

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

In 2005, the Company became the first mobile communication operator in Taiwan to launch 3G services, and in 2007, it rolled out the nation's first 3.5G service. Subscribers enjoyed flexible rate plans, high-quality mobile handsets, and a wide range of value-added services. By the end of 2013, the Company had a 3G subscriber base of over 6.4 million users, who contributed more significantly to value-added service ARPU than 2G subscribers, and have become the main driver of VAS revenue growth.

4. Opportunities and challenges

Positive factors

- (1) With the introduction of 4G service, 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 the rapid growth in non-voice revenue.
- (2) With information technology, communication and media trends converging, mobile operators play a pivotal role in the supply chain.

Negative factors

- (1) The NCC's implementation of mobile termination rate (MTR) cuts from 2013 to 2016 is expected to weigh on mobile voice revenue in the future.
- (2) The increasing popularity of IP messaging apps has affected mobile voice revenue.

Countermeasures

- (1) The Company plans to roll out its 4G network at full speed to satisfy customers' needs for high-speed internet access.
- (2) The Company maps out strategies in response to government policy changes and new laws and regulations.
- (3) The Company will continue to 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, high-definition digital cable TV, and fiber-optic broadband internet access services. Its main service areas are New Taipei City's Sinjhuang and Sijhih districts, Yilan County and Greater Kaohsiung's Fongshan District.

2. Market status

(1) Cable TV

Taiwan's cable TV penetration rate has reached over 60% of households, according to NCC data. Watching TV is a major leisure activity in Taiwan – one that is relatively unaffected by fluctuations in the economy, ensuring stable market demand.

(2) High-definition digital cable TV

Digitalization is the future trend for CATV. With the Executive Yuan setting a target of 100% digital TV penetration rate by the end of 2016, business opportunities abound in this market of 6 million households nationwide. TWM Broadband is tapping into this digitalization value chain by offering rich HD content, stable and quality signal, various platforms for viewing TV programs and an affordable TV set bundled promotion to boost digital TV's penetration rate.

(3) Broadband internet access

With the broadband internet access market moving toward high-speed services, the migration of mid-to-low speed users to faster speeds will be the main growth driver for the market. TWM expects to gain share in this market by offering competitive prices and superior quality for its 100Mbps and above internet access service.

3. Competitive advantages

(1) Optimize broadband network quality

TWM Broadband introduced network quality assurance management (QAM) to optimize management of its network system and bandwidth to ensure that customers get premium broadband access and the best user experience. Aside from lowering the group's broadband costs, this has helped strengthen TWM's competitiveness in the broadband access market and in facilitating digital convergence.

(2) Strengthen 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 120Mbps or faster high-speed internet access services. Unlike ADSL with its range constraints, cable internet provides lower cost but premium quality super high-speed broadband services.

(3) Enrich digital content and VAS to increase ARPU of digital TV service

TWM Broadband aims to increase the variety and quantity of value-added services such as HomePlay and Super MOD to offer triple play bundled services (i.e., broadband access, digital TV and VAS) to increase its subscriber base and ARPU.

(4) Leverage off Taiwan Mobile Group's integrated resources to develop innovative digital convergence products and services

TWM Broadband's resources cover mobile communication, 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 home market.

(5) Form strategic alliances with core industry players to create new business opportunities

TWM Broadband formed an innovative strategic alliance in November 2012 with the world's most advanced

producer of large-sized LCD panels – Sakai SIO International Holdings – to offer 60-inch TVs made by the Hon Hai Group. The initiative gave consumers a complete package of digital TV services, including nearly 30 HD channels and Super MOD, bundled with an extremely competitively priced large TV. TWM Broadband will continue to seek alliances with other partners to create new business opportunities

4. Opportunities and challenges

Positive factors

- (1) Government speeding up digitization policy to promote the development of digital TV
Riding on the government's digitization policy push and the launch of its Super MOD and HomePlay services, TWM Broadband promoted its CATV services and facilitated its analog TV customers' switch to digital services, thereby raising its digital TV subscriber numbers and penetration rate. TWM Broadband will further increase its digital TV value-added services to boost its revenue stream.
- (2) High-speed cable internet service has become the mainstream
TWM Broadband has completed upgrading its ring-type fiber-optic backbone network and infrastructure in its operating areas and adopted the latest high-speed DOCSIS 3.0 cable internet technology. It can provide high-speed broadband internet access speeds of 120 Mbps to help expand its market share, as well as increase customer loyalty and ARPU.

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, posing a threat to other CATV operators.
- (3) The NCC plans to make it mandatory that CATV operators provide customers with at least two free set-top boxes, which, if passed, would increase operating costs.
- (4) The NCC has introduced CATV service area rezoning, and competition is expected to intensify as new entrants compete for market share.

Countermeasures

- (1) TWM Broadband has been able to utilize its parent company's extensive resources (e.g., technology, marketing, sales and distribution) to promote high-speed internet access services and market digital convergence services with Taiwan Mobile Group's telecommunication, information and media content services. TWM Broadband aims 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 contribution to revenue.
- (2) TWM Broadband is 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.

- (3) TWM Broadband seeks to maintain good relations with local governments and communities. With the help 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 “community-based growth and giving back to the community.”
- (4) TWM Broadband is closely monitoring developments in the regulatory authorities' policies on digitization and relevant laws and regulations. TWM Broadband will take the initiative in formulating countermeasures 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 262 countries. As of the end of 2013, the company's roaming services covered the following: GSM: 191 countries, 361 networks; 3G: 95 countries, 202 networks; GPRS: 156 countries, 297 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 steady growth for the domestic telecommunication 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: Given stable demand for enterprise data access, revenue from IP VPN and Metro Ethernet will remain the main revenue contributor.
- (3) Internet service: As internet content services boom, enterprise demand for high-speed internet access service has been rising. However, fierce competition will result in moderate revenue growth.
- (4) Mobile service: As the demand for office mobility increases, TWM Solution is helping enterprise customers incorporate various mobile applications – including electronic workflow, commercial intelligence, mobile device management (MDM) and ERP – into their mobile devices. With enterprise users increasingly accessing internet information via their smart devices, mobile voice revenue should benefit from the rising demand for 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 and 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 Business Solution is readily associated with Taiwan Mobile and has won recognition among major enterprises.
- (2) Professional management team and efficient support group: The Company leads the competition in achieving synergies from the integration of group resources, including mobile telephony, fixed network and cable TV network, with integrated back-office functions to support its frontline operations and provide enterprise customers with exclusive integrated information and communication technology for business expansion.
- (3) Effective sales teams and channels: 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

To increase efficiency, an increasing number of enterprises are adopting cloud computing technology and mobile applications to save maintenance expenses for software, hardware and IT personnel and equipment, while freeing them up to focus on their core business. The Company's newly launched internet data center has obtained Tier III certification from Uptime Institute for its design and facility, as well as ISO 50001 certification for energy management and silver certification for Green Grid PUE. TWM has also obtained ISO 27001 / ISO 27011 certifications – proof that it has passed global information security standards. Going forward, the Company will launch high-speed wireless broadband service with the spectrum acquired in the 4G auction to provide enterprise customers with the best choice. The Company also possesses a wealth of mobile and fixed resources to provide one-stop shopping for integrated services. EBG is well-positioned to meet Taiwanese companies' rising telecommunication needs in the Greater China area.

Negative factors

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

Countermeasures

To maintain its long-term partnership with high data users, the Company provides an excellent enterprise mobile integration program, a new cloud center and cloud management services. Targeting small and medium enterprise users, the Company provides standardized cloud products, helping them to simplify network

management and reduce operating costs. Furthermore, the Company is developing more cloud value-added applications to meet customers' diverse needs.

Fubon Multimedia Technology

1. Main products and service areas

Momo mainly provides TV home shopping and online shopping services in Taiwan and mainland China.

2. Market status

Despite a saturated cable TV penetration rate in Taiwan, the number of households signing up for digital TV services is increasing as digital TV uptake rises. Digital TV programs are set to become a two-way interactive platform between the Company and consumers. Social media marketing allows immediate feedback from customers and strengthens communication between members, thereby increasing their sense of loyalty. New types of marketing platforms such as shopping via mobile devices are also growing alongside the uptake in 4G services. Mobile platforms attract younger groups and could lead them back to cable or digital TV channels, allowing these sales channels to continue growing.

3. Competitive advantages

- (1) A solid reputation: Backed by years of experience, momo has built a solid reputation among suppliers and buyers in the TV home shopping field. Aside from winning customers' confidence, momo has enhanced suppliers' willingness to entrust their brands to the company, allowing it to offer a diverse range of products.
- (2) Solid support: momo is able to seize the initiative by leveraging off the resources of affiliates – including TWM's mobile, fixed-line and cable TV businesses and Fubon Group – to set up digital convergence, mobile platforms and mobile payment mechanisms.
- (3) Competitive brands: Momo has established an overseas merchandising department to scout for competitive brands abroad and serve as their sales agent or exclusive distributor. With well-known brands from South Korea, Japan, the US and Europe complementing its popular range of Taiwan-branded products, momo is able to offer a wide variety of first-rate beauty and personal care products on its website.
- (4) Travel services: Consumers can book domestic or international trips with momo's 100%-owned subsidiary Fu Sheng Travel Service Co., Ltd. through momo's shopping website.
- (5) Comprehensive product range: momo offers a wide range of products – from beauty/skin care to food/beverages/groceries, home appliances and health/fitness – that caters to the needs of the modern family and consumers for practical rather than simply trendy items.

4. Opportunities and challenges

Positive factors

- (1) A rising mobile device penetration rate should foster rapid growth in the mobile shopping market.
- (2) E-commerce should benefit from government policy to accelerate the rollout of fiber-optic and 4G wireless

broadband networks.

(3) A low birthrate and an aging population are creating a new social trend that is worth tapping into.

Negative factors

Some products featured on home shopping networks have been fined for deceptive and exaggerated advertising claims.

Countermeasures

(1) momo will continue to develop new display platforms, such as mobile apps, shopping via remote control and digital TV interactive shopping, to meet changes in consumer buying behavior.

(2) momo has enforced measures to filter out controversial or risky products and clearly define obligations between supplier and the company if and when fined.

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 past two years

Major suppliers

Unit: NT\$'000

	2012				2013			
	Company	Procurement amount	% of operating costs	Nature of relationship	Company	Procurement amount	% of operating costs	Nature of relationship
1	Company A	11,135,537	26	Third party	Company C	7,512,911	15	Third party
2	Company B	5,396,150	12	Third party	Company B	6,150,331	12	Third party
3					Company D	5,440,115	11	Third party
	Others	27,088,057	62		Others	32,566,649	62	
	Total	43,619,744	100		Total	51,670,006	100	

Major customers: Not applicable as the Company's revenue from a single customer does not exceed 10% of its total operating revenue.

Reasons for variation

Procurements from suppliers varied as the Company purchased handsets and other 3C products from different vendors to meet its business development needs and market demand.

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

Sales volume in the past two years

Services		2012		2013	
		Sales volume	Revenue (NT\$'000)	Sales volume	Revenue (NT\$'000)
Mobile	Mobile ('000 subs)	7,012	51,270,830	7,225	52,577,783
Domestic Fixed-line	Local network ('000 subs)	175	1,749,717	168	1,609,890
	Domestic long distance ('000 minutes)	136,259	140,109	120,098	119,157
	Internet service ('000 subs)	180	1,098,034	158	1,016,758
International Fixed-line	International network ('000 minutes)*	629,187	4,857,707	513,041	4,268,363
Others		NA	40,623,859	NA	49,551,416
Total			99,740,256		109,143,367

* Outgoing minutes only

Human Resources

Employee statistics in the past two years up to date of publication

Year		2012	2013	2014 (as of March 20)
Number of employees	Consolidated	6,529	7,309	7,137
	Stand-alone	2,959	2,379	2,336
Education level (Note)	Ph.D.	0.24%	0.10%	0.11%
	Master's	20.71%	13.82%	13.89%
	University	53.09%	58.31%	58.05%
	College	20.99%	21.49%	21.51%
	Others	4.97%	6.28%	6.45%
Average age (Note)		36.43	35.06	35.22
Average years of service (Note)		6.78	5.82	6.00

Note: 2012 numbers were on a stand-alone basis, while those of 2013 and beyond were on a consolidated basis.

Environmental Protection Expenditure

Loss or penalty due to environmental pollution in the past two years up to date of publication: 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 arising from 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 data centers, minimizing the use of paper in offices and stores, recycling waste cables, batteries and handsets, and encouraging users to switch to e-billing and online services.

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.