

Letter to Shareholders

Dear Shareholders,

Taiwan Mobile (“TWM” or “the Company”) posted another solid year in 2017, with revenue of NT\$117.2bn, EBITDA of NT\$32.8bn, net profit of NT\$14.2bn and earnings per share of NT\$5.21. The Company strengthened its telecom business’ profitability by aggressively promoting mobile value-added services and implementing cost-control measures. Stable core operations, coupled with momo’s robust growth, allowed the Company to outperform its peers, posting the highest earnings per share in the domestic telecommunications industry for the sixth consecutive year.

The Company remained committed to improving the efficiency of its 4G spectrum and network usage with continuous service upgrades. At the end of 2017, its 4G monthly subscription penetration rate of 78% exceeded expectations, as the Company successfully expanded the scale of its 4G business. In addition, the Company participated in the 1800/2100 MHz spectrum auction held by the National Communications Commission (NCC). It acquired four blocks on the 2100 MHz band at a cost of NT\$8.6 billion, securing a maximum continuous bandwidth of 20 MHz while paying the lowest per unit cost of spectrum among all bidders. Taiwan Mobile was able to execute a calibrated spectrum investment strategy that maximizes shareholders’ interests while satisfying customer demand.

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 initiative in meeting global standards has won not only the trust of investors, but also numerous awards and recognitions from domestic and international ratings institutions. Last year, TWM was honored with an “Industry Mover” award from sustainability investment specialist RobecoSAM in its 2017 yearbook, the only Taiwanese telecom firm to receive such a distinction. In addition, TWM was selected as a constituent of the prestigious Dow Jones Sustainability Index (DJSI) series for the sixth consecutive year and was for the first time listed among the companies in the DJSI World Index, ranking 2nd among telecom companies worldwide with an overall score of 90. The Company was also honored with two awards, “Best Investor Relations Company (Taiwan)” and “Asia’s Best CFO (Investor Relations)”, at the Asian Excellence Awards; and for the third year in a row, it ranked among the top 5% listed companies on the Taiwan Stock Exchange and the Taipei Exchange’s “Corporate Governance Evaluation.”

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 11th “Corporate Social Responsibility” award from *Global Views Monthly* and its 10th “Excellence in Corporate Social Responsibility” award from *CommonWealth* magazine, ranking fifth among large enterprises, the

highest among domestic telecom companies. It was also honored for the fourth year in a row by the Taiwan Institute for Sustainable Energy Research, receiving nine awards: top 50 corporate sustainability; transparency and integrity; social inclusion; climate leadership; people development; supply chain management; creativity in communication; top 50 corporate sustainability report award - gold award in ICT sector; and the highest individual honor, outstanding corporate sustainability professional, to TWM Chairman Daniel M. Tsai.

3. Premium services and customer satisfaction

With customer care as its core value, TWM offers premium client services, which earned the following achievements: the "Best Consumer Service Innovation Award" by the Taiwan Contact Center Development Association at the 2017 Customer Service Excellence Awards in Taiwan and its sixth Qualicert certification from the Swiss firm, SGS, for its direct store channels and customer service system.

After marking its 20th anniversary last year, Taiwan Mobile is looking forward to meeting this year's challenges. The Company is keen to embrace change and has set no limits to its identity as a telecommunications service company. It has positioned itself as an "Internet Technology Company" as the T.I.M.E. era takes shape: With the diverse developments in the Telecom, Internet, Media & Entertainment, and E-Commerce industries, Taiwan Mobile is on target to become a leader in digital convergence, aiming to provide the best value to its customers, shareholders, employees and the community.



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 in 2017 increased 2.34% as the job market improved and the stock market rallied. For 2018, despite socioeconomic factors, such as a declining birthrate and an aging population, steady domestic economic growth and an increase in average pay, including remuneration for military personnel and civil servants, should further boost private consumer spending. Thus, private consumption in 2018 is expected to expand by 2.45%.

Overall Operating Results

The Company's consolidated revenue in 2017 was flat compared with a year ago. Telecom revenue declined as a result of a drop in domestic roaming, a higher sales mix of low-to-mid-range phones and continued fall in voice traffic, but strong growth in momo's e-commerce business helped to offset the decline. The success of the Company's business diversification strategy, which included the active promotion of value-added services and innovative services, and focus on cost and expense controls ensured steady profits from telecom services. Coupled with milder competition from new cable TV operators and momo's fast-growing mobile commerce, consolidated EBITDA, excluding domestic roaming, remained at the same level as in 2016.

Operating Results Review

Telecom Business

Monthly 4G subscription penetration rate reached 78% of the Company's postpaid installed base as of the end of 2017, up from 64% a year, which further boosted its 4G business' economies of scale and operating efficiency. To address challenges, such as a shrinking domestic roaming business, lower mobile interconnection rates and continuous decline in voice traffic, the Company has proactively pursued additional revenue streams, such as promoting value-added services and new services, in addition to controlling costs and expenses to ensure stable profits.

Cable Business

Pricing competition from new entrants in TWM's cable TV service areas has tapered off since the second half of 2017. The Company successfully continued its product bundling strategy (such as an exclusive Sharp TV promotion deal), as evidenced by its rising number of digital TV and broadband subscribers, thereby boosting their adoption rates. Although the consumer business group's overall revenue slid 2% YoY, the cable business has gradually stabilized.

Retail Business

The main revenue growth driver in 2017 came from the 29% growth in momo's B2C e-commerce business. As of December 2017, mobile shopping accounted for 55% of the e-commerce business. momo saw a revenue increase of 18% YoY and its EBITDA grew as high as 11%, with TV shopping, in particular, performing strongly in the latter part of the year. To meet the demands of its growing e-commerce business, a new automated logistics center was completed in 4Q17, which should enhance the Company's long-term competitiveness through optimal logistics and warehousing efficiency.

Major research and development achievements

Project name	Description
5G mmWave communications and green communication technology	Research on 5G millimeter wave communication and green energy technology: <ul style="list-style-type: none"> • Energy-efficient architecture for mmWave communications • Green communication technology • Evaluation of the impact of green communication base stations on the human body • Utilize data measurements to analyze the effect of electromagnetic waves on the human body • Power-saving and throughput enhancement of hierarchical transmission for LTE eMBMS (Evolved Multimedia Broadcast Multicast Service)
Personalized music and video recommendation services	Use machine learning algorithms to analyze personal profiles and interests to provide personalized music and video recommendations.
M+ Messenger	Provide video conferencing, integrate PBX and support money transfer to improve communication efficiency and productivity.
TAMedia mobile advertisement platform	Develop new interactive advertising forms – vertical video, 360-degree panoramic ad and proximity detection application; and improve advertising performance by integrating third-party tracking mechanism.
myVideo	Provide video recommendations and Google browser video playback; augmented reality + virtual reality (AR+VR) for live baseball games to enhance user experience; and expand the market for large-screen video viewing.
Mobile payment	Launched the first mobile EasyCard co-branded credit card that allows auto top-up and other lifestyle features, and for subscribers to exchange loyalty points with each other.
myBook	Revamp user experience for both iOS and Android applications.
myMusic	Integrate service in which users register only once to listen to their choice of music anytime, anywhere via TV, wearable devices, in-vehicle infotainment systems, etc. to enhance the listening experience.

Regulatory changes and developments

1. Revision of digital convergence laws and regulations

In response to the development of digital convergence services, the National Communications Commission (NCC) drafted two bills – the Digital Communication Broadcasting Act and the Telecommunications Management Act. The Executive Yuan approved the bills on November 16, 2017, and submitted them to the Legislative Yuan. The bills passed their first reading on December 1, 2017 and were referred to the legislature's Transportation Committee for review.

2. 3G user rights protection plan of 3G license expiration by the NCC

With 3G licenses due to expire on December 31, 2018, the NCC passed the 3G user rights protection plan on January 3, 2018 to ensure “zero impact” and “zero dispute” as the policy goal for 3G users migration to 4G services.

3. NCC's auction of the 1800MHz and 2100MHz bands

The Company participated in the NCC's auction of the 1800MHz and 2100MHz bands on October 31, 2017. The NCC released 120MHz of bandwidth on the 2100MHz frequency, which was divided into 12 blocks (E1~E12).

4. Draft bill to prevent media monopolies and promote diversity

The NCC held a public hearing of the draft bill against media monopolization on July 31, 2017, and invited the public to submit their opinions until September 10, 2017. Internal discussions of the bill are ongoing.

5. Revision of radio frequency usage fee scheme

To improve mobile broadband coverage in rural areas, the NCC revised regulations governing radio frequency usage charges. Telecom operators that cover over 85%, 90% or 95% of the population in rural areas are to receive discounts of 5%, 10% or 15%, respectively, on their radio frequency usage fees.

6. Reduction of mobile termination rates

To promote fair market competition, the NCC implemented a four-year scheme to lower the mobile termination rate, which was reduced from NT\$1.15 per minute to NT\$0.965 on November 1, 2017, and is to further drop to NT\$0.811 in 2018, NT\$0.680 in 2019 and NT\$0.571 in 2020.

7. Reduction of wholesale IP peering charges

Per the average price of Telegeography in Asia-Pacific region as a reference, the NCC approved Chunghwa Telecom's new wholesale pricing scheme on April 12, 2017, which lowered the IP peering charge from NT\$314 per Mbps to NT\$ 170 per Mbps, a reduction of 46%. This scheme took effect retroactively on April 1, 2017.

2018 Operating Outlook

Taiwan Mobile is consolidating the Group's resources to ensure sustainable growth in its telecom business. The Company aims to provide diversified and differentiated new media services, such as OTT video, to drive growth in new and value-added services. The Company also plans to strengthen its business solutions for enterprises, such as developing Internet of Things, information security, cloud services, and other emerging applications and services. As for its cable business, the Company is focusing on improving channel and content quality to enhance the attractiveness and competitiveness of its products, while diversifying its marketing channels to create sales opportunities. In addition, momo is working on expanding its product portfolio, while its large-scale automated warehousing should boost distribution efficiency, contributing to accelerating growth and helping it maintain its market leadership in the B2C platform.