



## **TSMC Reports 18% Sequential Increase in Third Quarter Revenue with EPS of NT\$0.99**

Hsin-Chu, Taiwan, R.O.C., October 27, 2005 -- TSMC today announced revenue and net income for the quarter ended September 30, 2005. Third quarter revenue reached NT\$69.26 billion while net income and fully diluted earnings per share came to NT\$24.49 billion and NT\$0.99 per share (US\$0.15 per ADS unit), respectively.

On a sequential basis, third quarter results represent an 18.4% increase in revenue, and a 33.3% increase in both net income and fully diluted EPS. Year-over-year comparison shows decreases in revenue, net income, and fully diluted EPS to be 0.7%, 12.3%, and 12.2%, respectively. All figures were prepared in accordance with R.O.C. GAAP on an unconsolidated basis.

The 18.4% increase in third quarter revenue mainly resulted from a 19.8% increase in wafer shipments. Gross margin for the third quarter jumped 4.4 percentage points to 44.1%, due to higher levels of capacity utilization and more favorable exchange rates. Advanced process technologies (0.13-micron and below) accounted for 43% of wafer revenues, same as in the previous quarter. Meanwhile, revenues from 90-nanometer process technology reached 10% of the total wafer sales. Overall utilization was 96%. Operating margin improved from 30.4% in second quarter to 36% in third quarter, and net margin improved to 35.4% from 31.4% in the last quarter.

“Due primarily to continual demand recovery from our customers, our third quarter business had improved better than we guided previously,” said Lora Ho, VP and Chief Financial Officer of TSMC. “We expect a healthy growth for the coming quarter,” noted Ho, “and based on the current business outlook, management’s expectations for fourth quarter 2005 performance are the following”:

- Revenues to be between NT\$77 billion and NT\$79 billion;
- Overall utilization rate to be about 100%;
- Gross profit margin to reach between 47% and 49%;
- Operating profit margin to be approximately 40%.

### ***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 Thursday, October 27, 2005. 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 **1-617-213-8065** in the U.S., **852-3002-1672** in Hong Kong, **65-6823-2164** in Singapore, and **44-207-365-8426** in the U.K. (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)

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#### ***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 16, 2005, TSMC's registration statement on Form F-3, filed with the SEC on July 5, 2005, 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.

**3Q05**Quarterly Management Report  
October 27, 2005**CONTACT**

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**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>3Q05</u>	<u>2Q05</u>	<u>3Q04</u>	<u>QoQ</u>	<u>YoY</u>
EPS (NT\$ per com. shr.)	0.99	0.74	1.13	33.3%	(12.2%)
(US\$ per ADR unit)	0.15	0.12	0.17		
Net Sales	69.26	58.52	69.74	18.4%	(0.7%)
Gross Profit	30.53	23.21	32.14	31.5%	(5.0%)
Operating Expense	(5.60)	(5.42)	(6.02)	3.2%	(7.0%)
Non-Operating Items	(0.51)	(0.05)	2.01	899.3%	
Net Income	24.49	18.37	27.93	33.3%	(12.3%)
Wafers Shipped (kpcs 8 inch-equiv.)	1,527	1,275	1,333	19.8%	14.5%
Capacity Utilization	96%	85%	103%		
Net Profit Margin	35.4%	31.4%	40.1%		

**Remarks:**

The third quarter EPS of NT\$0.99 represents a 33.3% increase compared with 2Q05. The unconsolidated operating results of 3Q05 are summarized below:

Net sales increased 18.4% to NT\$69.26 billion compared with NT\$58.52 billion in the second quarter of 2005. The increase mainly resulted from a 19.8% increase in wafer shipments, a 2.6% appreciation of the US dollar against the local currency, and a 4.9% decline of the wafer average selling price (ASP).

Gross profit increased to NT\$30.53 billion, representing a 31.5% increase from the previous quarter. Gross margin jumped to 44.1% from 39.7% in 2Q05 mainly due to higher levels of capacity utilization and more favorable exchange rates, but a lower ASP partially reduced the magnitude of the improvement.

Operating expenses were NT\$5.60 billion, representing 8.1% of revenue. The combined result from non-operating income and long-term investments was a loss of NT\$510 million.

Income before tax increased 37.7% sequentially to NT\$24.42 billion. The provision for tax expenses of NT\$2.80 billion was completely offset by an investment tax credit of NT\$2.87 billion. TSMC's 3Q05 net income was NT\$24.49 billion with a net margin of 35.4%.

**I. Revenue Analysis**

<b>I - 1. Wafer Sales Analysis</b>			
By Application	3Q05	2Q05	3Q04
Computer	30%	38%	31%
Communication	41%	37%	42%
Consumer	23%	18%	20%
Industrial/Others	5%	6%	5%
Memory	1%	1%	2%
By Technology	3Q05	2Q05	3Q04
90nm-	10%	2%	0%
0.11/0.13um	33%	41%	30%
0.15/0.18um	35%	34%	38%
0.25/0.35um	16%	17%	24%
0.50um+	6%	6%	8%
By Customer Type	3Q05	2Q05	3Q04
Fabless/System	71%	74%	69%
IDM	29%	26%	31%
By Geography	3Q05	2Q05	3Q04
North America	75%	77%	75%
Asia Pacific	11%	9%	11%
Europe	9%	8%	7%
Japan	5%	6%	7%

**Revenue Analysis:**

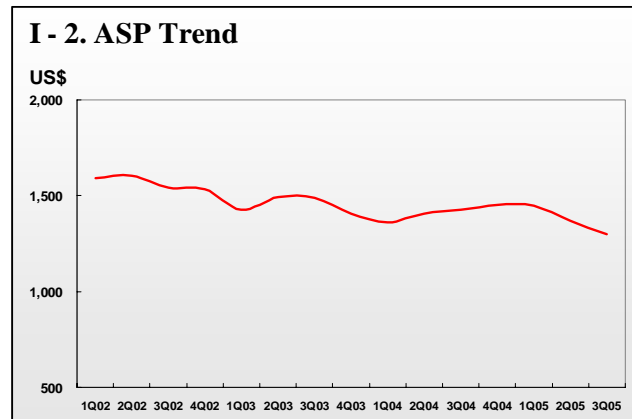
Net sales increased 18.4% to NT\$69.26 billion compared to NT\$58.52 billion in the second quarter 2005. The increase in third quarter revenue mainly resulted from a 19.8% increase of wafer shipments, a 2.6% appreciation of the US dollar against the local currency, and a 4.9% decline of the wafer average selling price (ASP).

Revenues from communication and consumer applications increased in this quarter mainly due to stronger seasonal demand and introduction of new products. Due to weaknesses in demand experienced in the PC Graphics sector, revenues from computer applications declined.

Revenue from advanced technologies - defined as 0.13-micron and below – accounted for 43% of total wafer sales. Meanwhile, percentage of revenue from 90nm increased to 10% from 2% previously.

IDM accounted for 29% of wafer sales during the quarter, up from 26% in the previous quarter.

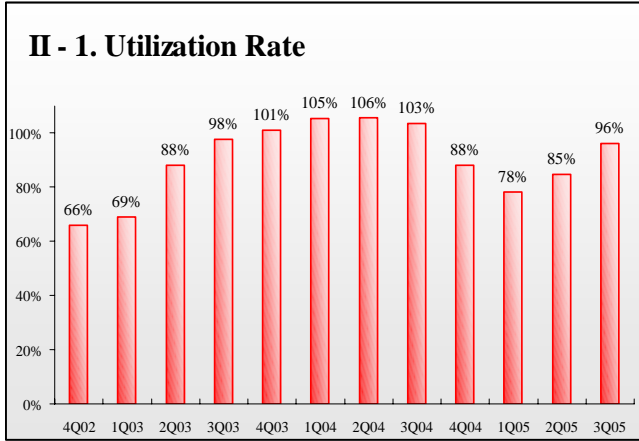
Geographically, North America accounted for 75% of wafer sales, down from 77% in 2Q05. Meanwhile, sales from Asia Pacific increased to 11% of wafer sales from 9% previously.



**ASP Trend:**

We have some product mix factors that positively contributed to the blended average price, but the general price declines had led to a 4.9% sequential decline in ASP.

## II. Utilization & Capacity



### Utilization Rate:

Overall capacity utilization improved by 11 percentage points to 96% in this quarter, reflecting stronger demand from customers across the board.

### II - 2. Capacity

Fab / (Wafer size)	1Q05 (Act.)	2Q05 (Act.)	3Q05 (Act.)	4Q05 (Fest.)	2005 (Fest.)
Fab-2 (6") <sup>1</sup>	238	249	251	251	989
Fab-3 (8")	234	245	247	247	973
Fab-5 (8")	119	125	126	126	496
Fab-6 (8")	203	214	217	217	850
Fab-7 (8")	36	39	40	40	155
Fab-8 (8")	222	217	227	227	893
Fab-12 (12") <sup>2</sup>	85	103	122	139	448
Fab-14 (12") <sup>2</sup>	18	36	46	56	156
<b>TSMC - owned capacity 8"-equivalent Kpcs</b>	<b>1,180</b>	<b>1,292</b>	<b>1,374</b>	<b>1,437</b>	<b>5,282</b>
Wafer Tech (8")	95	96	100	100	389
SSMC (8")	41	42	47	49	179
TSMC (Shanghai) (8")	9	22	30	44	105
<b>Total TSMC - managed 8"-equivalent Kpcs</b>	<b>1,324</b>	<b>1,451</b>	<b>1,550</b>	<b>1,629</b>	<b>5,955</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 3Q05 was 1,550K 8-inch equivalent wafers, 6.8% higher than the 1,451K wafers in 2Q05.

TSMC managed capacity in 4Q05 will increase to 1,629K wafers, representing a 5.1% sequential growth. The newly added capacity in 4Q05 will be mainly for the continuing ramp up of advanced capacities in Fab 12 and Fab 14.

Overall installed capacity for year 2005 is expected to reach 5.96 million 8-inch equivalent wafers, a 24% year-over-year growth.

### III. Profit & Expense Analysis

#### III - 1. Gross Profit Analysis

(Amount: NT\$ billion)	<u>3Q05</u>	<u>2Q05</u>	<u>3Q04</u>
<b>COGS</b>	<b>38.7</b>	<b>35.3</b>	<b>37.6</b>
Depreciation	15.5	16.0	13.7
Other MFG Cost	23.2	19.3	23.9
<b>Gross Profit</b>	<b>30.5</b>	<b>23.2</b>	<b>32.1</b>
<b>Gross Margin</b>			
- TSMC	44.1%	39.7%	46.1%
- TSMC w/o affiliates	47.6%	42.9%	51.9%

#### *Gross Profit Analysis:*

Gross profit was NT\$30.5 billion and gross margin improved to 44.1% from 39.7% in 2Q05. The improvement in gross profit was mainly due to higher levels of capacity utilization and a stronger US dollar against the local currency, partially offset by an unfavorable ASP movement.

During the quarter, the gross margin from TSMC's own fabs increased to 47.6% from 42.9% in 2Q05.

#### III - 2. Operating Expense Analysis

(Amount: NT\$ billion)	<u>3Q05</u>	<u>2Q05</u>	<u>3Q04</u>
<b>Total Operating Exp.</b>	<b>5.6</b>	<b>5.4</b>	<b>6.0</b>
SG&A	2.3	2.1	2.9
Research & Development	3.3	3.3	3.1

#### *Operating Expenses:*

Operating expenses were NT\$5.6 billion in this quarter, representing 8.1% of net sales.

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

(Amount: NT\$ million)	<u>3Q05</u>	<u>2Q05</u>	<u>3Q04</u>
<b>Non-Operating Income/(Exp.)</b>	<b>(19)</b>	<b>537</b>	<b>630</b>
Net Interest Income/(Exp.)	(41)	42	228
Other Non-Operating	22	495	402
<b>L-T Investments</b>	<b>(491)</b>	<b>(588)</b>	<b>1,378</b>
WaferTech*	487	352	1,643
SSMC	210	140	268
Vanguard	61	87	326
TSMC (Shanghai)	(760)	(789)	(237)
Miscellaneous	(489)	(378)	(622)

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

#### *Non-Operating Items:*

Combined result from non-operating income and long-term investments was a loss of NT\$510 million.

During this quarter, the non-operating expenses were NT\$19 million, compared to last quarter's income of NT\$537 million. This difference was mainly due to unrealized revaluation losses in certain marketable securities.

Loss from long-term investments was NT\$491 million in this quarter, compared to a loss of NT\$588 million in 2Q05. The differences were mainly attributable to better performance in WaferTech and SSMC.

## IV. Financial Condition Review

### IV - 1. Liquidity Analysis

(Amount: NT\$ billion)	<u>3Q05</u>	<u>2Q05</u>	<u>3Q04</u>
Cash & S-T Investments	107.3	128.0	116.5
Accounts Receivable - Trade	37.2	30.1	33.3
Inventory	15.1	14.1	12.6
<b>Total Current Assets</b>	<b>165.1</b>	<b>181.8</b>	<b>169.8</b>
Accounts Payable	20.9	17.8	28.3
Accrued Liabilities and others	22.0	68.9	16.0
<b>Total Current Liabilities</b>	<b>42.9</b>	<b>86.7</b>	<b>44.3</b>
Current Ratio (x)	3.8	2.1	3.8
Net Working Capital	122.2	95.1	125.5

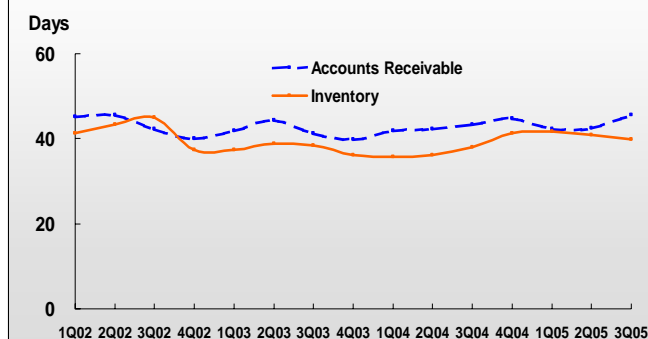
### *Liquidity Analysis:*

Cash & short-term investments declined NT\$20.7 billion in this quarter mainly due to payments of cash dividends and employee profit sharing. Meanwhile, accounts receivable and inventory increased. As a result, total current assets were NT\$16.7 billion lower on a sequential basis.

Total current liabilities were NT\$43.8 billion lower sequentially, mainly due to the payment of NT\$46.5 billion for cash dividends and NT\$3.1 billion for employee profit sharing.

As a result, net working capital increased to NT\$122.2 billion and current ratio increased to 3.8x.

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



### *Receivable/Inventory Days Trend:*

Days of Receivable increased to 46 days in 3Q05 compared to 43 days in the previous quarter.

Days of Inventory decreased to 40 days from 41 days in the second quarter 2005.

### IV - 3. Debt Service

(Amount: NT\$ billion)	<u>3Q05</u>	<u>2Q05</u>	<u>3Q04</u>
Cash & S-T Investments	107.3	128.0	116.5
Interest-Bearing Debt	30.0	30.0	35.0
Net Cash Reserves	77.3	98.0	81.5

### *Debt Service:*

Due to lower levels of cash & short-term investments, net cash reserves - defined as the excess of cash and short-term investments over interest-bearing debt - decreased by NT\$20.7 billion to NT\$77.3 billion in 3Q05.

Interest-bearing debt remained at the same level of NT\$30.0 billion as in the previous quarter.

## V. Cash Flow & CapEx

<b>V - 1. Cash Flow Analysis</b>			
(Amount: NT\$ billion)	<u>3Q05</u>	<u>2Q05</u>	<u>3Q04</u>
Net Income	24.5	18.4	27.9
Depreciation & Amortization	17.1	17.7	15.4
Other Op Sources/(Uses)	(3.7)	(8.4)	(5.1)
<b>Total Op Sources/(Uses)</b>	<b><u>37.9</u></b>	<b><u>27.7</u></b>	<b><u>38.2</u></b>
Capital Expenditure	(9.1)	(13.0)	(16.5)
Short Term Investment	0.6	2.2	(4.9)
Long Term Investment	(0.7)	(0.6)	(11.9)
Other Investing Sources/(Uses)	(0.2)	1.1	(0.3)
<b>Net Investing Sources/(Uses)</b>	<b><u>(9.4)</u></b>	<b><u>(10.3)</u></b>	<b><u>(33.6)</u></b>
Cash dividends - Common stock	(46.5)	0.0	(12.2)
Employees Bonus	(3.1)	0.0	(0.7)
Other Financing Sources/(Uses)	0.9	1.0	(0.1)
<b>Net Financing Sources/(Uses)</b>	<b><u>(48.7)</u></b>	<b><u>1.0</u></b>	<b><u>(12.9)</u></b>
<b>Net Cash Position Changes</b>	<b>(20.1)</b>	<b>18.4</b>	<b>(8.3)</b>
<b>Ending Cash Balance</b>	<b>58.5</b>	<b>78.6</b>	<b>70.4</b>

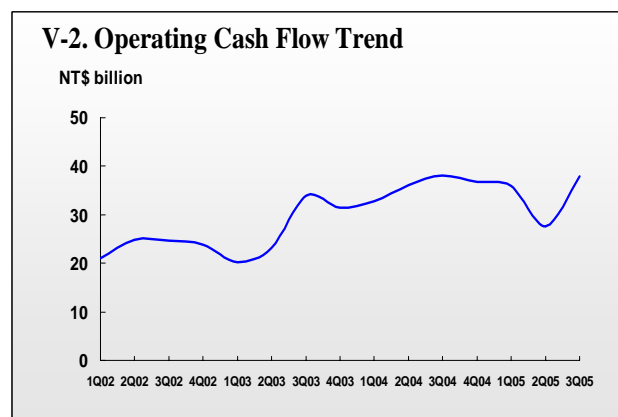
### *Summary of Cash Flow:*

During this quarter, TSMC generated NT\$37.9 billion operating cash inflow, mainly from net income of NT\$24.5 billion and depreciation & amortization of NT\$17.1 billion, partially offset by changes in working capital.

Net cash used in investment activities totaled NT\$9.4 billion, mainly resulting from NT\$9.1 billion of capital spending.

A net financing charge of NT\$48.7 billion during this quarter was largely attributable to the payments of NT\$46.5 billion for cash dividends and NT\$3.1 billion for employee profit sharing.

As a result, TSMC ended the quarter with a cash balance of NT\$58.5 billion, NT\$20.1 billion lower than in 2Q05.



### *Operating Cash Flow Trend:*

Operating cash flow of NT\$37.9 billion was higher than the NT\$27.7 billion generated in the previous quarter, mainly due to the increase of net income.

<b>V - 3. Capital Expenditure</b>	
TSMC	US\$ 275 m
TSMC (Shanghai)	US\$ 44 m
WaferTech	US\$ 0 m
<b>TSMC &amp; Affiliates</b>	<b>US\$ 319 m</b>

### *Capital Spending:*

Capital expenditures for TSMC alone during the quarter totaled US\$275 million. Most of the spending was for purchasing 12-inch production equipment. Capital spending for TSMC (Shanghai) in this quarter was US\$44 million.

For year 2005, total capital expenditure for TSMC and affiliates is expected to be in the range of US\$2.5 billion to US\$2.7 billion, as guided.



## VI. Recap of Recent Important Events & Announcements

- TSMC ranks #11 of BusinessWeek's "Top 150 Leading Asian Companies" ( 2005/10/24 )
- TSMC joins IMEC's sub-45nm CMOS R&D project ( 2005/10/18 )
- TSMC is voted the "Most Admired Company" by CommonWealth Magazine ( 2005/10/13 )
- TSMC produces industry's first 1.3 megapixel CMOS image sensor for Agilent Technologies with Enhanced-Performance Pixel Architecture ( 2005/10/10 )
- TSMC September 2005 sales set record high ( 2005/10/07 )
- TSMC launches foundry industry's first 65nm prototype run ( 2005/10/05 )
- TSMC announces production-ready 90nm X Architecture ( 2005/10/04 )
- TSMC enters volume production of 90nm graphics chips for ATI ( 2005/09/26 )
- TSMC R&D team receives first Outstanding Nano-Tech Award from Ministry of Economic Affairs of Republic of China ( 2005/09/21 )
- TSMC recognizes its suppliers at 2005 SCM Forum ( 2005/09/15 )
- TSMC completes secondary offering of 151.655 million ADSs at US\$8.60 per share ( 2005/08/05 )

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

\* Starting from 1Q05, TSMC will post quarterly consolidated financial statements, in addition to the unconsolidated financial statements, on our web site.