

## 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 2014, the penetration rate for mobile subscribers had reached 128%, implying a saturated market. However, the launch of 4G services, 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 2014, the Company succeeded in improving its subscriber base structure. The percentage of 3G/4G subscriber reached 94% and is still rising.

###### (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 services. In 2014, 4G services were launched. By the end of 2014, the Company had a 3G/4G subscriber base of about 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 the introduction of 4G services, lower prices for smart devices and data rate plans, and the emergence of new, varied applications, mobile internet access has rapidly spread 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.
- (2) The increasing popularity of IP messaging apps has affected mobile voice revenue.

## Countermeasures

- (1) The Company continues to expand its 4G network coverage 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.

## **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 2014, the company's roaming services covered the following: GSM: 206 countries, 390 networks; 3G: 110 countries, 234 networks; 4G: 21 countries, 32 networks; GPRS: 164 countries, 317 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' talk minutes for local and international calls as well as unit price for fixed-to-mobile calls are expected to continue declining because of rising competition from VoIP and mobile services and the NCC's introduction of mobile termination rate cuts.
- (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 through high-speed 4G services. With enterprise users increasingly accessing internet information via their smart devices, mobile data 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

- (1) The introduction of 4G LTE services in Taiwan is fundamentally changing the way enterprises engage in their daily work. Mobilization capability is critical to staying competitive, spurring demand for integrated mobile cloud computing services. Taiwan Mobile facilitates this with its industry-leading 4G network quality.
- (2) Information security and storage are key concerns when transmitting important corporate data via mobile networks. EBG provides solid mobile, cloud and fixed-line resources, as well as professional integration capabilities, allowing it to play a key role in this market.

#### 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

As a result of trends in innovative communication technology, decreasing tariffs of telecom service, multi-platform cloud service and mobilization capability, the Company provides an excellent enterprise mobile integration program, a new cloud center and cloud management services to maintain its long-term partnership with enterprise customers and help them to simplify their network management and reduce operating costs.

## **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 8 million households nationwide. TWM Broadband is tapping into this digitalization value chain by offering rich HD content, stable and quality signals, various platforms for viewing TV programs and an affordable TV set promo package to boost digital TV's penetration rate.

#### **(3) Broadband internet access**

With the broadband internet access market moving toward higher-speed services, the migration of mid-to-low speed users to faster speeds will be the main growth driver for the market. TWM Broadband expects to gain share in this market by offering competitive prices, around the clock customer service and superior quality for its up to 200Mbps internet access services.

### **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 up to 200Mbps high-speed internet access services. Unlike ADSL with its range constraints, cable internet provides lower cost, but premium quality super high-speed broadband services. To cope with the rising number of customers and their increasing usage of internet access, the Company will deploy more and denser fiber nodes to provide users with higher-speed and more stable broadband services.

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

TWM Broadband aims to increase the variety and quantity of value-added services such as HomeSecurity, PVR (personal video recorder), HomePlay and SuperMOD to offer 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 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 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 SuperMOD, bundled with an extremely competitively priced large TV. TWM Broadband will continue to seek alliances with other partners to generate more revenue effectively.

## **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 SuperMOD, HomePlay and HomeSecurity 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

Consumer demand for downloading, uploading and sharing high-definition videos are increasing and 60Mbps high-speed cable internet service has become the mainstream. TWM Broadband has finished 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 200Mbps 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, high-speed broadband internet access and high-definition 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.

## **Retail Business**

### **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 CATV 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 of 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) Strong 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) Broad product mix: Consumers can book domestic or international trips with momo's 100%-owned subsidiary Fu Sheng Travel Service Co., Ltd. through momo's shopping website. Compared with its rivals, momo offers a wider and more competitive range of products, covering beauty and personal care; food, beverages and groceries; home necessities and household appliances; health, fitness and wellbeing, to cater to modern shoppers' demand for practical rather than trendy goods.

#### **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 the government's move 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

- (1) Some products featured on home shopping networks have been fined for deceptive and exaggerated advertising claims.
- (2) Substitution from competitors and keen market competition
- (3) High product homogeneity and cutthroat pricing competition lead to lower product gross margins
- (4) Food safety risks

##### Countermeasures

- (1) Having started in TV home shopping, momo has an extensive system of suppliers and a professional product development team. This facilitated its expansion into online shopping, as it already has a trove of best-selling products to tap into this new field, which not only prolonged their product life cycle, but also increased sales volumes and distinguished themselves from competitors.
- (2) momo launched an online shopping mobile app to tap into the mobile market and increase customer stickiness. By promoting group buying and limited time promotions, momo is able to reach more consumers and stimulate buying willingness. The mobile platform also offers a more convenient shopping environment, encouraging consumers to increase the frequency of their purchases.
- (3) momo has a quality control team that visits factories to ensure that suppliers meet manufacturing safety standards. It also outsources product testings and examinations to ensure that product ingredients as well as

labels comply with safety standards to minimize food safety hazards.

(4) 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.

(5) 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

- A supplier/customer that accounts for at least 10% of consolidated procurement/revenue

### Major suppliers

Unit: NT\$'000

	2013				2014			
	Company	Procurement amount	% of consolidated procurement	Nature of relationship	Company	Procurement amount	% of consolidated procurement	Nature of relationship
1	Company A	7,512,911	15	Third party	Company B	6,235,758	12	Third party
2	Company B	6,150,331	12	Third party	Company C	6,093,374	11	Third party
3	Company C	5,440,115	11	Third party	Company A	5,798,408	11	Third party
	Others	32,566,649	62		Others	34,989,292	66	
	Total	51,670,006	100		Total	53,116,832	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		2013		2014	
		Sales volume	Revenue (NT\$'000)	Sales volume	Revenue (NT\$'000)
Mobile	Mobile ('000 subs)	7,225	52,577,783	7,430	51,945,586
Domestic Fixed-line	Local network ('000 subs)	168	1,609,890	171	1,544,834
	Domestic long distance ('000 minutes)	120,098	119,157	113,009	111,702
	Internet service ('000 subs)	158	1,016,758	145	1,019,505
International Fixed-line	International network ('000 minutes) <sup>1</sup>	513,041	4,268,363	432,667	3,752,418
Sales revenue <sup>2</sup>		NA	40,473,850	NA	44,752,181
Others		NA	8,342,130	NA	9,497,653
Total			108,407,931		112,623,879

Note 1: Outgoing minutes only.

Note 2: Including retail sales of handsets, accessories, information products, 3C home appliances, daily necessities and cosmetic products.