

# Letter to Shareholders

Dear Shareholders,

In 2016, thanks to an all-out effort by employees, Taiwan Mobile (“TWM” or “the Company”) saw its 4G business grow, with consolidated sales hitting a new record, while EBIT, EBITDA and free cash flow rose to their highest levels since the service’s launch in 2014. This can be attributed to the Company’s: 1) superior 4G network quality, which was recognized and affirmed by consumers, 2) an improving operating leverage due to expanding economies of scale, and 3) cost-effective investments in 4G spectrum and infrastructure. All these achievements demonstrate TWM’s commitment to maximizing shareholders’ interests.

Taiwan Mobile reported a 2016 consolidated revenue of NT\$116.6bn. Its EBITDA of NT\$33.9bn and EBIT of NT\$20bn rose 5% and 7% YoY, respectively. Net income and EPS came in at NT\$15.3bn and NT\$5.63, respectively, both surpassing the Company’s guidance by 9%. Earnings grew briskly on the back of a better-than-expected performance from its 4G operations and steady profit contribution from its e-commerce business. As a result, the Company again outperformed its peers in delivering the highest EPS in 2016 for the fifth consecutive year.

As the Company steadily expanded its core business, it continued to gain recognition for its commitment to enhancing corporate value, which included:

## 1. World-class corporate governance

Taiwan Mobile is committed to maintaining integrity as its core value and promoting corporate governance. The Company’s compliance with global standards has won not only the trust of investors, but also numerous awards and recognitions from domestic and international rating institutions. Last year, for the second year in a row, TWM ranked among the top 5% listed companies on the Taiwan Stock Exchange and the Taipei Exchange’s “Corporate Governance Assessment.” TWM was also selected for the fifth time as a member of the Emerging Markets Index of the Dow Jones Sustainability Indices (the world’s first and most widely used global sustainability benchmarks). In addition, TWM won three awards in the 2016 Asian Excellence Awards — for “Best Investor Relations,” “Best Corporate Social Responsibility” and “Best CFO” in Taiwan. It was the only telecom operator in Taiwan to receive those recognitions from *Corporate Governance Asia*.

## 2. A role model for corporate social responsibility

TWM’s efforts to employ its corporate and financial resources to assist non-profit organizations in promoting social welfare and environmental protection have gained wide recognition. Last year, it received its 10th “Corporate Social Responsibility” award from *Global Views Monthly* and its ninth “Excellence in Corporate Social Responsibility” award from *CommonWealth magazine*. It was also honored for the third year in a row by the Taiwan Institute for Sustainable Energy Research as one of “Taiwan’s Top 10 Role Model Companies for Sustainability,” in addition to receiving five other awards, namely, the “Integrity and Transparency Award,” the “Growth through Innovation Award,” the “Role Model Award for Community Service and Outreach,” the “Climate Leadership Award” and “Taiwan’s Top 50 Corporate Sustainability Report Award – Gold Award in ICT Sector.” Furthermore, TWM’s Corporate Social Responsibility report,

following the International Integrated Reporting Council guidelines, was in 2016 the first in the industry to receive independent verification and assurance from KPMG. Lastly, TWM was awarded the ISO 14001 environmental management system certification, the first in Taiwan's telecom industry.

### 3. Premium services and customer satisfaction

With customer care as its core value, TWM offers premium customer services, which earned the following achievements: its fifth Qualicert certification from the Swiss firm SGS for its direct store channels and customer service system, and the "Trusted Brand Gold Award" from *Reader's Digest* for the 13th consecutive year.

This year marks TWM's 20th anniversary. With its solid foundation in 4G, TWM will endeavor to further cultivate the Internet of Things (IoT) industry and deploy its "6C" core strategies: Coverage, Convergence, Content, Channel, Cloud and Corporate Social Responsibility to continue making history.



Daniel M. Tsai  
Chairman

## **Macro Environment**

Consumer spending on communication and broadcasting related services is largely influenced by macroeconomic factors. According to the Directorate-General of Budget, Accounting and Statistics (DGBAS), private consumption rose in 2016, bolstered by an increase in outbound tourism, short-term economic stimulus measures and a lower commodity tax. However, the pace of increase moderated to 2.14% due to rising prices and slower growth in employment and salary levels. For 2017, despite a forecast turnaround in the US economy, private consumption growth is expected to expand by a milder 1.75% due to inflationary pressures.

## **Overall Operating Results**

The Company's consolidated revenue in 2016 was flat compared with a year ago. Telecom revenue declined as handset sales slid because of a higher sales mix of mid-to-low end phones, but growth in momo's e-commerce business made up for the slack and lent support to overall revenue. Telecom EBITDA increased as a result of the change in bundled handset sales mix, which drove down marketing expenses for phone subsidies and commissions. Non-telecom EBITDA likewise grew, mainly due to strong profit contributions from e-commerce. Overall, the Company's consolidated EBITDA and EBIT rose by 5% and 7% YoY, respectively, both of which were the highest among its peers. Despite a higher net income base in 2015 due to non-operating gains and one-off adjustments, 2016 EPS still came in at NT\$5.63, which not only surpassed the Company's guidance by 9%, but was also the highest in the industry for the fifth year in a row.

## **Operating Results Review**

### **Telecom Business**

4G service take-up rate reached 64% of the Company's postpaid installed base as of the end of 2016, up from 43% a year ago. Given 4G postpaid's higher ARPU compared with 2G/3G, the increase in 4G subscribers boosted TWM's mobile postpaid ARPU by 2% YoY in 2016. Telecom EBITDA grew 5% YoY as a result of expanding 4G economies of scale and improved operating leverage.

### **Cable Business**

In 2016, pricing competition from new entrants in TWM's cable TV service areas affected the revenue and profit of its basic TV subscription business. However, the Company's successful bundling strategy continued to boost its digital TV penetration rate and cable broadband service adoption rate. In addition, incremental content agency revenue collected from new entrants contributed to stable CATV revenue growth compared with a year earlier.

### **Retail Business**

The main growth driver came from the continuous expansion of momo's B2C e-commerce business, leading to a 10% YoY increase in revenue in 2016. EBITDA rose 15% YoY, aided by the business recovery in TV home shopping in China.

## Major research and development achievements

Project name	Description
5G green communication technologies	<ul style="list-style-type: none"> <li>• Energy harvesting and low-power transmission technologies to extend the battery life of wireless IoT devices.</li> <li>• Cloud-radio access network (C-RAN) to minimize network delays, optimize power consumption, and reduce deployment costs.</li> <li>• Cell zooming, which adaptively adjusts cell size according to traffic load to save energy.</li> </ul>
4G LTE customer experience management	Collect customer experience records from network probes to support better customer service, network optimization and user behavior analyses.
Call center PBX system – SS7 equipment upgrade	In line with the government policy to terminate 2G services, TWM upgraded its call center PBX and phased in voice gateway products and technology to build an IP-based service platform.
M+ Messenger	Provided video conference, video/audio/photo upload and answering machine functions to improve communication efficiency and productivity.
TAMedia mobile advertisement platform	Developed a new interactive ad – floating ad, and improved advertising performance by enriching video tracking mechanism.
myVideo	Renewed user interface and experience; enriched big screen interactive video playback; and provided multi-language video playback.
Mobile payment	Integrated a variety of transport payment cards and parking fee payment services for Taipei/New Taipei City.
myBook	Developed an end-to-end mechanism to enhance the experience of reading magazines on mobile devices. Provided a new mobile reading app to support interactive multimedia e-books. In addition, provided a one click button to allow users to switch between text and graphics modes while reading magazines.

## Regulatory changes and developments

### 1. Revision of digital convergence regulations

In response to the development of digital convergence services, the NCC is planning to amend the Digital Communication Broadcasting Act and the Telecommunication Administration Act. The commission has been soliciting public opinions on digital convergence development since January 4, 2017. The proposed amendments reference digital convergence models adopted by developed countries, and take into account the evolution and development of the local telecommunications industry, to establish a new regulatory framework for the industry.

### 2. Upcoming auction of 2.1GHz frequency

3G licenses in the 2.1GHz frequency band are set to expire at the end of 2018, the MoTC and the NCC are planning to auction the spectrum for 4G licenses. Related policy planning, management regulations and auction rules are under way and are expected to be finalized in June 2017.

### 3. 2G user rights protection plan

With 2G licenses set to expire on June 30, 2017, the NCC on December 7, 2016 unveiled its 2G user rights protection plan to ensure “zero impact” and “zero dispute” as 2G users migrate to 3G/4G services.

### 4. NCC drafting bill on preventing monopolies and promoting diversity in media

Driven by public opposition to Far EastOne Telecommunications Co., Ltd's bid to acquire China Network Systems Co., Ltd. (CNS), the NCC is drafting a bill to prevent media monopolization and promote diversity. In April 2016, the New

Power Party released its draft version of the bill. The NCC has also stepped up its drafting of a proposal after new commission members took office in August of the same year. It plans to release a proposal to regulate horizontal and vertical integration in the broadcasting industry and cross-industry integration of print and broadcasting businesses.

## 2017 Operations Outlook

In 2017, Taiwan Mobile expects that total revenue will grow 2% YoY and reach NT\$118.8bn, with an EBITDA of NT\$32.4bn and EPS of NT\$5.28. In terms of the telecom segment, 4G postpaid penetration rate will continue to rise to 72% by end of this year, from 64% a year ago. Additionally, value-added services are estimated to grow by 13% and make up 8% of mobile service revenue in 2017. 4G rate plans and handset subsidy rationalization in an aim to raise 4G investment return will be the focus in 2017. The combined non-telecom EBITDA from the CATV, momo and other businesses will increase by 1% YoY in 2017, contributing profit to the Group.

