# Chapter 5 Financial Highlights

## Condensed Balance Sheets and Income Statements for the Past Five Years

### Condensed balance sheet

Unit: NT$'000

| | | 2006 | 2007 | 2008 | 2009 | 2010 |
|---|---|---|---|---|---|---|
| Current assets | | 26,112,730 | 11,831,063 | 11,055,600 | 13,530,729 | 23,819,685 |
| Funds and long-term investments | | 21,620,736 | 15,276,374 | 15,660,750 | 9,808,833 | 11,359,143 |
| Fixed assets | | 57,224,824 | 42,568,638 | 43,018,691 | 39,033,012 | 35,014,385 |
| Intangible assets | | 9,036,696 | 8,249,458 | 14,317,314 | 13,567,671 | 12,818,208 |
| Other assets | | 2,976,458 | 6,076,924 | 5,608,974 | 4,823,691 | 4,144,036 |
| Total assets | | 116,971,444 | 84,002,457 | 89,661,329 | 80,763,936 | 87,155,457 |
| Current liabilities | Before appropriation | 16,564,043 | 42,763,948 | 23,717,197 | 18,833,732 | 25,621,285 |
| | After appropriation | 29,919,728 | 50,565,070 | 37,686,061 | 33,861,967 | (Note1) |
| Long-term liabilities | | 10,291,046 | 7,551,665 | 13,200,000 | 8,000,000 | 8,800,000 |
| Other liabilities | | 248,561 | 1,833,915 | 1,841,534 | 1,856,978 | 1,864,617 |
| Total liabilities | Before appropriation | 27,103,650 | 52,149,528 | 38,758,731 | 28,690,710 | 36,285,902 |
| | After appropriation | 40,459,335 | 59,950,650 | 52,727,595 | 43,718,945 | (Note1) |
| Capital stock | | 49,993,251 | 38,009,254 | 38,009,254 | 38,009,254 | 38,009,254 |
| Capital surplus | | 8,748,571 | 8,785,159 | 12,297,839 | 12,431,704 | 12,432,489 |
| Retained earnings | Before appropriation | 32,706,825 | 25,959,268 | 33,529,532 | 33,449,530 | 33,243,481 |
| | After appropriation | 19,351,140 | 18,158,146 | 19,560,668 | 18,421,295 | (Note1) |
| Unrealized valuation loss on financial instruments | | (147,423) | (64,043) | (5,897) | 63,624 | 89,842 |
| Translation adjustments | | 3,860 | 5,764 | 17,840 | 12,011 | (5,716) |
| Net loss not recognized as pension cost | | - | 1,534 | 2,862 | (3,797) | (10,685) |
| Total shareholders' equity | Before appropriation | 89,867,794 | 31,852,929 | 50,902,598 | 52,073,226 | 50,869,555 |
| | After appropriation | 76,512,109 | 24,051,807 | 36,933,734 | 37,044,991 | (Note1) |

Note 1: 2010 earnings appropriation proposals are pending approval at the shareholders' meeting.
Note 2: 2006-2010 financial data have been duly audited by independent auditors.

Explanations of significant changes in the Company's condensed balance sheets for the past five years are as follows:

1. Current assets
   In 2007, the Company liquidated its bond funds to meet funding needs for acquiring Taiwan Fixed Network Co., Ltd. (TFN) shares, resulting in a decrease in current assets. In 2009, the Company upstreamed cash from the subsidiary, Taiwan Cellular Co., Ltd. (TCC), resulting in an increase in current assets. In 2010, current assets were higher due to increased inventory for handset campaigns and a rise in receivables from subsidiaries, which resulted from the subsidiaries borrowing funds through the parent company due to its lower funding cost with the banks.

2. Funds and long-term investments
   In 2007, the Company increased its investment in TCC to acquire TFN shares. The long-term investments were, however, lower than the previous year as the Company shares held by its subsidiaries were reclassified as treasury stock. Furthermore, TransAsia Telecommunications, Inc. (TAT) and TCC had capital reductions in 2007 and 2009, respectively, resulting in decreased long-term investments.

3. Fixed assets
   The disposal of obsolete 2G equipment resulted in a decline in fixed assets.

4. Intangible assets
   In 2008, intangible assets increased as the Company merged with TAT International (which was acquired at a premium) and inherited the goodwill.

5. Other assets
   In 2007, other assets increased due to reclassification from fixed assets of one of the Company's office buildings

being leased out, and an increase in deferred tax assets related to a temporary difference between financial accounting and tax accounting in the recognition of asset write-off losses.

The 2009 amendment of Article 5 of the Income Tax Act provides for the corporate statutory tax rate to be reduced from 25% to 20% effective 2010; as such, deferred income tax assets were revised downward accordingly. On June 15, 2010, further amendment of Article 5 of the Income Tax Act to reduce the corporate statutory income tax rate from 20% to 17% resulted in the downward revision of deferred tax assets accordingly.

6. Current liabilities
The Company's raising of bank loans to meet its funding needs for acquiring TFN shares, together with payables arising from capital reduction, resulted in increased current liabilities in 2007. Current liabilities decreased due to bank loan repayment and settlement of capital reduction in 2008. The repayment of corporate bond-current portion resulted in the decrease of current liabilities in 2009. In 2010, current liabilities increased due to higher short-term borrowings and advance receipts.

7. Long-term liabilities
In 2008, issuance of the second unsecured corporate bonds and an increase in syndicated loans resulted in increased long-term liabilities. In 2009, long-term liabilities decreased, however, as the Company repaid its syndicated loans.

8. Other liabilities
In 2007, the Company injected capital into TCC, which further invested in Taihsing International Telecommunications Co., Ltd. (TIT), using cash and TFN shares. The spread between the original cost and the disposal price of the TFN shares on these transactions had been deferred and classified under other liabilities.

9. Shareholders' equity
A 24% capital reduction approved during the shareholders' meeting in 2007 decreased capital. The Company's shares held by subsidiaries were classified as treasury stock, decreasing shareholders' equity. In 2008, the sale of 300,000 Company shares by its subsidiary decreased treasury shares, while the disposal gain increased capital surplus and shareholders' equity accordingly.

## Condensed income statement

Unit: NT$'000

| | 2006 | 2007 | 2008 | 2009 | 2010 |
|---|---|---|---|---|---|
| Revenue | 47,891,289 | 51,284,856 | 54,311,605 | 57,015,452 | 58,547,285 |
| Gross profit | 27,464,393 | 28,908,257 | 30,204,806 | 29,849,527 | 25,738,573 |
| Operating income | 14,981,243 | 16,025,677 | 16,861,395 | 16,632,797 | 13,700,566 |
| Non-operating income | 6,355,984 | 4,538,500 | 4,791,141 | 3,730,713 | 4,465,716 |
| Non-operating expense | 3,858,726 | 12,508,313 | 1,875,439 | 2,231,019 | 1,768,138 |
| Pre-tax income | 17,478,501 | 8,055,864 | 19,777,097 | 18,132,491 | 16,398,144 |
| Net income | 16,170,741 | 6,612,997 | 15,371,386 | 13,888,862 | 13,822,186 |
| EPS (NT$) | 3.28 | 1.68 | 5.18 | 4.66 | 4.62 |

Note: 2006-2010 financial data have been duly audited by independent auditors.

Explanations of significant changes in the Company's condensed income statements for the past five years are as follows:

1. Operating income
Increased sales of and subsidies for smart devices to promote data services resulted in higher operating costs and lower operating income in 2010.

2. Non-operating income
In 2006, non-operating income rose on gains of NT$2.1bn from the disposal of CHT shares. In 2009, non-operating income decreased due to lower investment income from the subsidiary, TAT, which was merged into the Company in Sep. 2008. In 2010, non-operating income increased due to higher investment income resulting from the growth of Pay TV service and broadband internet access from TFN Media Co., Ltd.

3. Non-operating expense
Significant losses from asset write-off of obsolete telecom equipment following its technology upgrade and network integration were recognized in 2007. The repayment of corporate bonds at the end of 2009 resulted in lower interest expense in 2010.

## Independent auditors' names and their audit opinions for the past five years

| Year | Accounting firm | Name of CPA | Opinion |
|---|---|---|---|
| 2006 | Deloitte & Touche | Peter Fan, Vita Kuo | Modified unqualified opinion |
| 2007 | Deloitte & Touche | Peter Fan, Vita Kuo | Modified unqualified opinion |
| 2008 | Deloitte & Touche | Vita Kuo, Roger Tai | Modified unqualified opinion |
| 2009 | Deloitte & Touche | Peter Fan, S. C. Huang | Unqualified opinion |
| 2010 | KPMG | Simon Chen, Janice Lai | Modified unqualified opinion |

## Financial Analysis for the Past Five Years

| | | | 2006 | 2007 | 2008 | 2009 | 2010 |
|---|---|---|---|---|---|---|---|
| Financial structure | Debt to asset ratio (%) | | 23.17 | 62.08 | 43.23 | 35.52 | 41.63 |
| | Long-term capital to fixed asset ratio (%) | | 175.03 | 92.57 | 149.01 | 153.90 | 170.41 |
| Solvency | Current ratio (%) | | 157.65 | 27.67 | 46.61 | 71.84 | 92.97 |
| | Quick ratio (%) | | 154.05 | 26.17 | 42.66 | 67.00 | 87.00 |
| | Interest coverage ratio (x) | | 42.94 | 21.58 | 29.91 | 33.17 | 50.99 |
| Operations | Accounts receivable turnover (x) | | 7.37 | 7.75 | 8.02 | 8.56 | 9.17 |
| | Average collection days | | 49.53 | 47.10 | 45.51 | 42.64 | 39.80 |
| | Inventory turnover (x) | | 2.53 | 2.02 | 5.44 | 7.85 | 10.57 |
| | Accounts payable turnover (x) | | 14.03 | 14.76 | 12.62 | 12.71 | 13.68 |
| | Average days sales | | 144.27 | 180.69 | 67.10 | 46.50 | 34.53 |
| | Fixed asset turnover (x) | | 0.84 | 1.20 | 1.26 | 1.46 | 1.67 |
| | Total asset turnover (x) | | 0.41 | 0.61 | 0.61 | 0.71 | 0.67 |
| Profitability | Return on assets (%) | | 14.07 | 6.87 | 18.29 | 16.80 | 16.79 |
| | Return on equity (%) | | 18.29 | 10.87 | 37.15 | 26.97 | 26.85 |
| | % of paid-in capital | Operating income | 29.97 | 42.16 | 44.36 | 43.76 | 36.05 |
| | | Pre-tax income | 34.96 | 21.19 | 52.03 | 47.71 | 43.14 |
| | Net income margin (%) | | 33.77 | 12.89 | 28.30 | 24.36 | 23.61 |
| | EPS (NT$) | | 3.28 | 1.68 | 5.18 | 4.66 | 4.62 |
| Cash flow | Cash flow ratio (%) | | 69.93 | 79.87 | 106.27 | 139.10 | 91.01 |
| | Cash flow adequacy ratio (%) | | 126.44 | 148.13 | 147.08 | 143.32 | 131.99 |
| | Cash reinvestment rate (%) | | - | 24.93 | 18.69 | 14.54 | 9.89 |
| Leverage | Operating leverage | | 1.64 | 1.70 | 1.69 | 1.77 | 1.94 |
| | Financial leverage | | 1.03 | 1.03 | 1.04 | 1.04 | 1.02 |
| Others | EBITDA (NT$'000) | | 21,385,641 | 23,205,291 | 23,886,242 | 24,519,524 | 21,763,237 |
| | EBITDA margin (%) | | 44.65 | 45.25 | 43.98 | 43.01 | 37.17 |
| | ARPU (NT$) | | 827 | 821 | 785 | 721 | 718 |
| | MOU (in thousand minutes) | | 12,903,920 | 13,554,863 | 14,674,970 | 15,797,024 | 14,399,713 |

Explanations of significant changes (>20%) in 2010 compared with the previous year:

(1) Decrease in interest payable and increase in working capital were due to repayment of the first unsecured corporate bonds in 2009. Accordingly, the current ratio, quick ratio and Interest coverage ratio increased.
(2) Decrease in operating income and EBITDA was due to the impact of the rate plan adjustment for "X" value regulated by the NCC and increase in promotion costs in smartphones. Higher investment income, less asset write-off losses and interest expense, along with a reduced income tax rate resulted in net income only slightly decreasing compared with the prior year. Accordingly, return on assets, return on equity, pre-tax income as a % of paid-in capital, net income margin and EPS decreased slightly.
(3) Increase in sales of handsets resulted in higher cost of handsets sold. As the inventory didn't rise proportionally, the inventory turnover was up with shorter average days sales.
(4) The cash reinvestment rate dropped due to higher cash dividends paid out.

Note: 2006-2010 financial data have been duly audited by independent auditors.

Formulas for the above table:

Financial structure

(1) Debt to asset ratio = Total liabilities / Total assets
(2) Long-term capital to fixed asset ratio = (Shareholders' equity + Long-term liabilities) / Net fixed assets

Solvency

(1) Current ratio = Current assets / Current liabilities
(2) Quick ratio = (Current assets – Inventory – Prepaid expenses) / Current liabilities

(3) Interest cover = Income before interest and tax / Interest expense

Operations

(1) Accounts receivable turnover = Net revenue / Average accounts receivable
(2) Average collection days = 365 / AR turnover ratio
(3) Inventory turnover = COGS / Average inventory
(4) Accounts payable turnover = COGS / Average accounts payable
(5) Average days sales = 365 / Inventory turnover ratio
(6) Fixed asset turnover = Net revenue / Net fixed assets
(7) Total asset turnover = Net revenue / Total assets

Profitability

(1) Return on assets = [Net income + Interest expense * (1 – Tax rate)] / Average assets
(2) Return on equity = Net income / Average equity
(3) Net income margin = Net income / Net sales
(4) EPS = (Net income – Preferred stock dividend) / Weighted average outstanding shares

Cash flow

(1) Cash flow ratio = Cash flow from operating activities / Current liabilities
(2) Cash flow adequacy ratio = Net cash flow from operating activities for the past 5 years / (Capital expenditures + Increases in inventory + Cash dividend) for the past 5 years
(3) Cash reinvestment rate = (Cash flow from operating activities – Cash dividends) / (Gross fixed assets + Long-term investments + Other assets + Working capital) (Note: Use zero if working capital value is negative)

Leverage

(1) Operating leverage = (Net revenue – Variable operating costs and expenses) / Operating income
(2) Financial leverage = Operating income / (Operating income – Interest expense)

Others

(1) EBITDA = Operating income + Depreciation + Amortization
(2) EBITDA margin = EBITDA/Net revenue
(3) ARPU = Net telecom service revenue / Average number of subscribers
(4) MOU = Outgoing & incoming minutes

## Audit Committee Report

Date: January 27, 2011

The Board of Directors of Taiwan Mobile Co., Ltd. (TWM) has submitted the Company's 2010 business report and financial statements. The CPA firm, KPMG, was retained to audit TWM's financial statements and has issued an audit report relating to the financial statements. The business report and financial statements have been reviewed and determined to be correct and accurate by the Audit Committee of TWM. According to Article 14-4 of the Securities and Exchange Act and Article 219 of the Company Act, I hereby submit this report on behalf of all members of the committee.

Taiwan Mobile Co., Ltd.

T.M. Chung

Tsung-Ming Chung
Chairman of the Audit Committee

## 2010 Financial Statements:

Refer to Chapter 6.

## 2010 Consolidated Financial Statements:

Refer to Chapter 6.

## Financial Difficulties for the Company and its Affiliates:

None