4th Quarter Results

for the period ended Dec. 31, 2003

TAIWAN CELLULAR CORP.

February 06, 2004

NT$bn	2003	YoY	4Q03	3Q03	4Q02	QoQ	YoY
Revenue	**45.00**	**-1%**	**11.01**	**11.87**	**10.94**	**-7%**	**1%**
EBITDA	**20.06**	**4%**	**5.02**	**5.35**	**4.99**	**-6%**	**1%**
Operating Income	**15.20**	**1%**	**3.79**	**4.12**	**3.89**	**-8%**	**-3%**
Non-op. Income (Expense)	(0.73)	NM	(0.36)	0.08	(0.11)	NM	NM
Pre-tax Income	**14.47**	**-6%**	**3.43**	**4.20**	**3.78**	**-18%**	**-9%**
(Less Tax)	(1.13)	138%	(0.22)	(0.33)	(0.26)	-33%	-18%
Net Income	**13.34**	**-11%**	**3.21**	**3.87**	**3.52**	**-17%**	**9%**
EPS (NT$)	**2.91**	**-9%**	**0.70**	**0.84**	**0.75**	**-17%**	**-7%**
EBITDA margin	44.58%		45.62%	45.06%	45.55%		
Operating margin	33.79%		34.44%	34.67%	35.59%		
Effective tax rate	7.76%		6.41%	7.85%	7.06%		

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Highlights of 4Q03 and full-year 2003 results

2003 full-year audited revenue dipped 1% YoY and came in 4% lower than un-audited numbers due largely to certain revenue and expense re-classifications (see details in the following section). For the year, the company had a more favorable customer mix, which underpinned full-year revenue at NT$45bn. In 4Q03, revenue of NT$11bn rose slightly from the corresponding period a year ago, thanks to rising ARPU and total MOU, despite the decline in ending subscriber number.

4Q03 EBITDA margin of 45.6% reached the highest level in the past seven quarters. EBITDA margin expansion seen in the quarter attributed mainly to marketing expense savings . EBITDA grew 4% YoY in 2003, with better-than-expected margin at 44.6% resulting from effective acquisitions and personnel expense drop.

4Q03 EPS of NT$0.70 included NT$895m (or NT$0.19 in EPS reduction) non-recurring asset write-off loss. Better-than-expected profit from TransAsia mitigated the negative impact from the non-recurring loss. Full-year net income edged down 11% YoY to NT$13.3bn or NT$2.91 in EPS, on higher effective tax rate and the aforementioned non-recurring charge.

Board resolution on dividend payout

The board meeting today approved 2003 earnings distribution proposal to pay NT$2.4/share cash dividend, based on current shares outstanding.

2004 Outlook

Industry revenue likely to see 2-5% increase, in line with GDP growth. We expect revenue drivers to be mobile data as well as better customer mix.

EBITDA margin to remain stable: marketing expense to be contained on better marketing efficiency; G&A expense to see cost savings from productivity gains at back office operations; network cost to be under pressure based on current traffic pattern; 3G commercial launch to result in incremental cost.

Capex to trend up while stays at low teens of revenue with around 50% spending on 3G, with the balance largely to support new services under 2.5G.

TransAsia Telecom to see double-digit profit increase and remains the major equity income contributor.

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I. Revenue Analysis

Table 1. P&L Impact from Re-classification

NT$bn	2003	2002
Revenue	**-1.6**	**-1.3**
Pre-paid free minutes	-1.0	-0.8
SIM card deposits collecting from dealers	-0.2	-0.3
Eradication of IDD & other revenue collecting for others	-0.3	-0.2
Voice revenue	0.4	0.3
VAS revenue[1]	-0.4	-0.3
Cost	**-0.3**	**-0.2**
Eradication of IDD & other revenue collecting for others	-0.3	-0.2
Expense	**-1.3**	**-1.1**
Pre-paid free minutes	-1.0	-0.8
SIM card deposits collecting from dealers	-0.2	-0.3
Net profit	**0.0**	**0.0**

1. VAS revenue adjusted to exclude “Hot-Line” revenue.

Table 2. Full-Year Revenue

	2003	2002	YoY
Revenue (NT$bn)	45.0	45.4	-1%
MOU (bn)	11.6	10.9	6%
Ending Subscriber (m)	5.8	6.2	-7%
Avg. Subscriber (m)	6.5	5.8	11%
Blended ARPU (NT$)	582	651	-11%
ARPM (NT$)	3.9	4.2	-7%
MOU per sub	150	156	-4%

Table 3. Quarterly Revenue

	4Q03	3Q03	4Q02	QoQ	YoY
Revenue (NT$bn)	11.01	11.87	10.94	-7%	1%
Voice	10.51	11.38	10.51	-8%	0%
VAS	0.50	0.49	0.43	1%	18%
MOU (bn)	2.86	2.99	2.79	-4%	3%
Ending Subs (k)	5,811	6,332	6,240	-8%	-7%
Monthly Churn	6.1%	6.0%	3.5%		

<u>Accounting Change</u>

2003 full-year audited revenue came in 4% lower than un-audited numbers due largely to certain revenue and expense re-classifications. The adjustment was associated largely to reclassification of pre-paid free minutes from commission expenses to revenue discounts. In the past, the cash deposits received from our shipping of SIM card to dealers were booked as revenue then reimbursed dealers in the form of commissions when SIM cards are activated. The aforementioned practice has been changed from P&L account entries to those of balance sheet. Same adjustments were also applied to 2002 accounts.

<u>Full-Year Revenue Analysis</u>

TCC recorded below-industry revenue growth in 2003, due to the mixed business models of looking for sub number growth for the first three quarters then switched to maximizing existing user contribution & singing up better quality clients for the rest of the year. As such, major improvements in ARPU and MOU per sub were seen in 4Q03. ARPM decline during the period moderated, compared to a year earlier.

<u>Quarterly Revenue Analysis</u>

TCC’s revenue in the fourth quarter of 2003 was NT$11bn, about the same level in the previous year. During the quarter, the growth of value added service (VAS) outpaced that of revenue and represented 4.5% of total revenue vs. 3.9% a year earlier. Benefiting from our continuous efforts to reduce inactive/low-yield subscribers at the expense of increasing churn, 4Q03 blended ARPU and post-paid ARPU rose by a healthy 2% and 10%, respectively, from a year ago.

4Q03 revenue declined 7% sequentially, due to additional 0.52m subscriber reduction from 3Q03 and a tough comparison from seasonally strong 3Q. We note that churn was stabilized in 4Q, remaining similar to the level in 3Q. But we further slowed down new acquisitions in 4Q, compared to the previous quarter. ARPU and MOU per sub trended up sequentially to NT$608 and 158 minutes from NT$599 and 151 minutes in 3Q03.

II. Cost and Expense Analysis

Table 4. Full-Year Cost & Expense

NT$bn	2003	2002	YoY
Cost of service	17.9	16.4	9%
Selling expense	8.4	10.0	-17%
G& A expense	3.6	3.9	-7%
Operating income	15.2	15.1	1%
Operating margin	33.8%	33.2%	

Full-Year Cost/Expense Analysis

For the year of 2003, network cost was still under pressure (e.g. interconnecting cost up 8%; depreciation expense up 23%; BTS and leased-line rental up 19%), while opex cuts were achieved through both marketing and G&A expense reductions. In 2003, bad debt ratio dropped to 3.4% from 3.8% a year ago. As a result, operating margin expanded to 33.8% for the year.

Table 5. Network Cost Breakdown

NT$bn	4Q03	3Q03	4Q02	QoQ	YoY
Cost of service	4.43	4.70	3.78	-6%	17%
Depreciation	1.06	1.06	0.89	0%	20%
Other cost	3.37	3.64	2.89	-8%	16%
Gross Profit	6.58	7.17	7.16	-8%	-8%
Gross Margin	59.8%	60.4%	65.5%		

Quarterly Cost/Expense Analysis

On a year-over-year comparison, 4Q03 cost of service increased, on the back of rising depreciation expense due to adding new equipment and 12% growth in interconnecting charge on increasing mobile-to-non TCC mobile traffics. On a sequential basis, cash network cost edged down because of incurring fewer universal service obligations.

Table 6. Expense Breakdown

NT$bn	4Q03	3Q03	4Q02	QoQ	YoY
Total Op. Exp.	2.79	3.05	3.27	-9%	-15%
Selling Exp.	1.85	2.12	2.33	-13%	-21%
G&A Exp.	0.94	0.93	0.94	1%	0%
Op. income	3.79	4.12	3.89	-8%	-3%
Op.margin	34.4%	34. 7%	35.6%		

TCC achieved opex savings through slowing down subscriber new acquisition to avoid singing up marginal new subs. Subscriber retention effectiveness is enhanced by providing retention incentive based on customer value. In 4Q03, acquisition and retention expense combined was the largest expense item and accounted for around over 42% of total opex. G&A expense had been well-contained since 4Q02.

Table 7. Non-operating Item

NT$bn	2003	2002	YoY
Net non-op. income (exp.)	-0.7	0.3	NM
Net interest exp.	-1.5	-0.9	64%
Net investment income	1.3	1.0	32%
Asset write-off loss	-0.9	0.0	
Income from TransAsia	1.1	1.0	15%

Non-Operating Item Analysis

At the non-operating front, interest expense rose, resulting from ascending bank borrowings, though debt balance came down at year-end. We incurred NT$895m loss on obsolete asset write-off. On the positive side, equity investment income recorded a strong 32% YoY increase, aided by better-than-expected profits at TransAsia Telecom.

III. Cash Flow Analysis

Table 8. Cash Flow

NT$bn	2003	1-3Q03	2002
Net Income	13.3	10.1	14.9
Deprec. & Amort.	4.9	3.6	4.2
Other Op Sources/(Uses)	2.4	0.4	0.6
Total Op Sources/(Uses)	20.6	14.1	19.7
Net Investing Sources/(Uses)	1.5	1.4	(48.3)
Net Financing Sources/(Uses)	(27.2)	(19.8)	24.3
Net Cash Position Chg.	(5.1)	(4.3)	(4.3)

Cash Flow Analysis

TCC's operating cash flow remained stable at NT$20.6bn in 2003, supported by increasing cash dividend from investees and adding back non-cash items (e.g. NT$895m asset write-down).

In contrast to NT$48bn investing activity cash outflow in 2002, TCC had NT$1.5bn cash inflow from investing activity in 2003, due to less capex and liquidating NT$6bn worth of bond funds.

NT$27bn cash outflow from financing activity for the year, stemming from NT$8.8bn cash dividend payout and NT$16.3bn debt repayments.

The main change in 4Q cash flow statement is NT$7.4bn financing activity cash outflow, largely for debt repayment.

Table 9. Capex & FCF

NT$bn	2003	2002	YoY
2G Capex	3.2	9.8	-67%
3G Capex	1.5	0.0	NM
Total Capex	4.7	9.8	-52%
% of Revenue	11%	22%	
Free Cash Flow	15.9	9.9	60%

Capex and Free Cash Flow

2G/2.5G capex in 2003 saw a significant decrease from a year earlier due to the completion of major 2/2.5G system network build-out. In light of prudent spending on 3G, total 3G capex came in less than expected at only NT$1.5bn in 2003. Among 2/2.5G spending in 2003, 40% was for system & network capacity; 45% for supporting new service. Accordingly, total capex fell to 11% of revenue and boosted free cash flow by 60% for the year.

IV. Balance Sheet Analysis

Table 10. Balance Sheet

NT$bn	4Q03	3Q03	4Q02
Total Assets	**130.32**	**134.29**	**142.95**
Current Assets	26.07	11.20	19.09
Cash & Equivalents	1.88	2.73	7.00
Other Current Assets	24.19	8.47	12.09
Long-Term Investment	26.77	43.39	45.30
Fixed Assets	62.51	64.56	63.20
Liabilities	**61.13**	**68.90**	**78.72**
Current Liabilities	17.19	16.93	10.54
ST Debts	7.95	10.00	3.89
Other Current Liabilities	9.24	6.93	6.65
Long-Term Borrowings	43.81	48.97	64.25
Other Liabilities	0.13	3.00	3.93
Shareholders' Equity	**69.19**	**65.39**	**64.23**

Table 11. Ratios

	4Q03	3Q03	4Q02
Current Ratio	152%	66%	181%
Interest Coverage (x)	10.52	12.36	14.66
Net Debt to Equity	72%	86%	86%
ROE (annualised)	20%	21%	24%
ROA (annualised)	11%	11%	13%

<u>Balance Sheet</u>

Chunghwa Telecom holding was reclassified from long-term into short-term investment in December, 2003, following the board's decision to gradually divest the shares.

As TCC proactively returns deposits to customers whose contracts expired, we moved customer deposits from other long-term liability into short-term liability in that these deposits would be refunded or be deducting against monthly usage in the near future.

We had NT$895m obsolete asset write-off, leading to a reduction in fixed assets in 2003 year-end.

<u>Ratio Analysis</u>

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 72% at the end of 2003, down from 86% a year ago. We managed to maintain our ROE at 20% in 2003.

V. TransAsia Telecom

Table 12. P&L

NT$bn	2003	2002	YoY
Revenue	11.5	9.7	19%
EBITDA	2.8	2.4	18%
Pre-tax Income	1.7	1.5	19%
Tax Credit	0.1	0.0	20%
Net Income	1.8	1.5	19%

Table 13. Full-Year Revenue Operational Result

	2003	2002	YoY
MOU (bn)	2.3	2.0	15%
Ending Subscriber (m)	2.2	1.9	17%
Avg. Subscriber (m)	2.2	1.4	55%
Blended ARPU (NT$)	440	589	-25%
ARPM (NT$)	5.05	4.88	3%
MOU per sub	87	118	-26%

Table 14. Balance Sheet

NT$bn	4Q03	4Q02
Total Assets	**12.09**	**14.98**
Current Assets	4.95	3.87
Fixed Assets	6.49	6.80
Shareholders' Equity	**8.83**	**8.34**

TAT recorded a healthy 19% top line growth in 2003, boosted by a 17% increase in total number of subscribers. Its net income for the year increased 19% YoY on stable margins.

We note that TAT demonstrated a meaningful improvement of profitability in 4Q 2003. Effective marketing expense controls and focusing on high-usage subscriber acquisition resulted in a surge in the quarter ’ s EBITDA margin to 35.9%. Accordingly, net profit advanced by 146% sequentially and 97% from a year ago in 4Q03.

Key focuses for TAT this year will be

<u>ARPU enhancing</u>
Measures--shaking up subscriber quality and stimulating usage to beef up ARPU
Expected results—higher ARPU; decreasing sub number at year-end; flattish revenue

<u>Marketing efficiency gains</u>
Measures — acquisition campaigns focusing on higher rate plans; innovations of distribution channels; new retention programs
Expected results—SAC savings; churn containing; higher contribution from new subs

<u>Integration synergies</u>
Measures — joint procurements of handsets & media; better co-ordination of marketing campaigns; back office streamlining
Expected results—procurement & back office cost savings; dual-branding marketing success

For 2004, we project TAT to see a flat revenue growth but a 20% rise in net profits, with EBITDA margin increasing to around 30% vs. 25% in 2003..

VI. Subsequent Event

Chunghwa Telecom Share Disposal

TCC together with TAT sold 12.2m (9.3m from TCC and 2.9m from TAT) Chunghwa Telecom (CHT) ADS (equivalent of 122m share of CHT common stock) through a bought deal to Deutsche Bank in January, 2004. Hui-Ming Cheng, TCC's CFO & spokesman, stated that this move is to deliver company's policy of non-core asset divestment. Following this transaction, TCC still owns 282m shares and TAT holds 30.57m shares of CHT. TCC and TAT expect to book NT$370m and NT$116m gains, respectively, in 1Q04.

Capital Reduction at Affiliates

To improve subsidiaries' capital efficiency, TCC's 92.32% owned TransAsia Telecom has been approved by its board to reduce its paid-in capital from NT$6.5bn to NT$3.5bn. TAT's capital reduction expects to upstream NT$2.8bn cash to parent. For Taiwan Elitec (65%-held), its paid-in capital will be reduced from current NT$500m to NT$200m. Taiwan Teleservice & Technology (TT&T) (65%-owned) paid-in capital will be decreased from NT$800m to NT$400m. The returned cash from Elitec and TT&T capital reduction is likely to be used to increase our ownership and eventually simplify complex cross holding structure.

Board Resolution on Feb. 6, 2004

TCC's board approved FY03 financial results and dividend distribution proposal of NT$2.4/share cash dividend, based on current shares outstanding. The cash dividend of NT$2.4 is rising from NT$2.0 from the previous year. Cash dividend payout represents 83% payout ratio.

VII. Management Remark

Shareholder value oriented

In the matured market environment, we will continue the profit centric strategy to enhance EBITDA & ARPU and expect to deliver better results going forward. Improving transparency and disclosure is an important measure we are taking. Looking ahead, we expect our financial reports to provide better disclosure and in a more timely manner.

Check & balance

Internally, both management and board levels have been implementing tighter checks and balances, and we are looking more closely into our accounting practices, compensation, and capital expenditure. At the board level, to ensure the board's objective view and the independence, we have also established a corporate governance committee and an audit committee. The 2003 financial report has been reviewed by our newly established audit committee.

Investment discipline

By combining our investment vehicles to provide more clarity on how we operate and divest non-core assets. Our plan to divest CHT shares is still ongoing, and certainly we're looking at possible ways to approach the sale.

Streamlining

We are taking a new look at all existing business process. For example, we just launch a revenue assurance program. Separately, we look more strictly into current bill collection process to minimize fraud and bad debts. Our marketing campaign will leverage more on CRM tools to become more event driven or segment focused.