

Taiwan Mobile
Taiwan Star Merging into Taiwan Mobile Conference Call
January 3, 2022

Jamie Lin, President: Good afternoon, everyone. Welcome to today's conference call where we will talk about Taiwan Star merging into Taiwan Mobile, a deal that was approved by both companies' Boards on December 30, 2021. Before we begin, please allow me to go over our disclaimer as per usual:

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Alright. Now, let's start with a summary of the transaction on page 3.

Transaction Summary

Taiwan Mobile plans to issue circa 282 million new shares to merge Taiwan Star, whose shareholders will own roughly 7.4% stake in Taiwan Mobile. After the merger is completed, Taiwan Mobile will be the surviving company. The transaction is subject to approvals from the National Communications Commission (NCC) and the Fair Trade Commission (FTC). As a lengthy closure would pose a significant adverse effect to the interests of end users, employees, shareholders, and the industry as a whole, we are hoping that the regulators would give us a green light in a rather timely manner.

Next, let's talk about the rationale for the transaction. Please turn to page 4.

Transaction Rationale

In summary, we believe the merger will bring Taiwan Mobile and our shareholders significant benefits in the following 5 areas: greater scale, enhanced customer satisfaction, significant synergies, earnings growth, and finally, healthy free cash flow and financial flexibility.

Next, let me provide you with more color on each of these areas.

Greater Scale & Customer Satisfaction

Post-merger, we will have a strengthened position in the mobile industry, with a 9.8 million mobile user base and 52bn NT dollars in annual mobile service revenues. In turn, this will substantially lift our economies of scale and capex efficiency.

Customer satisfaction will be materially boosted, with industry-leading per user 5G spectrum bandwidth our customers can enjoy. There will be less congestions and higher throughput for 5G applications.

Integrating the two companies' 60MHz and 40MHz blocks on the 3.5GHz spectrum will provide a major impetus for 5G smartphone users and accelerate 5G vertical applications. As you can see from the lower right chart, 5G spectrum available to our mobile users is much higher than the industry average.

Next, let's turn to page 6 to talk about synergies.

Source of Synergies

We expect close to half of the synergies to come from network consolidation, followed by 31% from customer contribution and 20% from rationalizing business operations.

Network consolidation will result in significant opex savings, mainly from rental, electricity, transmission, and maintenance. Once the merger is approved, we plan to shut down Taiwan Star's 3G network. In addition, we will methodically consolidate Taiwan Star's 4G network and remove redundant 4G base stations. At the same time, we will leverage Taiwan Star's 5G base stations to complement Taiwan Mobile's needs. These moves will make our network management more efficient and help contain 5G capex.

For customer contribution, our mobile service revenue will see an ARPU uplift from the upselling of Taiwan Star's users, mainly from 4G to 5G and through our Double Play, momobile, Disney+ and other offerings.

The last part of synergy will stem from business streamlining, with a big part of it coming from savings produced through refinancing Taiwan Star's debts.

Next, let's turn to page 7 to talk about EBITDA Growth and Gearing.

EBITDA Growth & Gearing

Taiwan Mobile expects to see the merger to bring about EBITDA increments of more than \$18bn over three years. As a result of cash generation, we expect our net debt to EBITDA to decline to a pre-merger level of 2.2x in the 3rd year after the merger. As we de-leverage, it will give us financial flexibility going forward.

Now let's look at page 8 for post-merger net profit.

Post-Merger Net Profit

For the first eleven months of 2021, Taiwan Mobile reported unaudited consolidated net profit of NT\$10.15bn. With the benefits from the synergies that we expect to produce with this merger as stated in previous slides, we expect the deal to add about \$2.3bn net profit for the company in the 3rd year after the merger.

Finally, let's turn to page 9 to wrap it all up.

Future Focus

Here is the future focus we would like for you to take away with:

Propels future revenue and earnings growth,
Cements TWM's position in the mobile business with ESG fulfillment,
Accelerates Taiwan's 5G service proliferation,
And finally, targets total return strategy

With that, I would now open the floor up for questions. Thank you.

Q&A

Peter Milliken, Deutsche Bank: *Good afternoon. Well done on helping the industry move towards consolidation. One question I have is about the lifetime unlimited customers on Taiwan Star. Can you tell us how many users are on lifetime deals? Is there any price associated with that? And can we get the financials of Taiwan Star in 2020?*

Jamie: Thank you for your kind words, Peter. In terms of lifetime unlimited data plan customers, unfortunately, I cannot disclose their numbers. However, I can say that they are mainly 4G customers so we will be looking to upsell them to 5G, momobile, Double Play, Disney+ and other offerings. We are confident we can increase their ARPU and make sure they are happy with the product they are getting. In terms of Taiwan Star financials, you can find it in the appendix.

Neale Anderson, HSBC: *Two questions. The first is on the approvals from FTC and NCC. Would it be fair to say that since Taiwan Star has a relatively small market share, it does not present any obvious obstacles to merger approval? How does this fit relative to your guidelines for industry consolidation? The second one is on the network side. In terms of the vendors, the equipment providers, are they similar between Taiwan Mobile and Taiwan Star or quite different?*

Jamie: In terms of approval by NCC and FTC, like I said in the presentation, we think the longer the approval process takes, the more negative impact to end users, employees, shareholders, and industry. In terms of vendors, both companies are 100% Nokia for their base stations, so that would make synergy much easier to extract.

Sara Wang, UBS: *Congratulations on the deal. I have 2 questions. First, if I'm calculating the deal correctly, it seems that the consideration of the deal implies around 9-10x EBITDA for Taiwan Star. Could you please provide any further color on the reasoning behind this? Second is that in the presentation, it seems both free cash flow and EBITDA earnings will increase after the merger. Any potential upside in dividend or change in the dividend policy?*

Rosie: On EV/EBITDA, we don't disclose the exact numbers. We can say that with synergy, it's less than the numbers you calculated. On the dividend policy, you can see that given the healthy free cash flow, we don't find it difficult to maintain a stable dividend policy going forward. I

don't think it's going to change or be a problem for us. Also, it's been factored in our calculations of synergy. It will be decided by the Board anyway.

Sara: Just one follow up on the incremental EBITDA. Taiwan Star had roughly \$3bn EBITDA in 2020 and in the slide, it seems that incremental EBITDA after the deal will reach \$7bn in year 3. May I take that the difference between \$3bn and \$7bn will come from the synergy we just mentioned?

Rosie: Yes.

Kaz Soma (Fidelity): *Just a quick question on the regulation side. What would be the key hurdle for this merger to get approved? If my understanding is correct, in Taiwan there is a regulation of market share, which is 1/3, right? Do you think this is going to be the case? Taiwan Star + Taiwan Mobile will have more spectrum in the sub-1GHz band, if my calculation is not mistaken. In such a case, would you be okay with returning part of your spectrum to the regulator?*

Jamie: In terms of sub-1GHz limitation, the law states that in a merger, the regulator can use their judgement to allow parties to hold spectrum above that limitation. There is a chance that we can make the case that the combined customer base needs a certain capacity to have good telecom service quality. But like I said, everything is up to the regulator. We will be looking to discuss proactively with them and hopefully we can make a good case for all stakeholders. In terms of other hurdles, it's pretty standard, so all the things you can expect from NCC and FCT.

Kaz: Thank you, that's very helpful. My last question is regarding synergy. If I look at the first half of Taiwan Star, they are still making huge loss at a net profit level: about \$2bn in the first 6 months of this year. I understand there should be a lot of synergy from the telecom merger, but could you help me understand why you are not expecting any negative contribution even from year 1, despite the fact that Taiwan Star is still making around \$4bn net loss? What makes you believe there would be no negative contribution even from year 1 through this merger?

Jamie: Like we said, half of the synergy will come from the consolidation of network. The consolidation of network is immediately executable, and the company will benefit immediately from it. We will get to work and combine the networks right after the merger. After we are able to consolidate base stations, we will immediately enjoy the benefits the next month. We're confident that in the 1st year, we will be able to extract enough synergies to limit the impact.

Kaz: So basically, you are only expecting cost synergy?

Jamie: We're expecting about 30% of synergy to come from ARPU increase.

Kaz: Okay, I will look at it. Consumer contribution will account for 31%?

Jamie: Yes. And like I said, in terms of debt refinancing, it can also be immediately executed, and we will immediately benefit from it as well.

Rosie: To elaborate on this, we also have tax benefits from loss carry-forwards from Taiwan Star.

Kaz: Okay, I understand. Just another quick question. In year 1, you are expecting around \$4-5bn incremental EBITDA on page 7. In first 6 months, Taiwan Star EBITDA was only around \$700-800mn. If I annualize that, it's about 1.5bn for the whole year of 2021. But thanks to the synergies, you are expecting incremental EBITDA to be \$4-5bn in year 1, correct?

Rosie: We cannot share the exact number with you but as you can see on the chart, I think there will be substantial EBITDA increment.

Jamie: I want to point out that Taiwan Star's first half 2021 EBITDA is to the tune of \$1.4bn.

Peter Milliken, Deutsche Bank: *On the subject of network consolidation, you mentioned you can quickly close down some of the redundant networks. I assume there would still be leases you would be locked into though, for a period of time. Would they typically be 1-year leases or longer than that?*

Jamie: Yes, the leases are usually longer than that, but the penalty is usually much shorter. You can get out of the lease though paying an "x" month worth of rentals and get out of it.

Rosie: It's already been factored into our calculation of synergies too.

Peter: If you're closing down some of these base stations, is there any write-off that we need to assume over and above the net profit? Is that in your forecasting?

Rosie: In year 1, we will ask the CPA to do the so-called purchase price allocation to gauge the exact impact. Since we can realize some loss carry-forward tax benefits, we expect the impact on net profit will still be positive.

Sara Wang, UBS: *Just one question on the spectrum. For the 3.5GHz spectrum, it seems that Taiwan Mobile is not adjacent to Taiwan Star. I'm just wondering, going forward, will there be incremental capex in terms of base station deployment?*

Jamie: That would be a negative. Our equipment is fully capable of transmitting both of our 3.5GHz spectrum holdings. The same goes for Taiwan Star 3.5GHz equipment that we will obtain after the merger.

Sara: Got it. So that means the existing base stations can support spectrums from both Taiwan Mobile and Taiwan Star.

Jamie: Yes. And in 2-3 years, we're expecting the industry to make intra-band carrier aggregation standards. This means that we will be able to allot 1 single user and 1 single end device to use a lot of spectrum at the same time.