

Customer hotline service	4.3	4.3	4.5
Store service	4.1	4.0	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).			

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 January 2013, the penetration rate for mobile subscribers had reached 123%. 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 2012, the Company succeeded in improving its subscriber base structure. The percentage of low usage subscribers fell by 5 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 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 2012, the Company had a 3G subscriber base of over 5.7 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 the rapid growth in non-voice revenue.

- (2) With information technology, communication and media trends converging, mobile operators have played a pivotal role to play in the supply chain.
- (3) Many innovative technologies and business models have been extended to the mobile internet.

Negative factors

- (1) NCC's implementation of mobile termination rate (MTR) cuts from 2013 to 2016 is expected to weigh on future mobile voice revenue.
- (2) The popularity of smart devices has boosted the number of data users and their data usage, but has also increased pressure on carriers' network capacity and planning.

Countermeasures

- (1) The Company has expanded its HSPA+ network to satisfy the customer needs for high-speed internet access and closely monitors LTE technology developments.
- (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 risen steadily over the years, reaching over 60% of households, according to NCC data. Watching TV programs has become a major leisure activity for Taiwanese – 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 aiming to lift digital TV's penetration rate to

100% by the end of 2014, 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 a new affordable TV set business model 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 internet access service.

3. Competitive advantages

(1) Implementation of broadband network quality optimization

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) 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 100Mbps 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) Strengthening the promotion of Super MOD with enriched content to increase ARPU of digital TV service

Using Super MOD's open platform, system collaborator, such as CATV system operators, mobile/WiMax operators, digital content providers and internet service providers, are able to create a long-tail effect with low initial investment and shortened time to market. TWM Broadband aims to increase the variety and quantity of Super MOD content and adopt a triple-play – broadband, digital TV and Super MOD – bundled service to increase its subscriber base and ARPU.

(4) Taiwan Mobile Group's integrated resources facilitate development of new, 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 household market.

(5) Strategic alliance with core industry players to create new business opportunities

TWM Broadband has teamed up with Sakai SIO, the most advanced large-screen LED manufacturer, to launch 60" TVs made by Hon Hai Precision Ind. Co., Ltd. Not only has this helped TWM Broadband acquire a large number of high-definition digital TV and high-speed internet access service subscribers, but it has also created a new business model to promote convergence services. TWM Broadband will continue to seek alliances with other companies 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 service, 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 cable internet technology version DOCSIS 3.0. It can provide high-speed broadband internet access speeds of 100 Mbps to help it expand its market share, as well as increase customers' 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) NCC plans to make it mandatory that CATV operators provide at least two set-top boxes to customers for free, which, if passed, would increase operating costs.

Countermeasures

- (1) TWM Broadband has been able to utilize the extensive resources of its parent company (such as technology, marketing, sales and distribution) to promote high-bandwidth internet access services and to market digital convergence services with Taiwan Mobile Group's telecommunication, 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 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 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 reciprocating the benefits to the local 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 counter measures 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 2012, the company's roaming services covered the following: GSM: 164 countries, 320 networks; 3G: 81 countries, 180 networks; GPRS: 135 countries, 263 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: 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 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 Solution is well connected with the brand of 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 their efficiency, an increasing number of enterprises are adopting cloud computing technology and mobile applications to save on maintenance expenses for software, hardware and IT personnel and equipment, while freeing them up to focus on their core business. Companies' primary concern in switching to cloud services is "information security," which TWM Solution can guarantee, having obtained ISO 27001 / ISO 27011 certifications – proof that it has passed basic information security standards. TWM Solution also possesses a wealth of mobile and fixed resources to provide one-stop shopping for integrated services. With economic and trade exchanges increasing across the Taiwan Strait, TWM Solution 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 SME 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. .

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

	2011				2012			
	Company	Amount	% of operating costs	Nature of relationship	Company	Amount	% of operating costs	Nature of relationship
1	Company A	7,509,852	30	Third party	Company A	11,513,972	38	Third party
2	Company B	4,829,922	19	Third party	Company B	5,418,181	18	Third party
3	Taiwan Fixed Network	3,312,417	13	Subsidiary	Taiwan Fixed Network	4,213,680	14	Subsidiary
4	Company C	4,003,111	16	Third party	Company C	3,757,083	12	Third party
	Others	5,552,041	22		Others	5,284,599	18	
	Total	25,207,343	100		Total	30,187,515	100	

Major customers

Unit: NT\$'000

	2011				2012			
	Company	Amount	% of operating revenues	Nature of relationship	Company	Amount	% of operating revenues	Nature of relationship
1	Company C	6,095,559	10	Third party	Company C	5,765,980	9	Third party
	Others	55,823,714	90		Others	61,640,465	91	
	Total	61,919,273	100		Total	67,406,445	100	

Reasons for variation

In 2012, procurement from Company A increased mainly due to purchases of handsets and other 3C products, while leased line service from Company C dropped as TWM turned to Taiwan Fixed Network as part of the group's move to integrate resources.

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

Sales volume in the past two years

	2011				2012			
	Domestic		Overseas		Domestic		Overseas	
	Subscriber number at year end	Revenue (NT\$'000)	Subscriber number at year end	Revenue (NT\$'000)	Subscriber number at year end	Revenue (NT\$'000)	Subscriber number at year end	Revenue (NT\$'000)
Telecom service	6,662,960	55,916,663	--	--	7,012,026	59,042,443	--	--

Human Resources

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

Year		2011	2012	2013 (as of March 15)	
Number of employees	Consolidated	6,055	6,529	6,491	
	Stand-alone	2,651	2,959	2,929	
Stand-alone	Average age	36.84	36.42	36.51	
	Average years of service	7.22	6.78	6.88	
	Education level	Ph.D.	0.26%	0.24%	0.24%
		Master's	20.67%	20.71%	21.00%
		University	50.92%	53.09%	53.57%
		College	23.84%	20.99%	20.38%
Others		4.30%	4.97%	4.81%	

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 IDCs, 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. The