

to cease its anti-competitive practices and impose a monetary fine of up to 10% of the gross sales of the business for the most recent fiscal year.

In March 2012, the FTC found us liable for providing misleading representations on the speed of our 50Mbps fiber broadband products in certain advertisements. The FTC consequently ordered us to stop using the relevant advertisements immediately and pay a fine of NT\$5 million. As the FTA provides the FTC broad discretion to interpret anti-competition actions and enforce the relevant clauses under the FTA, we are unable to predict whether the FTC would initiate investigation on any of our daily business activities or find us liable for violating the FTA in the future. The investigations of and penalties imposed by the FTC could interrupt our provision of products or services and have a negative impact on our reputation, business operations and results of operations.

Increasing market competition may adversely affect our growth and profitability by causing us to lose customers, charge lower tariffs or spend more on marketing.

Mobile service providers in Taiwan have been offering 3G mobile services for several years. Smart phones with mobile data packages are becoming popular in recent years. To attract more high-end data users, the other two major operators started to offer free intra-network calling packages bundled with mobile data service. We also adopted comparable promotion packages to attract and maintain our customers. We cannot assure you that the intensified market competition will not affect our growth and profitability.

We also face increased broadband competition from cable operators. Cable operators have been using low-priced internet access packages to attract new customers in specific areas and buildings in Taiwan. They have also been upgrading their networks to DOCSIS 3.0 in order to provide higher speed internet access. DOCSIS refers to Data Over Cable Service Interface Specification, which is an international telecommunications standard that permits the addition of high-speed data transfer to an existing cable TV system. To counter these developments, we keep migrating more of our ADSL customers to FTTx services and to provide even higher speed FTTH access. The government has mandated the digitization of cable television networks by 2014. In addition, the draft Cable Radio and Television Act proposes to remove the zoning restrictions on service area for cable operators, while cable operators remain subject to the restriction that the market share of any single cable operator cannot exceed one third. This draft has been approved by the Executive Yuan and submitted to the Legislative Yuan. As cable operators will be allowed to provide digital cable services throughout Taiwan and be able to provide high definition cable TV with more channels as well as high speed cable modem services, we could face increased competition for our broadband access services and multimedia on demand, or MOD IPTV services. If we are unable to compete successfully with the cable operators for broadband access services and MOD businesses, our results of operations could be impacted.

Many of our competitors are in alliances with leading international telecommunications service providers and have access to financial and other resources or technologies that may not be available to us. Moreover, as the government continues to liberalize the telecommunications market, such as through the issuance of new licenses or establishment of additional networks, our market position and competitiveness could be materially and adversely affected. We cannot guarantee that our measures to address competition will be effective and our business, financial condition and results of operations may be adversely affected by our competition.

Increasing competition may also cause the rate of our customer growth to reverse or decline, bring about further decreases in tariff rates and necessitate increases in our selling and promotional expenses. Any of these developments could adversely affect our business, financial condition and results of operations.

If we fail to maintain our service quality due to insufficient network capacity, our revenue growth, profitability and reputation may suffer.

In 2011, there were complaints from the general public about our mobile data network congestion. To address the situation, we adopted measures such as offering a 20% discount of the mobile data monthly fees until the end of 2012 for customers whose monthly data usage volume was less than one gigabyte, constructing additional base stations with HSPA+ capability and increasing the number of WiFi access points to offload data usage from our mobile data network. However, we cannot assure you that these measures will be able to adequately address the mobile data network congestion. Although we will continue to enhance our network quality and capacity in the future, data usage has been increasing as well, so we cannot assure you that we will be able to keep pace