

Retail Business

The main growth driver came from the continuous expansion of the online shopping business, which surged 30% YoY in 2014. Full-year EBITDA from the retail business jumped 50% YoY in 2014 due to cost savings from the disposal of cosmetic chain store operation and reductions in the number of channels broadcasting TV shopping programs.

Scope of Business

Business overview

Telecom Business

1. Telecom products and services

Consumer Business Group (CBG)

The Consumer Business Group 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, financial information, online bookstore, messaging apps, video clips, video streaming), and internet access using 4G/HSDPA/3G transmission
	IDD	International direct dialing services	

Enterprise Business Group (EBG)

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

Service category	Description
Mobile	<ul style="list-style-type: none"> ● Mobile virtual private network (MVPN) ● Mobile data virtual private network (MDVPN) ● Mobile broadband service ● Business mobility services, including financial, logistics, medical and retail apps, mobile device management, instant messaging (M+ Messages, enterprise edition) ● International roaming
Fixed-line voice	<ul style="list-style-type: none"> ● Integrated voice solutions, including multi-port residential gateway (MRG), local calls, long-distance calls, international calls and fixed mobile convergence (FMC) ● 080 domestic toll-free service, audio conference, intelligent network services (e.g., 0209 services) and international simple resale (ISR)
Fixed-line data	<ul style="list-style-type: none"> ● Domestic leased line, Metro Ethernet, IP virtual private network ● International private leased circuit (IPLC) and ADSL VPN
Internet	<ul style="list-style-type: none"> ● Internet access via leased line, Metro Ethernet, ADSL and FTTx
Cloud	<ul style="list-style-type: none"> ● The only operator in Taiwan awarded UPTIME Tier III certification for its internet data center (IDC) co-location and management services ● Infrastructure as a service (IaaS) ● Software as a service (SaaS), including web hosting, mail hosting, domain name system (DNS) management, security operations center (SOC) and video conference

2. Telecom revenue breakdown (including CBG and EBG)

Unit: NT\$m

Item	Year	2014	
		Revenue	% of total
Mobile service		54,074	66%
Handset sales		21,001	25%
Fixed-line service and others		7,281	9%
Total		82,356	100%

3. Telecom new products and services

Consumer Business Group

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

Enterprise Business Group

- (1) 4G mobile data virtual private network:

TWM Solution provides reliable, high-speed and secure 4G MDVPN, an ideal substitute for ADSL/FTTx

networks for enterprises to meet their need for rapid deployment. .

(2) Enterprise mobility services:

Steadily develop enterprise mobility applications and Internet of Things (IoT) services with partners in the medical/financial/utility industries.

4. Mobile business operating status

(1) Postpaid products and services

In response to keen market competition and declines in voice minutes, the Company focused on boosting handset sales and the migration of 3G/4G clients to raise its average revenue per user (ARPU). As of January 2015, 3G/4G client ratio reached 94%.

The Company also has excellent loyalty programs in place to secure its client 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 was ahead of its peers in launching 4G prepaid cards and competitively priced 4G internet packages (1.2GB for only NT\$180) in 2014, allowing prepaid users to enjoy higher-speed internet services at a low price.

To boost internet usage, the Company promoted different types of internet tariffs, such as charging by usage or by day, which helped lift its value-added service (VAS) revenue excluding text messages from prepaid users by 46% in 2014.

(3) Value-added services

The Company saw a significant increase in VAS revenue in 2014, surging 20% from a year ago. In particular, revenue from mobile internet access rose 24%, thanks to high-quality mobile internet services and flexible data rate plans, as well as the growing popularity of smartphones, tablets, 3.5G data cards and netbooks. These helped attract a large number of mobile internet users and encouraged existing subscribers to use value-added services.

Home Business Group (HBG)

1. CATV 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. 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.
	High-definition Digital 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	SuperMOD 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 SuperMOD 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.
	HomeSecurity service	A multi-screen monitoring and cloud storage service that sends out alerts via apps from smart devices, SuperMOD, SMS and e-mails, providing round-the-clock protection for home subscribers.

2. CATV revenue breakdown

Unit: NT\$m

Item \ Year	2014	
	Revenue	% of total
Pay TV service	4,391	69%
Cable broadband service	1,224	19%
TV content distribution and others	765	12%
Total	6,380	100%

3. CATV new products and services

(1) High-definition digital TV services:

With the government pushing for a 100% digital cable TV penetration rate by the end of 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 services:

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 120M and 200M high-speed broadband access services in the past and even faster 300M services in the near future.

(3) Digital home services:

In 2012, TWM Broadband ushered in the digital home 1.0 era with the launch of its SuperMOD service. The following year, TWM Broadband introduced digital home 2.0 by launching a multi-screen sharing service called "HomePlay," giving users a true "TV Everywhere" experience. In 2014, TWM Broadband again led the industry in introducing digital home 3.0 with the launch of a multi-screen monitoring service called "HomeSecurity", giving users a new form of round-the-clock home protection service.

Retail Business (momo.com Inc. known as "momo")

1. Retail products and services

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

2. Retail revenue breakdown

Unit: NT\$m

Item \ Year	2014	
	Revenue	% of total
Online shopping	14,979	63%

TV home shopping and mail order service	8,448	35%
Others	470	2%
Total	23,897	100%

3. Retail 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 introduced new product categories including jade, gemstones and leisure appliances 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 SKII, IOPE, Arden, Corning Ware, DECOBA, L'OCCITANE, L'OREAL, Quaker, Pfizer and Abbott. 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. momo is focusing on consumer behavior and new mobile digital trends to keep pace with these changes. The first move was to operate and aggressively promote an online TV app. It will also team up with other MSOs in Taiwan to explore new interactive shopping platforms.

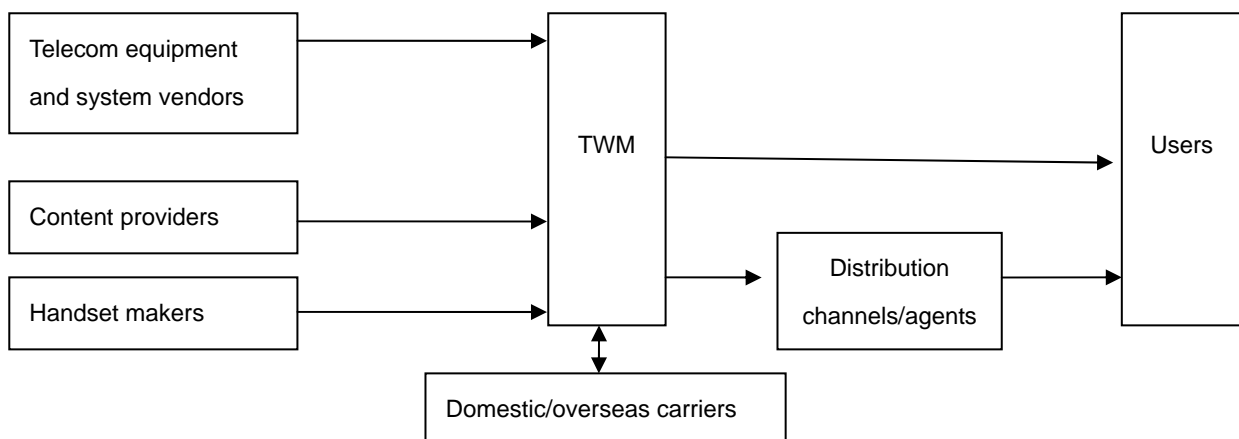
Industry overview

Consumer Business Group

1. Industry status and development

Telecom operators started launching their 4G services one after the other in 2014. As smaller players are constrained by a lack of 4G spectrum or 3G network infrastructure to support voice service for LTE users, the three major operators are still likely to dominate the market. New 4G entrants looking for opportunities to form alliances or mergers and acquisitions bodes well for benign competition in the market.

2. Industry value chain



3. Product development trends and competitive landscape

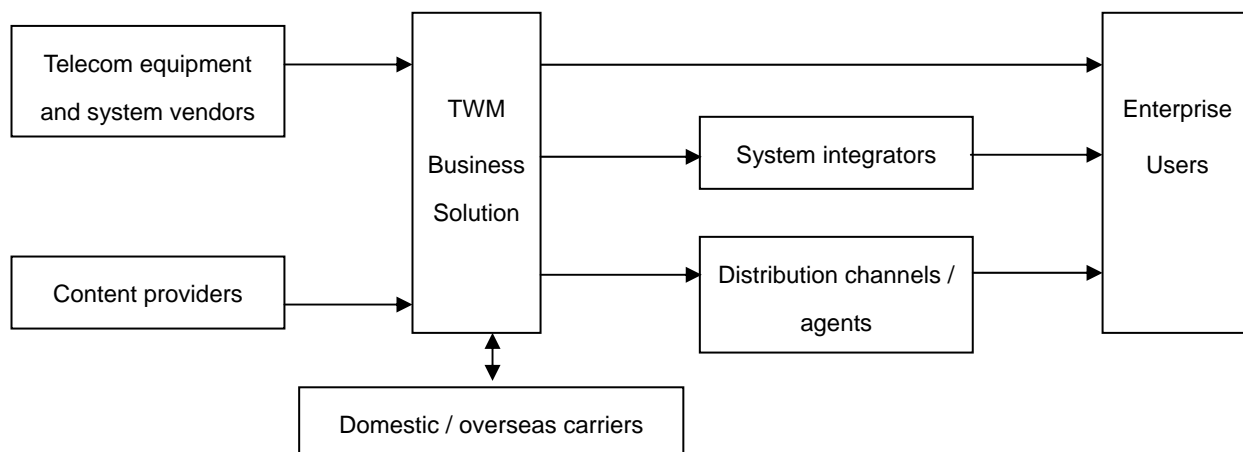
The operators are seeking to further expand the mobile broadband market in the 4G era. A variety of new rate plans for data services, combined with new terminal devices and new value-added services, has been introduced to stimulate subscriber take-up. This should be an important future revenue growth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

Enterprise Business Group

1. Industry status and development

According to NCC statistics, there were 80 Type I telecommunication providers, including four fixed-line operators, six mobile operators and other circuit leasing operators; and 433 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 phone, TV and PC are getting blurred, leading to intensified cross-industry competition.

2. Industry value chain



3. Product development trends and competitive landscape

Data provided by the National Communications Commission (NCC) show that Chunghwa Telecom (CHT) has a virtual monopoly of the telecom market, accounting for over 90% of local network service revenue, about 75% of long-distance network service revenue and about 50% 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 internet service providers (ISP) find it hard to effectively compete with the firm, except for cable broadband operators.

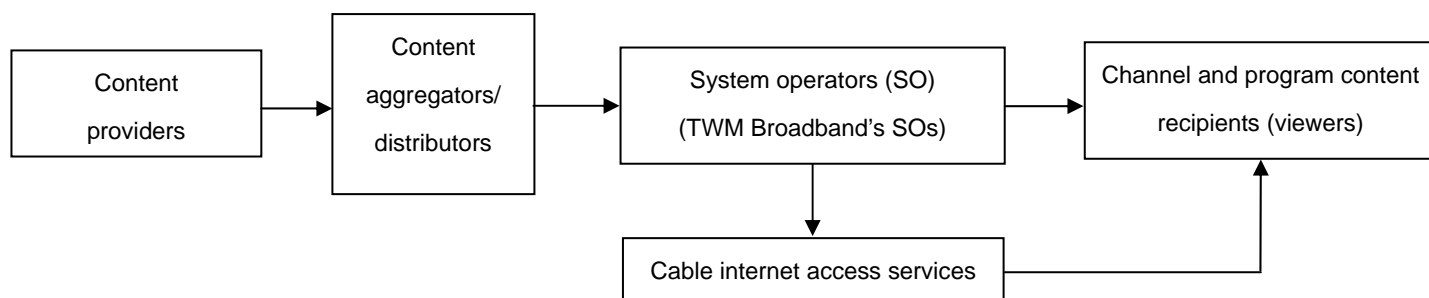
Along with the rising popularity of smart devices and as network infrastructure matures, the government is planning to invest in the transformation of the information/telecommunication industry into a cloud computing industry. Carriers promoting enterprise customer applications will contribute to the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

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

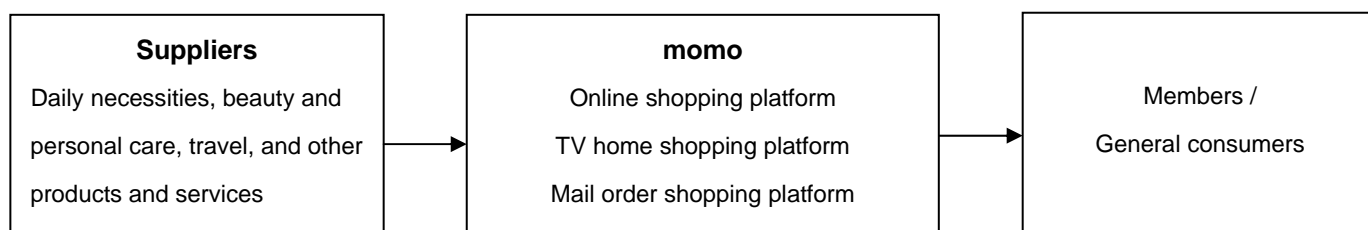
Despite a saturated market that is dominated by Chunghwa Telecom, HBG managed to grow its subscriber numbers in the cable internet business by bundling cable broadband products with HD DTV services in its cable TV service areas, following the example of leading global operators such as PCCW in Hong Kong, as well as AT&T and Comcast in the US. 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.

Retail Business

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) Online shopping: Although momo entered the market later than 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.
- (2) 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.
- (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 in terms of mail order service are the above mentioned 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 2015, the Company plans to spend NT\$801mn 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	2014	2015 (As of February 28)
R&D expense (NT\$'000)	776,232	117,702
As a % of total revenue	0.69%	0.59%

Major research and development achievements

Project name	Description
LTE new technology research	<ul style="list-style-type: none"> • 4G broadband service spectrum evaluation • Frequency planning and resource management mechanisms for LTE Advanced (LTE-A) system deployment • 3D multiple-input and multiple-output (MIMO) for LTE Advanced • Designed an integrated group mobility mechanism for LTE Advanced networks
4G LTE billing system enhancement	Enhanced TWM billing system to cope with the launch of the Company's 4G LTE services and marketing strategies
Sales incentive and sales performance evaluation system for repair and logistics	Developed an automated sales incentive and performance evaluation system to replace manual processing in order to enhance channel management and boost sales efficiency
TWM customer care mobile app	Provided 4G service subscription, inquiry, payment and user feedback functions to improve customer service satisfaction
M+ Messages	Provided enterprise instant messaging functions, such as employee contacts, automatic synchronization of organizational groups and group bulletin boards to improve communication efficiency and productivity
TAMedia mobile advertisement platform	Supported rich media (expandable and interstitial) and video ad content to provide interactive advertisement. Adopted big data technology to optimize advertising engine and provide real time reports
myVideo	Developed support for Google Chromecast, allowing customers to use their handsets or tablets to view movies, photo and other entertainment features on their TVs. Supported flexible sales packages providing news channels, live coverage of the Asian Games and other real-time broadcasts

Sales development plans

Consumer Business Group

1. Short-term plan

- (1) Continue to expand 4G LTE services and provide faster and more stable mobile internet services to attract more subscribers and encourage existing users to upgrade in order to increase 4G LTE penetration and user contribution.
- (2) Develop various rate plans to meet the needs of different client segments and optimize customer service flows and service quality to provide the best customer experience.
- (3) Strengthen channel performance and competitiveness through deployment and management.
- (4) Leverage 4G LTE to extend value-added services, including digital music, video and mobile commerce. Integrate virtual and physical channels to offer more instant and convenient consumption options.

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 Internet of Things (IoT) technology to integrate mobile phone, network and cloud-computing technologies to expand the Company's service range and support development of innovative, profitable business models.

Enterprise Business Group

1. Short-term plan

- (1) Complete phase II construction of the cloud data center by 2015 and promote this center to international clients to maximize its global visibility and increase capacity utilization.
- (2) Continue to provide tailor-made enterprise mobility and IoT services for corporate clients, aiding them in transforming their business models and lifting the Company's 4G subscriber numbers and ARPU.

2. Long-term plan

EBG's vision is to expand enterprise services from network-centric to IP solutions, mobile applications and cloud services through steady investments in the following:

- (1) Cloud computing and enterprise mobility
- (2) Raise sales productivity and expand the small-and-medium enterprise market segment by integrating channels.
- (3) Fixed mobile convergence (FMC), improve bandwidth and quality of fixed broadband to serve as a mobile backhaul to increase the competitiveness of EBG's mobile services
- (4) Develop IoT integrated solutions for enterprise clients

Home Business Group

1. Short-term plan

- (1) TWM Broadband will continue to optimize its network infrastructure in regions where it is already operating cable TV systems, and provide high-definition digital content and video on demand to set the foundation for its digital services.
- (2) TWM Broadband has commercially launched its 200Mbps 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 the end of 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 services 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).

Retail Business

1. Short-term plan

- (1) 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. Make use of social shopping platforms and profit-sharing mechanisms to create a bigger impact on community websites. Develop B2B2C business model to introduce more leading brands as well as mid-and-big physical suppliers to provide customers with more diverse product choices.
- (2) TV home shopping: Increase scale of products, expand mobile and digital platforms, and incorporate main suppliers into the company's supply chain management system.
- (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	2012	2013	2014
Overall satisfaction	3.8	3.7	3.7
Call quality	3.7	3.7	3.7
Customer hotline service	4.5	4.4	4.3
Store service	4.1	4.2	4.1

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).