Chapter 5 Financial Highlights

Condensed Balance Sheets and Income Statements for the Past Five Years

Condensed balance sheet – Based on ROC GAAP

Unit: NT$'000

		2008	2009	2010	2011	2012
Current assets		11,055,600	13,530,729	23,819,685	10,307,087	12,702,556
Investments		15,660,750	9,808,833	11,359,143	26,670,657	34,466,074
Fixed assets		43,018,691	39,033,012	35,014,385	31,268,171	29,131,007
Intangible assets		14,317,314	13,567,671	12,818,208	12,816,185	12,014,914
Other assets		5,608,974	4,823,691	4,144,036	3,665,604	3,650,151
Total assets		89,661,329	80,763,936	87,155,457	84,727,704	91,964,702
Current liabilities	Before appropriation	23,717,197	18,833,732	25,621,285	29,800,200	31,158,254
	After appropriation	37,686,061	33,861,967	38,061,252	43,681,152	(Note1)
Long-term liabilities		13,200,000	8,000,000	8,800,000	4,000,000	8,995,180
Other liabilities		1,841,534	1,856,978	1,864,617	1,979,493	2,087,331
Total liabilities	Before appropriation	38,758,731	28,690,710	36,285,902	35,779,693	42,240,765
	After appropriation	52,727,595	43,718,945	48,725,869	49,660,645	(Note1)
Capital stock		38,009,254	38,009,254	38,009,254	34,208,328	34,208,328
Capital surplus		12,297,839	12,431,704	12,432,489	12,432,446	12,432,446
Retained earnings	Before appropriation	33,529,532	33,449,530	32,243,481	33,272,277	34,082,930
	After appropriation	19,560,668	18,421,295	19,803,514	19,391,325	(Note1)
Unrealized valuation loss on financial instruments		(5,897)	63,624	89,842	111,306	99,351
Translation adjustments		17,840	12,011	(5,716)	17,612	2,115
Net loss not recognized as pension cost		2,862	（3,797）	（10,695）	(16,775)	(24,050)
Treasury shares		(32,948,832)	(31,889,100)	(31,889,100)	(31,077,183)	(31,077,183)
Total shareholders' equity	Before appropriation	50,902,598	52,073,226	50,869,555	48,948,011	49,723,937
	After appropriation	36,933,734	37,044,991	38,429,588	35,067,059	(Note1)

Note 1: 2012 earnings appropriation proposal is pending approval at the shareholders' meeting.
Note 2: 2008-2012 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 2009, the Company upstreamed cash from its subsidiary Taiwan Cellular Co., Ltd. (TCC), resulting in an increase in current assets. In 2010, current assets were higher because of an increase in inventory for handset promotional campaigns and a rise in receivables from subsidiaries, which borrowed funds through the parent company as the parent company has access to lower borrowing rates with the banks. In 2011, the Company had a capital reduction and acquired a 51% stake in Fubon Multimedia Technology (momo), leading to a decrease in current assets. In 2012, current assets rose due to increases in accounts receivable and inventory as a result of mobile data revenue growth and strong smartphone sales.

2. Investments
   TCC, the Company's 100%-owned subsidiary, had a capital reduction in 2009, resulting in a decrease in long-term investments. In 2011, the Company acquired a 51% stake in momo, resulting in an increase in long-term investments. In 2012, investments increased due to the Company's participation in the rights issue of its subsidiary, Wealth Media Technology Co., Ltd.

3. Fixed assets
   The depreciation and retirement of obsolete equipment resulted in a decline in fixed assets.

4. Other assets
   The 2009 amendment of Article 5 of the Income Tax Act lowered the corporate statutory tax rate 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 reduced the corporate statutory income tax rate from 20% to 17%, leading to a downward revision of deferred tax assets.

5. Current liabilities
Current liabilities decreased due to bank loan repayment and settlement of capital reduction in 2008. The repayment of corporate bonds-current portion resulted in a decrease in current liabilities in 2009. In 2010, current liabilities increased due to higher short-term borrowings and advance receipts. As the corporate bonds due within one year were reclassified as corporate bonds-current portion, current liabilities increased in 2011.

6. Long-term liabilities
In 2008, a second unsecured corporate bond issue and an increase in syndicated loans led to higher long-term liabilities. In 2009, long-term liabilities decreased, as the Company repaid its syndicated loans. As corporate bonds due within one year were reclassified as corporate bonds-current portion, long-term liabilities decreased in 2011. Although corporate bonds due within one year were reclassified as corporate bonds-current portion, long-term liabilities still increased in 2012 because of a new corporate bond issue at the end of the year.

7. Shareholders' equity
In 2008, the sale of 300mn Company shares by its subsidiary led to a decrease in the number of treasury shares, while disposal gains led to an increase in capital surplus and, thus, shareholders' equity. Paid-in capital dropped because of capital reduction in 2011.

Condensed income statement – Based on ROC GAAP

Unit: NT$'000

	2008	2009	2010	2011	2012
Revenue	54,311,605	57,015,452	58,547,285	61,919,273	67,406,445
Gross profit	30,204,806	29,849,527	25,738,573	24,125,399	25,028,649
Operating income	16,861,395	16,632,797	13,700,566	11,169,724	10,764,546
Non-operating income	4,791,141	3,730,713	4,465,716	4,506,462	6,688,400
Non-operating expenses	1,875,439	2,231,019	1,768,138	833,190	1,068,104
Pre-tax income	19,777,097	18,132,491	16,398,144	14,842,996	16,384,842
Net income	15,371,386	13,888,862	13,822,186	13,468,763	14,691,605
EPS (NT$)	5.18	4.66	4.62	4.70	5.46

Note: 2008-2012 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 to 2012.

2. Non-operating income
In 2009, non-operating income decreased due to lower investment income from TAT, which was merged into the Company in September 2008. In 2010, non-operating income increased due to higher investment income resulting from growth in TFN Media Co., Ltd's Pay TV and broadband internet access services. In 2012, non-operating income rose due to the full-year consolidation of momo's P&L vs. only 5.5 months in 2011, as well as higher investment gains from Taiwan Fixed Network's increased profit.

3. Non-operating expenses
Significant losses from the asset write-off of obsolete telecom equipment following technology upgrade and network integration were recognized in 2009. The repayment of corporate bonds at the end of 2009 resulted in lower interest expense in 2010. Lower non-operating expenses in 2011 were due to fewer asset write-offs and losses from the disposal of fixed assets. Higher non-operating expenses in 2012 were due to expanded losses from asset write-offs and disposal of fixed assets.

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

Year	Accounting firm	Name of CPA	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

2011	KPMG	Simon Chen, Janice Lai	Unqualified opinion
2012	KPMG	Simon Chen, Janice Lai	Unqualified opinion

Financial Analysis for the Past Five Years – Based on ROC GAAP

			2008	2009	2010	2011	2012
Financial structure	Liability to asset ratio (%)		43.23	35.52	41.63	42.23	45.93
	Long-term fund to fixed asset ratio (%)		149.01	153.90	170.41	169.34	201.57
Solvency	Current ratio (%)		46.61	71.84	92.97	34.59	40.77
	Quick ratio (%)		42.66	67.00	87.00	28.47	32.04
	Interest coverage ratio (%)		2,991.34	3,316.61	5,099.46	6,314.20	4,387.49
Operations	Accounts receivable turnover (x)		8.02	8.56	9.17	9.76	9.94
	Average collection days		45.51	42.64	39.80	37.39	36.72
	Inventory turnover (x)		5.44	7.85	10.76	10.37	10.09
	Accounts payable turnover (x)		12.62	12.71	13.68	12.26	10.27
	Average days sales		67.10	46.50	33.92	35.19	36.17
	Fixed asset turnover (x)		1.26	1.46	1.67	1.98	2.31
	Total asset turnover (x)		0.61	0.71	0.67	0.73	0.73
Profitability	Return on assets (%)		18.29	16.80	16.79	15.90	16.99
	Return on equity (%)		37.15	26.97	26.85	26.99	29.78
	% of paid-in capital	Operating income	44.36	43.76	36.05	32.65	31.47
		Pre-tax income	52.03	47.71	43.14	43.39	47.90
	Net income margin (%)		28.30	24.36	23.61	21.75	21.80
	EPS (NT$)		5.18	4.66	4.62	4.70	5.46
Cash flow	Cash flow ratio (%)		106.27	139.10	91.01	74.40	67.31
	Cash flow adequacy ratio (%)		147.08	143.32	131.99	148.99	133.23
	Cash reinvestment rate (%)		18.69	14.54	9.89	9.70	6.38
Leverage	Operating leverage		1.69	1.77	1.94	2.16	2.23
	Financial leverage		1.04	1.04	1.02	1.02	1.04
Others	EBITDA (NT$'000)		23,886,242	24,519,524	21,763,237	19,239,530	18,747,961
	EBITDA margin (%)		43.98	43.01	37.17	31.07	27.81
	ARPU (NT$)		785	721	718	719	721
	MOU (in thousand minutes)		14,674,970	15,797,024	14,399,713	15,305,902	16,496,235

Explanations of significant changes in 2012 compared with the previous year:

(1) The long-term fund to fixed asset ratio increased due to higher long-term liabilities resulting from a new corporate bond issue.
(2) As mentioned above, the increase in liabilities led to an increase in interest expense, resulting in lower Interest coverage ratio.
(3) As revenue and net income increased, the fixed asset turnover, return on assets, return on equity, pre-tax income as a % of paid-in capital and EPS rose accordingly.
(4) The cash reinvestment rate dropped due to higher cash dividend distribution and higher investment in the 100%-owned subsidiary, Wealth Media Technology Co., Ltd.

Note: 2008-2012 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 fund 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 coverage ratio = Income before interest and tax / Interest expense

Operations

(1) Accounts receivable turnover = Net revenue / Average accounts receivable
(2) Average collection days = 365 / AR turnover
(3) Inventory turnover = COGS / Average inventory
(4) Accounts payable turnover = COGS / Average accounts payable
(5) Average days sales = 365 / Inventory turnover
(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

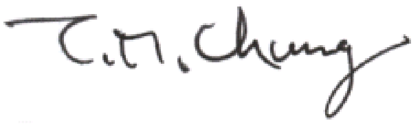
(1) EBITDA = Operating income + Depreciation + Amortization
(2) EBITDA margin = EBITDA / Net revenue
(3) ARPU = Net telecom service revenue / Average number of subscribers
(4) MOU = Outgoing & incoming minutes

Audit Committee Report

Date: January 30, 2013

The Board of Directors of Taiwan Mobile Co., Ltd. (TWM) has submitted the Company's 2012 financial statements. The CPA firm, KPMG, was engaged to examine these financial statements and has issued an auditor's report. The 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, on behalf of all members of the committee, I hereby submit this report to the annual shareholders' meeting.

Taiwan Mobile Co., Ltd.



Tsung-Ming Chung
Chairman of the Audit Committee

2012 Financial Statements:

Refer to Chapter 6.

2012 Consolidated Financial Statements:

Refer to Chapter 6.

Financial Difficulties for the Company and its Affiliates:

None