4th Quarter Results

for the period ended December 31, 2004

TAIWAN CELLULAR CORP.

February 1, 2005

NT$bn	2004	YoY	4Q04	3Q04	4Q03	QoQ	YoY
Revenue	45.09	0%	11.42	11.57	11.01	-1%	4%
EBITDA	21.19	6%	5.26	5.33	5.03	-1%	4%
Operating Income	16.30	7%	4.03	4.09	3.80	-2%	6%
Non-op. Income (Expense)	3.12	NM	(0.32)	2.19	(0.36)	NM	-10%
Pre-tax Income	19.42	34%	3.71	6.28	3.44	-41%	8%
(Less Tax)	(2.76)	146%	(0.98)	(0.63)	(0.22)	56%	348%
Net Income	16.66	25%	2.72	5.65	3.22	-52%	-15%
EPS (NT$)	3.55	22%	0.55	1.21	0.70	-55%	-21%
EBITDA margin	47.00%		46.04%	46.02%	45.70%		
Operating margin	36.14%		35.29%	35.38%	34.52%		
Effective tax rate	14.20%		26.54%	10.05%	6.38%		

Topics in This Report

Highlights of 4Q04 and Full Year 2004 Results

For 2004, TCC reported NT$55bn in consolidated revenue and NT$26bn in consolidated EBITDA, up 13% YoY. Consolidated EBITDA margin expanded by 5ppt to 46.33% (See Table 18).

Year on year, TCC 4Q04 stand alone revenue, after deducting around NT$167m non-telecom service revenue, was up 2%. Post-paid customers clean-up is near completion as monthly churn rate fell to an annual low of 1.6% in December. Net Income in 4Q04 decreased by 15% compared to last year due to a one-time obsolete equipment write down of NT$942m and higher tax rate due to the deferral of some tax credits until 2005.

Despite the increases in selling expenses associated with the opening of additional direct stores under the Myfone branding and the launch of TCC's mobile internet portal "Catch", TCC's 4Q04 overall operating expenses still decreased compared to 3Q04 due to improvements in marketing efficiency. As a result, 4Q04 EBITDA margin improved slightly QoQ. Year to date, EBITDA margin expanded by 2.4ppt, aided by 13% selling expense cut and 16% G&A expense savings.

Free cashflow for 2004 climbed by 38% to NT$21.9bn vs a year ago, arising from healthy EBITDA growth, good balance sheet management, and the deferral of some capex payments until 2005.

Board Resolution on Earnings Distribution

The board meeting today approved 2004 earnings distribution proposal to pay cash dividend of NT$2.5 per share, based on current shares outstanding, and to appropriate NT$2.2bn in special reserves to cope with potential asset impairment loss in the future.

Management Remark

TCC will begin providing consolidated financial statements on a quarterly basis starting in 2005 and TCC expects to provide quarterly financial statements with US GAAP reconciliation starting in 2H05. TCC has performed an intrinsic study with its CPA on the impact of SFAS No.35, Accounting for the Impairment of Assets, and concludes that it will not have an impact on its 2G equipment for 2004.

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TAIWAN CELLULAR CORP.

I. Revenue Analysis

Table 1. Full-Year Revenue

	2004	2003	YoY
Revenue (NT$bn)	45.09	45.00	0%
MOU (bn)	11.72	11.61	1%
Ending Subscriber (m)	4.83	5.81	-17%
Avg. Subscriber (m)	5.44	6.46	-16%
Blended ARPU (NT$)	693	582	19%
ARPM (NT$)	3.85	3.87	-1%
MOU per sub	180	150	20%

Table 2. Key Operational Data

	4Q04	3Q04	4Q03	QoQ	YoY
Revenue (NT$bn)					
-Voice Revenue	10.87	11.05	10.55	-2%	3%
- VAS Revenue	0.55	0.53	0.46	4%	19%
- Data Rev as % to Total	4.8%	4.6%	4.2%		
End Subscribers (K)	4,827	5,282	5,811	-9%	-17%
-Postpaid	4,166	4,201	4,570	-1%	-9%
-Prepaid	661	1,081	1,241	-39%	-47%
Monthly Churn	5.4%	5.1%	6.1%		
MOU (bn)	2.94	2.98	2.86	-1%	3%
ARPM (NT$)	3.89	3.88	3.85	0%	1%

Table 3. Per Sub Spending & Usage

	4Q04	3Q04	4Q03	QoQ	YoY
ARPU (NT$)	**758**	**711**	**607**	**7%**	**25%**
-Postpaid	817	824	712	-1%	15%
-Prepaid	262	184	173	42%	51%
-Domestic Roaming & Others	35	27	13	30%	169%
MOU (minute)	**195**	**183**	**158**	**7%**	**23%**

Full-Year Revenue Analysis

ARPM decreased by less than 1% YoY, but TCC revenue in 2004 increased marginally due to increases in MOU. Although TCC's subscriber base decreased by nearly 1 million in 2004, TCC's strategy of maximizing existing user contribution and signing up better quality customers is showing results, as ARPU and MOU per sub both increased by around 20%.

Quarterly Revenue Analysis

After deducting non-telecom service revenue, TCC's revenue in the 4Q04 was up 2% compared to the previous year. During the quarter, the growth of value added service (VAS) continued to outpace that of revenue and represented 4.8% of total revenue vs. 4.2% a year earlier. Benefiting from our continuous efforts to reduce inactive subscribers, especially on the pre-paid side, 4Q04 post-paid ARPU and pre-paid ARPU rose by a healthy 15% and 51%, respectively, from a year ago.

4Q04 revenue declined 2% sequentially, due to a tough comparison from seasonally strong 3Q. We note that post-paid churn has dropped to an annual low of 1.6% in Dec., while 4Q04 postpaid acquisition reached new high. Our subscriber mix has continued to improve as the % of customers under mid to high rate plans continue to increase. On the prepaid side, pre-paid churn continues to exceed 20% as we continue our effort to clean up inactive pre-paid subscribers through refining our subsidy policy in both channel and product. However, our strategy of encouraging pre-paid subscribers to recharge their card is showing results and total revenue from prepaid remained flat. ARPU and MOU per sub trended up sequentially to NT$758 and 195 minutes from NT$711 and 183 minutes in 3Q04.

II. Cost and Expense Analysis

Table 4. Full-Year Cost & Expense

NT$bn	2004	2003	YoY
Network cost	18.53	17.86	4%
Selling expense	7.24	8.35	-13%
G& A expense	3.02	3.59	-16%
Total cost & Exp.	**28.79**	**29.79**	**-3%**
Operating income	16.30	15.20	7%
Operating margin	36.1%	33.8%	
EBITDA	21.19	20.06	6%
EBITDA margin	47.0%	44.6%	

Table 5. Network Cost Breakdown

NT$bn	4Q04	3Q04	4Q03	QoQ	YoY
Network cost	**4.74**	**4.78**	**4.41**	**-1%**	**8%**
- Depreciation	1.10	1.09	1.06	1%	3%
- Interconnection	2.08	2.12	1.96	-2%	6%
- BTS & leased line rental	0.77	0.76	0.77	1%	-1%
- Spectrum fee/license concession/USO	0.37	0.39	0.36	-5%	3%

Table 6. Expense Breakdown

NT$bn	4Q04	3Q04	4Q03	QoQ	YoY
Total Op. Exp.	**2.65**	**2.70**	**2.80**	**-2%**	**-5%**
Selling Exp.	**1.91**	**1.96**	**1.86**	**-2%**	**3%**
- SAC + SRC	1.15	1.29	1.18	-11%	-2%
G&A Exp.	**0.74**	**0.74**	**0.94**	**-1%**	**-21%**

Table 7. Non-operating Item

NT$bn	2004	2003	YoY	4Q04	3Q04
Non-operating Items	**3.12**	**(0.73)**	**NM**	**(0.32)**	**2.19**
-Net interest income (expense)	(1.07)	(1.54)	-31%	(0.22)	(0.26)
-Net investment income (loss)	3.82	1.32	189%	0.64	1.66
-Asset write-off loss	(0.94)	(0.90)	5%	(0.94)	0.00
-Disposal gains	1.06	0.04	2260%	0.14	0.55
Investment Income/(Loss)	**3.82**	**1.32**	**189%**	**0.59**	**1.66**
-TAT (92.32%)	2.52	1.11	127%	0.46	0.60
-TFN (9.76%)	0.06	(0.03)	NM	0.00	0.03
-CHT cash dividend	1.25	0.03	4067%	0.00	1.25

Full-Year Cost/Expense Analysis

For the full year, network cost rose 4% mainly due to a 4% increase in depreciation expense and a 4% increase in interconnection fees. Opex cuts were achieved through both marketing and G&A expense reductions. As a result, operating margin expanded to 36.1% for the year and EBITDA margin expanded to 47.0%.

Quarterly Cost/Expense Analysis

On a year-over-year comparison, 4Q04 cost of service increased, on the back of rising depreciation expense due to adding new 2G equipment, and 6% growth in interconnecting charge.

Selling expenses increased 3% YOY, large due to opening up of additional direct stores under the MyFone brand, and the promotion of TCC's new mobile internet portal "Catch". The 21% YoY reduction in G&A expense came from reduction in bad debt and bill related cost cuts.

Sequentially, TCC achieved opex savings improvement in marketing efficiency. In 4Q04, acquisition and retention expense combined was lowered QoQ in both absolute amount and as % of total operating expense.

Non-Operating Item Analysis

At the non-operating front, interest expense decreased as a result of lowered bank borrowings. To enhance efficiency and performance of telecom equipment, TCC has upgraded part of its switches and incurred NT$942m of in obsolete equipment write-offs. Net investment income recorded a strong 189% YoY increase, aided by strong growth in profits at TransAsia Telecom, the new acquisition of Mobitai, and NT$1.25bn dividend income received from CHT.

III. Cash Flow Analysis

Table 8. Cash Flow

NT$bn	2004	2003	4Q04	3Q04
Net Income	16.66	13.34	2.72	5.65
Deprec. & Amort.	4.90	4.86	1.23	1.23
Other Op Sources/(Uses)	3.53	2.44	2.08	0.00
Total Op Sources/(Uses)	**25.09**	**20.64**	**6.03**	**6.89**
Net Investing Sources/(Uses)	**4.95**	**1.47**	**(2.23)**	**7.42**
Net Financing Sources/(Uses)	**(28.83)**	**(27.23)**	**(4.14)**	**(11.98)**
Net Cash Position Chg.	**1.22**	**(5.12)**	**(0.34)**	**2.32**

Cash Flow Analysis

TCC's operating cash increased to NT$25.09bn in 2004, up 22% from a year earlier, primarily due to rising net income.

Cash inflows from investing activities came largely from NT$5.5bn cash from TFN and TAT capital reduction as well as NT$9.2bn CHT sales proceeds. 4Q04 uses for investing came largely from increase in bond fund investments and purchase of new equipment.

NT$28.8bn cash outflow from financing activity for the year, stemming from NT$11bn cash dividend payout, NT$13bn debt repayments, and NT$2.4bn buyback of convertible bonds. 4Q financing activity cash outflow was largely for debt repayment.

Table 9. Cash-out Capex & FCF

NT$bn	2004	2003	4Q04	3Q04
2G Capex	1.79	3.23	0.43	0.01
3G Capex	1.41	1.50	0.02	0.03
Total Capex	**3.20**	**4.73**	**0.45**	**0.04**
% of Revenue	**7%**	**11%**	**4%**	**0%**
Free Cash Flow	**21.89**	**15.91**	**5.58**	**6.85**

Free cash flow: operating cash flow minus capex

Capex and Free Cash Flow

Total fixed assets acquired in 2004 is similar to 2003's level at around NT$4.6bn, with a 47/53 split between 2G/3G. However, 2G/3G cash-out capex in 2004 saw a significant decrease from a year earlier due to the significant increase in account payable for the large shipment of 3G equipment received in December, 2004 and lower than expected spending on 2G equipment. The payment for these 3G equipment is expected to be due in 1Q05. Accordingly, total cash-out capex fell to 7% of revenue and boosted free cash flow by 38% for the year.

IV. Balance Sheet Analysis

Table 10. Balance Sheet

NT$bn	4Q04	3Q04	4Q03
Total Assets	**121.25**	**120.09**	**130.32**
Current Assets	21.45	20.53	26.07
- Cash & Cash Equivalents	3.10	3.44	1.88
- Short-Term Investment	11.91	10.10	17.55
- Other Current Assets	6.44	6.99	6.64
Long-Term Investment	23.74	23.11	26.77
Property and Equipment	60.19	62.51	62.51
Liabilities	**40.28**	**43.95**	**61.13**
Current Liabilities	12.61	11.51	17.19
- ST Debts	3.37	4.44	7.95
- Other Current Liabilities	9.24	7.08	9.24
Long-Term Borrowings	27.49	32.33	43.81
Other Liabilities	0.18	0.10	0.13
Shareholders' Equity	**80.97**	**76.15**	**69.19**

Balance Sheet

Long-term borrowing decreased as a result of paying back NT$4bn of debt

CB conversion increased company's total paid-in capital to 4.92bn shares (before netting off treasury shares.) Separately, employees' total subscription of 19.5m shares reduced the company's total treasury stocks to 65.4m shares.

To enhance efficiency and performance of telecom equipment, TCC has upgraded part of its switches and incurred NT$942m of in obsolete equipment write-offs. TCC also reclassified NT$2.1bn worth of transmission equipment it plans to sell to TFN to non-operating assets. These changes lead to a reduction in fixed assets in 2004 year-end.

Table 11. Ratios

	2004	2003
Current Ratio	170%	152%
Interest Coverage (x)	18.66	10.13
Net Debt to Equity	31%	72%
ROE	22%	20%
ROA	14%	11%

Ratio Analysis

Even after the aforementioned changes, current ratio at year-end was still above 100%. We continued the de-leveraging efforts and brought down net debt to equity ratio to 31% at the end of 2004, down from 72% a year ago. We managed to increase our ROE to 22% in 2004.

V. TransAsia Telecom

Table 12. P&L

NT$bn	2004	2003	YoY
Revenue	11.16	11.51	-3%
EBITDA	4.30	2.81	53%
EBITDA margin	38.6%	24.4%	
PBT-recurring	3.36	1.65	104%
Reported PBT	3.75	1.73	117%
Tax (credit)	0.36	(0.03)	NM
Net Income	3.39	1.77	92%

In an effort to cleanup inactive subscribers, TAT's ending subscribers decreased by around 700K YoY. As a result, total MOU decreased by 3% and revenue also decreased by 3% as ARPM remained resilient. However, due to more effective marketing and controlling of costs as TAT's operation has been fully integrated with TCC, TAT's EBITDA margin increased by 53% and net income increased by 92%.

For 2005, TAT will focus on continue to build customer loyalty and improve the quality of subscriber mix.

Table 13. Full-Year Revenue Operational Result

	2004	2003	YoY
MOU (bn)	2.21	2.28	-3%
Ending Subscriber (m)	1.53	2.20	-30%
Avg. Subscriber (m)	1.85	2.19	-16%
Blended ARPU (NT$)	497	430	15%
ARPM (NT$)	4.94	4.95	0%
MOU per sub	100	87	15%

Table 14. Balance Sheet

NT$bn	2004	2003
Total assets	**9.56**	**12.09**
Current assets	3.79	4.95
Fixed assets	5.55	6.49
Net debt (cash)	(2.60)	0.40
Shareholders' Equity	**7.65**	**8.83**

To achieve a more efficient capital structure, TAT had NT$3bn capital reductions earlier this year, which resulted in a smaller equity base at the end of 4Q04 vs. a year ago.

VI. Mobitai Communications

Table 15. P&L

NT$bn	2004	2003	YoY
Revenue	4.82	4.70	3%
EBITDA	1.36	1.11	23%
EBITDA margin	28.3%	23.6%	
PBT	0.32	0.21	51%
Tax (credit)	0.07	(0.00)	NM
Net Income	0.25	0.21	17%

In an effort to be consistent with the way TCC reports its income statement, Mobitai has made some revenue and expense re-classifications in Dec. 2004. For instance, Mobitai acts as a collection agent for foreign operators for IDD. Mobitai used to book the entire income as revenue and the amount it needs to pay the foreign operators as expenses. Now, Mobitai only books the commission it receives as revenue. Same adjustments were also applied to 2003 accounts.

For 2004, Mobitai's EBITDA margin expanded to 28% from 24% a year ago, supported by rising revenue and well-contained network cost. Although Mobitai's ISR disputes with FET, KGT, and TCC are still in legal proceedings, to be on the conservative side, Mobitai recognized the full potential loss amount of NT$156m in expense during 4Q04. However, even after accounting for this potential loss, Mobitai's net income still increased 17% YoY.

Table 16. Operational Result

	2004	2003	YoY
MOU (m)	1,079	1,012	7%
Ending Subscriber (m)	0.48	0.71	-32%
Avg. Subscriber (m)	0.64	0.72	-11%
Blended ARPU (NT$)	594	496	20%
ARPM (NT$)	4.22	4.24	0%
MOU per sub	141	117	20%

To bring its active subscriber definition in line with TCC, MBT cut its subscriber base by 230K in 2004. As a regional operator, Mobitai has reasonable quality of subscribers, yielding blended ARPU of NT$594 and MOU of 141 on per sub basis.

Table 17. Balance Sheet

NT$bn	2004	2003
Total Assets	**4.21**	**6.12**
Current Assets	1.67	2.88
Fixed Assets	2.26	2.80
Net Debt (Cash)	**(0.95)**	**(2.00)**
Shareholders' Equity	**3.11**	**5.02**

To achieve better capital structure, Mobitai had NT$2bn capital reductions earlier this year, which resulted in a smaller equity base at the end of 4Q04 vs. a year ago. Mobitai has also paid off all of its long-term debt and disposed of all of its equity investments in 2004.

Table 18. Consolidated P&L-TCC, TAT and MBT

NT$bn	2004	2003	YoY
Revenue	55.16	54.32	2%
EBITDA	25.56	22.54	13%
EBITDA margin	46.33%	41.50%	

Note: 2004 numbers include only four months (Sep.-Dec.) contribution from MBT but 2003 numbers does not include contribution from MBT

TCC starts to recognize profit contribution from MBT in September. For 2004, TCC's consolidated revenue and EBITDA reached NT$55bn and NT$26bn, respectively, with EBITDA margin of 46.33% and EBITDA growth of 13% YoY.

VII. Management Discussion & Analysis

ROC SFAS No. 35 – No Impact for 2004

TCC has performed an intrinsic study with its CPA on the impact of SFAS No.35, Accounting for the Impairment of Assets, and concludes that it will not have an impact on its 2G equipment for 2004. Given the strong cashflow being generated from 2G equipment, TCC does not expect any asset impairment write-down in the near future. However, as TCC begins the migration from 2G to 3G in the coming years, the 2G equipment may incur some impairment loss when a significant portion of TCC's revenue is generated from 3G services. In order to neutralize the potential impact from SFAS No. 35 and to maintain a stable dividend policy, TCC's board today approved plans to appropriate NT$2.2bn from net profit in special reserves this year.

Improvements in Financial Transparency

TCC will begin providing consolidated quarterly financial statements for TCC, TAT, and MBT starting in 2005. TCC expect to provide quarterly financial statements with US GAAP reconciliation starting in 2H05.

Bridge Mobile Alliance

The Bridge Mobile Alliance was initiated by SingTel and it is the largest mobile joint venture in the Asia Pacific region. SingTel invited one operator in each country to join and TCC was chosen to represent Taiwan. There are currently a total of seven members. The goal of the Bridge Mobile Alliance is to establish a regional mobile infrastructure and common service platform in order to enable the creation and seamless delivery of regional mobile products and services across various markets.

Board Resolution on Dividend Distribution

TCC's board approved FY04 financial results and cash dividend distribution of NT$2.5 per share, based on current shares outstanding. The NT$2.5 cash dividend per share represents a 7% dividend yield based on stock price of NT$34.

Investment Restructuring

In a continuous effort to simplify TCC's investment structure, TIC and TTnT has merged in 4Q04. In 2005, TCC plans to roll back Elitec as Elitec personnel has already been transferred back to TCC. Also, since Taihsing Den Den is currently TCC's main investment holding company and all operating companies and non-core investments have been transferred under its holding, TCC plans to liquidate the other 4 investment holding companies in 2005.

FET Acquisition of Arcoa

FET acquired 55% stake of Arcoa on Jan. 4, 2005. Arcoa accounted for around 5% of TCC's monthly acquisition at the end of 2004. These acquisitions may be potentially wiped out if FET prohibits Arcoa from selling TCC sim cards. TCC has developed plans to work closer with other open channels and on an overall basis, TCC will not be negatively impacted by FET acquisition of Arcoa.

Disposal of Equipment to TFN

In an effort to cleanup its fixed assets and improve its operating efficiency, TCC's board approved a transaction to sell TFN NT$2bn worth of transmission equipment. This transaction was conducted at arms length and approved by the Company's independent directors.