



Annual Report 2005

## Taiwan Stock Exchange

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## Taiwan Stock Exchange Annual Report 2005

May 2006

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## Message from the Chairman

With a view to becoming an important player in the international arena, TSEC will pursue economies of scale and aim to improve operational efficiency in order to enhance core competitiveness and continued development of the Taiwan securities market.



The Taiwan stock market closed for the year 2005 with the Taiwan Stock Exchange Capitalization Weighted Index (TAIEX) ending at 6,548.34 points, a 6.66% increase over 2004's close at 6,139.69 points. At the end of 2005, 691 companies were listed on the Taiwan Stock Exchange (TSEC), six less than that of 2004. Market capitalization grew by NT\$1.59 trillion to NT\$15.63 trillion during 2005. The average daily trading value decreased to NT\$77.2 billion, or NT\$19.5 billion less than that of the previous year. The number of investors with valid trading accounts reached 7,740,024, or 129,381 more than in 2004, and the number of securities brokerage outlets decreased by 28 in 2005 to a total of 1,125.

Chairman  
*Nai-jeu Lu*

TSEC unrelentingly works with the regulatory authorities in its reform of the securities market in order to lead the Taiwan securities market into a new era of liberalization and internationalization. To enhance operational efficiency and service quality of the Taiwan securities market, bringing it in line with international developments, TSEC implemented many reform measures throughout the year of 2005. The most important of these measures included:

**Listing** - In addition to promoting the listing of securitized real estate products, TSEC intensified the monitoring of listed companies, and required listed companies to timely disclose material information in order to enhance the transparency of the securities market. TSEC also introduced a new underwriting regime, and required domestic accounting principles to meet international accounting standards according to market demand and international trends.

**Trading, Clearing and Settlement** - TSEC reduced the minimum up/down tick size of price movement, and lifted the daily price fluctuation limit for the first five trading days after listing. New odd lot and block trading systems were implemented. In addition, TSEC Taiwan 50 Index constituents were exempted from the restriction that no short sale be priced below previous close. Stage by stage, TSEC reviewed and improved the securities borrowing and lending business. Furthermore, TSEC simplified tripartite settlements on a net basis for TSEC, securities finance companies and securities firms, and streamlined both the registration procedure for foreign investors and assets transfer procedure for foreign institutional investors with different investment IDs.

Other important milestones of market development accomplished in 2005 were:

**Information Technology** - TSEC upgraded the operation system of the Fully Automated Securities Trading (FAST) platform to enhance its operational stability.

**Market Surveillance** - TSEC integrated its on-line market surveillance systems into a single relational database to simplify the working process and enhance efficiency.

**Website** - TSEC established an "Internet Learning Platform" to provide securities professionals and investors with various education programs.

**Index** - TSEC also compiled a new "NonFinance NonElectronics Sub-Index" to serve as a performance benchmark of general industries listed on TSEC.

Going forward into 2006, TSEC will carry out the following scheduled activities:

**Primary Market** - TSEC will cooperate with the relevant authorities to promote the establishment of "International Securities Market Board", on which listed securities are priced in US dollars for the purpose of encouraging eligible foreign companies to apply for initial public offering or dual-listing in Taiwan. Furthermore, TSEC will also continue to intensify its requirements for verification and disclosure of material information of listed companies. Listed companies need to comply with corporate governance code in accordance with the related articles newly amended in Securities and Exchange Act in January 2006.

**Secondary Market** - Starting February 2006, TSEC permits securities transactions to be conducted via brokers' omnibus trading accounts to facilitate their equal-price services to their fund-manager clients, if so instructed. TSEC plans to launch a new block-trading system with a pre-match option later this year. Additionally, TSEC will further relax the restrictions on short sale price not below previous close for more qualified stocks, continue to review the effect of smaller tick size, and promote DVP on T+2 throughout the market.

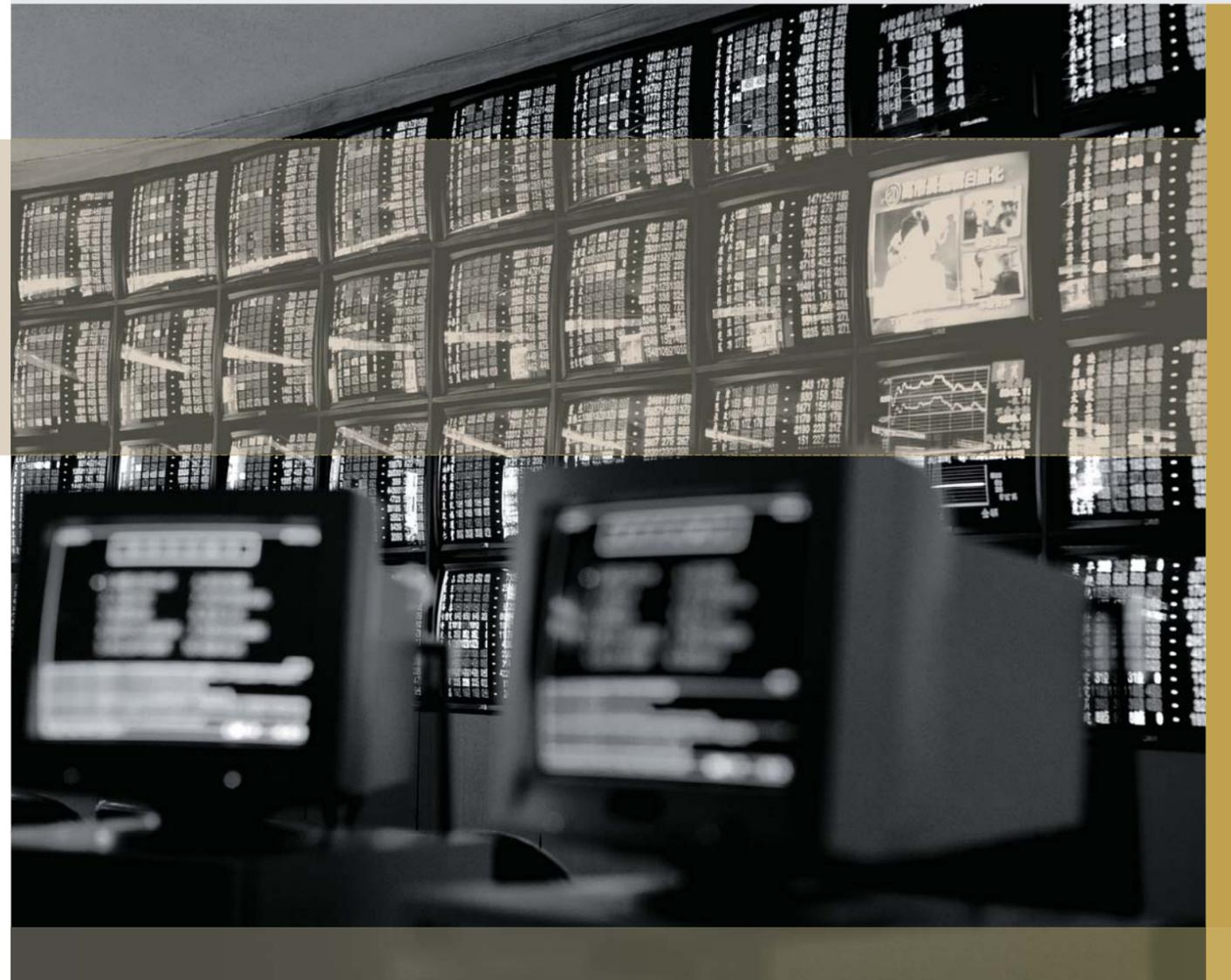
To cope with a rapidly changing global capital market, major stock exchanges have experienced a universal trend towards consolidation of markets and business resources. TSEC is, out of a similar concern, proceeding along a similar path with peer market operators in Taiwan, to the extent that our regulator allows. With a view to becoming an important player in the international arena, TSEC will pursue economies of scale and aim to improve operational efficiency in order to enhance core competitiveness and continued development of the Taiwan securities market.

# Statistical Highlights

Unit: NT\$1,000/1,000 shares

	2005	2004
<b>Stocks</b>		
Total Trading Value	18,818,901,753	23,875,366,203
Average Daily Trading Value	76,189,886	95,501,465
Total Trading Volume	663,512,191	987,573,775
Average Daily Trading Volume	2,686,284	3,950,295
<b>Taiwan Depository Receipts</b>		
Total Trading Value	19,227,791	9,860,180
<b>Beneficiary Certificates</b>		
ETF Trading Value	79,438,639	79,306,569
Closed-end Funds Trading Value	1,188,253	1,540,859
<b>Beneficiary Securities</b>		
Total Trading Value	12,269,243	-
<b>Warrants</b>		
Total Trading Value	142,365,748	207,750,294
<b>Corporate Bonds</b>		
Total Trading Value	477,591	3,979,550
<b>Government Bonds</b>		
Total Trading Value	0	0
<b>TAIEX *</b>		
	6,548.34	6,139.69
<b>Total Listed Companies *</b>		
	691	697
<b>Total Listed Shares *</b>		
	538,995,089	503,131,668
<b>Aggregate Capital of Issued Shares *</b>		
	5,415,963,011	5,058,079,521
<b>Aggregate Market Value of Issued Shares *</b>		
	15,633,857,549	14,040,528,663
<b>Number of Securities Brokers *</b>		
	109	114
<b>Number of Securities Dealers *</b>		
	46	47

\* End of Period



The Economy in 2005

In the first half of 2005, despite the moderate recovery of the global economy, the Taiwanese economy grew intermittently, affected by soaring prices of crude oil and other commodities. Fortunately, the economic situation improved gradually in the second half of 2005. The economic growth rate was 4.38% in the third quarter, reaching 5.28% in the fourth quarter. The domestic economy remained sturdy as a result of on-going major private investment in key industries and massive public construction projects, such as the high-speed rail and the mass rapid transit system in Kaohsiung. International trade continued to be Taiwan's principal growth engine. Benefiting from expanding domestic and foreign demand, Taiwan's exports and imports increased by 8.2% and 8.8%, respectively, in 2005. The economic growth rate was 3.80% in 2005, according to the Directorate General of Budget, Accounting and Statistics (DGBAS).

The status of cross-strait economic and trading relations has always played a significant role in Taiwan's economic development. In addition to this, other factors, such as the effects of the global economic recovery, the extent of US economic growth and interest rate hikes, fluctuating oil prices, and the situation of domestic politics are also expected to impact the growth of Taiwan's economy in 2006, which is estimated to remain above 4%, according to global and domestic research institutions.



## The Securities Market in 2005

### LISTING

#### 1. Stocks

##### (a) Listed Companies

699 common and preferred stocks, issued by 691 companies, were listed on TSEC as of the end of 2005. There were also four outstanding certificates of entitlement to new shares from convertible bond issues. The total year-end market capitalization was NT\$15,634 billion, represented by 539 billion outstanding shares.

##### (b) Newly Listed Companies

13 new companies joined the main board listing in 2005. These newly listed companies accounted for an increase of 6.9 billion shares on the market.

##### (c) New Shares Issued by Listed Companies

New offerings issued by listed companies in 2005 accounted for an increase of 35.8 billion shares.

##### (d) Delistings and Suspensions

19 companies were delisted in 2005. Trading in shares of one company was suspended as of the end of 2005.

#### 2. Taiwan Depository Receipts (TDRs)

As of the end of 2005, a total of five TDRs were listed on TSEC, with 1,409 million units.

#### 3. Beneficiary Certificates

The number of outstanding units of Exchange Traded Funds (ETF) tracking TSEC Taiwan 50 index was 710 million. One closed-end beneficiary certificate was listed with 500 million units at the end of the year.

#### 4. Beneficiary Securities

Three beneficiary securities (REIT) were listed with 3,106 million units at the end of the year.

#### 5. Warrants

767 new call warrants were issued in 2005 by 25 securities firms, while 441 call warrants expired. 31 put warrants were issued in 2005 by five securities firms, while eight expired. A total of 20,508 million units were issued as of the end of the year.

#### 6. Bonds

##### (a) Government Bonds

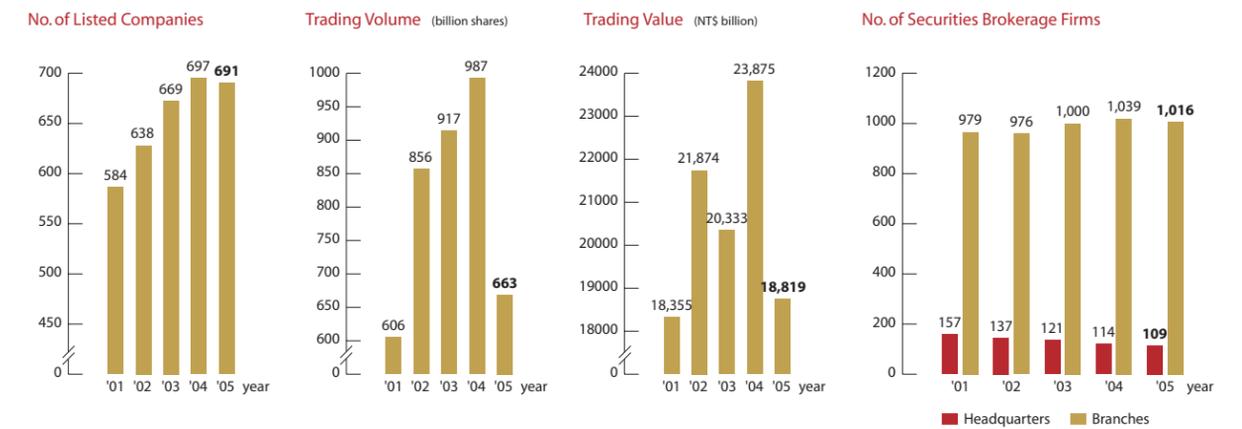
11 government bonds were listed in 2005 in addition to nine delistings. This represented a net addition of NT\$290.9 billion in government issued public debts. A total of 88 government bonds were listed at the end of 2005 with an aggregate outstanding value of NT\$ 3,141.5 billion.

##### (b) Corporate Bonds

No new convertible bonds were issued in 2005; delisted issues totaled two. At the end of the year, seven listed convertible corporate bonds were outstanding, totaling NT\$ 212 million. This represents a net reduction of outstanding corporate bonds by NT\$ 484 million compared with 2004.

##### (c) Foreign Bonds

One foreign bond was de-listed in 2005. At the end of the year, one listed foreign bond was outstanding, with a total value of NT\$2.0 billion.





## TRADING

### 1. Stocks

The Fully Automated Securities Trading (FAST) system completed 134 million transactions in 247 trading days in 2005. The total value of shares traded during the year was NT\$18,818.9 billion, down by 21.17% from 2004. The total trading volume amounted to 663.5 billion shares, 32.81% lower than that of the previous year. The average daily trading value and volume was NT\$76.1 billion and 2.6 billion shares respectively.

### 2. Taiwan Depository Receipts (TDRs)

Of TDRs traded in 2005, the total value was NT\$19.2 billion and the volume turnover was 2,972 million units, an increase of 95% and 162.7%, respectively, compared with 2004.

### 3. Beneficiary Certificates

The trading value of ETF totaled NT\$79.4 billion in 2005, up by 0.17% from 2004. The trading volume totaled 1,670 million units in 2005, down by 1.18% from 2004. The trading value of closed-end beneficiary certificates totaled NT\$1.1 billion in 2005, 22.88% less than that of a year ago. The turnover of 201 million units was 28.34% lower than that of the previous year.

### 4. Beneficiary Securities

The trading value of beneficiary securities totaled NT\$12.2 billion, and the trading volume totaled 1,209 million units in 2005.

### 5. Warrants

The trading value of call warrant transactions totaled NT\$142.3 billion in 2005, down by 31.47% from the previous year. The turnover was 122,656 million units, an increase of 13%.

### 6. Bonds

The trading value of convertible bonds and government bonds totaled NT\$0.4 billion in 2005, 88% less than that of a year ago.

Overall, the total trading value of stocks, TDRs, beneficiary certificates, beneficiary securities, warrants, and bonds amounted to NT\$19.07 trillion in 2005, a decrease of 21.15% compared with the previous year.

TSEC established a securities borrowing and lending system on June 30, 2003 to satisfy transaction demand and exercise of derivatives from institutional investors. 1,120 transactions were recorded in 2005 with 2,275 million shares transacted, valued at NT\$68.5 billion on the day's closing price. As for settlement demand from investors, 3,704 transactions were recorded in 2005, with 47 million shares transacted.

## PRICE MOVEMENT

TAIEX began the year with new financial accounting standards coming into effect. Anxieties over these caused the index to drop below 6,000. China's enactment of an "Anti-secession Law" and soaring oil prices dampened market sentiment further, with TAIEX recording the low of the year at 5,565 on April 21. At the end of May, with the removal of MSCI's Limited Investability Factor (LIF) imposed on MSCI Taiwan Index, TAIEX appeared to be on the rebound. However, the uncertainties arising from an unstable political situation and tense cross-strait relations weakened investors' confidence, leading to TAIEX's struggle around 6,000 points. It was not until the last month of the year that TAIEX resumed its surge, as a result of the settling oil price, and subsided anxieties about the bird flu and local elections uncertainty. As TAIEX's lagging behind other Asia-Pacific stock markets justified its investment value, a continuous influx of foreign investments inspired market momentum. Vigorous capital inflow pushed TAIEX to the year's peak of 6,600 on December 29, and it closed the year at 6,548, a gain of 408 points, or 6.66%, compared with 2004's close.

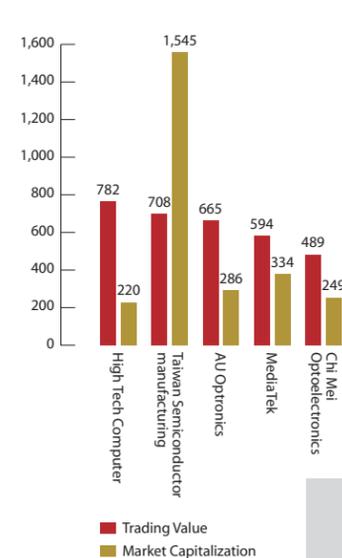
Comparing the prices of individual stocks at the end of 2005 with those of the previous year-end, 243 rose, 433 fell, one remained unchanged, and 21 were not available for comparison (including 19 newly listed stocks and two stocks without closing price at the end of 2005).

## SECURITIES FIRMS

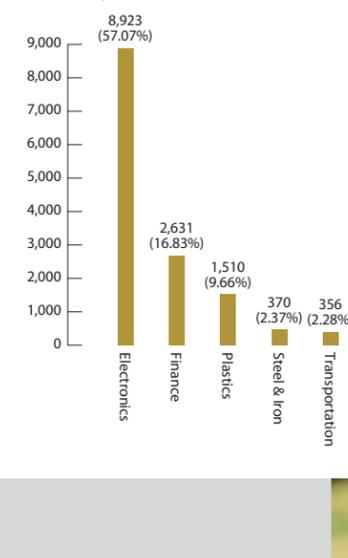
As of the end of 2005, 113 securities firms had contracts with TSEC to operate in the market. Fifty-five of them restricted themselves to brokerage operations, while one only engaged in dealing operations and 57 ran a combination of brokerage, dealer and underwriter businesses, with 38 of these offering margin-financing services. The number of brokerage branch establishments in Taiwan totaled 1,016, with the majority located in Taipei City, followed by Taipei County, Kaohsiung City, Taichung City, and Taoyuan County. 14 foreign securities firms also ran operations in Taiwan in 2005.

The top five local securities companies in 2005 in terms of market share were Yuanta-Core Pacific (8.12%), Fubon (6.09%), Taiwan (5.12%), SinoPac (4.24%), and Capital Securities (4.12%).

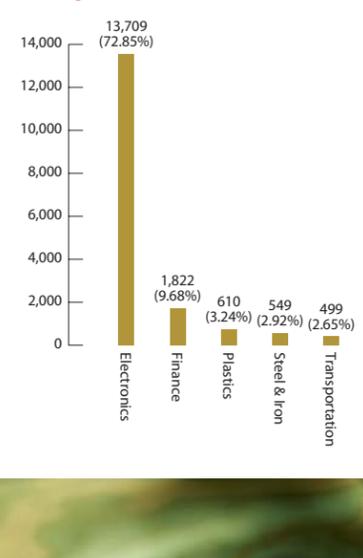
The Five Most Active Stocks in 2005 (NT\$ billion)



The Five Biggest Industries in Market Capitalization (NT\$ billion)



The Five Most Active Industries in Trading Value (NT\$ billion)



Maintaining  
a fair, open  
and Secure  
Market



## Major Progress in 2005

TSEC's achievements in the development of the securities market in 2005 included:

### LISTING

#### 1. Listing Promotion

13 companies became newly listed on TSEC in 2005. A total of 165 companies were preparing for their initial listing, under the guidance of securities underwriters, as of the end of 2005.

#### 2. Monitoring of Listed Companies

(a) TSEC implemented the establishment of independent board directors and supervisors in listed companies, and encouraged them to engage in expertise-advanced study.

(b) TSEC cooperated with GreTai Securities Market to establish "Database System of Listed Companies".

(c) TSEC reviewed and discussed the functions of the listing screening committee.

(d) TSEC conducted 50 exceptional audits on listed companies in 2005.

(e) Disclosure of Material Information

TSEC listed companies were required to timely disclose material information. 28,099 such announcements were made in 2005, and 411 of them were made in the form of a press conference. TSEC also conducted 706 audits to ensure that all records and documents with regard to these events were in good order.

(f) Investigation of Stock Transfers by Insiders

TSEC conducted 19,458 investigations on stock transfers by insiders of listed companies in 2005.

(g) Reviews of Financial Reports and Forecasts

TSEC implemented 2,784 form reviews and 219 substance reviews of listed companies' financial reports, as well as 93 form reviews and 26 substance reviews of listed companies' financial forecasts.

#### 3. Promotion of the listing of securitized real estate products

Three Real Estate Investment Trust (REITs) beneficiary securities were listed on TSEC.

#### 4. Planning and promotion of primary market system in line with international development trends

(a) TSEC introduced a new underwriting system, and a new underwriting pricing mechanism to replace the original formula commonly used in the market.

(b) To meet market demand and in line with international trends, TSEC compelled domestic accounting principles to meet international accounting standards.

(c) TSEC participated in a taskforce set up by Financial Supervisory Commission to promote "fair value accounting".

#### 5. Planning for "International Securities Market Board"

In order to enlarge the scale of the Taiwan securities market and attract foreign companies to apply for initial listing or dual-listing in Taiwan, under the guidance of the relevant authorities, TSEC assigned a taskforce to plan the establishment of an "International Securities Market Board", on which securities transactions are priced in US dollars. In 2005, TSEC completed the draft rules and regulations regarding the listing and trading of this international board.



## **TRADING**

### **1. Monitoring of Securities Firms**

- (a) TSEC intensively monitored the operations and services of securities firms. As a result, 89 regular audits, 566 selected audits, and 26 IPO-related reviews were held in 2005.
- (b) 346,215 new internet trading accounts were opened in 2005. Total trading by internet accounts represented 17.36% of the total market. 62 securities firms were able to handle customer demand for internet trading, and all of them had previously obtained certification to ensure their technical capability.
- (c) TSEC simplified the registration process for foreign investment in the Taiwan stock market. Throughout 2005, 1,780 cases were admitted into Taiwan.
- (d) To comply with the audit operations of the information and communication safety guidelines of the Executive Yuan, TSEC rearranged the audit operations into ten major operational items set up by the audit service team of the Executive Yuan, in addition to stipulating the audit items for "establishing an inspection mechanism for information and communication safety for securities firms".
- (e) In order to prevent material default in the market, TSEC calculated the daily value at risk (VaR) of the outstanding position of securities firms, to be settled after market closing.

### **2. Trading System Planning and Operations**

- (a) TSEC reduced the minimum up/down tick size of price movement to provide investors with more optional prices to place their orders, reduce transaction cost, and stabilize market stock prices.
- (b) TSEC lifted the daily price fluctuation limit on initial public offerings for the first five trading days after listing, allowing the stock price to better reflect market demand and supply.
- (c) In line with the relevant authority's lifting of the ban on the purchase of odd lots of stock by foreign investors, TSEC has made the following adjustments to the odd lot transaction system: (1) Adjusting the previous time slot of 3:00~4:00 pm for the placement of odd lot transaction orders to 1:40~2:30 pm; (2) Changing the conclusion date of odd lot transactions from the next business day to the order placement date; (3) Changing the price range of selling or buying placement orders from a fixed price equal to the daily closing price minus 0.5% to the same as that of the regular trading session; and (4) Allowing the conclusion to be carried out by virtue of order matching on a one-time call auction basis after 2:30 pm.
- (d) TSEC Taiwan 50 Index constituents were exempted from the restriction that the short sale price not below previous close. This exemption contributed to the enhancement of margin trading turnover for TSEC Taiwan 50 Index constituents.
- (e) TSEC reviewed and improved the securities borrowing and lending (SBL) business, including (1) Abolishing the earlier requirement that an SBL transaction has to be in connection with a "strategic purpose"; (2) Adopting a "Total short selling volume limit"; (3) Relaxing the on-shore collateral requirement imposed upon negotiated transactions where the borrower and the lender involved are both foreign investors; and (4) Increasing underlying securities for securities borrowing and lending.
- (f) "Simplified tripartite settlements on a net basis for TSEC, securities finance companies and securities firms" were enhanced and completed. TSEC further planned to include "settlement sum receivable by securities finance companies from securities firms" into the simplified tripartite operations, and drew up "consignment contract of collection and payment of settlement sum derived from margin trading".
- (g) TSEC further simplified the registration process and related documentation for foreign investors. Registration from overseas Chinese and foreign nationals using the simplified process has grown rapidly.

- (h) In order to make it easier for foreign institutional investors to transfer assets, TSEC simplified the assets transfer operation procedures for foreign institutional investors with different investment IDs, and developed a registration system for asset transfers. Approval of applications for asset transfers has increased substantially.

### **3. Market Surveillance**

Throughout 2005, in order to maintain order and fairness in the securities market by keeping investors informed, the following procedure was used. TSEC publishes the names and trading information of listed companies involved in abnormal stock transactions. If the abnormality continues, TSEC requires securities firms to collect funds and securities in advance, thereby reducing the risk. Upon detecting irregular trading during trading hours, TSEC notifies securities firms. If the irregularity is confirmed, TSEC reports it to the relevant authorities or law enforcement agencies.

## **COMPUTER APPLICATIONS AND INFORMATION SERVICES**

### **1. Upgrading Trading Operation System**

In order to enhance the operational stability of the Fully Automated Securities Trading (FAST) platform and to meet the development needs of the trading system, TSEC completed nine systems in the main and backup centers, and upgraded the operating system to the new G06.24 version.

### **2. Integrating On-line Market Surveillance System Database**

TSEC developed a new on-line market surveillance system to integrate various information types, including early-warning information, real time market trading information, and real time news from the internet and data vendors, into the same system structure. The integration aims to create a workstation with a multi-functional user-friendly interface, thus simplifying the working process and enhancing efficiency.

### **3. Planning "Internet Learning Platform"**

In order to allow the efficient transmission of experience and knowledge over time and space barriers, and at a lower cost, TSEC planned an "Internet Learning Platform" to supply various education programs.

### **4. Renovating TSEC's Website**

TSEC enriched the website, added to the contents of the English version of the website, and reorganized the structure of the site and the site map to make it easier for site users to find the information they are looking for.

### **5. Integrating TSEC's Database Resources**

In order to improve the dispersive database structure, TSEC created a cross-platform data system to allow easy inter-access to data from different computer systems.

### **6. Management of Trading Information**

#### **(a) Visits to Information Vendors**

TSEC conducted spot checks on information users, such as domestic and overseas data vendors, news/media, telecommunications enterprises, and internet companies, as well as cable TV operators. In 2005, TSEC visited seven head offices and 29 computer centers.

#### **(b) Publication and Dissemination**

TSEC worked on urging users to sign an "Agreement on the Supply and Use of Trading Information" for the dissemination of trading information. 38 information users have signed this agreement with TSEC.



# Strengthening Cooperation with International Institutions



## **OTHERS**

### **1. Index Development**

TSEC launched "NonFinance NonElectronics Sub-Index" to complete the TAIEX series, and provide investors with a new performance benchmark of general industries listed on TSEC.

### **2. International Promotion**

In order to help with the promotion of Taiwan's country classification status to "Developed Market" by FTSE, TSEC held promotion workshops in Singapore, Hong Kong, London, Edinburgh, New York, and Boston to create a better understanding of the reformatory and deregulation measures of Taiwan securities market.

### **3. Internationalization of Securities Market**

In 2005, TSEC actively participated in international securities organizations and meetings, such as WFE, AOSEF and IOSCO. TSEC also assisted the relevant authorities to host various seminars, including: "Seminar on Valuation Requirements and Practices of U. S. Listed Companies", "2005 IOSCO Emerging Markets Regional Training Seminar", and "2005 Taiwan Global Investment Forum". To strengthen information exchange and cooperation with international securities institutions, TSEC entered into a Memorandum of Understanding regarding the exchange of information on market management with Chicago Mercantile Exchange, and signed a letter of intent to cooperate with Euronext. In addition, TSEC was the host for a total of 99 foreign guests from eight countries in 2005.

### **4. Promotion Activities and Research Report**

(a) TSEC held seminars on operational issues for securities firms, published brochures and posters to announce new rules and orders, received visitors from universities and institutions, and hosted competition campaigns. TSEC also promoted special financial and economic topics via television, cooperated with the relevant authorities and media to hold four large promotion exhibitions, cooperated with the media to hold "Enlarging Foreigners' Participation in Domestic Securities Market Seminar", and provided the public with internet access to the electronic database at TSEC's Investors Reading Room.

(b) TSEC held 68 workshops to inform market participants of new securities market regulations and operations.

(c) TSEC completed research reports on its own, including "A Research on the Exiting Mechanism of Listed Companies in Taiwan", "A Study on Improving the Types of Placing Orders in Taiwan Securities Market", and "A Research on the Development of Securities Borrowing and Lending Market in Taiwan Following the Amendment of Article 60 of Securities and Exchange Act" etc. TSEC also contracted external research institutions for more research reports, such as "The Analysis and Guidelines for Merger and Acquisition of Listed Companies", "A Survey and Research on the Satisfaction of Securities Firms and Investors Regarding the Services Provided by Taiwan Stock Exchange", and "The Influence on the Volatility of Stock Market Resulting from Allowing Securities Firms to Conduct Securities Borrowing and Lending Business, and the Deregulation of Market Participants" etc.

## Objectives for 2006

### **LISTING**

1. Cooperate with the relevant authorities to promote the establishment of "International Securities Market Board".
2. Enlarge the scale of the securities market.
3. Conduct research on how to urge listed companies to comply with corporate governance code in accordance with the related articles newly amended in Securities and Exchange Act in January 2006.
4. Continue to extend the functions of the database system of listed companies on TSEC and GreTai Securities Market.
5. Review and revise regulations related to information disclosure, and enhance verification and disclosure of material information of listed companies.
6. Conduct research on dual-listing, and enhance the international visibility of the domestic market.

### **TRADING**

1. Promote cross-border trading in cooperation with the policies of the relevant authorities.
2. Plan for the adjustment of the block-trading system, and provide a pre-match option.
3. Continue to review the effect of smaller tick size.
4. Investigate the feasibility of further relaxing the restrictions on the short sale price not below previous close for more qualified stocks.
5. Promote the listing of exchangeable government bonds.
6. Investigate the possibility of allowing securities firms to engage in funds borrowing and lending business, and allowing them to engage in the entrustment business of safeguarding and employing surplus funds arising from securities buying and selling by clients.
7. Implement funds settlement in the securities market via "the operation system of funds transfer and liquidation within the bank trade of the central bank".
8. Promote delivery versus payment (DVP) on T+2 throughout the market.

### **COMPUTER APPLICATIONS AND INFORMATION SERVICES**

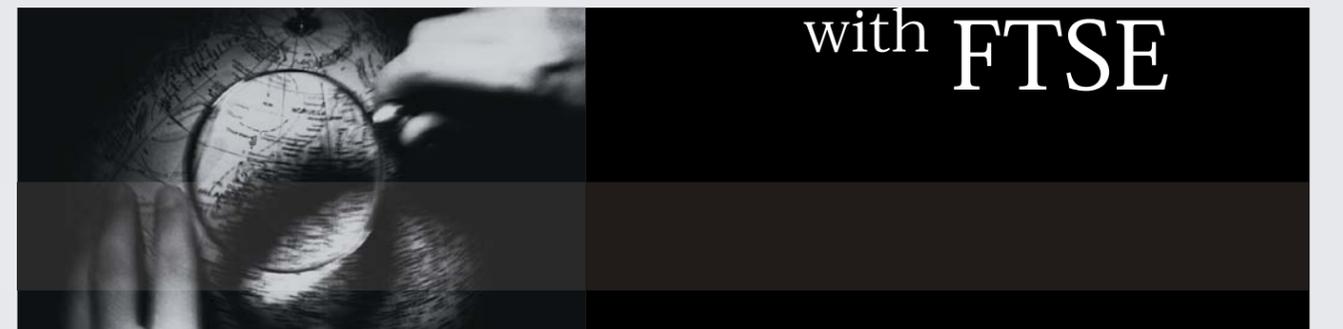
1. Continue to improve TSEC's website, internet reporting and internet inquiry business.
2. Strengthen the safety and security of internet access, as well as provide systems for regular audits of internet safety and problem detection.
3. Promote the information exchange platform.
4. Continue to improve trading and internet related systems.
5. Establish an independent computer center.
6. Develop a futures trading system in cooperation with other organizations.

### **OTHERS**

1. Actively cooperate with the relevant authority in promoting the Taiwan securities market so as to gain the status of "Developed Market" from the FTSE Group.
2. Cooperate with the relevant authority to proceed with organization-restructuring plan of Taiwan Stock Exchange and peripheral securities organizations.
3. Continue to compile various new indices and issue ETFs based on these new indices.
4. Continue to participate in and host international organization meetings, and actively sign cooperation memoranda with leading exchanges in the world.
5. Intensify TSEC's internal control systems and internal audit functions.



Compiling and promoting  
new indices in cooperation



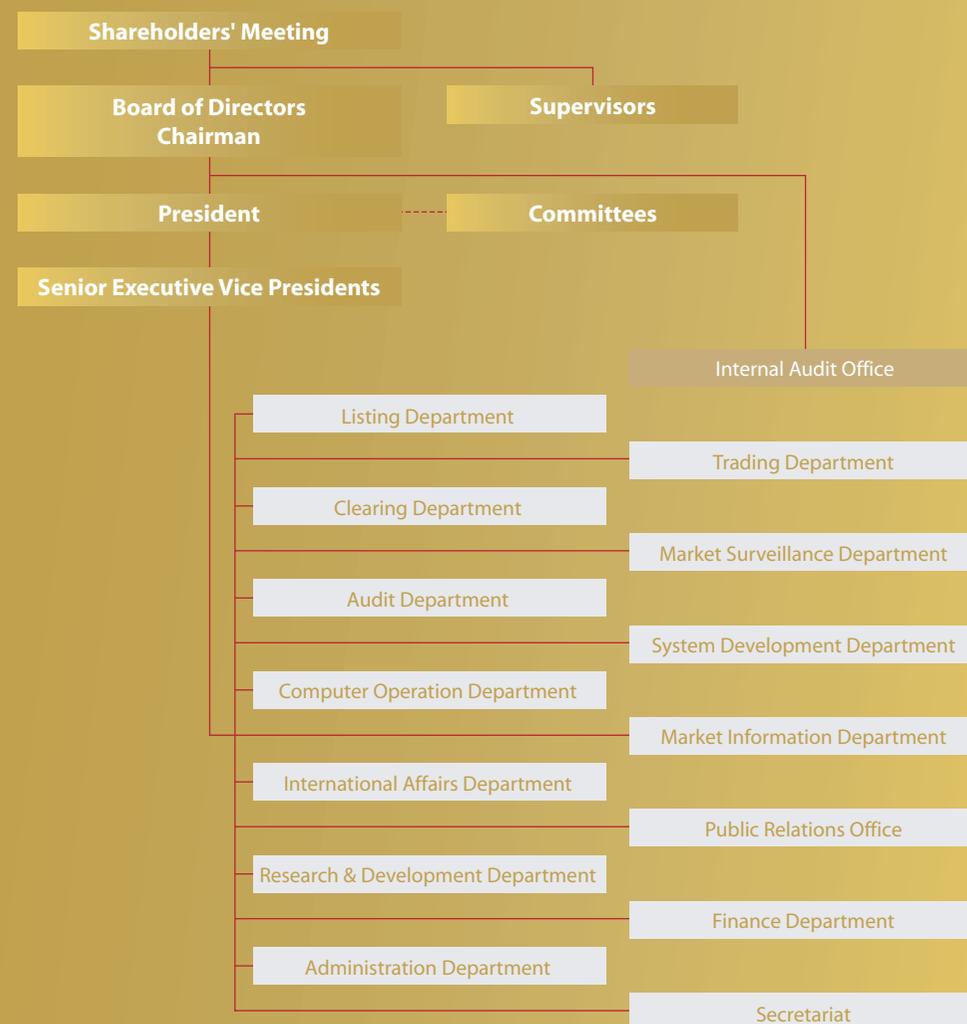
with **FTSE**

## Exchange Information

### Board Members

		Representative of Juridical Person
<b>Chairman</b>	Nai-Jen Wu	International Commercial Bank of China
<b>Directors</b>	William T. Lin	Taiwan Sugar Corporation
	Jia-Dong Shea	Central Trust of China
	Jer-Shyong Tsai	Land Bank of Taiwan
	Jeff Wang	China Development Industrial Bank
	Leslie Koo	TCC Chemical Corp.
	Show-Chung Ho	Yuen Foong Yu Investment Company Ltd.
	Edward K.H. Chen	Jih Sun Securities Co., Ltd.
	Lee-Chiou Chang	Yuanta Core Pacific Securities
	Chen-En Ko	Government Appointed
	Tze-Kaing Yang	Government Appointed
	Jyh-Sheng Ke	Government Appointed
	Shi Kuan Chen	Government Appointed
	Chih-Hao Lin	Government Appointed
Ming-Tai Chen	Government Appointed	
<b>Supervisors</b>		
<b>Resident Supervisor</b>	Yin-Hua Yeh	Government Appointed
<b>Supervisors</b>	Po-Shin Chang	Chang Hwa Commercial Bank
	David K. Chang	Fubon Securities Co., Ltd.

### Organization Chart



## Executives



1. Senior Vice President, Clearing / **Hui-chuan Tu**
2. Senior Vice President, Finance / **Chen-tsung Chiang**
3. Executive Vice President, Secretariat / **Chao-zon Yang**
4. Senior Vice President, Listing / **Lih-chung Chien**
5. Senior Executive Vice President / **Chin-ting Chiu**
6. Senior Vice President, Auditing / **Rebecca Chen**



1. Senior Vice President / **Fred Lin**
2. Senior Vice President, Trading / **May Yu**
3. Senior Executive Vice President / **Song-chin Su**
4. Senior Vice President, Market Surveillance / **Thann-shing Lao**
5. Senior Vice President, Internal Auditing / **Shuh-tzy Hsu**
6. Senior Vice President, Public Relations / **Chun-chin Hsieh**
7. Senior Vice President, Administration / **Shie-jay Yang**

1. Senior Vice President, Computer Operation / **Chang-ching Lin**
2. Senior Vice President, Market Information / **Tiann-tong Chang**
3. Senior Executive Vice President / **Leon Ku**
4. Senior Vice President, System Development / **Lung Chao**
5. Executive Vice President, Research & Development / International Affairs / **Nai-kuan Huang**



## Market Activities

### Major Events in 2005

#### January

- Jan. 1: The new underwriting system for listing applications took effect. According to the new system: (1) a company applying for listing can only issue new shares for the underwriting of initial public offering; (2) the daily price fluctuation limit for newly listed companies for the first five trading days after listing is lifted; and (3) an over-allotment price stabilization measure has been adopted.
- Jan. 1: TSEC cooperated with GreTai Securities Market to set up "bonds credit" and "financial forecast" special inquiry zone on the Market Observation Post System.
- Jan. 3: Simplified payment operations of settlement funds and refund funds for TSEC, securities finance companies, and securities firms came into effect.

#### February

- Feb. 1: Financial Supervisory Commission (FSC) announced a new classification system for security underwriters. According to the new system: underwriters are classified according to three factors, i.e. fundamentals, case quality, and disciplinary records.
- Feb. 14: FSC announced amendments to "Regulations Governing Approval of Securities and Futures Transactions Between the Taiwan Area and the Mainland China Area" and Article 49-1 of "Regulations Governing Securities Firms". Although Taiwan and Mainland China have not signed a Memorandum of Understanding for the purpose of supervision and cooperation, securities firms are allowed to make direct investment in securities firms in Mainland China after applying for approval.
- Feb. 24: FSC held a two-day "2005 IOSCO Emerging Markets Regional Training Seminar".



#### March

- Mar. 1: TSEC lifted the daily price fluctuation limit for newly listed companies for the first five trading days after listing, and adjusted the minimum up/down stock price tick size.
- Mar. 3: FSC passed amendments to the "Guidelines Governing the Preparation of Financial Reports by Securities Issuers". According to the amended bill: (1) an enterprise may disclose single-period contents when compiling semi-annual consolidated financial statements for the first time; (2) those stipulations inconsistent with Financial Accounting Standards Bulletins No.7 and No. 35 have been revised; and (3) financial forecast related regulations have been abolished.
- Mar. 8: FSC announced that investment-holding listed companies on TSEC and GreTai Securities Market should make public semi-annual, first quarter, and third quarter consolidated financial statements starting July 1, 2005.

#### April

- Apr. 4: TSEC launched a new block trading system, aimed at increasing price flexibility and streamlining operating procedures, so that large position traders can fulfill their orders at the lowest possible cost.



## May

- May. 4: TSEC announced a new regulation. According to the regulation: when the principal is an offshore overseas Chinese or foreign national, and when during the confirmation process there are discrepancies between holidays in different time zones, interruptions in telecommunications, natural disasters, or other occurrences of force majeure, or the custodian institution fails to receive the settlement instructions or the settlement instructions and the trade report are inconsistent, and where such occurrences are verifiable, then, after the filing of a report of delayed settlement with TSEC by the securities broker, the deadline for settlement of the securities sold, or the funds payable after mutual offsetting of the prices of securities purchases and sales may be extended to 6 pm of the third business day after the trade date.
- May. 13: FSC announced that securities borrowed according to Article 82-2 of Operating Rules of TSEC and subsequently sold in the market should be in accordance with restrictions on total quantity control.
- May. 13: FSC announced two new regulations. According to the regulations: 1) specific offshore foreign institutional investors may, for the purpose of transaction demand and fulfillment of contract, borrow securities and provide their domestic assets as collateral, 2) in so doing, they are exempted from the restrictions on selling securities they do not hold and on providing guarantees, stipulated in Article 21 of "Regulations Governing Investment in Securities by Overseas Chinese and Foreign Nationals".
- May. 16: TSEC Taiwan 50 Index constituents were exempted from the restriction that the short sale price not below previous close.
- May. 25: The "Taiwan Financial Services Roundtable" (TFSR) was established.



## June

- Jun. 27: TSEC amended the securities borrowing and lending system. The requirement of strategic purpose was abolished, and the listed stocks on TSEC and GreTai Securities Market qualified for margin purchase and short sale can serve as underlying securities for securities borrowing and lending.

## July

- Jul. 4: The Executive Yuan approved the establishment of an FSC representative office in New York.
- Jul. 29: FSC announced that securities firms may conduct contract-based warrants business on condition that they can meet certain qualifications.

## August

- Aug. 1: TSEC abolished the regulation that any person who has breached a contract relating to securities trading should not open an account with the securities broker to trade listed securities within three years. Traders in breach of contract can resume trading provided that they have settled funds with the securities broker.
- Aug. 15: The ban on the purchase of odd lots of stocks by offshore overseas Chinese and foreigners was lifted.

- Aug. 30: TSEC announced an amendment to "Regulations Governing Securities Borrowing and Lending". Privately placed funds are allowed to borrow or lend holding securities. The total amount of securities lent and short sold should not exceed 50% of the net asset value of the funds.

## September

- Sep. 6: TSEC announced that clients of investment companies running discretionary investment services may lend securities from discretionary accounts with their consent or after special agreement with investment companies, as long as they are qualified to be lenders as prescribed by the Securities Borrowing and Lending Center.
- Sep. 14: FTSE announced that Taiwan securities market will remain on the "Watch List" for possible promotion to "Developed Market" status.

## October

- Oct. 11: "Guidelines for Public Companies on Offering and Issuing Securities via Private Placement" stipulated by FSC came into effect. Listed companies on TSEC and GreTai Securities Market have to report the information related to offering and issuing securities via private placement to "Market Observation Post System".
- Oct. 20: The Executive Yuan announced four measures to invigorate the stock market: (1) encourage listed companies to buy treasury stocks using idle funds; (2) encourage mutual funds and life insurance companies to invest in the Taiwan stock market; (3) encourage enterprises to conduct vertical or horizontal integration; and (4) carry out research into the feasibility of lowering inheritance and donation tax.
- Oct. 27: TSEC agreed to negotiate with Polaris International Securities Investment Trust Company on issuing ETF using TSEC Taiwan Mid-Cap 100 Index as an underlying index.



## November

- Nov. 1: TSEC entered into a letter of intent with Euronext.
- Nov. 10: TSEC agreed to negotiate with Fubon Asset Management Company on issuing ETF using TSEC Taiwan Technology Index as an underlying index.

## December

- Dec. 19: TSEC implemented a new odd lot transaction system. The time slot for placing odd lot transaction orders was changed to 1:40~2:30 pm and the date for conclusion of transactions was changed to the date of order placement. Furthermore, an odd lot transaction may be concluded at a price ranging between +7% and -7% of the stocks opening reference price on the day in the regular trading session. Order matching should be carried out on a one-time call auction basis after 2:30 pm.
- Dec. 20: The Legislative Yuan passed the third reading of the Securities and Exchange Act amended bill. The amended bill focuses mainly on promoting corporate governance, expanding the business scope of securities firms, and establishing closer cooperation with overseas authorities by signing information sharing agreements and preventing securities crime.

## Listing Changes in 2005

### Listings

Products	Name	Code	Date
<b>Common Stocks</b>	SHINING BUILDING BUSINESS CO., LTD.	5531	31-Jan
	KINIK COMPANY	1560	31-Jan
	CHEERTEK INCORPORATION	3271	31-Jan
	DAH FUNG CATV CO., LTD.	6184	15-Feb
	GEO VISION INC.	3356	28-Mar
	CREATIVE SENSOR INC.	8249	17-May
	AV TECH CORPORATION	8072	19-Aug
	FAR EASTONE TELECOMMUNICATIONS CO., LTD.	4904	24-Aug
	INVENTEC APPLIANCES CORP.	3367	25-Oct
	WPG HOLDINGS LIMITED	3702	9-Nov
	CAPITAL SECURITIES CORP.	6005	21-Nov
	E-LIFE MALL CORPORATION	6281	8-Dec
	GENIUS ELECTRONIC OPTICAL CO., LTD.	3406	20-Dec

Products	Name	Code	Date
<b>Government Bonds</b>	KAOHSIUNG PROVINCIAL CONST. BONDS 2004-3 ISSUE	D93103	5-Jan
	CENTRAL GOVERNMENT CONSTRUCTION BONDS 2005A-1 ISSUE	A94101	7-Jan
	CENTRAL GOVERNMENT CONSTRUCTION BONDS 2005A-2 ISSUE	A94102	24-Jan
	CENTRAL GOVERNMENT CONSTRUCTION BONDS 2005A-3 ISSUE	A94103	25-Feb
	CENTRAL GOVERNMENT CONSTRUCTION BONDS 2005A-4 ISSUE	A94104	16-Mar
	CENTRAL GOVERNMENT MAJOR TRANSPORTATION CONSTRUCTION BONDS 2005A-5 ISSUE	A94105	13-May
	CENTRAL GOVERNMENT CONSTRUCTION BONDS 2005A-6 ISSUE	A94106	20-Jul
	KAOHSIUNG PROVINCIAL CONST. BONDS 2005-1 ISSUE	D94101	9-Aug
	CENTRAL GOVERNMENT CONSTRUCTION BONDS 2005A-7 ISSUE	A94107	12-Sep
	CENTRAL GOVERNMENT CONSTRUCTION BONDS 2005A-8 ISSUE	A94108	16-Nov
	KAOHSIUNG PROVINCIAL CONST. BONDS 2005-2 ISSUE	D94102	14-Dec

Products	Name	Code	Date
<b>Preferred Stock</b>	TAISHIN FINANCIAL HOLDING CO., LTD. (C Preferred)	2887C	13-Oct

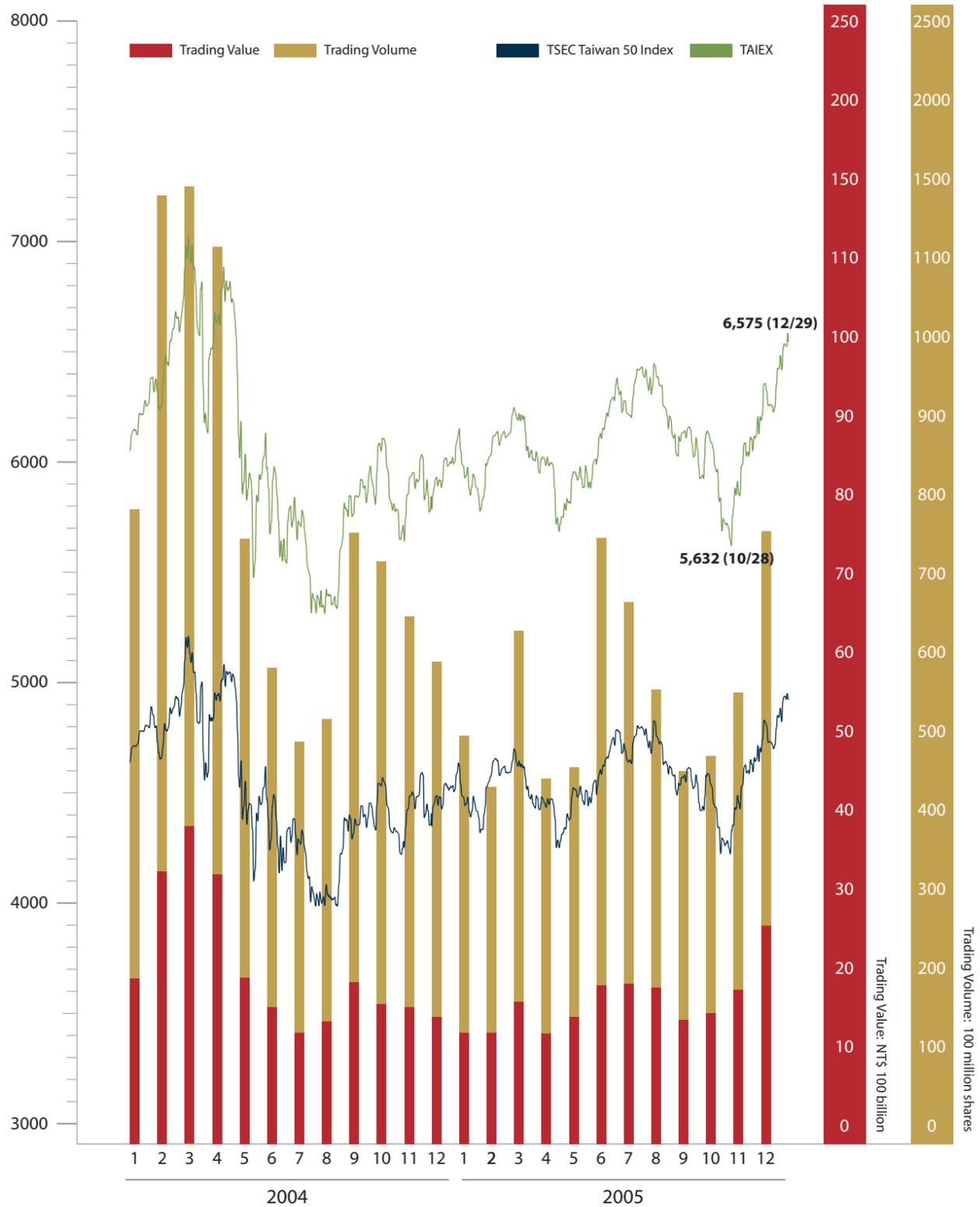
### Delistings

Products	Name	Code	Date
<b>Common Stocks</b>	PAO SHIANG CONSTRUCTION & INDUSTRIAL CO., LTD.	2525	5-Jan
	INFO INCORPORATION	2544	21-Mar
	PRINTED WIRE CORPORATION	2435	3-May
	CHOUNGHSIM	2902	13-Jun
	COMPEX INTERNATIONAL CO., LTD	9936	20-Jun
	SHIN YIH FIBER INDUSTRIAL CO., LTD.	1450	5-Jul
	TUNTEX DISTINCT COPROATION	1462	5-Jul
	MEGMEDIA CORPORATION	2318	5-Jul
	PAN OVERSEAS ELECTRONIC CO., LTD	2370	1-Sep
	TSIN TSIN CORP	1204	4-Oct
	UNION LEATHER & PRINTING CORP.	1306	4-Oct
	SINO-JAPAN INTERNATIONAL INDUSTRIES CO., LTD	1212	28-Oct
	LUXON ELECTRONICS CORPORATION	2389	31-Oct
	XEPEX ELECTRONICS CO., LTD.	6132	7-Nov
	WORLD PEACE INDUSTRIAL CO., LTD.	2416	9-Nov
	SILICON APPLICATION CORP.	2470	9-Nov
	WELL COMMUNICATION CORP.	3039	13-Nov
	INTERNATIONAL BANK OF TAIPEI	2808	26-Dec
	UNITED EPITAXY CO., LTD.	2422	30-Dec

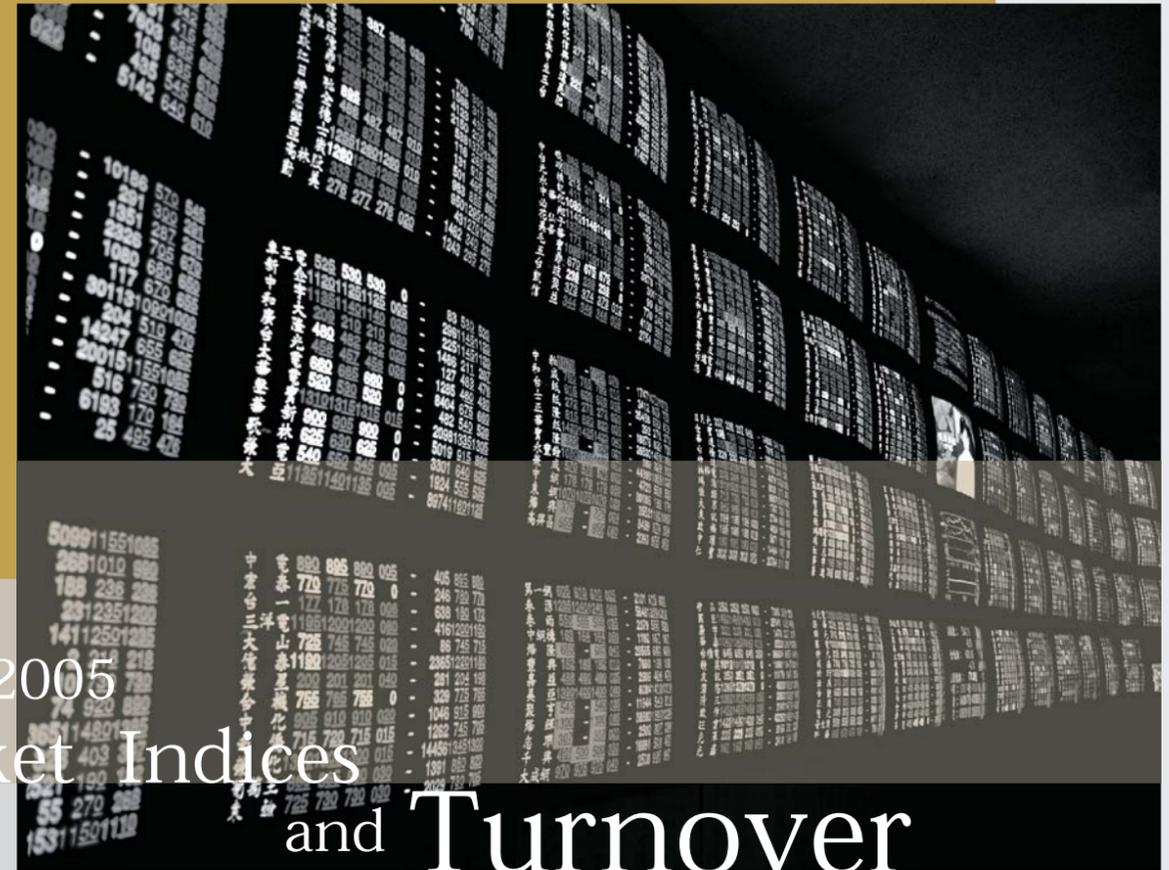
Products	Name	Code	Date
<b>Government Bonds</b>	CENTRAL GOVERNMENT CONSTRUCTION BONDS 2003A-1 ISSUE	A92101	10-Jan
	CENTRAL GOVERNMENT CONSTRUCTION BONDS 1998 A-4 ISSUE	A87104	17-Mar
	CENTRAL GOVERNMENT CONSTRUCTION BONDS 2003A-5 ISSUE	A92105	16-May
	TAIPEI PROVINCIAL CONST. BONDS 1998-1 ISSUE	C87101	25-Jun
	KAOHSIUNG PROVINCIAL CONST. BONDS 1999-1 ISSUE	D88101	2-Sep
	CENTRAL GOVERNMENT CONSTRUCTION BONDS 2000A-12 ISSUE	A89112	13-Sep
	KAOHSIUNG PROVINCIAL CONST. BONDS 1999-2 ISSUE	D88102	3-Nov
	CENTRAL GOVERNMENT CONSTRUCTION BONDS 2003A-9 ISSUE	A92109	17-Nov
	TAIPEI PROVINCIAL CONST. BONDS 1999 ISSUE	C88101	20-Nov

Products	Name	Code	Date
<b>Corporate Bond</b>	YA HSIN INDUSTRIAL 1ST CONV. BOND	24181	23-Feb
	WALSIN LIHWA 1ST CONV. BOND	16051	29-Jul

2004-2005 Market Indices and Turnover



2004-2005 Market Indices and Turnover



## Financial Review

### Report of Independent Accountants

To: Board of Directors and Stockholders of  
Taiwan Stock Exchange Corporation

We have audited the accompanying non-consolidated balance sheets of Taiwan Stock Exchange Corporation as of 31st December 2005 and 2004, and the related non-consolidated statements of income, of changes in stockholders' equity and of cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these non-consolidated financial statements based on our audit. We did not audit the 2005 and 2004 financial statements of Taiwan Securities Central Depository Co., Ltd., Taiwan-Ca.Com, Inc. and Taiwan Ratings Co., Ltd., investees accounted for under the equity method. These statements reflect total long-term investments of NT\$4,241,476,939 and NT\$4,108,990,489 as of 31st December 2005 and 2004, respectively, and the related investment income of NT\$275,231,083 and NT\$313,458,559 for the years then ended. These financial statements were audited by other auditors, whose reports thereon were furnished to us and our opinion, insofar as it relates to the amounts included in the financial statements relative to these long-term investments, is based solely on the reports of other auditors.

We conducted our audits in accordance with the "Rules Governing Examination of Financial Statements by Certified Public Accountants" and generally accepted auditing standards in the Republic of China. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the reports of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of other auditors, the non-consolidated financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Taiwan Stock Exchange Corporation as of 31st December 2005 and 2004, and the results of its operations and its cash flows for the years then ended, in conformity with the "Criteria Governing Preparation of Financial Reports by Company-Type Stock Exchanges" and generally accepted accounting principles in the Republic of China.

*Pricewaterhouse Coopers*

**Pricewaterhouse Coopers**

24th January 2006  
Taipei, Taiwan  
Republic of China

## Balance Sheets

Unit: NT\$

ASSETS	2005		2004	
	Amount	%	Amount	%
<b>Current Assets</b>				
Cash and cash equivalents	\$ 10,096,327,538	26	\$ 16,360,553,518	30
Short-term investments	14,732,698,485	38	25,119,768,023	46
Accounts receivable-net	397,109,920	1	251,216,572	-
Interest receivable	154,789,849	1	262,939,617	1
Other current assets	21,354,655	-	5,940,767	-
Performance bond	-	-	-	-
<b>Total Current Assets</b>	<b>25,402,280,447</b>	<b>66</b>	<b>42,000,418,497</b>	<b>77</b>
<b>Funds and Long-term Investments</b>				
Default damages fund	3,914,183,093	10	3,396,533,766	6
Special settlement fund	3,000,000,000	8	3,000,000,000	5
Investments accounted for under the equity method	4,241,476,939	11	4,108,990,489	8
Investments accounted for under the cost method	1,016,749,284	2	1,019,878,562	2
<b>Total Funds and Long-Term Investments</b>	<b>12,172,409,316</b>	<b>31</b>	<b>11,525,402,817</b>	<b>21</b>
<b>Property, Plant and Equipment</b>				
Cost				
Land	116,495,931	-	39,478,001	-
Buildings	172,232,570	1	124,651,029	-
Computer equipment	1,247,604,787	3	1,302,146,014	2
Other equipment	361,486,574	1	252,841,466	1
	1,897,819,862	5	1,719,116,510	3
Appreciation - land	37,083,978	-	37,083,978	-
<b>Total Cost and Appreciation</b>	<b>1,934,903,840</b>	<b>5</b>	<b>1,756,200,488</b>	<b>3</b>
Less: accumulated depreciation	( 1,275,887,684)	( 3)	( 1,180,938,235)	( 2)
Prepayments on equipment	23,434,586	-	39,146,162	-
<b>Net Property, Plant and Equipment</b>	<b>682,450,742</b>	<b>2</b>	<b>614,408,415</b>	<b>1</b>
<b>Other Assets</b>				
Rental assets	107,098,215	-	218,987,532	-
Operations guarantee deposits	258,000,000	1	255,000,000	1
Refundable deposits and miscellaneous assets	176,789,080	-	152,638,823	-
<b>Total Other Assets</b>	<b>541,887,295</b>	<b>1</b>	<b>626,626,355</b>	<b>1</b>
<b>Securities Settlement Debit</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>TOTAL ASSETS</b>	<b>\$ 38,799,027,800</b>	<b>100</b>	<b>\$ 54,766,856,084</b>	<b>100</b>

Unit: NT\$

LIABILITIES AND STOCKHOLDERS' EQUITY	2005		2004	
	Amount	%	Amount	%
<b>Current Liabilities</b>				
Payable for securities settlement service	\$ 72,242,400	-	\$ 41,954,401	-
Accrued expenses	498,472,571	1	496,240,892	1
Income tax payable	161,646,389	1	186,239,855	1
Securities lending and borrowing collateral payable	6,449,223,069	17	23,651,509,003	43
Other current liabilities	45,396,010	-	20,003,105	-
Performance bond payable	-	-	-	-
<b>Total Current Liabilities</b>	<b>7,226,980,439</b>	<b>19</b>	<b>24,395,947,256</b>	<b>45</b>
<b>Other Liabilities</b>				
Default damages reserve	7,052,694,357	18	6,508,279,425	12
Deposits received	73,533,505	-	38,279,357	-
Reserve for land value increment tax	44,599,059	-	44,599,059	-
<b>Total Other Liabilities</b>	<b>7,170,826,921</b>	<b>18</b>	<b>6,591,157,841</b>	<b>12</b>
<b>Securities Settlement Credit</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total Liabilities</b>	<b>14,397,807,360</b>	<b>37</b>	<b>30,987,105,097</b>	<b>57</b>
<b>Stockholders' Equity</b>				
Capital stock				
Common stock	5,159,305,720	13	5,033,469,000	9
Capital reserve	37,600,882	-	37,600,882	-
Retained earnings				
Legal reserve	2,947,930,166	8	2,887,700,295	5
Special reserve	15,046,872,683	39	14,715,178,999	27
Unappropriated earnings	1,209,510,989	3	1,105,801,811	2
<b>Total Stockholders' Equity</b>	<b>24,401,220,440</b>	<b>63</b>	<b>23,779,750,987</b>	<b>43</b>
<b>Commitments and Contingent Liabilities</b>				
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 38,799,027,800</b>	<b>100</b>	<b>\$ 54,766,856,084</b>	<b>100</b>

## Income Statements

Unit: NTS

ASSETS	2005		2004	
	Amount	%	Amount	%
<b>Operating revenue</b>				
Trading fees	\$ 2,501,667,439	71	\$ 3,144,673,353	76
Market data fees	378,590,931	11	392,714,367	9
Listing fees	300,446,743	8	275,795,687	7
Computer and other equipment fees	94,957,000	3	90,538,000	2
Data processing fees	114,336,393	3	125,130,549	3
Other	151,924,315	4	128,601,031	3
Total Operating Revenues	3,541,922,821	100	4,157,452,987	100
<b>Operating expenses</b>				
Personnel	( 969,256,453)	(27)	( 1,007,680,492)	(24)
General and administrative	( 2,147,405,634)	(61)	( 2,501,827,374)	(60)
Total Operating Expenses	( 3,116,662,087)	(88)	( 3,509,507,866)	(84)
<b>Operating income</b>	425,260,734	12	647,945,121	16
<b>Non-operating income</b>				
Interest	541,283,018	15	532,701,853	13
Equity in net income of investee companies	275,231,083	8	313,458,559	7
Gain on disposal of investments	207,916,210	6	75,531,491	2
Other income	45,931,701	1	37,128,620	1
Total Non-operating Income	1,070,362,012	30	958,820,523	23
<b>Non-operating expenses</b>				
Interest	( 10,903,978)	-	( 19,583,162)	( 1)
Loss on investments - other	-	-	300,000,000	( 7)
Other expenses	( 51,608,012)	( 1)	( 80,601,725)	( 2)
Total Non-operating Expenses	( 62,511,990)	( 1)	( 400,184,887)	(10)
<b>Income before income tax</b>	1,433,110,756	41	1,206,580,757	29
<b>Income tax expense</b>	( 241,940,041)	( 7)	( 100,935,143)	( 2)
<b>Net income</b>	\$ 1,191,170,715	34	\$ 1,105,645,614	27
	<b>Pre tax</b>	<b>After tax</b>	<b>Pre tax</b>	<b>After tax</b>
<b>Basic earnings per share</b>	\$ 2.78	\$ 2.31	\$ 2.34	\$ 2.14