

# Chapter 5 Financial Highlights

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

### Condensed balance sheet

Unit: NT\$'000

	2007	2008	2009	2010	2011
Current assets	11,831,063	11,055,600	13,530,729	23,819,685	10,307,087
Funds and long-term investments	15,276,374	15,660,750	9,808,833	11,359,143	26,670,657
Fixed assets	42,568,638	43,018,691	39,033,012	35,014,385	31,677,951
Intangible assets	8,249,458	14,317,314	13,567,671	12,818,208	12,356,964
Other assets	6,076,924	5,608,974	4,823,691	4,144,036	3,715,045
Total assets	84,002,457	89,661,329	80,763,936	87,155,457	84,727,704
Current liabilities	Before appropriation 42,763,948 After appropriation 50,565,070	23,717,197 37,686,061	18,833,732 33,861,967	25,621,285 38,061,252	29,904,013 (Note1)
Long-term liabilities	7,551,665	13,200,000	8,000,000	8,800,000	4,000,000
Other liabilities	1,833,915	1,841,534	1,856,978	1,864,617	1,875,680
Total liabilities	Before appropriation 52,149,528 After appropriation 59,950,650	38,758,731 52,727,595	28,690,710 43,718,945	36,285,902 48,725,869	35,779,693 (Note1)
Capital stock	38,009,254	38,009,254	38,009,254	38,009,254	34,208,328
Capital surplus	8,785,159	12,297,839	12,431,704	12,432,489	12,432,446
Retained earnings	Before appropriation 25,959,268 After appropriation 18,158,146	33,529,532 19,560,668	33,449,530 18,421,295	32,243,481 19,803,514	33,272,277 (Note1)
Unrealized valuation loss on financial instruments	(64,043)	(5,897)	63,624	89,842	111,306
Translation adjustments	5,764	17,840	12,011	(5,716)	17,612
Net loss not recognized as pension cost	1,534	2,862	(3,797)	(10,695)	(16,775)
Treasury shares	(40,844,007)	(32,948,832)	(31,889,100)	(31,889,100)	(31,077,183)
Total shareholders' equity	Before appropriation 31,852,929 After appropriation 24,051,807	50,902,598 36,933,734	52,073,226 37,044,991	50,869,555 38,429,588	48,948,011 (Note1)

Note 1: 2011 earnings appropriation proposal is pending approval at the shareholders' meeting.

Note 2: 2007-2011 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, who borrowed funds through the parent company due to the parent company having 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.

#### 2. Funds and long-term 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.

#### 3. Fixed assets

The depreciation and retirement 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 and inherited the goodwill.

#### 5. 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.

**6. Current liabilities**

Current liabilities decreased due to bank loan repayment and settlement of capital reduction in 2008. The repayment of corporate bond-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 bond due within one year was reclassified as corporate bond-current portion, current liabilities increased in 2011.

**7. 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 the corporate bond due within one year was reclassified as corporate bond-current portion, long-term liabilities decreased in 2011.

**8. 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**

Unit: NT\$'000

	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>
Revenue	51,284,856	54,311,605	57,015,452	58,547,285	61,919,273
Gross profit	28,908,257	30,204,806	29,849,527	25,738,573	24,125,399
Operating income	16,025,677	16,861,395	16,632,797	13,700,566	11,169,724
Non-operating income	4,538,500	4,791,141	3,730,713	4,465,716	4,506,462
Non-operating expense	12,508,313	1,875,439	2,231,019	1,768,138	833,190
Pre-tax income	8,055,864	19,777,097	18,132,491	16,398,144	14,842,996
Net income	6,612,997	15,371,386	13,888,862	13,822,186	13,468,763
EPS (NT\$)	1.68	5.18	4.66	4.62	4.70

Note: 2007-2011 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 and 2011.

**2. Non-operating income**

In 2009, non-operating income decreased due to lower investment income from TAT, which was merged into the Company in Sept. 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.

**3. Non-operating expense**

Significant losses from the asset write-off of obsolete telecom equipment following 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. Lower non-operating expenses in 2011 were due to fewer asset write-offs and losses from the disposal of fixed assets.

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

<b>Year</b>	<b>Accounting firm</b>	<b>Name of CPA</b>	<b>Opinion</b>
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
2011	KPMG	Simon Chen, Janice Lai	Unqualified opinion

## Financial Analysis for the Past Five Years

		2007	2008	2009	2010	2011
Financial structure	Liability to asset ratio (%)	62.08	43.23	35.52	41.63	42.23
	Long-term capital to fixed asset ratio (%)	92.57	149.01	153.90	170.41	167.14
Solvency	Current ratio (%)	27.67	46.61	71.84	92.97	34.47
	Quick ratio (%)	26.17	42.66	67.00	87.00	28.37
	Interest coverage ratio (x)	21.58	29.91	33.17	50.99	63.14
Operations	Accounts receivable turnover (x)	7.75	8.02	8.56	9.17	9.76
	Average collection days	47.10	45.51	42.64	39.80	37.39
	Inventory turnover (x)	2.02	5.44	7.85	10.76	10.37
	Accounts payable turnover (x)	14.76	12.62	12.71	13.68	12.26
	Average days sales	180.69	67.10	46.50	33.92	35.19
	Fixed asset turnover (x)	1.20	1.26	1.46	1.67	1.95
	Total asset turnover (x)	0.61	0.61	0.71	0.67	0.73
	Return on assets (%)	6.87	18.29	16.80	16.79	15.90
	Return on equity (%)	10.87	37.15	26.97	26.85	26.99
Profitability	% of paid-in capital	Operating income	42.16	44.36	43.76	36.05
		Pre-tax income	21.19	52.03	47.71	43.14
	Net income margin (%)	12.89	28.30	24.36	23.61	21.75
	EPS (NT\$)	1.68	5.18	4.66	4.62	4.70
	Cash flow ratio (%)	79.87	106.27	139.10	91.01	74.14
Cash flow	Cash flow adequacy ratio (%)	148.13	147.08	143.32	131.99	148.67
	Cash reinvestment rate (%)	24.93	18.69	14.54	9.89	9.58
	Operating leverage	1.70	1.69	1.77	1.94	2.16
Leverage	Financial leverage	1.03	1.04	1.04	1.02	1.02
	EBITDA (NT\$'000)	23,205,291	23,886,242	24,519,524	21,763,237	19,239,530
Others	EBITDA margin (%)	45.25	43.98	43.01	37.17	31.07
	ARPU (NT\$)	821	785	721	718	719
	MOU (in thousand minutes)	13,554,863	14,674,970	15,797,024	14,399,713	15,305,902

Explanations of significant changes (>20%) in 2011 compared with the previous year:

- (1) The Company had a capital reduction and acquired a 51% stake in Fubon Multimedia Technology (momo) using money collected from receivables owed by subsidiaries, resulting in a decrease in current assets and lower current ratio and quick ratios. The repayment of a syndicated loan in March 2011 led to lower interest expenses, which in turn raised the interest coverage ratio.
- (2) Benefiting from the capital reduction, average shareholders' equity and paid-in capital dropped, resulting in increases in return on equity, pre-tax income as a percentage of paid-in capital and EPS.
- (3) As the corporate bond due within one year was reclassified as corporate bond-current portion, current liabilities increased in 2011, leading to a decline in the cash flow ratio.

Note: 2007-2011 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

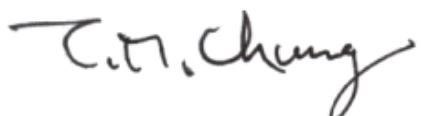
- (1) EBITDA = Operating income + Depreciation + Amortization
- (2) EBITDA margin = EBITDA / Net revenue
- (3) ARPU = Net telecom service revenue / Average number of subscribers
- (4) MOU = Outgoing & incoming minutes

## **Audit Committee Report**

Date: January 19, 2012

The Board of Directors of Taiwan Mobile Co., Ltd. (TWM) has submitted the Company's 2011 operations report and financial statements. The CPA firm, KPMG, was engaged to examine these financial statements and has issued an auditor's report. The operations 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, 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

### **2011 Financial Statements:**

Refer to Chapter 6.

### **2011 Consolidated Financial Statements:**

Refer to Chapter 6.

### **Financial Difficulties for the Company and its Affiliates:**

None