3rd Quarter Results

for the period ended September 30, 2004

TAIWAN CELLULAR CORP.

October 29, 2004

NT$bn	1-3Q04	YoY	3Q04	2Q04	3Q03	QoQ	YoY
Revenue	**33.66**	**-1%**	**11.57**	**11.07**	**11.87**	**5%**	**-3%**
EBITDA	**15.93**	**6%**	**5.33**	**5.33**	**5.33**	**0%**	**0%**
Operating Income	**12.26**	**8%**	**4.09**	**4.10**	**4.10**	**0%**	**0%**
Non-op. Income (Expense)	3.44	**NM**	2.19	0.14	0.09	**1445%**	**2427%**
Pre-tax Income	**15.71**	**42%**	**6.28**	**4.24**	**4.19**	**48%**	**50%**
(Less Tax)	(1.77)	**96%**	(0.63)	(0.65)	(0.33)	**-2%**	**91%**
Net Income	**13.93**	**38%**	**5.65**	**3.59**	**3.86**	**57%**	**47%**
EPS (NT$)	**3.00**	**36%**	**1.21**	**0.77**	**0.84**	**57%**	**44%**
EBITDA margin	47.33%		46.02%	48.15%	44.92%		
Operating margin	36.43%		35.38%	37.00%	34.53%		
Effective tax rate	11.29%		10.05%	15.24%	7.88%		

Topics in This Report

Highlights of 1-3Q04 results

TCC reported NT$41bn in consolidated revenue, down 1.5% YoY, and NT$19bn in consolidated EBITDA, up 15% YoY on the pro forma basis for the first three quarters of this year.

For TCC stand-alone 3Q revenue, its growth came largely from 3% increase in ARPM and 2% rise in MOU QoQ, due to seasonal factors. Post-paid customer clean-up is about to complete with monthly churn fell to as low as 1.7% in September. Accordingly, we witnessed good results including 19% YoY rise in ARPU, revenue from new subs exceeding churn revenue loss in the past two months, and continuous customer mix improvement.

Our strategic move to have higher percentage of customers covered by contracts increased the number of subs receiving retention packages in 3Q. As a result, EBITDA margin though came in in line with expectation saw around 2 ppt sequential erosions in 3Q. Year to date, EBITDA margin expanded by 3.11ppt, aided by 18% selling expense cut and 14% G&A expense savings.

Non-operating income saw a big increase in 3Q, with NT$1.25bn cash dividend from Chunghwa Telecom (CHT), NT$542m CHT shares disposal gains, as well as stable profit growth at two regional mobile subsidiaries. MBT contributions flow into TCC starting September. In due course, TCC has dispatched several key managements to MBT. TCC's operation integration with TAT expects to be finished by the end of this year. A further headcount reduction at TAT is expected. Rate plan optimization and marketing resource realignment between the two companies are the next step of stream-lining.

Free cash flow as of the end of 3Q04 climbed by 75% from a year ago, arising from healthy EBITDA growth, good balance sheet management, and lower capex.

Q4 outlook

In view of a high revenue base in 3Q and one-time opex increase related to new direct stores, we expect 4Q EBITDA margin not to exceed the level in Q3. Pre-paid business likely to see more volatility on new regulation. Value-added service revenue may see better momentum on expanding tailored-made handset line-up and new branding.

Management Remark

3G commercial launch schedule remains a moving target awaiting for better market demand and readiness of 3G handsets. We awarded a 3G contract to Nokia in September with total contract value of NT$4.8bn . In light of lower-than-expected spending on 2G and delays in 3G network roll-out, we revise our full-year capex guidance to NT$5bn or 11% of revenue.

IR contact:
Shirley Chu
Deputy Director
Investor Relations

Hui-Ming Cheng
CFO

16Fl, No. 172-1, Sec.2,
Ji-Lung Rd.,Taipei 106,
Taiwan, ROC
Tel: 8862 6636 3159

shirleychu@tcc.net.tw
ir@tcc.net.tw
http://www.tcc.net.tw/

I. Revenue Analysis

Table 1. Key Operational Data

	3Q04	2Q04	3Q03	QoQ	YoY
Revenue (NT$bn)					
-Voice Revenue	11.04	10.56	11.43	5%	-3%
- VAS Revenue	0.53	0.51	0.44	3%	20%
- Data Rev as % to Total	4.5%	4.6%	3.7%		
End Subscribers (K)	**5,282**	**5,529**	**6,332**	-4%	-17%
-Postpaid	4,201	4,263	4,895	-1%	-14%
-Prepaid	1,081	1,266	1,437	-15%	-25%
Monthly Churn	**5.1%**	**4.1%**	**6.0%**		
MOU (bn)	**2.98**	**2.93**	**2.99**	2%	0%
ARPM (NT$)	**3.88**	**3.78**	**3.97**	3%	-2%

Table 2. Per Sub Spending & Usage

	3Q04	2Q04	3Q03	QoQ	YoY
ARPU (NT$)	**711**	**663**	**599**	**7%**	**19%**
-Postpaid	824	774	707	7%	17%
-Prepaid	184	160	162	15%	14%
-Domestic Roaming & Others	28	28	16	0%	75%
MOU (minute)	**183**	**175**	**151**	**4%**	**21%**

Revenue Analysis

3Q is a seasonally strong quarter with revenue of NT$11.6bn, up 5% from the previous quarter. Apart from 2% QoQ increase in MOU (minutes of use), ARPM (average revenue per minute) rose by 3% QoQ, partially due to higher international roaming revenue and higher mix of F2M traffics. Post-paid customer clean-up is come to an end with Sep. monthly churn declined to 1.7%. However, pre-paid monthly churn surged to 21% in Sep. as a result of cleaning up inactive subs.

Despite our customer clean-up, total MOU remained resilient and market dynamics remain stable, with only 2% YoY drop in pricing.

Both post-paid and pre-paid ARPU saw a noticeable improvement in 3Q, as a result of further enhancement of subscriber quality. If we breakdown our post-paid rate plans into low, mid and high segments, mid-tier mix climbed sharply from the beginning of the year to account for the majority of monthly new acquisitions in September.

TAIWAN CELLULAR CORP.

II. Cost and Expense Analysis

Table 3. Total Cost & Expense

NT$bn	3Q04	2Q04	3Q03	QoQ	YoY
Revenue	**11.57**	**11.07**	**11.87**	**5%**	**-3%**
Cost of service	4.78	4.53	4.71	5%	1%
Selling expense	1.96	1.63	2.13	20%	-8%
G & A expense	0.74	0.81	0.93	-8%	-20%
Total cost & expense	**7.48**	**6.97**	**7.77**	**7%**	**-4%**
Operating income	4.09	4.10	4.10	0%	0%
EBITDA	5.33	5.33	5.33	0%	0%
EBITDA margin	46.0%	48.2%	44.9%		

Table 4. Network Cost Breakdown

NT$bn	3Q04	2Q04	3Q03	QoQ	YoY
Network cost	**4.78**	**4.53**	**4.71**	5%	1%
- Depreciation	1.09	1.09	1.06	0%	3%
- Interconnection	2.12	1.96	2.12	8%	0%
- BTS & leased line rental	0.76	0.75	0.81	1%	-7%
- Spectrum fee/license concession/USO	0.39	0.36	0.44	9%	-12%

Table 5. Expense Breakdown

NT$bn	3Q04	2Q04	3Q03	QoQ	YoY
Total Op. Exp.	**2.70**	**2.44**	**3.06**	**11%**	**-12%**
Selling Exp.	**1.96**	**1.63**	**2.13**	**20%**	**-8%**
- SAC + SRC	1.29	1.05	1.48	23%	-13%
G&A Exp.	**0.74**	**0.81**	**0.93**	**-8%**	**-20%**

Table 6. Non-operating Item

NT$bn	3Q04	2Q04	3Q03	QoQ	YoY
Non-Operating Items	**2.19**	**0.14**	**0.09**	**14x**	**24x**
-Net interest income (expense)	(0.26)	(0.28)	(0.36)	-7%	-28%
-Net investment income (loss)	1.66	0.52	0.36	221%	365%
-Disposal gains	0.55	0.00	0.00		
Investment Income/(Loss)	**1.66**	**0.52**	**0.36**	**221%**	**365%**
-TAT (92.32%)	0.60	0.57	0.21	5%	183%
-TFN (9.76%)	0.03	(0.01)	(0.01)	NM	NM
-CHT cash dividend	1.25	0.00	0.00		

<u>Cost /Expense Analysis</u>

TCC's 3Q EBITDA came in within our expectation at 46%, down 2ppt sequentially. The margin contraction is attributable to higher selling expense. For 4Q04, spending on new *My Fone* CIS (company identification system), marketing expense for new VAS campaigns and a high revenue base in 3Q04 likely to cap the quarter's EBITDA margin at 46%.

3Q network cost rose roughly in tandem with revenue increase from 2Q. On the YoY comparison, rising depreciation expense attributed to the mild cost increase. We continue to pursue for network cost efficiency through 2G base station redeployments as well as implementing good controls on BTS related expenses. Higher than expected interconnection cost increase in 3Q is associated partially to rising off-net outgoing minutes.

Selling expense in 3Q04 decreased 8% YoY, due largely to 40% drop in SAC and 20% reduction in call center cost. SAC and SRC per sub in 3Q04 did not increase, compared to the level a year ago. Retention expenditure rose by around 40% YoY and QoQ as we offered retention packages to more subs. The 20% YoY reduction in G&A expense came from continuous bad debt expense and bill related cost cuts.

The sale of 69.6m shares of Chunghwa Telecom (CHT) with NT$542m disposal gains coupled with NT$1.25bn dividend income received from CHT, boosted 3Q non-operating income.

III. Cash Flow Analysis

Table 7. Cash Flow

NT$bn	1-3Q04	1-3Q03	3Q04	2Q04
Net Income	13.93	10.12	5.65	3.59
Deprec. & Amort.	3.67	3.63	1.23	1.23
Other Op Sources/(Uses)	1.45	0.36	0.00	1.57
Total Op Sources/(Uses)	**19.06**	**14.11**	**6.89**	**6.40**
Net Investing Sources/(Uses)	**7.19**	**1.41**	**7.42**	**(4.39)**
Net Financing Sources/(Uses)	**(24.69)**	**(19.79)**	**(11.98)**	**(3.63)**
Net Cash Position Changes	**1.56**	**(4.27)**	**2.32**	**(1.63)**

Table 8. Capex & FCF

NT$bn	1-3Q04	1-3Q03	3Q04	2Q04
Capex-2G	1.36	3.23	0.01	1.32
Capex-3G	1.39	1.53	0.03	1.24
Total Capex	**2.75**	**4.76**	**0.04**	**2.56**
% of Revenue	**8.2%**	**14.0%**	**0.3%**	**23.1%**
Free Cash Flow*	**16.31**	**9.35**	**6.86**	**3.84**

Free cash flow: operating cash flow minus capex

Cash Flow Analysis

Operating cash flow in the first three quarters totaled NT$19bn, up 35% 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 reductions as well as NT$3.8bn CHT sales proceeds in 3Q04. In the same period, we paid NT$2.5bn cash to acquire 67% holdings in Mobitai.

NT$12bn cash outflow from financing activity in 3Q04 was mainly for NT$926m buying back convertible bond and NT$11bn cash dividend payment.

Capex and Free Cash Flow

We did minimal capex in 3Q as 3G purchase contract with Nokia was not finalized until mid September. In light of lower-than-expected spending on 2G and delays in 3G network roll-out, we have revised our full-year capex guidance to NT$5bn or 11% of revenue.

IV. Balance Sheet Analysis

Table 9. Balance Sheet

NT$bn	3Q04	2Q04	3Q03
Total Assets	**120.09**	**126.11**	**134.02**
Current Assets	20.53	25.51	10.93
- Cash & Cash Equivalents	3.44	1.12	2.73
- Short-Term Investment	10.10	13.81	0.07
- Other Current Assets	6.99	10.58	8.14
Long-Term Investment	23.11	22.86	43.38
Property and Equipment	62.51	63.52	64.56
Liabilities	**43.95**	**58.70**	**68.63**
Current Liabilities	11.51	25.29	16.65
- ST Debts	4.44	6.66	10.00
- Other Current Liabilities	7.08	18.63	6.65
Long-Term Borrowings	32.33	33.27	48.97
Other Liabilities	0.10	0.14	3.00
Shareholders' Equity	**76.15**	**67.41**	**65.39**

Table 10. Ratios

	3Q04	2Q04	3Q03
Current Ratio	178%	101%	66%
Interest Coverage (x)	24.63	15.82	12.36
Net Debt to Equity	43%	56%	86%
ROE (annualised)	26%	24%	21%
ROA (annualised)	16%	14%	11%

Balance Sheet

Short-term investment balance declined in 3Q04 to reflect company's divestment of 69.6m shares of CHT with sales proceeds of NT$3.8bn.

In 3Q04, bank borrowing increased by NT$400m and convertible bond outstanding balance was trimmed by NT$3.3bn (inclusive of company's buy-back of NT$750m in terms of par value). As CB II holders can put back the bond in August 2005, we have reclassified CBII from long-term debt to short-term debt in 3Q04. On the other hand, CBI has passed the put option exercise date and has been reclassified from short-term debt into long-term debt in the quarter.

Current liabilities dropped significantly in 3Q04 after we paid cash dividend of NT$11bn in August.

CB conversions increased company's total paid-in capital to 4.85bn shares (before netting off treasury shares). Separately, employees' subscription of 8.7m shares reduced the company's total treasury stocks to 76m shares.

Ratio Analysis

Current ratio advanced to 178% as current liabilities decreased faster than that of current assets.

Net debt to equity in 3Q was within our target of 50%. De-leveraging efforts resulted in a 28% YoY decrease in net interest expenses for the first three quarters of this year.

V. TransAsia Telecom

Table 11. P&L

NT$bn	3Q04	2Q04	3Q03	QoQ	YoY
Revenue	2.86	2.81	3.11	2%	-8%
EBITDA	1.11	1.04	0.64	7%	74%
EBITDA margin	38.8%	36.9%	20.5%		
PBT-recurring	0.88	0.80	0.37	10%	139%
Reported PBT	0.88	0.85	0.37	3%	139%
Tax	0.10	0.09	0.02	15%	457%
Net Income	0.78	0.76	0.35	2%	123%

EBITDA margin expanded to 39% in 3Q from 37% in 2Q, attributable largely to a significant decrease in bad debt expense. For the first three quarters, EBITDA advanced 88% YoY as a result of effective marketing.

Table 12. Operational Result

	3Q04	2Q04	3Q03	QoQ	YoY
MOU (m)	560	561	614	0%	-9%
Ending Subscriber (m)	1.68	1.84	2.38	-9%	-30%
Avg. Subscriber (m)	1.77	1.92	2.34	-8%	-25%
Blended ARPU (NT$)	526	473	435	11%	21%
ARPM (NT$)	4.98	4.87	4.97	2%	0%
MOU per sub	106	97	88	9%	21%

In a bid to clean up inactive customers, TAT's churn rate rose to 3.7% in 3Q vs. 2% a year ago and resulted in 8% YoY decline in revenue. Nonetheless, its subscriber contribution has improved, evidenced by 21% YoY increase in ARPU.

Table 13. Balance Sheet

NT$bn	1-3Q04	1-3Q03
Total Assets	**9.35**	**14.86**
Current Assets	3.37	4.10
Fixed Assets	5.80	6.77
Net Debt (Cash)	(1.71)	0.82
Shareholders' Equity	**6.95**	**7.98**

Following a NT$3bn capital reduction in June, TAT remains a debt free company with net cash as high as NT$1.71bn as of the end of September.

VI. Mobitai Communications

Table 14. P&L

NT$bn	3Q04	2Q04	3Q03	QoQ	YoY
Revenue	1.25	1.20	1.21	4%	4%
EBITDA	0.37	0.33	0.29	13%	30%
EBITDA margin	29.7%	27.2%	23.6%		
PBT	0.15	0.09	0.06	59%	166%
Tax	0.03	0.02	0.01	87%	473%
Net Income	0.11	0.07	0.05	52%	128%

For the first three quarters, Mobitai's EBITDA margin expanded to 28% from 24% a year ago, supported by well-contained network cost and 7% YoY slash in selling expense. In addition to 16% rise in its EBITDA, declining depreciation expense led to a 90% rise in net income for 1-3Q04.

Table 15. Operational Result

	3Q04	2Q04	3Q03	QoQ	YoY
MOU (m)	276	268	260	3%	6%
Ending Subscriber (m)	0.51	0.69	0.72	-26%	-29%
Avg. Subscriber (m)	0.65	0.70	0.72	-7%	-10%
Blended ARPU (NT$)	612	538	515	14%	19%
ARPM (NT$)	4.31	4.22	4.64	2%	-7%
MOU per sub	142	128	120	11%	18%

To bring its active subscriber definition in line with TCC, MBT cut its subscriber base by 156K in September. Compared to TransAsia Telecom, Mobitai has reasonable quality of subscribers, yielding higher ARPU as well as higher MOU on per sub basis.

Table 16. Balance Sheet

NT$bn	1-3Q04	1-3Q03
Total Assets	**4.22**	**6.22**
Current Assets	1.46	2.92
Fixed Assets	2.42	2.90
Net Debt (Cash)	**(0.56)**	**(1.82)**
Shareholders' Equity	**3.12**	**4.94**

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 3Q04 vs. a year ago.

Mobitai's ISR disputes with FET, KGT, and TCC are in legal proceedings. But TCC is immune to any of the potential liabilities because the amount has been deducted against our investment. Nonetheless, MBT's potential loss is estimated to be no more than NT$150m should it lose the case.

Table 17. Consolidated P&L-TCC, TAT and MBT

NT$bn	3Q04	2Q04	3Q03	QoQ	YoY
Revenue	14.16	13.20	14.47	7%	-2%
EBITDA	6.56	6.37	5.99	3%	10%
EBITDA margin	46.34%	48.26%	41.38%		

Note: 3Q04 numbers only include one month contribution from MBT

TCC starts to recognize profit contribution from MBT in September. For the first three quarters of this year, TCC's consolidated revenue and EBITDA reached NT$41bn and NT$19bn, respectively, with EBITDA margin of 48% and EBITDA growth of 15% YoY.

VII. Management Discussion & Analysis

3G Status

3G commercial launch schedule remains a moving target waiting for better market demand and readiness of 3G handsets. We awarded a 3G contract to Nokia in September with total contract value of NT$4.8bn for our 3G phase II and III infrastructure roll-out. Total 3G capex is estimated to be no more than NT$3bn in 2004, lower than our previous guidance of NT$3.5bn.

Mobitai Phase I Acquisition Deal Closed

MBT contributions flow into TCC starting September. In due course, TCC has dispatched several key managements to MBT. Second phase share purchase is scheduled to complete by the end of next year through share swap. We estimate MBT to account for some 2% of our net profit in 2005.

Integration with TAT

TCC's operation integration with TAT expects to be finished by the end of this year. A further headcount reduction at TAT is expected, which will translate into around NT$100m cost savings for next year. Sales and marketing consolidation is also under way. Apart from rate plan optimization between the two companies, TAT will gradually relocate the marketing resources to TCC to pave the way for brand integration in the long run.

Value-added Service/Pre-paid Card Business

Value-added service is seeing positive developments with expanding customized handset line-up in 2H04. New branding proposition, portal site revamp and strengthened sales efforts at company stores to promote VAS are scheduled in 4Q04.

We hold a cautiously optimistic view on pre-paid business in the next six months. On the positive side, the new products/campaigns catered to domestic users are gradually phased in. On the other hand, pre-paid cards selling into foreign labor market may see some volatility due to new regulatory restrictions. As such, pre-paid churn likely to stay high in the next few months, as the regulator recently limits an individual to apply the service for no more than five numbers for foreign labors. This has negatively affected pre-paid new additions. We would like to limit the potential impacts by pushing users to reload values as opposed to buying new SIM cards.