

Myanmar Site Tour

<Summary of Q&A>

Date: Wednesday, March 14, 2018

Attendees: Tomoyasu Shimizu, President, Myanmar Japan Thilawa Development Ltd. (MJTD)

Yoshiaki Benino, COO, KDDI Summit Global Myanmar (KSGM)

Tatsuro Tamura, General Manager, Investor Relations Dept.

1. Myanmar Japan Thilawa Development Ltd. (MJTD)

Q. Why has the sales area (hectares) been decreased compared to FY2014 when sales started?

A. Sales in the first year were very strong, reflecting significant interest in foreign countries for entering the Myanmar market following the country's democratization. The development of the project was also helped by strong collaboration between the Japanese public and private sector, which is a key for new businesses in emerging countries. Thilawa SEZ has maintained brisk sales, even when compared with other overseas industrial park projects that we have been involved with.

Q. What is your business model?

A. Our business model is to gain revenue from the following elements. We have been endeavoring to secure stable revenues from tenants, such as rent fees, in addition to the sales of land.

- Sales proceeds from developed land
- Rent fees for plant sites
- Proceeds from tenants, such as management fees and water usage fees

Q. We understand that there are strong restrictions on foreign capital in Myanmar. How has Thilawa SEZ managed to smoothly expand its businesses?

A. The Myanmar government's main aim is to achieve industrialization by attracting foreign capital. Business went smoothly as Thilawa SEZ was designated as the first experimental case. Import licenses are not granted to simple import and wholesale businesses, but they are permitted if such businesses create added value to Myanmar. For example, when importing knock-down kits close to the completed products from a plant in Thailand and assembling them at Thilawa SEZ, an import license will be granted as it can provide an opportunity for vocational training to Myanmar employees, in addition to the added value factor of assembling.

Q. Why are you engaging in an overseas industrial park project in Myanmar, where infrastructure such as roads and electricity have not been fully developed?

A. There are many Japanese companies which enter the Myanmar market as a base for "Vietnam +1" or "Thailand +1" strategies. We have decided to respond to such needs for establishing business bases in collaboration with the Japanese government and other business partners. An affordable, diligent workforce is a significant attraction regarding conducting businesses in Myanmar. Thilawa SEZ functions as a one-stop service center. It is possible for us to complete, in one place and in a short period of time, various application procedures which normally have to go through multiple ministries. Tenant companies can also effectively concentrate on their business when they are launched as well as after the business is established. However, the restriction on local procurement is one of the issues faced by companies which conduct business in Myanmar.

Q. Are there any other SEZs in Myanmar? Are you involved in them as well?

A. There are projects other than Thilawa SEZ for which development progressed quickly, such as Dawei SEZ. While a Thai developer had been involved in the development of Dawei SEZ, the project was derailed and JICA became involved in support, including the preparation of a master plan, based on a request from the Myanmar government to the Japanese government. The project seems to have many issues in land acquisition and environmental assessment.

Our corporate department has continued to exchange information on Dawei SEZ with relevant government agencies and follow up on the situation. Although we have not decided if we will be involved in the future, we do not plan to be involved currently in the Dawei SEZ project, as we are focusing on Thilawa SEZ.

Q. Are there any synergies with other businesses in overseas industrial park projects? Do you have track records in other countries?

A. Collaborating and generating synergies with other businesses is an old and new challenge for us. As there are opportunities for us to be involved in supplying metals and equipment in Myanmar, we will continue to take the necessary measures. Expatriates have been dispatched to the Yangon Office from Sumitomo Shoji Machinex Co., Ltd., a specialized machinery trading company within the Sumitomo Corporation Group. While the volume is still small, the company has a track record of supplying machinery and furniture. We have also supplied CNG as fuel in an overseas industrial project in Vietnam.

2. KDDI Summit Global Myanmar (KSGM)

Q. What are MPT's strengths compared with competitors?

A. MPT not only possesses a sales network of approximately 95,000 distributors, but also has the capability to offer high-quality services based on stringent education. This gives us a competitive advantage in new customer acquisition. MPT has been acquiring more subscribers compared with its competitors as it provides superior services that meet consumers' needs at the appropriate time. As a result, MPT has managed to maintain the current top share in the market.

MPT was ranked third in a third-party customer satisfaction survey for about two years since its participation in 2014. However, we are now in first place because communication speeds have improved as a result of the KDDI technical team's steadfast support.

Q. What is the effect of the fourth market entry by Mytel?

A. We are paying close attention, as a company entering a market late is not necessarily influenced by the disadvantages that come while obstacles in market entry are still high. For example, Mytel has an advantage as it will be able to use the radio towers which had been developed by the existing three companies and the sharing service company by paying fees, thus reducing initial investment. MPT also has radio towers of its own for use and sharing. Unless there is a valid reason, companies that own radio towers cannot decline requests for tower usage. Therefore, the existing three companies let the others use their towers. (MPT owns more than half of the radio towers on a Joint Operation (JO) base and more than half of the optical fiber cables.)

Q. Why have you been successful in conducting business in Myanmar?

A. We have been involved in some 20 overseas telecommunications projects so far. We have been able to leverage insights gained from such experiences. Many of our successful projects entail a larger dream—one of contributing to the growth of the target country. Similarly, our business in Myanmar has been growing along with Myanmar as a nation.

Q. Can you explain about your capital investment plan? Will your CAPEX increase suddenly in the future?

A. We don't anticipate any significant sudden investments in the future. As we keep an eye on the progress of capital investment by competitors and continue discussions with our partners, our capital investment is likely to remain at a level similar to now. There are several ways to expand infrastructure network while controlling cash outflows. One is to share communication infrastructures. As a next-generation method, we could share not only equipment but also frequencies. While frequencies are equally allocated to business operators currently under the legal system in Myanmar, it is possible that frequencies will be subject for sharing in the future.

Q. Can you explain about the room for future growth of this business and your growth strategy?

A. While the penetration rate of mobile phones in Myanmar is assumed to be around 100% (it is possible to use multiple SIMs according to usage/fee plans by inserting two SIMs of different carriers into a dual SIM phone), we think that the number of subscribers will continue to increase in Myanmar as we can expect the penetration rate to rise up to 150% based on the examples of neighboring countries. In addition, since 90% of mobile phones used in Myanmar are smartphones (ready for data), we can also expect that ARPU will increase as a result of an increase in data usage in the future thanks to an expansion of contents such as apps, games and videos. There will not be a simple price competition, as floor prices were set by regulations in order to avoid excessive competition in August 2017. However, since there is some room for original services such as discount campaigns for limited times, offering superior services that meet consumer needs at the right time will be key. In the future, we would like to leverage our strengths for not only mobile phone services but also package services, such as discount calls to fixed line numbers. In addition, we will aim to further expand services in peripheral fields, including the introduction of mobile money based on MPT's existing customer base as a platform (expansion of "MPT Eco System").

Furthermore, we would like to incorporate mobile money settlement services for the payment of bus and train fares as well as shopping at supermarkets—services which are expected to grow in the future. It is our aim to continue to expand our services, looking ahead to the eventual provision of medical services using smartphones, while maintaining and expanding our customer base.