



## Taiwan Semiconductor Reports 20% Increase in Sequential EPS

Hsin-Chu, Taiwan, R.O.C., Oct. 26, 2004 -- Taiwan Semiconductor Manufacturing Company, Ltd. today announced revenue and net income for the quarter ended September 30, 2004. Third quarter revenue reached NT\$69.74 billion while net income and fully diluted earnings per share came to NT\$27.93 billion and NT\$1.20 per share (US\$0.18 per ADS unit), respectively.

On a sequential basis, third quarter results represent a 7.5% increase in revenue, a 19.3% increase in net income and a 19.5% increase in fully diluted EPS. Year-over-year comparison shows the increases in revenue, net income, and fully diluted EPS to be 27%, 84%, and 85%, respectively. All figures were prepared in accordance with R.O.C. GAAP on an unconsolidated basis.

The 7.5% increase in third quarter revenue mainly resulted from a 4.0% increase in wafer shipments and a 1.4% increase in wafer average selling price (ASP), further helped by a 1.8% weaker local currency to US dollar exchange rate. Gross margin for the third quarter rose to 46.1%, another significant increase sequentially from the previous quarter's 43.4%, due to higher levels of wafer output, continuing improvement on 12-inch wafer yield, and a better product mix. Revenues from advanced process technologies (0.13-micron and below) reached 30 percent of total wafer sales. Net margin for the quarter rose to 40.1% from 36.1% in the previous quarter.

"Building upon five consecutive quarters of strong financial performance, TSMC has delivered another set of record-breaking financial results for both the top-line and the bottom-line," said Lora Ho, VP and Chief Financial Officer of TSMC. "However, there has been some near-term softening in customer demand," noted Ho, "and based on the current business outlook, management's expectations for fourth quarter 2004 performance are the following":

- Wafer shipments to decrease by a single digit percentage point sequentially;
- Overall utilization rate to be at mid-80s percentage level;
- Gross profit margin to be in the range of 42% to 44%;
- ASP to remain at about the same level sequentially.

**Conference Call & Webcast Notice:**

TSMC's quarterly review conference call will be held at 8 a.m. Eastern Time (8 p.m. Taiwan Time) on Tuesday, October 26, 2004. The conference call will also be webcast live on the Internet. Investors wishing to access the live webcast should visit TSMC's web site at <http://www.tsmc.com> at least 15 minutes prior to the broadcast. Instructions will be provided on the web site to facilitate the download and installation of necessary audio applications. Investors without Internet access may listen to the conference call, in listen only mode, by dialing 1-303-262-2190 in the U.S. and 852-3009-3050 in other locations (Password: TSMC). An archived version of the webcast will be available on TSMC's web site for six months following the Company's quarterly review conference call and webcast.

## **Profile**

TSMC (TAIEX: 2330, NYSE: TSM) is the world's largest dedicated semiconductor foundry, providing the industry's leading manufacturing capacity, process technology, library and IP options, and other leading-edge foundry services. TSMC currently operates two twelve-inch wafer fabs, five eight-inch wafer fabs and one six-inch fab. The Company also has substantial capacity commitments at two wholly owned subsidiaries, WaferTech in the U.S. and TSMC (Shanghai) Company, Ltd. in China, and at a joint-venture fab, SSMC, in Singapore. TSMC's first 300mm wafer fab (Fab 12), the first of its kind in Taiwan, commenced commercial production in January 2002. TSMC's corporate headquarters are in Hsin-Chu, Taiwan. More information about TSMC is available through the World Wide Web at <http://www.tsmc.com>.

### **(Management Report and Tables Follow)**

#### CONTACT IN TAIWAN

**Elizabeth Sun / Julie Chan / Eric Chiang / Mark Go**

Investor Relations Division

TSMC

[invest@tsmc.com](mailto:invest@tsmc.com)

886-3-568- 2085/ 2080/ 2087/ 2088

#### **Safe Harbor Notice:**

The statements included in this press release that are not historical in nature are "forward-looking statements" within the meaning of the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995. TSMC cautions readers that forward-looking statements are subject to significant risks and uncertainties and are based on TSMC's current expectations. Actual results may differ materially from those contained in such forward-looking statements for a variety of reasons including, among others, risks associated with cyclical and market conditions in the semiconductor industry; demand and supply for TSMC's foundry manufacturing capacity in particular and for foundry manufacturing capacity in general; intense competition; the failure of one or more significant customers to continue to place the same level of orders with us; TSMC's ability to remain a technological leader in the semiconductor industry; TSMC's ability to manage its capacity; TSMC's ability to obtain, preserve and defend its intellectual property rights; natural disasters and other unexpected events which may disrupt production; and exchange rate fluctuations. Additional information as to these and other risk factors that may cause TSMC's actual results to differ materially from TSMC's forward-looking statements may be found in TSMC's Annual Report on Form 20-F, filed with the United States Securities and Exchange Commission (the "SEC") on May 28, 2004 and such other documents as TSMC may file with, or submit to, the SEC from time to time. Except as required by law, we undertake no obligation to update any forward-looking statement, whether as a result of new information, future events, or otherwise.

**3Q04**Quarterly Management Report  
October 26, 2004**CONTACT IN TAIWAN**

Elizabeth Sun / Julie Chan /

Eric Chiang / Mark Go

Investor Relations Division

TSMC

invest@tsmc.com

886-3-568-2085/ 2080/ 2087/2088

**Topics in This Report**

- Revenue Analysis
- Utilization & Capacity
- Profit & Expense Analysis
- Financial Condition Review
- Cash Flow & CapEx
- Recap of Recent Important Events & Announcements

**Operating Results Review:****Summary:**

<i>(Amount in NT\$ billion except noted otherwise)</i>	<u>3Q04</u>	<u>2Q04</u>	<u>3Q03</u>	<u>QoQ</u>	<u>YoY</u>
EPS (NT\$ per com. shr.)	1.20	1.00	0.65	19.5%	84.6%
(US\$ per ADR unit)	0.18	0.15	0.09		
Net Sales	69.74	64.87	54.88	7.5%	27.1%
Gross Profit	32.14	28.14	21.45	14.2%	49.9%
Operating Expense	(6.02)	(6.01)	(4.96)	0.2%	21.4%
Non-Operating Items	2.01	0.99	0.22	103.5%	808.7%
Net Income	27.93	23.41	15.17	19.3%	84.1%
Wafers Shipped (kpcs 8 inch-equiv.)	1,333	1,282	992	4.0%	34.4%
Capacity Utilization	103%	106%	98%	-2.2%	5.6%
Net Profit Margin	40.1%	36.1%	27.6%		

**Remarks:**

The third quarter EPS of NT\$1.20 represents a 19.5% increase compared with 2Q04. The unconsolidated operating results of 3Q04 are summarized below:

Net sales increased 7.5% to NT\$69.7 billion compared with NT\$64.9 billion in the second quarter due mainly to a 4.0% increase in wafer shipments and a 1.4% increase in wafer average selling price (ASP), further helped by a 1.8% weaker local currency to US dollar exchange rate.

Gross profit improved to NT\$32.1 billion, representing a 14.2% increase from the previous quarter. Gross margin increased to 46.1% from 43.4% in 2Q04 driven by higher levels of wafer output, continuing improvement on 12-inch wafer yield, and a better product mix.

Operating expenses remained relatively flat at NT\$6.0 billion.

Combined non-operating income and long-term investments' gains more than doubled to NT\$2.0 billion over the previous quarter. This quarter's significant gain was due mainly to higher returns earned from short-term money market investments, a gain from foreign currency translation, higher royalty income received, and an improved operating performance by TSMC subsidiary/affiliates.

Income before tax rose 21.7% sequentially to NT\$28.1 billion. The Company's provision for tax expenses of NT\$2.9 billion was partially offset by an investment tax credit of NT\$2.7 billion. TSMC's 3Q04 net income increased 19.3% to NT\$27.9 billion while net margin improved to 40.1% from the previous quarter's 36.1%.

## I. Revenue Analysis

### I - 1. Wafer Sales Analysis

By Application	3Q04	2Q04	3Q03
Computer	31%	27%	36%
Communication	42%	45%	36%
Consumer	20%	22%	21%
Industrial/Others	5%	5%	5%
Memory	2%	1%	2%

By Technology	3Q04	2Q04	3Q03
0.13um-	30%	25%	19%
0.15/0.18um	38%	42%	47%
0.25um	14%	15%	19%
0.35um+	10%	10%	8%
0.50um+	8%	8%	7%

By Customer Type	3Q04	2Q04	3Q03
Fabless	69%	68%	73%
IDM	31%	31%	26%
System	0%	1%	1%

By Geography	3Q04	2Q04	3Q03
North America	75%	73%	76%
Asia Pacific	11%	12%	11%
Europe	7%	7%	5%
Japan	7%	8%	8%

### Revenue Analysis:

Net sales increased 7.5% to NT\$69.7 billion compared with NT\$64.9 billion in the second quarter. The growth in net sales was attributable to a 4.0% increase in wafer shipments and a 1.4% increase in wafer average selling price (ASP), further helped by a 1.8% weaker local currency to US dollar exchange rate.

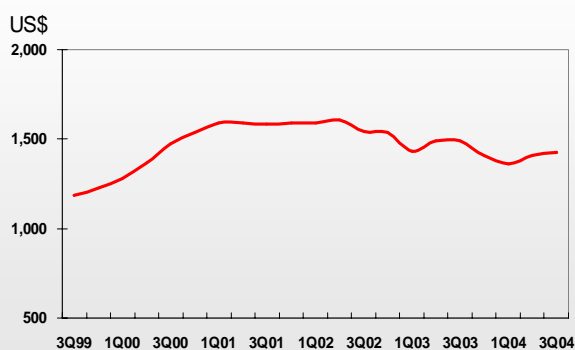
Computer applications represent this quarter's principle revenue driver, while revenues from communication applications remained at the same level. After strong growth in the second quarter, revenues from consumer applications declined slightly.

Demand from advanced technologies - defined as 0.13-micron and below - strengthened in 3Q04. Revenue contribution from advanced technology wafers improved to 30% of total wafer sales, compared to 25% in the previous quarter.

Fabless and IDM wafer sales weightings during the quarter remained similar to the previous quarter.

Geographically, the weightings for North America increased by two percentage points, while Asian and Japan markets declined by one percentage point. Meanwhile, Europe's sales weightings remained unchanged.

### I - 2 ASP Trend

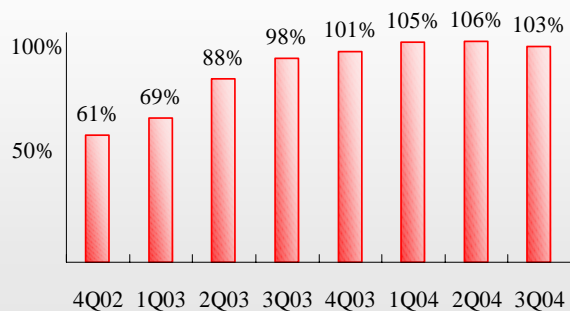


### ASP Trend:

During the third quarter, the average selling price in U.S. dollars increased 1.4% compared to last quarter's 3.2% increase. This quarter's ASP increase was attributable to a better product mix.

## II. Utilization & Capacity

### II - 1. Utilization Rate



### Utilization Rate:

Overall capacity utilization levels declined slightly from 106% in the second quarter to 103% in the third quarter.

### II - 2. Capacity

Fab / (Wafer size)	1Q04 (Act.)	2Q04 (Act.)	3Q04 (Act.)	4Q04 (Est.)	2004 (Est.)
Fab-2 (6") <sup>1</sup>	217	228	237	248	930
Fab-3 (8")	208	221	246	247	922
Fab-5 (8")	106	116	123	124	470
Fab-6 (8")	187	196	214	217	813
Fab-7 (8")	51	35	40	40	165
Fab-8 (8")	182	202	216	224	823
Fab-12 (12") <sup>2</sup>	43	52	69	80	244
Fab-14 (12") <sup>2</sup>				6	6
<b>TSMC - owned capacity 8"-equivalent Kpcs</b>	<b>953</b>	<b>1,014</b>	<b>1,128</b>	<b>1,184</b>	<b>4,279</b>
Wafer Tech (8")	88	92	97	97	373
SSMC (8")	29	33	34	39	136
TSMC (Shanghai) (8")				1	1
<b>Total TSMC - managed 8"-equivalent Kpcs</b>	<b>1,070</b>	<b>1,138</b>	<b>1,259</b>	<b>1,320</b>	<b>4,788</b>

Note: 1. Figures represent number of 6" wafers. Conversion to 8"-equivalent wafers is by dividing this number by 1.78

2. Figures represent number of 12" wafers. Conversion to 8"-equivalent wafers is by multiplying this number by 2.25

### Capacity:

Total TSMC managed capacity in 3Q04 was 1,259 kpcs/quarter in terms of 8-inch equivalent wafers, representing 10.6% sequential capacity growth, where 12-inch wafer capacity increased by 32.7% sequentially.

Overall installed capacity for year 2004 is to remain at about 4.8 million 8-inch equivalent wafers.

### III. Profit & Expense Analysis

#### III - 1. Gross Profit Analysis

(Amount: NT\$ billion)	<u>3Q04</u>	<u>2Q04</u>	<u>3Q03</u>
<b>COGS</b>	<b>37.6</b>	<b>36.7</b>	<b>33.4</b>
Depreciation	13.7	14.0	14.0
Other MFG Cost	23.9	22.8	19.4
<b>Gross Profit</b>	<b>32.1</b>	<b>28.1</b>	<b>21.4</b>
<b>Gross Margin</b>			
- TSMC	46.1%	43.4%	39.1%
- TSMC w/o affiliates	51.9%	49.1%	43.0%

#### III - 2. Operating Expense Analysis

(Amount: NT\$ billion)	<u>3Q04</u>	<u>2Q04</u>	<u>3Q03</u>
<b>Total Operating Exp.</b>	<b>6.02</b>	<b>6.01</b>	<b>4.96</b>
SG&A	2.90	3.04	1.89
Research & Development	3.12	2.96	3.07

#### III - 3. Non-Operating Items

(Amount: NT\$ million)	<u>3Q04</u>	<u>2Q04</u>	<u>3Q03</u>
<b>Non-Operating Income/(Exp.)</b>	<b>630</b>	<b>(264)</b>	<b>(140)</b>
Net Interest Income/(Exp.)	228	30	(168)
Other Non-Operating	402	(294)	27
<b>L-T Investments</b>	<b>1,378</b>	<b>1,251</b>	<b>361</b>
WaferTech*	1,643	1,433	289
SSMC	268	288	73
Vanguard	326	257	124
TSMC (Shanghai)	(237)	(102)	n/a
Miscellaneous	(622)	(626)	(125)

\* Operation results only; does not include amortization of impaired assets.

#### Gross Profit Analysis:

Gross profit improved to NT\$32.1 billion, representing a 14.2% increase from the previous quarter. Gross margin increased to 46.1% from 43.4% in 2Q04 mainly due to higher levels of wafer output, continuing improvement on 12-inch wafer yield, and a better product mix.

During the quarter, the gross margin from TSMC's own fab manufacturing activities grew significantly to 51.9%.

#### Operating Expenses:

Operating expenses remained relatively flat at NT\$6.0 billion. R&D expenditures were sequentially higher due mainly to further development efforts related to 65-nm process technology. The ratio between R&D expenses to total net sales remained at about 5%. Overall, operating expenses represented 8.6% of net sales, which was lower than last quarter's 9.3%.

#### Non-Operating Items:

Combined non-operating income and net gains from long-term investments more than doubled to NT\$2.0 billion over the previous quarter.

During the quarter, non-operating income amounted to NT\$630 million, compared to last quarter's expense of NT\$264 million. This quarter's significant gain was due mainly to higher returns earned from short-term money market investments, a gain from foreign currency translation, and a higher royalty income received.

A NT\$127 million sequential increase in long-term investments' gains resulted from the general improvement of business operations at WaferTech and Vanguard, offset partially by higher expenses incurred at TSMC (Shanghai).

#### IV. Financial Condition Review

##### IV - 1. Liquidity Analysis

(Amount: NT\$ billion)	<u>3Q04</u>	<u>2Q04</u>	<u>3Q03</u>
Cash & S-T Investments	124.4	123.3	94.4
Accounts Receivable - Trade	33.4	30.8	25.0
Inventory	12.6	11.7	11.8
Total Current Assets	177.7	173.8	135.2
Accounts Payable and Others	33.3	25.6	18.9
Accrued Liabilities	11.0	23.4	8.3
Total Current Liabilities	44.2	49.0	27.2
Current Ratio (x)	4.0	3.5	5.0
Net Working Capital	133.4	124.8	108.0

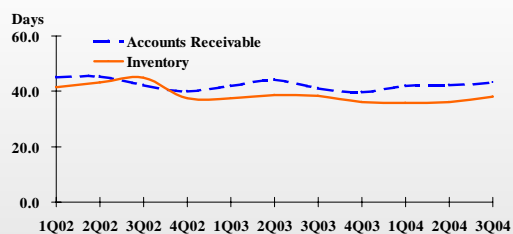
##### *Liquidity Analysis:*

Total current assets were NT\$3.9 billion higher on a sequential basis mainly because of higher accounts receivable.

Meanwhile, total current liabilities decreased significantly as a result of the pay down of cash dividends, partially offset by increased equipment purchases.

As a result, the Company's current ratio improved to 4.0x and net working capital amounted to NT\$133.4 billion, an increase of NT\$8.7 billion over the previous quarter.

##### IV -2. Receivable/Inventory Days Trend



##### *Receivable/Inventory Days Trend:*

Turnover of receivables increased slightly from 42 days in the last quarter to 43 days.

Inventory turnover also increased marginally to 38 days as compared to 36 days in the previous quarter.

##### IV - 3. Debt Service

(Amount: NT\$ billion)	<u>3Q04</u>	<u>2Q04</u>	<u>3Q03</u>
Cash & S-T Investments	124.4	123.3	94.4
Interest-Bearing Debt	35.0	35.0	35.0
Net Cash Reserves	89.4	88.3	59.4

##### *Debt Service:*

Net cash reserves, defined as the excess of cash and short term investments over interest-bearing debt, increased by NT\$1.1 billion to NT\$89.4 billion in 3Q04, reflecting slightly higher cash and short-term investment levels.

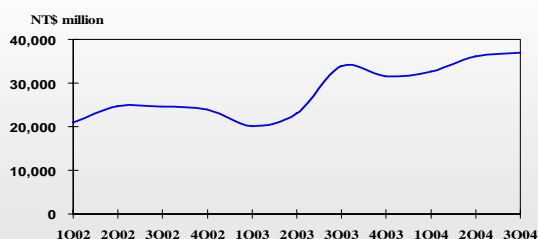
Interest-bearing debt remained unchanged at NT\$35 billion.

## V. Cash Flow & CapEx

### V - 1. Cash Flow Analysis

(Amount: NT\$ billion)	<u>3Q04</u>	<u>2Q04</u>	<u>3Q03</u>
Net Income	27.9	23.4	15.2
Depreciation & Amortization	15.4	16.0	15.5
Other Op Sources/(Uses)	(5.1)	(3.3)	3.2
<b>Total Op Sources/(Uses)</b>	<b><u>38.2</u></b>	<b><u>36.1</u></b>	<b><u>33.9</u></b>
Capital Expenditure	(16.5)	(22.8)	(8.2)
Short Term Investment	(4.9)	(24.8)	(8.6)
Long Term Investment	(7.3)	(5.8)	(0.0)
Other Investing Sources/(Uses)	(0.4)	(0.1)	(0.5)
<b>Net Investing Sources/(Uses)</b>	<b><u>(29.1)</u></b>	<b><u>(53.5)</u></b>	<b><u>(17.4)</u></b>
Treasury Stock	0.0	(6.6)	0.0
Cash dividends paid to common stocks	(12.2)	0.0	0.0
Bonus paid to Employees	(0.7)	0.0	0.0
Paid to directors and supervisors	0.0	(0.1)	0.0
Cash dividends paid to preferred stocks	0.0	(0.2)	0.0
Other Financing Sources/(Uses)	(0.1)	(0.1)	(0.4)
<b>Net Financing Sources/(Uses)</b>	<b><u>(12.9)</u></b>	<b><u>(7.0)</u></b>	<b><u>(0.4)</u></b>
<b>Net Cash Position Changes</b>	<b>(3.9)</b>	<b>(24.4)</b>	<b>16.2</b>

### V - 2. Operating Cash Flow Trend



### V-3. Capital Expenditure

- TSMC's actual 3Q04 capital expenditure: US\$490 million.
- During the quarter, capital spending for TSMC (Shanghai) and WaferTech was US\$8 million and US\$26 million, respectively.
- Estimated 2004 capital expenditure to be about US\$2.4 billion.

### Summary of Cash Flow:

During the quarter, TSMC generated NT\$38.2 billion operating cash inflow mainly from net income of NT\$27.9 billion and depreciation & amortization of NT\$15.4 billion. This was partly offset by increases in net working capital.

Net cash used in investing activities totaled NT\$29.1 billion including (i) capital spending of NT\$16.5 billion (ii) a continued accumulation of NT\$4.9 billion in short-term investments, primarily in various money market instruments (iii) long-term investments of NT\$2.8 billion in government and corporate bonds and NT\$4.4 billion capital injection to TSMC (Shanghai).

A net financing charge of NT\$12.9 billion was largely attributable to the Company's NT\$12.2 billion cash dividends and NT\$0.7 billion employee bonus.

As a result, TSMC ended the quarter with a cash balance of NT\$78.3 billion.

### Operating Cash Flow Trend:

Operating cash flow of NT\$38.2 billion was 5.7% higher than the previous quarter due mainly to higher net income.

### Capital Spending:

TSMC's capital expenditures during the quarter totaled US\$490 million. Most of the spending was for 12-inch capacity ramp-up in Fab 12 and Fab 14.

During the quarter, capital spending for TSMC (Shanghai) was US\$8 million, while WaferTech amounted to US\$26 million. Year-to-date, total capital expenditures for TSMC have amounted to approximately US\$1.7 billion.

Management reiterates 2004 capex to be about US\$2.4 billion.



## VI. Recap of Recent Important Events & Announcements

- **TSMC was Awarded the 2004 National Invention and Creation Award and the Gold Medal Contribution Award by the Ministry of Economic Affairs Intellectual Property Bureau (2004/10/13)**
- **TSMC and Freescale to Jointly Develop Silicon-on-Insulator (SOI) Technology focusing on 65-nm process technology (2004/10/12)**
- **TSMC Consistently Selected by *Common Wealth Magazine* as ‘The Most Admired Company’ for Eight Consecutive Years (1997-2004) (2004/10/01)**
- **TSMC Ships One Million 0.13-Micron Eight Inch Equivalent Wafers (2004/09/20)**
- **TSMC Distinguished by the KNOW Network as ‘Asia’s Most Admired Knowledge Enterprise’ in 2004 (2004/09/01)**
- **TSMC Filed a Complaint with the US ITC Alleging that SMIC Misappropriated Trade Secrets and Infringed on Patents (2004/08/18)**

Please visit TSMC's Web site (<http://www.tsmc.com>) for details about these and other announcements.