

October 28, 2005

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NT\$bn	TWM+TAT+MBT <sup>1</sup>					TWM consolidated <sup>2</sup>
	1-3Q05	YoY	3Q05	QoQ	YoY	1-3Q05
<b>Revenue</b>	<b>44.73</b>	<b>3%</b>	<b>15.47</b>	<b>4%</b>	<b>4%</b>	<b>45.13</b>
<b>Telecom Service Revenue</b>	<b>44.60</b>	<b>3%</b>	<b>15.45</b>	<b>4%</b>	<b>5%</b>	<b>44.58</b>
<b>EBITDA</b>	<b>21.17</b>	<b>5%</b>	<b>7.15</b>	<b>0%</b>	<b>5%</b>	<b>21.39</b>
<b>Operating Income</b>	<b>15.52</b>	<b>5%</b>	<b>5.22</b>	<b>0%</b>	<b>5%</b>	<b>15.64</b>
<b>Non-op. Income (Expense)</b>	<b>(0.61)</b>	<b>NM</b>	<b>(0.18)</b>	<b>41%</b>	<b>NM</b>	<b>(0.69)</b>
<b>Pre-tax Income</b>	<b>14.91</b>	<b>-11%</b>	<b>5.04</b>	<b>-1%</b>	<b>-24%</b>	<b>14.95</b>
<b>Net Income</b>	<b>12.69</b>	<b>-9%</b>	<b>4.46</b>	<b>4%</b>	<b>-21%</b>	<b>12.69</b>
<b>EPS (NT\$)</b>	<b>2.60</b>	<b>-13%</b>	<b>0.91</b>	<b>3%</b>	<b>-25%</b>	<b>2.60</b>
EBITDA margin	47.33%		46.24%			47.38%
Operating margin	34.69%		33.74%			34.65%

1. Unaudited pro forma for TWM, TAT, and MBT only
2. Audited consolidated for TWM and another 13 affiliates.

**Highlights of 1-3Q05 Results**

For 1-3Q05, TWM together with TAT and MBT reported 44.60bn in telecom service revenue, up 3% YoY, and 21.17bn in EBITDA, up 5% YoY. In 3Q05, TWM and MBT have continued the operating growth momentum we began to experience since the beginning of this year, with above industry YoY telecom service revenue growth rates of around 7% and 11%, respectively.

**3G Updates**

Taiwan Mobile officially launched its 3G pricing policy in September. The voice tariff plans are essentially the same as the 2G rate plans, which offer customers the widest selection and the lowest entry barrier as well as the ability to seamlessly migrate to 3G. As for data pricing, TWM is offering 4 different add-on packages at significant discounts compared to 2.5GPRS pricing. Currently, TWM has around 50,000 3G subscribers and is well on track to meet our year-end target of 100,000 3G subscribers.

Based on preliminary data on 3G usage behavior, TWM's 3G customers have higher volume in both voice and data usage, with 3G ARPU much higher than that of 2G ARPU and 3G data usage more than 10 times higher than 2.5GPRS data usage.

**MNP Updates**

MNP was officially launched in Taiwan on October 13. Based on data from 10/13 - 10/26 from DGT, average monthly churn rate for the industry will increase by 0.29% in the worst case scenario where 100% of applications were successful. The impact of MNP on Taiwan Mobile is within our expectation.

**Management Remark**

TWM expects to sustain its revenue growth momentum in the coming quarters due to continued growth in MOU. Exceptional performance at our core business will also enable TWM to maintain net income at around the same level as last year despite the lack of over NT\$1.3bn gains from the disposal of CHT shares in 2004 and an additional NT\$0.4bn in asset write-off this year.

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## I. Revenue Analysis

*Pro forma TWM+TAT+MBT only<sup>1</sup>*

**Table 1. Key Operational Data**

	3Q05	2Q05	3Q04	QoQ	YoY
<b>Revenue (NT\$bn)</b>	<b>15.47</b>	<b>14.93</b>	<b>14.91</b>	4%	4%
-Voice Revenue	14.54	14.01	14.03	4%	4%
-VAS Revenue	0.91	0.87	0.74	4%	23%
-Others	0.03	0.04	0.14	-41%	-82%
-Data Rev as % to Total	5.9%	5.8%	5.0%		
<b>End Subscribers (K)</b>	<b>6,140</b>	<b>6,364</b>	<b>7,474</b>	-4%	-18%
-Postpaid	5,690	5,856	6,297	-3%	-10%
-Prepaid	450	509	1,178	-12%	-62%
<b>Monthly Churn</b>	<b>3.2%</b>	<b>2.9%</b>	<b>4.8%</b>		
<b>MOU (bn)</b>	<b>3.97</b>	<b>3.89</b>	<b>3.82</b>	2%	4%
<b>ARPM (NT\$)</b>	<b>3.90</b>	<b>3.83</b>	<b>3.87</b>	2%	1%

**Table 2. Per Sub Spending & Usage**

	3Q05	2Q05	3Q04	QoQ	YoY
<b>ARPU (NT\$)<sup>2</sup></b>	<b>826</b>	<b>764</b>	<b>628</b>	8%	32%
-Postpaid	848	797	722	6%	17%
-Prepaid	536	419	172	28%	211%
<b>MOU (minute)</b>	<b>212</b>	<b>200</b>	<b>162</b>	6%	31%

<sup>1</sup> Please note that all of the pro forma 2Q figures have been updates based on audited results

<sup>2</sup> Blended ARPU is based solely on telecom service revenue

### Revenue Analysis

3Q is a seasonally strong quarter with revenue of NT\$15.47bn, up 4% both year on year and from the previous quarter. TWM and MBT have continued the operating growth momentum we began to experience since the beginning of this year, with telecom service revenue YoY growth rates of 7% and 11% respectively in 3Q. The above industry revenue growth is fueled by both strong MOU growth from increased usage as well as ARPM growth due to the increases in VAS revenue and removal of free air-time discounts.

Data revenue grew by 23% YoY driven by strong growth in mobile internet business in 3Q05.

On the postpaid side, subscriber base declined by 3% sequentially as TAT is near the completion of its subscriber cleanup. However, subscriber additions at TWM and MBT outperformed our forecast and reached new high this quarter.

The decline in prepaid subscriber base has slowed down and we expect the total number of prepaid subscriber to stabilize near current level. Prepaid revenue has continued its modest growth trend due to increases in MOU and improvements in ARPM.

Monthly churn rate has declined from 4.8% a year ago to 3.2% this quarter. However, taking aside TAT's cleanup of idle customers and the impact of new regulation on prepaid, a more meaningful count of churn rate is at less than 2%.

Blended ARPU per sub trended up sequentially to NT\$826 in 3Q from NT\$764 in 2Q due to rising MOU and ARPM. On a combined basis, TWM's 3Q blended ARPU has experienced the highest year on year growth and has exceeded CHT's ARPU. On a stand-alone basis, TWM's 3Q blended ARPU and prepaid ARPU were the highest among its peers. (ARPU is based on TWM internally calculated figures using telecom service revenue divided by average subscriber number).

## II. Cost and Expense Analysis

*Pro forma TWM+TAT+MBT only*

**Table 3. Total Cost & Expense**

NT\$bn	3Q05	2Q05	3Q04	QoQ	YoY
<b>Revenue</b>	<b>15.47</b>	<b>14.93</b>	<b>14.91</b>	<b>4%</b>	<b>4%</b>
Operating Cost	6.24	6.04	6.23	3%	0%
Operating Exp.	4.02	3.65	3.72	10%	8%
<b>Total cost &amp; expense</b>	<b>10.25</b>	<b>9.69</b>	<b>9.95</b>	<b>6%</b>	<b>3%</b>
Operating income	5.22	5.23	4.96	0%	5%
Operating margin	33.7%	35.1%	33.3%		
<b>EBITDA</b>	<b>7.15</b>	<b>7.16</b>	<b>6.81</b>	<b>0%</b>	<b>5%</b>
EBITDA margin	46.2%	48.0%	45.7%		

**Table 4. Operating Cost Breakdown**

NT\$bn	3Q05	2Q05	3Q04	QoQ	YoY
<b>Operating Cost</b>	<b>6.24</b>	<b>6.04</b>	<b>6.23</b>	<b>3%</b>	<b>0%</b>
Cost of Goods Sold	0.04	0.05	0.18	-22%	-79%
Telecom Service Cost	6.20	6.00	6.05	3%	2%
- Depreciation	1.45	1.46	1.56	0%	-7%
- Amortization-3G	0.19	0.19	0.00	NM	NM
- Interconnection	2.70	2.43	2.55	11%	6%
- BTS & leased line rental	0.91	0.88	0.89	3%	3%
- Spectrum fee/license concession/USO	0.48	0.50	0.52	-4%	-7%

**Table 5. Operating Expense Breakdown**

NT\$bn	3Q05	2Q05	3Q04	QoQ	YoY
<b>Total Op. Exp.</b>	<b>4.02</b>	<b>3.65</b>	<b>3.72</b>	<b>10%</b>	<b>8%</b>
Selling Exp.	2.84	2.49	2.59	14%	10%
- SAC + SRC	1.93	1.62	1.62	19%	19%
- Direct Store & Customer Service Exp	0.52	0.50	0.46	4%	13%
G&A Exp.	1.18	1.15	1.13	2%	4%

**Table 6. Non-operating Item**

NT\$bn	3Q05	2Q05	3Q04	QoQ	YoY
<b>Non-Operating Items</b>	<b>(0.18)</b>	<b>(0.13)</b>	<b>1.68</b>	<b>41%</b>	<b>NM</b>
-Net interest expense	(0.11)	(0.13)	(0.26)	-11%	-56%
-Net investment income (loss)	0.90	(0.08)	1.14	NM	-21%
-Asset disposal /exchange/write-off gain (loss)	(1.04)	(0.16)	0.00	544%	NM
-CB buy-back (loss)	(0.00)	(0.01)	(0.07)	-91%	-99%
-Other non-ops.	0.08	0.25	0.87	-68%	-91%

### Cost/Expense Analysis

3Q EBITDA margin for Taiwan Mobile, TAT, and MBT combined came in slightly below our expectation at 46.2%. The margin contraction is largely attributable to higher selling expenses associated with better than expected volume of subscriber acquisition and higher retention volume in preparation for mobile number portability.

Cash network costs moved roughly in tandem with revenue increase in 3Q05.

TWM began to depreciate its 3G equipment in September but overall depreciation expense still decreased slightly due to lower depreciation expenses at MBT and the combination of asset disposal/write-off at TWM.

Interconnection fee increased by 6% year on year due to increases in total MOU and rising off-net outgoing minutes.

3Q operating expense increased by around 10% from 2Q mostly due to stronger new subscriber additions which led to increased subscriber acquisition expense and higher retention costs in preparation for mobile number portability.

The increased in direct store expense resulted from the opening of additional stores.

### Non-Operating Item Analysis

Non-operating expense remained fairly stable as NT\$940m of Chunghwa Telecom cash dividend was offset by NT\$981m of asset write in IN equipment. Year on year, other non-operating items declined due to the lack of gains from the disposal of CHT shares.

### III. Income Statement Analysis

*Consolidated basis*

**Table 7. Income Statement**

NT\$bn	1-3Q05	3Q05	2Q05
<b>Revenue</b>	<b>45.13</b>	<b>15.64</b>	<b>15.04</b>
Telecom Service Revenue	44.58	15.44	14.84
Other Revenue	0.55	0.12	0.23
<b>Operating Cost</b>	<b>19.31</b>	<b>6.59</b>	<b>6.47</b>
Telecom Service Cost	19.17	6.57	6.42
Cost of Good Sold	0.14	0.02	0.05
<b>Operating Expenses</b>	<b>10.19</b>	<b>3.80</b>	<b>3.29</b>
Operating Income	15.64	5.24	5.28
Non-op. Income (Expense)	(0.69)	(0.20)	(0.16)
Pre-tax Income	14.95	5.05	5.12
(Less Tax)	(1.99)	(0.52)	(0.73)
(Minority Interest)	(0.27)	(0.06)	(0.10)
Net Income - Attributed to the Parent	12.69	4.46	4.29
EPS (NT\$)	2.60	0.91	0.88

The consolidated income statement is similar to the combined figures in Table 1-6 as the key difference is the revenue and expenses from TT&T. After accounting for inter-company transactions, TT&T contributed to around 1% in revenue and operating cost and expenses to the consolidated income statement.

On a consolidated basis, operating cost as % of total revenue is slightly higher due to the inclusion of TT&T, which has high operating costs due to the nature of its labor intensive call center business. However, operating expense as % of total revenue is slightly lower as inter-company revenue and expenses between TT&T and TWM, TAT, and MBT are eliminated.

## IV. Cash Flow Analysis

*Consolidated basis*

**Table 8. Cash Flow**

NT\$bn	1-3Q05	3Q05	2Q05
Net Income	12.96	4.53	4.39
Depreciation	4.72	1.56	1.56
Amortization	1.03	0.41	0.40
Other Op Sources/(Uses)	0.57	0.83	(1.26)
<b>Total Op Sources/(Uses)</b>	<b>19.28</b>	<b>7.32</b>	<b>5.09</b>
<b>Net Investing Sources/(Uses)</b>	<b>6.76</b>	<b>1.10</b>	<b>3.10</b>
<b>Net Financing Sources/(Uses)</b>	<b>(24.34)</b>	<b>(12.18)</b>	<b>(2.69)</b>
<b>Net Cash Position Chg.</b>	<b>1.70</b>	<b>(3.77)</b>	<b>5.51</b>

**Table 9. Capex & FCF**

NT\$bn	1-3Q05	3Q05	2Q05
<b>Total Capex</b>	<b>2.16</b>	<b>0.69</b>	<b>0.64</b>
<b>% of Revenue</b>	<b>5%</b>	<b>4%</b>	<b>4%</b>
<b>Free Cash Flow*</b>	<b>17.12</b>	<b>6.63</b>	<b>4.45</b>

\*Free cash flow: operating cash flow minus capex

### Cash Flow Analysis

Operating cashflow increased sequentially due to 1) cash dividend of NT\$0.94bn and NT\$0.3bn from CHT and TFN, 2) adding back NT\$1.0bn non-cash charge of asset write-off, and 3) changes in working capital.

In 3Q05, cash inflows from investing activities came largely from cash received from TFN for the remaining payment of the NT\$2.0bn fixed asset sales and the equity reduction of Howin Technologies. Major investing cash outflow in 3Q05 is the NT\$0.7bn in capital expenditures.

Cash outflow from financing activity in 3Q05 stemmed largely from TWM's NT\$12.1bn cash dividend payment.

### Capex and Free Cash Flow Analysis

Cash outflow on capital expenditure is NT\$0.7bn. In 1-3Q05, total fixed asset gross adds is NT\$2.7bn (24% for 2G and 76% for 3G). Free cash flow at the end of 3Q05 remained strong as capex accounted for 4% of revenue. Full-year gross adds figure is projected to be around NT\$5bn.

## V. Balance Sheet Analysis

*Consolidated basis*

**Table 10. Balance Sheet**

NT\$bn	3Q05	2Q05
<b>Total Assets</b>	<b>116.03</b>	<b>123.08</b>
Current Assets	26.98	31.54
- Cash & Cash Equivalents	9.52	13.28
- Short-Term Investment	9.34	9.38
- Other Current Assets	8.13	8.88
Long-Term Investment	4.01	4.32
Property and Equipment	65.08	66.62
Intangible Assets	16.41	16.63
-3G License	9.91	10.09
-Goodwill	6.50	6.54
Other Assets	3.55	3.97
<b>Liabilities</b>	<b>32.16</b>	<b>43.98</b>
Current Liabilities	15.41	26.67
- ST Debts	3.36	2.52
- Other Current Liabilities	12.06	24.15
Long-Term Borrowings	15.84	16.88
Other Liabilities	0.91	0.43
<b>Shareholders' Equity</b>	<b>83.87</b>	<b>79.10</b>

**Table 11. Ratios**

	3Q05	2Q05
<b>Current Ratio</b>	175%	118%
<b>Interest Coverage (x)</b>	33.9	32.3
<b>Net Debt to Equity</b>	12%	8%
<b>ROE (annualized)</b>	21%	21%
<b>ROA (annualized)</b>	15%	14%

### Balance Sheet Analysis

Cash and cash equivalents of NT\$9.5bn as of 3Q end consists of NT\$2.3bn from Taiwan Mobile, NT\$1.8bn from TAT, NT\$1.3bn from MBT, and NT\$4.1bn from other affiliates.

Current liabilities decreased due to NT\$12.1bn cash dividend payment in TWM. Long-term borrowings decreased due to reclassification of NT\$1.6bn of CB1 to short-term debt as it will mature in August 2006. On the other hand, NT\$0.8bn of CBII has passed the put option exercise date and has been reclassified as long-term debt.

At the end of 3Q05, face value of convertible bonds outstanding decreased by NT\$95m to NT\$2.3bn.

Employees' total subscription of 17.3m shares reduced the company's total treasury shares to 22.7m shares.

### Ratio Analysis

Current ratio grew to 175% due to current liability decreasing at a faster pace than current asset.

Net debt to equity increased to 12% due to the decrease in cash on hands from the cash dividend payment.

## VI. 3Q Results vs Forecast

**Table 12. TWM Stand-Alone**

NT\$bn	3Q05 Actual	3Q05 Forecast	% of Forecast Achieved
Revenue	12.61	12.40	102%
Gross Profit	7.49	7.37	102%
Operating Expense	3.04	2.96	103%
Operating Income	4.45	4.41	101%
Pre-tax Income	4.88	4.94	99%
Net Income	4.46	4.51	99%
EPS (NT\$)	0.91	0.92	99%
EBITDA	5.82	5.80	100%
EBITDA margin	46.1%	46.7%	

**Table 13. TWM Consolidated**

NT\$bn	3Q05 Actual	3Q05 Forecast	% of Forecast Achieved
Revenue	15.64	15.53	101%
Gross Profit	9.04	8.97	101%
Operating Expense	3.80	3.59	106%
Operating Income	5.24	5.37	98%
Pre-tax Income	5.05	5.13	98%
Net Income	4.46	4.51	99%
EPS (NT\$)	0.91	0.92	99%
EBITDA	7.21	7.35	98%
EBITDA margin	46.1%	47.3%	

Taiwan Mobile 3Q results were mostly in-line with the forecast provided during 2Q conference. The main deviations during this quarter were:

- 1) Above industry growth in MOU and ARPM which led to higher than expected revenue and gross profit.
- 2) Higher selling expenses due to the higher subscriber acquisition and retention costs which led to lower EBITDA margin.
- 3) On a stand-alone basis, EBITDA still reached our forecast due to better than expected revenue. On a consolidated basis, EBITDA came in slightly below for forecast due to lower than expected revenue from TAT.
- 4) Net income came in slightly below our forecast due to lower than expected profit from Howin Technologies and TAT

## VII. 4Q Forecast

**Table 14. TWM Stand-Alone Q4 Forecast**

NT\$bn	4Q05	YoY	2005	YoY
Revenue	12.38	8%	48.28	7%
Gross Profit	7.07	6%	28.52	7%
Operating Expense	3.07	16%	11.51	12%
Operating Income	4.00	-1%	17.01	4%
Pre-tax Income	3.97	7%	18.29	-6%
Net Income	3.58	31%	16.27	-2%
EPS (NT\$)	0.73	33%	3.33	-6%
EBITDA	5.58	6%	22.49	6%
EBITDA margin	45.0%		46.6%	

**Table 15. TWM Consolidated Q4 Forecast**

NT\$bn	4Q05	YoY
Revenue	15.11	4%
Gross Profit	8.32	-2%
Operating Expense	3.77	2%
Operating Income	4.55	-5%
Pre-tax Income	4.07	8%
Net Income	3.58	31%
EPS (NT\$)	0.73	33%
EBITDA	6.72	2%
EBITDA margin	44.4%	

Full year YoY revenue growth momentum will carry into 4Q driven by sustainable MOU growth. On a stand-alone basis, TWM should experience around 8% YoY revenue growth. On a combined basis, TWM, TAT, and MBT should experience around 4% YoY growth. EBITDA margin should contract slightly sequentially due to seasonal pattern and higher expenses associated with MNP and 3G.

On the non-operating front, TWM expects to incur around NT\$0.4bn in asset write-down.

On a full year basis, TWM stand-alone 2005 revenue and EBITDA is forecasted to grow by 7% and 6% compared to last year. Operating income is forecasted to grow by 4% YoY. Due to the excellent performance at our core business, we anticipate that we will be able to maintain net income at around the same level as last year despite the lack of over NT\$1.3bn gains from the disposal of CHT shares in 2004 and an additional NT\$0.4bn in asset write-off this year.



## VIII. Management Discussion & Analysis

### Key Messages

TWM expects to sustain its revenue growth momentum in the coming quarters due to continued growth in MOU. Taiwan Mobile is also proud to announce its achievements in the following areas:

- Highest free cashflow yield
- Highest dividend yield
- Highest revenue and ARPU YoY growth
- Highest stand-alone blended ARPU and prepaid ARPU

### MNP Updates

MNP was officially launched in Taiwan on October 13. Based on data from 10/13 - 10/26 from DGT, average monthly churn rate for the industry will increase by 0.29% in the worst case scenario where 100% of applications were successful. The impact of MNP on Taiwan Mobile is below the industry average and within our expectation.

### Investment Updates

- TWM acquired TECO's remaining 9.43% ownership in Mobitai for NT\$387m in August 2005
- TWM formed a wholly owned subsidiary Taisheng Den Syun and injected NT\$250m cash and NT\$3.6bn worth of Mobitai shares
- TWM began to recognize its investment in TFN under the cost method during 3Q05

### Bridge Mobile Alliance

- TWM has announced internationally GPRS discounts to customers roaming on our alliance partners in Singapore, Australia, and Philippine
- TWM may leverage Bridge collecting purchasing power in the future to obtain better pricing on 3G handsets through joint procurement

### 3G Updates

Taiwan Mobile officially launched its 3G pricing policy in September. The voice tariff plans are essentially the same as the 2G rate plans, which offer customers the widest selection and the lowest entry barrier as well as the ability to seamlessly migrate to 3G. As for data pricing, TWM is offering 4 different add-on packages at significant discounts compared to 2.5GPRS pricing. In October, TWM also launched two exclusive handsets, Sony Ericsson K608i and Samsung Z308.

In response to our competitors' promotions for 3G, TWM has also increased its handset subsidies for 3G. Currently, TWM has around 50,000 3G subscribers and is well on track to meet our year-end target of 100,000 3G subscribers.

Based on preliminary data on 3G usage behavior, TWM's 3G customers have higher volume in both voice and data usage, with ARPU more than double that of 2G customers and data usage more than 10 times higher than 2.5GPRS data usage.

### Treasury Shares Buyback

On September 29, TWM's board approved a budget of NT\$700m for the purchase of up to 20m treasury stocks. The buyback period will be from Sep. 30 until Nov. 29.

### Awards & Recognition

In October 2005, Taiwan Mobile was awarded:

- "2005 Global Views' Excellent Service Award" by "Global Views Monthly" for providing the best customer service among Taiwan's telecom operators
- "2005 Most Admired Company in Taiwan" by "Common Wealth Monthly" and ranked No.1 among Taiwan's telecom services sector

## Appendix: TWM Stand-Alone Results

### Income Statement

NT\$bn	1-3Q05	1-3Q04	3Q05	2Q05	3Q04
<b>Revenue</b>	<b>35.91</b>	<b>33.66</b>	<b>12.61</b>	<b>11.92</b>	<b>11.57</b>
Telecom Service Revenue	35.14	33.33	12.27	11.71	11.42
Other Revenue	0.76	0.33	0.34	0.21	0.16
<b>Operating Cost</b>	<b>14.45</b>	<b>13.79</b>	<b>5.12</b>	<b>4.78</b>	<b>4.78</b>
<b>Operating Expenses</b>	<b>8.44</b>	<b>7.61</b>	<b>3.04</b>	<b>2.80</b>	<b>2.70</b>
Selling Expenses	6.16	5.33	2.26	2.01	1.96
G&A Expenses	2.28	2.28	0.78	0.79	0.74
<b>Operating Income</b>	<b>13.02</b>	<b>12.26</b>	<b>4.45</b>	<b>4.34</b>	<b>4.09</b>
Non-op. Income	1.30	3.44	0.43	0.57	2.19
Pre-tax Income	14.32	15.71	4.88	4.90	6.28
(Less Tax)	(1.62)	(1.77)	(0.42)	(0.61)	(0.63)
<b>Net Income</b>	<b>12.69</b>	<b>13.93</b>	<b>4.46</b>	<b>4.29</b>	<b>5.65</b>
EPS (NT\$)	2.60	3.00	0.91	0.88	1.21

For Taiwan Mobile stand-alone telecom service revenue, low churn rate coupled with healthy MOU and ARPM growth led to above industry telecom service revenue growth of 7% in 3Q05. Taiwan Mobile also achieved a 9% YoY increase in EBITDA as strong revenue growth compensated for slight EBITDA margin contraction.

Year on year, 3Q operating costs increased slightly reflecting the amortization of 3G license, the depreciation of 3G equipment, and the increase in interconnection fee. 3Q operating expenses also increased mostly due to higher subscriber acquisition and retention cost.

Non-operating income increased sequentially due to decrease in interest expense and reduction in the amount of one time loss due to CB buybacks. YoY, non-operating income declined due to the lack of exceptional gains from the disposal of CHT shares and the asset write-off of NT\$1.0bn.

### Cash Flow

NT\$bn	1-3Q05	1-3Q04	3Q05	2Q05
Net Income	12.69	13.93	4.46	4.29
Depreciation	3.40	3.53	1.13	1.13
Amortization	0.49	0.14	0.23	0.22
Other Op Sources/(Uses)	2.85	1.45	1.87	(2.13)
<b>Total Op Sources/(Uses)</b>	<b>19.44</b>	<b>19.06</b>	<b>7.70</b>	<b>3.51</b>
Acquisition/Divestment	1.32	4.95	(0.40)	0.59
Capex	(2.02)	(2.75)	(0.66)	(0.60)
Others	2.69	4.99	1.06	1.57
<b>Net Investing Sources/(Uses)</b>	<b>1.98</b>	<b>7.19</b>	<b>0.01</b>	<b>1.56</b>
Cash Dividend Paid	(12.15)	(11.06)	(12.15)	0.00
Debt Repayment	(9.90)	(9.09)	0.00	(2.40)
CB Buyback	(1.14)	(2.20)	(0.01)	(0.09)
Others	0.97	(2.34)	0.42	0.32
<b>Net Financing Sources/(Uses)</b>	<b>(22.21)</b>	<b>(24.69)</b>	<b>(11.73)</b>	<b>(2.16)</b>
<b>Net Cash Position Changes</b>	<b>(0.78)</b>	<b>1.56</b>	<b>(4.02)</b>	<b>2.90</b>

Cashflow from other operating sources went from cash outflow to cash inflow in 3Q05 mostly due to 1) cash dividend of NT\$0.94bn and NT\$0.3bn from CHT and TFN and 2) TWM had an asset write-off of around NT\$1.0bn.

For 3Q05, cash outflows from investing activities came largely from 1) the purchase of TECO's remaining 9.43% ownership in Mobitai for NT\$387m, 2) the cash injection of NT\$250m into Taishing Den Syun and 3) NT\$660m in capital expenditures. Cash inflows came mainly from cash received from TFN for the remaining payment on the of NT\$2bn fixed assets sale.

Major investing cash outflows in 3Q05 is the NT\$0.66bn in capital expenditures. In 1-3Q05, total fixed asset gross adds is around NT\$2.5bn.

NT\$11.7bn cash outflow from financing activity in 3Q05 was mainly for NT\$12.1bn in cash dividend payment.

**Balance Sheet**

NT\$bn	3Q05	2Q05	3Q04
<b>Total Assets</b>	<b>113.76</b>	<b>119.60</b>	<b>120.09</b>
Current Assets	18.81	23.76	20.53
- Cash & Cash Equivalents	2.31	6.34	3.44
-Short-Term Investment	9.34	9.38	10.10
-Accounts & Other Receivable	6.54	7.38	5.85
- Other Current Assets	0.62	0.67	1.15
Long-Term Investment	23.76	22.87	23.11
Property and Equipment	58.14	59.33	62.51
Intangible Assets	9.91	10.09	10.28
Other Assets	3.15	3.54	3.66
-Non-Operating Assets	2.02	2.41	2.28
-Others	1.13	1.13	1.39
<b>Liabilities</b>	<b>30.68</b>	<b>41.51</b>	<b>43.95</b>
Current Liabilities	14.40	24.45	11.51
- Accounts & Notes Payable	1.35	1.26	1.42
- Current portion of LT Liabilities	3.36	2.40	4.44
- Other Current Liabilities	9.70	20.78	5.65
Bonds Payable	15.84	16.88	19.93
Long-Term Bank Loan	0.00	0.00	12.40
Other Liabilities	0.44	0.19	0.10
<b>Shareholders' Equity</b>	<b>83.08</b>	<b>78.08</b>	<b>76.15</b>
Capital Stock	49.49	49.45	48.50
Capital Surplus	7.84	7.78	6.09
Retained Earnings	26.40	21.98	23.70
Treasury Stock	(0.64)	(1.13)	(2.17)
Other Adjustments	(0.00)	(0.00)	0.03

At the end of 3Q05, face value of convertible bonds outstanding decreased by NT\$95m to NT\$2.3bn, consisting of around NT\$1.6bn of CBI and NT\$0.8bn of CBII. If all of the outstanding CBs are converted today, they would cause around 2% dilution.

As CB I maturity date is August 25, 2006, we have reclassified CBI from long-term debt to short-term debt. On the other hand, CBII has passed the put option exercise date and has been reclassified as long-term debt.

Current liability dropped significant in 3Q05 after we paid cash dividend of NT\$12.1bn in August

Employees' total subscription of 17.3m shares reduced the company's total treasury shares to 22.7m shares.