2nd Quarter Results

for the period ended June 30, 2004

TAIWAN CELLULAR CORP.

July 27, 2004

NT$bn	1H04	YoY	2Q04	1Q04	2Q03	QoQ	YoY
Revenue	**22.09**	**0%**	**11.07**	**11.02**	**11.17**	**0%**	**-1%**
EBITDA	**10.61**	**9%**	**5.33**	**5.28**	**4.72**	**1%**	**13%**
Operating Income	**8.17**	**12%**	**4.10**	**4.07**	**3.50**	**1%**	**17%**
Non-op. Income (Expense)	1.25	**NM**	0.14	1.11	(0.22)	**-87%**	**NM**
Pre-tax Income	**9.42**	**38%**	**4.24**	**5.19**	**3.28**	**-18%**	**29%**
(Less Tax)	(1.14)	**99%**	(0.65)	(0.50)	(0.27)	**30%**	**139%**
Net Income	**8.28**	**32%**	**3.59**	**4.69**	**3.01**	**-23%**	**19%**
EPS (NT$)	**1.79**	**31%**	**0.77**	**1.02**	**0.66**	**-25%**	**17%**
EBITDA margin	48.02%		48.15%	47.88%	42.27%	1%	14%
Operating margin	36.99%		37.00%	36.97%	31.38%	0%	18%
Effective tax rate	12.12%		15.24%	9.57%	8.24%	59%	85%

Highlights of 1H04 results

TCC revenue remained flat at NT$22bn in 1H04. The continued voice usage increase and the company 's data product offerings balanced out the impact of 282K subscriber net reduction. 1H ARPU grew 16% YoY, driven by improving MOU per sub.

1H EBITDA margin improved by 4.17 percentage points over last year to 48.02%, as a result of a reduction in acquisition cost and operation efficiency gains. Acquisition cost fell due to fewer new acquisition. The benefits were partially offset by rising retention cost in preparation for mobile number portability.

Reported net income in 1H increased by 32% YoY, arising from 12% operating income growth, exceptional disposal gains (NT$365m at TCC and NT$390m at TAT) and 7x rise in investment income. TCC's strong growth in investment income in 1H is attributable to TAT's 2.4x net profit increase. Recurring net profit in 1H04 showed 21% growth from a year ago.

Free cash flow more than doubled to NT$9.5bn in 1H04, driven by stronger earnings and higher dividend received from subsidiaries.

2H outlook

A broader retention policy will be implemented in 2H, which expects to drive up selling expense. On the other hand, a possible delay in 3G commercial launch is likely to reduce 2H cash cost by around NT$112m and total cost by NT$394m. Net net, EBITDA margin in 2H expects to come in at around 46%.

Management Remark

TCC has formalized a new simplified investment holding structure (see page 7 for details). The company has received capital reduction cash from TAT and expects to receive cash from TFN by the end of 3Q. On Mobitai acquisition progress, we expect the phase I deal to be closed as expected at the end of September.

TCC continues to launch innovative product & services. In 2Q, it introduced two new competitive rate plans-401 & 801. The new rate plans coupled with new commission structure have led to a better customer pyramid. Acquisition & retention in the mid-tier rate plan segment showed a significant rise in 2Q04, at the expense low-tier rate plan segment.

Topics in This Report

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I. Revenue Analysis

Table 1. Key Operational Data

	2Q04	1Q04	2Q03	QoQ	YoY
Revenue (NT$bn)					
-Voice Revenue	10.56	10.48	10.73	1%	-2%
- VAS Revenue	0.51	0.54	0.44	-5%	17%
- Data Rev as % to Total	4.6%	4.9%	3.9%		
End Subscribers (K)	**5,529**	**5,611**	**6,809**	**-1%**	**-19%**
-Postpaid	4,263	4,361	5,261	-2%	-19%
-Prepaid	1,266	1,250	1,548	1%	-18%
Monthly Churn	**4.1%**	**4.6%**	**3.3%**		
MOU (bn)	**2.93**	**2.87**	**2.94**	**2%**	**0%**
ARPM (NT$)	**3.78**	**3.84**	**3.79**	**-2%**	**0%**

Table 2. Per Sub Spending & Usage

	2Q04	1Q04	2Q03	QoQ	YoY
ARPU (NT$)	**663**	**640**	**550**	**4%**	**21%**
-Postpaid	774	748	638	3%	21%
-Prepaid	160	176	164	-9%	-2%
-Domestic Roaming & Others	28	19	16	47%	75%
MOU (minute)	**175**	**167**	**145**	**5%**	**21%**

Revenue Analysis

TCC's 2Q revenue of NT$11bn is flat from the previous quarter due to 82K net reduction of subscriber number. Post-paid monthly churn came off to 1.8% in 2Q, down from 2.7% in 1Q. MOU (minutes of usage) is the key driver, supporting revenue against the decline in average price per minute. Average revenue per minute (ARPM) is resilient, flat YoY and down 2% QoQ.

Supported by higher mix on higher rate-plan customers, post-paid ARPU and MOU per sub saw strong 21% YoY increase in 2Q. On the contrary, 2Q pre-paid ARPU edged down 9% QoQ due to one-off discounts charge-off in June.

II. Cost and Expense Analysis

Table 3. Total Cost & Expense

NT$bn	2Q04	1Q04	2Q03	QoQ	YoY
Revenue	**11.07**	**11.02**	**11.17**	**0%**	**-1%**
Cost of service	4.53	4.47	4.42	1%	3%
Selling expense	1.63	1.74	2.32	-6%	-30%
G & A expense	0.81	0.73	0.92	11%	-13%
Total cost & expense	6.97	6.95	7.66	0%	-9%
Operating income	4.10	4.07	3.50	1%	17%
EBITDA	5.33	5.28	4.72	1%	13%
EBITDA margin	48.2%	47.9%	42.3%		

<u>Cost /Expense Analysis</u>

TCC's EBITDA margin further expanded to 48.2% in 2Q, leading to 13% YoY increase in EBITDA in 2Q04. Margin improvement during the period is due largely to well-contained operating expense and lower-than-expected service costs. G&A expense decreased 13% YoY, on lower bad debt and billing cost in 2Q04.

Table 4. Network Cost Breakdown

NT$bn	2Q04	1Q04	2Q03	QoQ	YoY
Network cost	4.53	4.47	4.42	1%	3%
- Depreciation	1.09	1.06	1.05	3%	5%
- Interconnection	1.96	1.92	1.89	2%	4%
- BTS & leased line rental	0.78	0.78	0.76	-1%	2%
- Spectrum fee/license concession/USO	0.36	0.44	0.43	-18%	-16%

Network cost pressure is lower-than-expected because of discounts on 3G spectrum fee and slower-than-expected increase in number of cell sites. Part of the aforementioned savings is offset by increasing interconnecting cost due to a low base of international roaming cost during SARS period in 2Q03.

Table 5. Expense Breakdown

NT$bn	2Q04	1Q04	2Q03	QoQ	YoY
Total Op. Exp.	**2.44**	**2.47**	**3.24**	**-1%**	**-25%**
Selling Exp.	**1.63**	**1.74**	**2.32**	**-6%**	**-30%**
- Acquisition & retention	1.05	1.17	1.60	-11%	-35%
G&A Exp.	**0.81**	**0.73**	**0.92**	**11%**	**-13%**

Increasing emphasis on retention resulted in 11% YoY increase in total subscriber retention cost (SRC) in 1H04, which is balanced out by falling subscriber acquisition cost (SAC) aiming only quality acquisition. Broader SRC policies are expected in the second half of this year and to increase total SRC. G&A expense rose sequentially in 2Q because of project related expense accruals.

Table 6. Non-operating Item

NT$bn	2Q04	1Q04	2Q03	QoQ	YoY
Non-Operating Items	**0.14**	**1.11**	**(0.22)**	**NM**	**NM**
-Net interest income (expense)	(0.28)	(0.32)	(0.37)	-12%	-24%
-Net investment income (loss)	0.52	1.01	0.02	-49%	2376%
-Disposal gains	0.00	0.37	0.01		
Investment Income/(Loss)	**0.52**	**1.01**	**0.02**	**-49%**	**2376%**
TAT (92.32%)	0.57	0.90	0.14	-37%	317%
TFN (9.76%)	(0.01)	0.08	(0.05)	NM	-80%

Due to the absence of exceptional disposal gains, non-operating income was a mere NT$142m in 2Q vs. NT$1.11bn profit in 1Q04. On a year-on-year comparison, TCC managed to bring down its net interest expense and record strong growth in investment income in 2Q04.

III. Cash Flow Analysis

Table 7. Cash Flow

NT$bn	1H04	1H03	2Q04	1Q04
Net Income	8.28	6.27	3.59	4.69
Deprec. & Amort.	2.44	2.39	1.23	1.20
Other Op Sources/(Uses)	1.45	(1.01)	1.57	(0.12)
Total Op Sources/(Uses)	**12.17**	**7.65**	**6.40**	**5.77**
Net Investing Sources/(Uses)	**(0.23)**	**2.60**	**(4.39)**	**4.16**
Net Financing Sources/(Uses)	**(12.70)**	**(13.66)**	**(3.63)**	**(9.07)**
Net Cash Position Changes	**(0.76)**	**(3.42)**	**(1.63)**	**0.87**

Table 8. Capex & FCF

NT$bn	1H04	1H03	2Q04	1Q04
Capex-2G	1.35	3.23	1.32	0.03
Capex-3G	1.36	0.38	1.24	0.12
Total Capex	**2.71**	**3.61**	**2.56**	**0.15**
% of Revenue	**12.3%**	**16.3%**	**23.1%**	**1.4%**
Free Cash Flow*	**9.46**	**4.04**	**3.84**	**5.62**

Free cash flow: operating cash flow minus capex

Cash Flow Analysis

Operating cash flow in 1H04 came in at NT$12bn, up 59% from a year earlier, on the back of rising net income and cash dividend received from affiliates. Total cash dividend received from affiliates amounted to NT$2.5bn in 1H04.

Major investing cash outflow in 2Q04 is NT$2.6bn capex, in contrast to minimal capex and NT$4bn plus CHT sales proceeds in 1Q04.

NT$3.6bn cash outflow from financing activity in 2Q04 was mainly for NT$1.8bn repayment of debts and NT$1.3bn buying back of convertible bond.

Capex and Free Cash Flow

Accumulative capex at the end of 1H04 is in line with our expectation and reaches around 40% of our full-year capex budget. Free cash flow in 1H04 more than doubled from a year ago due to rising net income and cash dividend from subsidiaries.

IV. Balance Sheet Analysis

Table 9. Balance Sheet

NT$bn	2Q04	1Q04	2Q03
Total Assets	**126.11**	**126.92**	**135.52**
Current Assets	25.51	21.97	11.29
- Cash & Cash Equivalents	1.12	2.75	3.58
- Other Current Assets	24.39	19.23	7.71
Long-Term Investment	22.86	27.78	44.53
Property and Equipment	63.52	62.36	64.60
Liabilities	**58.70**	**52.55**	**73.99**
Current Liabilities	25.29	16.89	18.15
- ST Debts	6.66	8.17	3.25
- Other Current Liabilities	18.63	8.72	14.90
Long-Term Borrowings	33.27	35.52	52.58
Other Liabilities	0.14	0.14	3.25
Shareholders' Equity	**67.41**	**74.37**	**61.54**

Table 10. Ratios

	2Q04	1Q04	2Q03
Current Ratio	101%	130%	62%
Interest Coverage (x)	15.82	17.15	9.76
Net Debt to Equity	56%	55%	85%
ROE (annualised)	24%	26%	20%
ROA (annualised)	14%	15%	10%

<u>Balance Sheet</u>

Other current assets saw a noticeable increase in 2Q04 due to NT$2.77bn receivable from TransAsia's capital reductions.

Long-term investment balance declined in 2Q04 to reflect TAT's capital reduction and NT$2.5bn cash dividend received from affiliate companies, including NT$1.3bn from TransAsia.

Bank borrowing reduced by NT$9.5bn and convertible bond outstanding balance was trimmed by NT$2.3bn in 1H04.

Current liabilities surged in 2Q04 due to NT$11bn cash dividend payable on August 23.

Weighted shares outstanding as of the end of June 30 increased to 4,624m, from 4,616m at the end of March. The increase in weighted outstanding shares is resulting from convertible bond conversions.

<u>Ratio Analysis</u>

Current ratio fell to 101% due to a jump in current liability arising from cash dividend payable.

Net debt to equity came in within our target range of 50-60% in 2Q04.

V. TransAsia Telecom

Table 11. P&L

NT$bn	2Q04	1Q04	2Q03	QoQ	YoY
Revenue	2.81	2.83	2.85	-1%	-1%
EBITDA	1.04	1.15	0.56	-10%	87%
PBT-recurring	0.80	0.91	0.30	-13%	168%
Reported PBT	0.85	1.25	0.30	-32%	185%
Tax (Credit)	0.09	0.11	-0.01	-18%	NM
Net Income	0.76	1.15	0.31	-34%	146%

TAT recorded flattish revenue in 2Q04, on declining subscriber base. Nevertheless, subscriber quality saw more meaningful improvement in 2Q with APRU and MOU per sub up 8% QoQ and 10% QoQ, respectively.

EBITDA margin slipped to 37% in 2Q from 41% in 1Q, attributable largely to rising retention expenses.

Table 12. Operational Result

	2Q04	1Q04	2Q03	QoQ	YoY
MOU (m)	559	554	567	1%	-1%
Ending Subscriber (m)	1.84	2.00	2.25	-8%	-18%
Avg. Subscriber (m)	1.92	2.10	2.15	-9%	-10%
Blended ARPU (NT$)	473	438	434	8%	9%
ARPM (NT$)	4.88	4.98	4.93	-2%	-1%
MOU per sub	97	88	88	10%	10%

Net income in 2Q though grew 146% YoY, dropped 34% QoQ, on smaller stock disposal gains (NT$50m in 2Q vs. NT$340m in 1Q).

Table 13. Balance Sheet

NT$bn	1H04	1H03
Total Assets	**10.99**	**14.32**
Current Assets	4.73	2.88
Fixed Assets	6.01	7.00
Shareholders' Equity	**6.17**	**7.63**

As of the end of 1H04, TAT remains as a debt-free company. Separately, it reduced its paid-in capital by NT$3bn (or shares outstanding by 300m) in June.

Table 14. Consolidated P& L-TCC & TAT only

NT$bn	2Q04	1Q04	2Q03	QoQ	YoY
Revenue	13.20	13.31	13.43	-1%	-2%
EBITDA	6.37	6.43	5.29	-1%	20%
EBITDA margin	48.26%	48.31%	39.36%		

In 2Q04, TCC and TAT consolidated EBITDA rose 20% YoY with EBITDA margin of 48.26%.

VI. Management Remark

Simplified Investment Structure

To increase our control over operating affiliates and simplify our investment structure, TCC has increased the stake in TT&T from 65% to 96.7%, Elitec from 65% to 98%, and Taiwan Infotainment from 60% to 68%. Separately, TCC controls these operating affiliates through 100%-owned Taihsing Den Den and will liquidate other investment holding companies namely, Tai Fu Investment, Tai Hung Investment, T. I. Invesement, and Tai Hsuo Investment. Charts below compare the old and new investment structure.

Table 15. Old investment holding structure

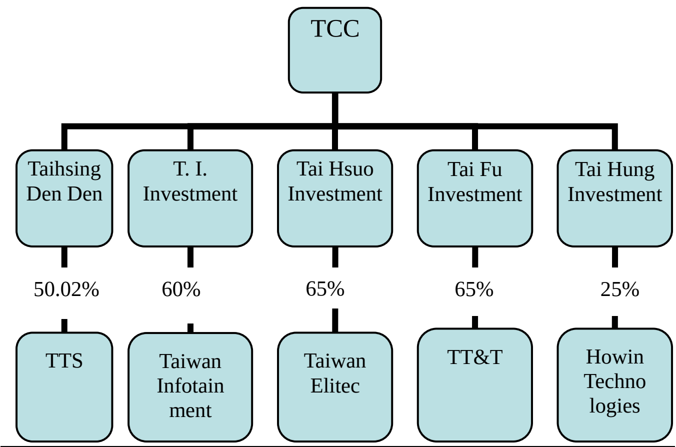
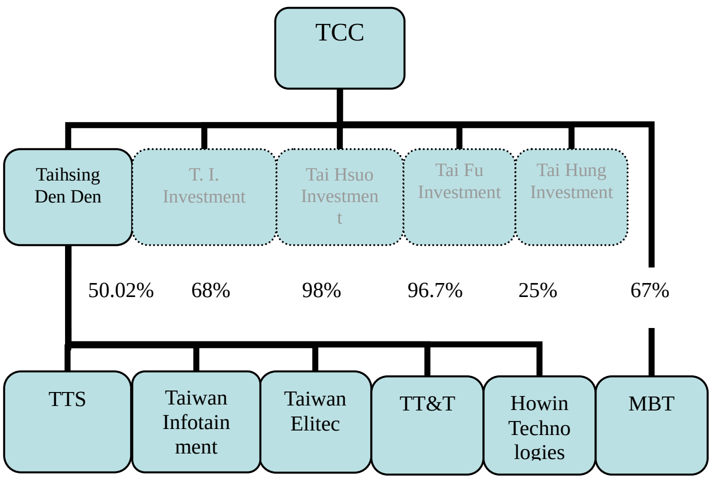


Table 16. New investment holding structure



Mobitai Acquisition Progress

After signing the memorandum on June 11, TCC has submitted the acquisition application with DGT (Directorate General of Telecommunication) and Fair Trade Commission. We have completed second due diligence and have not found any major discrepancy from our previous understanding. We expect the phase I deal to be closed as expected at the end of September.

1H Financial Reports with Qualified Opinion

Deloitte & Touche audits our 1H financial statements with qualified opinion as NT$2.6m net investment loss is generated from un-audited affiliates. The NT$2.6m net investment loss is negligible, compared to total investment income of NT$1.53bn in 1H04.

Products & Services

TCC continues to launch innovative services. In June, the company introduced two new competitive rate plans-401 (inclusive of 200/22 minutes on-net/off-net calls) & 801 (inclusive of 800/89 minutes on-net/off-net calls). The new rate plans coupled with new commission structure has led to a better customer pyramid. Acquisition & retention in the mid-tier rate plan segment showed a significant rise in 2Q04, at the expense low-tier rate plan segment. In light of the boom of personalized music ring back tone service, TCC recently launched similar service Joy Sound (amusing sound effect), which saw 94% MoM increase in total subscriber number in June.

3G Status

3G commercial launch schedule will be pushed back to beginning of 2005, due partially to one quarter delay in infrastructure roll-out and waiting for better market demand and readiness of 3G handsets. Total 3G cell sites at the end of this year are likely to fall short of our previous target by 200-300 BTS. The delay in 3G commercial launch is likely to reduce 2H cash cost by around NT$112m and total cost by NT$394m.