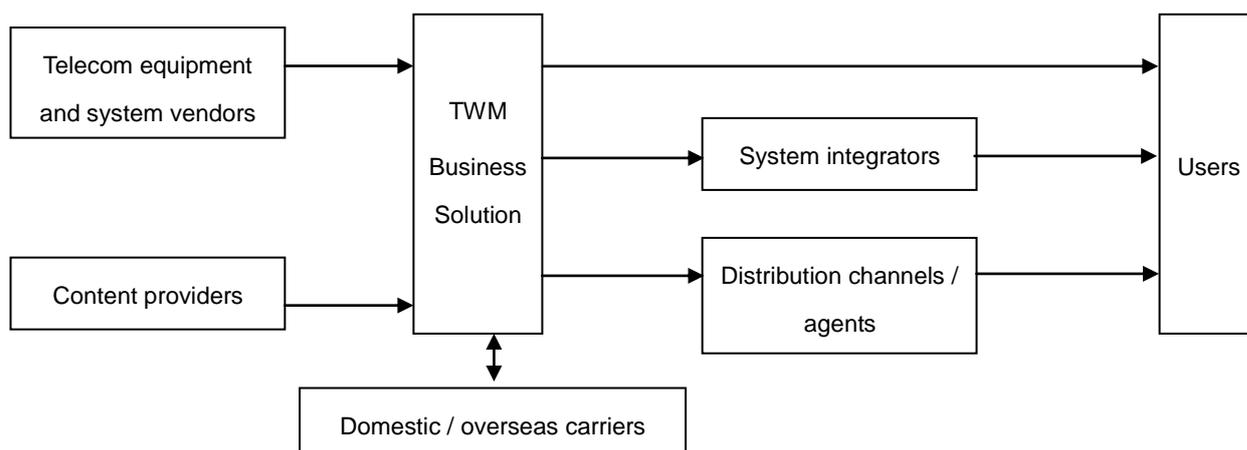
in the cable internet business by bundling cable broadband products with HD DTV services offered in its cable TV service areas, taking examples from global leading operators such as PCCW in HK as well as AT&T and Comcast in U.S. To fend off competition, TWM Broadband will provide high-speed broadband internet access service, increase the number of high definition programs and develop more innovative digital value-added services to let subscribers enjoy a whole new experience in home entertainment.

## Enterprise Business Group

### 1. Industry status and development

According to NCC statistics, there were 79 Type I telecommunication providers, including four fixed-line operators, five mobile operators and other circuit leasing operators; and 448 Type II telecommunication providers, including international simple resale (ISR), internet service providers (ISP), VoIP and other value-added service providers. All these have resulted in keen competition. And, as the trend toward digital convergence expands, the boundaries between telephone, cable TV, wireless and PC are getting increasingly blurry, intensifying cross-industry competition.

### 2. Industry value chain



### 3. Product development trends and competitive landscape

NCC statistics show that Chunghwa Telecom (CHT) has a virtual monopoly of the telecom market, accounting for 91.32% of local network service revenue, 76.63% of long-distance network service revenue and 49.91% of international network service revenue. FTTx is the most popular type of broadband internet access in Taiwan, with an increasing number of users choosing higher-speed services. Since CHT has the “last mile” advantage, other ISPs find it hard to effectively compete with the firm, except for cable broadband operators.

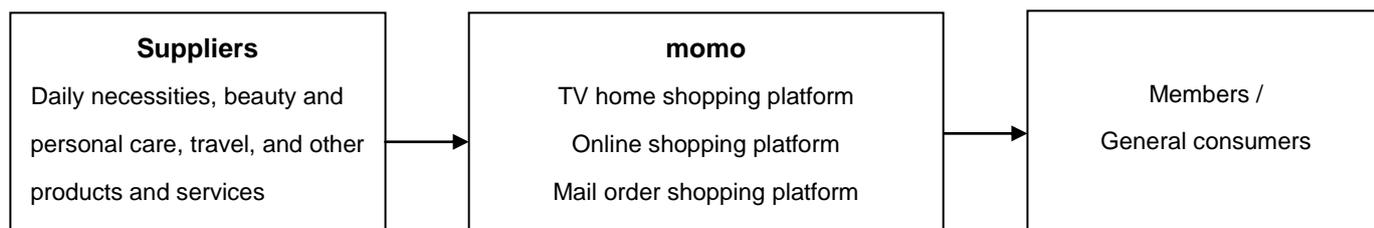
Along with the rising popularity of smart devices and as network infrastructure matures, the government is planning to invest in the transformation of the information/telecommunication industry into a cloud computing industry. Carriers planning to continue promoting enterprise customer applications will contribute to the building of this cloud center and providing various cloud application services. Hence, cloud, m-commerce and integrated mobile data services will be the main revenue growth drivers in the future.

## Fubon Multimedia Technology

### 1. Industry status and development

The proliferation of cable TV, digital TV and smart devices has given rise to a new breed of home shoppers. Consumers can order a product by telephone or through virtual shopping platforms, choose from a host of convenient payment systems and receive the product in a short period.

### 2. Industry value chain



momo sources its products from suppliers of daily necessities, beauty and personal care, travel services, and other products and services, and sell them through its TV home shopping networks, online shopping sites and mail-order catalogues for members and general consumers.

### 3. Product development trends and competitive landscape

- (1) TV home shopping: The rise of virtual shopping platforms has helped e-commerce and mobile commerce gain a foothold in Taiwan's TV home shopping market. And as digital TVs become more popular, TV home shopping programs are finding greater opportunities to reach out to consumers. Aside from momo, leading players in the field are Easter Home Shopping (EHS), U-Life and ViVa. Momo aims to provide better broadcasting programs that cater to consumers' needs in a timely manner.
- (2) Online shopping: Although momo entered the market later than its peers Yahoo! Taiwan and PChome Online, it has made major strides as a comprehensive business-to-consumer (B2C) e-commerce player, growing rapidly by leveraging its know-how in TV home shopping.
- (3) Mail order: The mail order business attracts different types of players, from TV home shopping operators (e.g., momo, EHS, U-Life and ViVa) to multi-level marketing players (e.g., Amway, Avon, Herbalife and Nu Skin), and Japanese mail order companies (e.g. DHC and Orbis). Momo's main rivals are multi-level marketing players and Japanese mail order companies.

## Research and development expenditure

Investment in research and development and its ratio as a percentage of total revenue are shown in the table below. For 2014, the Company plans to spend NT\$959mn on the research and development of more advanced technologies to increase customer satisfaction, which in turn should boost value-added service revenue and overall operations growth.

Year	2012	2013	2014 (As of February 28)
R&D expense (NT\$'000)	551,589	598,864	132,822
As a % of total revenue	0.55%	0.55%	0.70%

## Major research and development achievements

Project name	Description
LTE new technology research	<ul style="list-style-type: none"> <li>• 4G broadband service spectrum evaluation</li> <li>• Frequency planning and resource management mechanisms for LTE-Advanced (LTE-A) system deployment</li> <li>• 3D-MIMO (multi-input multi-output) for LTE-A</li> <li>• Design of an integrated group mobility mechanism for LTE-A networks</li> </ul>
Daily scale charges for data roaming service	Flexible billing system to provide customers with better and more convenient mobile data roaming service
Enterprise sales incentive/sales performance evaluation (SI/SPE) system	Sales incentive and performance evaluation system for enterprise business to boost sales efficiency
Gift certificate management system	Designed to support distribution and consumption of gift certificates to encourage clients to use the myfone shopping website
Integrated payment service	Integrated payment platform provides multiple payment options for customers across physical and virtual channels
Expanded mobile phone billing system	Extended mobile phone bill's coverage to include payment for e-commerce and m-commerce transactions to stimulate sales and reduce credit card service charges
NFC PayPass	A new mobile payment service integrating the functions of a credit card and public transit fare card for users of NFC-enabled smartphones
M+ messaging app	Free VoIP service launched to enrich customers' communication experience; enterprise accounts also set up in cooperation with EasyCard Corp and Fubon Securities Co., Ltd.
TAMedia mobile advertisement platform	Expanded platform to support rich media (expandable and interstitial) and video ad content
myVideo	Streaming service offers MLB/NBA gaming content and news updates for smartphone, tablet and PC users
Cloud IDC	Received Tier III certification from Uptime Institute for its internet data center facility. The center will be used to provide stable and uninterrupted IaaS for enterprise customers in the financial, telecom, e-commerce and other industries.

## Sales development plans

### Consumer Business Group

#### 1. Short-term plan

- (1) Introduce 4G LTE service to continue supplying faster and more convenient mobile internet service for customers.
- (2) Develop standard service flow from customers' point of view to give them the best service experience.
- (3) Develop a wide variety of voice/data and VAS rate plans and campaigns to target different customer segments and strengthen customer relations as well as acquire new subscribers by enhancing management of local

channels.

- (4) Offer a greater variety of mobile phones, accessories and other 3C products, and build a one-stop shop that meets all TWM customers' digital needs.

## **2. Long-term plan**

The Company aims to provide subscribers with a variety of digital convergence services through 4G's faster transmission speed. The focus will be on the following:

- (1) Establishing a "quadruple-play" platform that integrates mobile communication, fixed-line, broadband internet access and cable TV services to give the Company a lead over its competitors in offering digital convergence services in Taiwan.
- (2) Leveraging machine-to-machine (M2M) technology into TWM products and services to integrate mobile handsets, high-quality mobile networks and cloud computing technology so as to expand its service range and support the development of innovative, profitable business models.
- (3) Increasing the number of company stores and providing extensive training to franchise shops to enhance service quality and availability, as well as providing a wider variety of services and customer experience to attract users and fulfill their mobile needs.

## **Home Business Group**

### **1. Short-term plan**

- (1) TWM Broadband will continue to optimize its network infrastructure in those regions where it is already operating cable TV systems, and provide high-definition digital content and VOD to set the foundation for its digital services.
- (2) TWM Broadband has commercially launched its 100Mbps+ super high-speed internet access service bundled with high-definition digital TV to boost its cable broadband and digital TV service penetration rates in hopes of raising its subscriber mix of high-speed broadband service users and DTV customer numbers.

### **2. Long-term plan**

In line with the Executive Yuan's goal of raising the digital TV penetration rate to 100% by 2016, TWM Broadband aims to become a one-stop shop for home digital services by integrating high-definition digital content, multiple-viewing terminal devices, high-speed fiber-optic broadband service and cloud technology, allowing families and individual subscribers to enjoy the benefits of "four screens and a cloud" (i.e., mobile phones, PCs, tablets and TVs).

## **Enterprise Business Group**

### **1. Short-term plan**

The popularity of smart devices has gradually changed enterprise communication patterns. To meet the need of mobile offices, the Company commenced operations of a 26,000 sq.m. internet data center in November 2013 to provide better cloud computing services. Since winning a 4G mobile broadband license in October 2013, the company has aimed to provide faster and better data transmission quality. The Company is further developing enterprise mobility solutions to help reduce corporate costs and enhance operating efficiency.

To cope with the increasing demand for cloud computing services and growing transnational bandwidth traffic, the Company invested in the Tamsui-Fuzhou submarine cable project, which was commercially launched in November 2013. The cable line should provide quick, stable and cost-efficient integrated data services across the Taiwan Strait for enterprise customers.

### **2. Long-term plan**

EBG's vision is to expand its enterprise services from network-centric to IP solutions, cloud services and mobile application 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.

## **Fubon Media Technology**

### **1. Short-term plan**

- (1) TV home shopping: Increase scale of products, expand mobile and digital platforms, and incorporate main suppliers into the company's supply chain management system.
- (2) Online shopping: Provide differentiated value-added services, enhance competitive advantages in the mobile market, perform big data analytics and recommend more individualized products to clients.
- (3) Mail order: Strengthen visual editing to refine the design of momo catalogs and develop e-catalog services to expand touch points with customers.

### **2. Long-term plan**

Take a pro-active approach in increasing momo's brand image, explore Southeast Asia's TV shopping market to export best-selling products, leverage off the Group's marketing resources and sales channels to enhance operating efficiency and provide innovative services through mobile and cloud platforms.

## Customer satisfaction

To create the best experience for customers, TWM conducts annual customer satisfaction surveys by telephone to better understand their needs and expectations. Customers are asked to evaluate call quality, rates, bills, customer hotline service, store service, value-added services, and the Company's website among others. The findings from these polls are used as a reference to set new objectives and improve service quality.

Customer satisfaction key indicators	2011	2012	2013
Overall satisfaction	3.7	3.8	3.7
Call quality	3.6	3.7	3.7
Customer hotline service	4.3	4.5	4.4
Store service	4.0	4.1	4.2
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 December 2013, the penetration rate for mobile subscribers had reached 127%, implying a saturated market. However, the release of 4G licenses, rapid innovations in mobile devices and rising demand for mobile internet and value-added services all suggest a growing market, encouraging new entrants to venture into the market.

##### 3. Competitive advantages

###### (1) Better customer mix

In 2013, the Company succeeded in improving its subscriber base structure. The percentage of low usage subscribers fell by 4 pts from a year ago, while the percentage of mid-to-high usage subscribers continued to increase.

###### (2) Market leader in wireless broadband