Taiwan Semiconductor Reports 29% Increase in Sequential EPS Driven by 10% Higher Revenue

Hsin-Chu, Taiwan, R.O.C., October 28, 2003 -- Taiwan Semiconductor Manufacturing Company, Ltd. today announced revenues of NT$54.877 billion, net income of NT$15.169 billion and fully diluted earnings per share of NT$0.75 (US$0.11 per ADS unit) for the third quarter ended September 30, 2003.

On a sequential basis, third quarter results represent a 9.9% increase in revenue, a 29.3% increase in net income and a 29.5% increase in fully diluted EPS. All figures were prepared in accordance with R.O.C. GAAP on an unconsolidated basis.

The increase in third quarter revenue resulted from a 12% increase in wafer shipments, a flat wafer average selling price (ASP), and a weaker U.S. dollar exchange rate. Gross Margin for the quarter improved significantly to 39.1% from 36.8% in the previous quarter due to higher utilization levels. Non-operating and Investment items also demonstrated improvement. Net Margin for the quarter improved to 27.6% from 23.5%.

Lora Ho, vice president and chief financial officer, said the Company's key financial indicators – cash flow, liquidity, and debt coverage – remained healthy.

"Third quarter results of NT$54.9 billion in revenue marks a new record high for TSMC," said Ho. "For three consecutive fiscal quarters TSMC has gained solid improvements in its operating results. The third quarter marks TSMC's highest net income since first quarter of 2001. We expect the performance of the coming quarter to be in line with that of the third quarter."

Ho also confirmed that key industry drivers such as outsourcing, capital efficiency requirements, and the increased complexity of advanced integrated circuits continue to strongly favor the foundry segment in general and TSMC in particular.

Ho said that, based upon the current business outlook, management's expectations for the fourth quarter performance are:

- Wafer shipments to grow by a mid to high single digit percentage point on a sequential basis;
- ASP to decline slightly;
- Revenues from advanced technologies to remain at about two–thirds of total wafer sale;
- Overall utilization rate will be about 95 percent;
- Demand to improve in the communications segment, but seasonally decline in the computer and consumer segments.

Ho said management also expects 2003 capital expenditure to approach US$1.2 billion.

Conference Call & Webcast Notice:

TSMC's quarterly review conference call will be held at 8 A.M. Eastern Time (9 P.M. Taiwan Time) on Thursday, October 28, 2003. The conference call will also be webcasted 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 downloading and installation of necessary audio applications. Investors without Internet access may listen to the conference call, listening mode only, by dialing 1-303-262-2142 in the U.S. and 852-3009-3050 in other locations (Password: TSMC). An archived version of the webcast will be available on the TSMC 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 one twelve-inch wafer fab, five eight-inch wafer fabs and one six-inch fab. The Company also has substantial capacity commitments at a wholly owned U.S. subsidiary (WaferTech) and a joint-venture fab (SSMC). TSMC's 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.

Safe Harbor Notice:

CONTACT IN TAIWAN
Julie Chan / Eric Chiang / Elizabeth Sun
Investor Relations Division
TSMC
invest@tsmc.com
886-3-568- 2080/ 2087/ 2085

Corporate Headquarters:
Taiwan Semiconductor Manufacturing Company, Ltd.
Fab 12
No. 8, Lin Hsin Road 6,
Hsinchu Science Park,
Hsin-Chu 300,
Taiwan, R. O. C.
Tel: 886/3/563-6688
http://www.tsmc.com

(Management Report and Tables Follow)

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CONTACT IN TAIWAN
Julie Chan / Eric Chiang / Elizabeth Sun
Investor Relations Division
TSMC
invest@tsmc.com
886-3-568-2080/ 2087/ 2085

Topics in This Report

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

3Q03 Quarterly Management Report
October 28, 2003

Operating Results Review:

Summary:

(Amount in NT$ Bn except for EPS)	3Q03	2Q03	3Q02	QoQ	YoY
EPS (NT$ per com. shr.)	0.75	0.58	0.15	29%	395%
(US$ per ADR unit)	0.11	0.08	0.02		
Net Sales	54.88	49.92	39.84	10%	38%
Gross Profit	21.45	18.35	12.84	17%	67%
Operating Expense	(4.96)	(5.01)	(4.47)	-1%	11%
Non-op Exp. & Investment	0.22	(0.77)	(2.34)	-147%	-73%
Net Income	15.17	11.73	3.16	29%	380%
Wafers Shipped (kpcs 8"-equiv.)	992	887	677	12%	47%
Capacity Utilization	98%	88%	84%		

Remarks:

EPS of NT$0.75 for 3Q03 presents a 29% increase compared with 2Q03. The operating results of 3Q03 are summarized below:

Net sales grew 10% sequentially to NT$54.9 billion; resulting largely from higher wafer sales, as wafer shipments grew 12%, and wafer ASP remained flat.

Gross profit rose 17% sequentially to NT$21.4 billion largely as a result of higher utilization, and gross margin improved to 39.1% from 36.8% in 2Q03.

Operating expenses of NT$5.0 billion decreased 1% sequentially. Slightly lower selling and administrative overhead was the main reason behind the decrease. Research and development expenditures remained virtually flat at NT$3.1 billion.

Net gain from non-operating items and investments amounted to NT$220 million. This represents a NT$988 million improvement on a sequential basis, mainly reflecting improved operating performance by TSMC subsidiary/affiliates, a reduction in net interest expenses, capital gains from the disposal of equities from venture capital investments, as well as the absence of any significant write-off of obsolete fixed assets as we did in 2Q03.

Income before tax rose 33% sequentially to NT$16.7 billion. After NT$1.5 billion tax expense, TSMC's 3Q03 net income increased 29% to NT$15.2 billion while net margin improved to 27.6%.

I. Revenue Analysis

I - 1. Wafer Sales Analysis

By Application	3Q03	2Q03	3Q02
Computer	36%	43%	36%
Communication	36%	34%	34%
Consumer	21%	16%	22%
Industrial/Others	5%	5%	5%
Memory	2%	2%	3%

By Technology	3Q03	2Q03	3Q02
0.13um-	19%	17%	5%
0.15um	20%	21%	20%
0.18um	27%	24%	23%
0.25um	19%	20%	27%
0.35um	8%	9%	13%
0.50um+	7%	9%	12%

By Customer Type	3Q03	2Q03	3Q02
Fabless	73%	73%	64%
IDM	26%	26%	35%
System	1%	1%	1%

By Geography	3Q03	2Q03	3Q02
North America	76%	77%	76%
Asia Pacific	11%	12%	13%
Europe	5%	4%	5%
Japan	8%	7%	6%

Revenue Analysis:

Net sales of NT$54.9 billion was 10% higher than the NT$49.9 billion recorded in 2Q03. The growth in TSMC wafer sales was attributable to 12% higher wafer shipments, a flat average selling price in U.S. dollar terms, and was offset partially by a stronger NT dollars.

Consumer and Communication applications were the principal revenue drivers in the quarter. The decrease in demand for Computer applications resulted from customers' digestion of inventory.

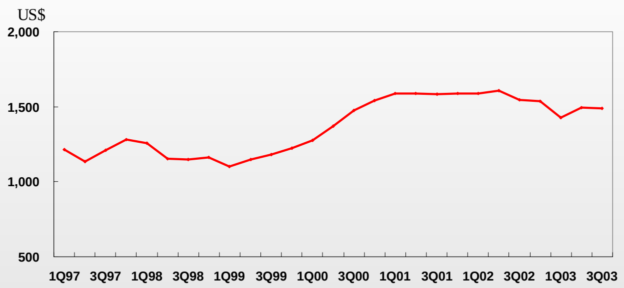
Revenue from advanced technology wafers amounted to 66% of the Company's total wafer sales. Revenue from the 0.13um technology process increased to 19% of TSMC's wafer sales this quarter, up from 17% in 2Q03.

Revenue from the Fabless and IDM segment remained unchanged from that in 2Q03, 73% and 26% respectively.

In terms of geography, the revenue mix was little changed from the previous quarter.

Revenue contributed by TSMC subsidiary/affiliates amounted to 11% (NT$5.763 billion) of net sales during the quarter versus 12% (NT$5.973 billion) in 2Q03.

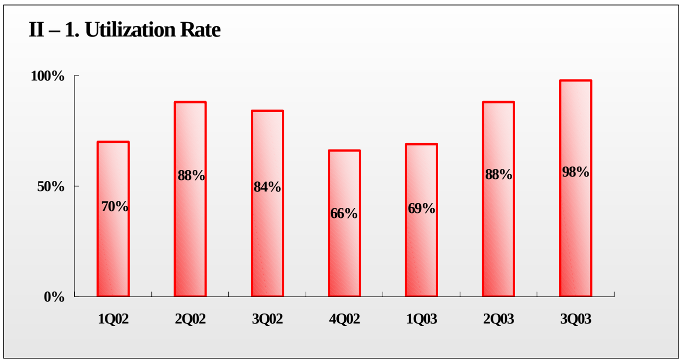
I-2. ASP Trend



ASP Trend

Average selling price in U.S. dollars was virtually flat compared to that of the previous quarter. The improvement in the product mix to the leading edge technologies was offset by the pricing pressure experienced at individual technology nodes.

II. Utilization & Capacity



Utilization Rate:

Overall capacity utilization improved to 98% in the latest quarter from 88% in the second quarter. This increase reflected the sequential business improvement experienced in the third quarter.

II - 2. Capacity

FAB / (Wafer size)	3Q03(act.)	4Q03(est.)	2003(est.)
Fab-2 (6")*	223	227	872
Fab-3 (8")	203	213	810
Fab-5 (8")	111	112	436
Fab-6 (8")	172	183	679
Fab-7 (8")	44	35	201
Fab-8 (8")	178	189	698
Fab-12 (12")*	28	40	108
TSMC-owned 8"-equivalent Kpcs	**896**	**949**	**3,556**
Wafer Tech (8")	89	89	353
VIS** (8")	n.a.	n.a.	n.a.
SSMC (8")	27	29	105
Total TSMC-Managed 8"-equivalent Kpcs	**1,012**	**1,067**	**4,014**

* 6"-wafer is converted into 8"-equivalent wafer by divided by 1.78; 12"-wafer by multiplying 2.25

Capacity:

Total TSMC managed capacity in 3Q03 was 1,012k in terms of 8-inch equivalent wafers, representing a 2% sequential capacity growth.

Total TSMC managed capacity is expected to grow by more than 5% to 1,067k pcs in terms of 8-inch equivalent wafers in 4Q03. The increase in capacity is mainly for advanced technologies.

III. Profit & Expense Aanlysis

III - 1. Gross Profit Analysis

(Amount: NT$ Bn)	3Q03	2Q03	3Q02	QoQ	YoY
COGS	**33.4**	**31.6**	**27.0**	6%	24%
Depreciation	14.0	14.0	13.3	0%	8%
Other MFG Cost	19.4	17.6	13.7	10%	19%
Gross Profit	**21.4**	**18.4**	**12.8**	17%	**12%**
Gross Margin					
- TSMC	39%	37%	32%		
- TSMC w/o affiliates	43%	41%	35%		

Gross Profit Analysis:

Gross profit increased NT$3.1 billion to NT$21.4 billion. Gross margin improved to 39% from 37% in 2Q03. The increase in gross margin was primarily due to the increase in capacity utilization.

Excluding wafers manufactured by TSMC affiliates, the gross margin from TSMC's manufacturing activities was 43%, up from 41% in the previous quarter.

III - 2. Operating Expense Analysis

(Amount: NT$ Bn)	3Q03	2Q03	3Q02	QoQ	YoY
Total Op. Exp.	**5.0**	**5.0**	**4.5**	-1%	10%
Gen'l Admin.	1.6	1.6	1.5	3%	8%
Selling & Mkting	0.3	0.4	0.3	-25%	0%
R & D	3.1	3.1	2.7	0%	15%

Operating Expenses:

Operating expenses dropped 1% sequentially. General administration and selling & marketing expenses decreased 2% due to better cost control. Research and development expenditures remained virtually flat with continued development activities in 90nm and 65nm technologies and in 12-inch wafer manufacturing processes.

III - 3. Non-Operating Items & Investment

(Amount: NT$ Bn)	3Q03	2Q03	3Q02	QoQ	YoY
Non-Operating Items	**(0.1)**	**(1.6)**	**(0.5)**	-91%	-72%
Net Int. Inc./(Exp.)	(0.2)	(0.3)	(0.3)	-37%	-44%
Other Non-Ops.	0.0	(1.3)	(0.2)	-102%	-114%
Invest. Inc./(Loss)	**0.4**	**0.8**	**(1.8)**	-56%	-120%
WaferTech*	0.3	0.2	(0.3)	45%	-195%
SSMC	0.1	(0.2)	(0.3)	-147%	-137%
Vanguard	0.1	0.0	(0.3)	183%	-133%
Misc.	(0.1)	0.8	(0.9)	-117%	-85%

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

Non-Operating Items & Investment:

The sum of Non-operating Items and investments improved from a loss of NT$0.8 billion in 2Q03 to a gain of NT$0.3 billion in this quarter. The Non-operating losses shrank to NT$0.1 billion in the latest quarter reflecting a lower interest expense, absence of any significant write off of obsolete fixed assets, as we did in 2Q03. A gain of NT$0.4 billion was recorded from equity method investees, reflecting the general improvement of business operation at TSMC subsidiaries/affiliates, and net gains realized from disposal of equities from venture capital investments in the latest quarter.

IV. Financial Condition Review

IV - 1. Liquidity Analysis

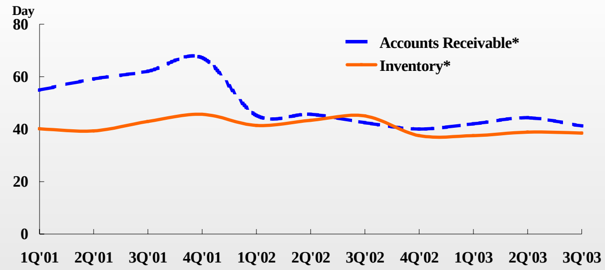
(Amount: NT$ Bn)	3Q03	2Q03	3Q02
Cash & S-T Investments	94.4	69.6	64.5
Accounts Recivable	25.0	25.0	17.9
Inventory	11.8	11.4	13.3
Total Current Assets	**135.2**	**111.0**	**100.4**
Accounts Payable	27.2	22.0	32.3
Total Current Liabilities	**27.2**	**22.0**	**41.3**
Current Ratio (x)	**5.0**	**5.1**	**2.4**
Net Working Capital	**108.0**	**89.0**	**59.1**

Liquidity Analysis:

Total current assets were NT$24.2 billion higher on a sequential basis, mainly attributable to higher levels of cash and short-term investments. The Company's current ratio was 5.0x, slightly lower than the 5.1x in 2Q03.

Net working capital of NT$108.0 billion was NT$19.0 billion greater than that in the second quarter, reflecting stronger operating cash flows.

IV – 2. Receivable/Inventory Days Trend



* All quarterly figures are calculated based on year-to-date numbers.

Receivable/Inventory Days Trend:

Turnover of receivables improved to the equivalent of 41 days revenue compared to 44 days experienced in the last quarter. The improvement was due to better management of collections during the quarter.

On a year-to-date basis, inventories amounted to an equivalent of 38 days of cost-of-goods-sold, representing a slight decrease of 39 days in the previous quarter.

IV - 3. Debt Service

(Amount: NT$ Bn)	3Q03	2Q03	3Q02
Cash & S-T Investments	94.4	69.6	64.5
Total Debt	35.0	35.0	35.0
Net Cash Reserves	59.4	34.6	29.5

Debt Service:

Net cash reserves (the excess of cash and equivalents over interest-bearing debt) increased significantly by NT$24.8 billion to NT$59.4 billion in 3Q03, reflecting TSMC's consistently strong operating cash flows.

Total debt remained unchanged at NT$35 billion.

V. Cash Flow & Capex

V - 1. Cash Flow Analysis

(Amount: NT$ Bn)	3Q03	2Q03	3Q02
Net Income	15.2	11.7	3.2
Deprec. & Amort.	15.5	15.5	14.6
Other Op Sources/(Uses)	3.3	(4.1)	6.8
Total Op Sources/(Uses)	**33.9**	**23.1**	**24.6**
Net Investing Sources/(Uses)	**(17.4)**	**(10.4)**	**(21.4)**
Net Financing Sources/(Uses)	**(0.4)**	**(13.7)**	**(5.1)**
Net Cash Position Changes	**16.2**	**(0.9)**	**(1.9)**

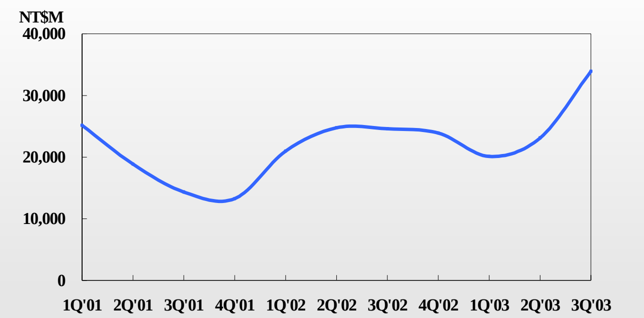
Summary of Cash Flow:

During 3Q03, TSMC generated NT$33.9 billion operating cash inflow due mainly to a higher net income.

Net cash used in investing activities totaled NT$17.4 billion, including acquisitions of fixed assets in the amount of NT$8.2 billion and increases in short-term investments of NT$8.6 billion. Increases in short-term investments include purchases of government bonds of NT$5.6 billion and money market funds of NT$ 3.0 billion. Net financing Uses of NT$0.4 billion reflect the return of guarantee deposits to certain customers.

TSMC ended the quarter with NT$16.2 billion more cash and NT$8.6 billion more short-term investments than the previous quarter. In total, the cash & short-term investment was NT$24.8 billion higher sequentially.

V – 2. Operating Cash Flow Trend



Operating Cash Flow Trend:

Operating cash flow of NT$33.9 billion was 47% higher than in the previous quarter, largely due to a higher net income while depreciation remained virtually flat, partially offset by a net increase in working capital.

Capital Spending:

V - 3. Capital Expenditure

	3Q03	2Q03	3Q02
CapEx (NT$Bn)	8.2	7.2	19.6
CapEx (US$M)	238	206	562

2003 CapEx estimated to approach US$1.2 billion

TSMC's capital expenditures during the quarter totaled US$238 million, 15% higher than in the previous quarter. Most of the spending was for capacity ramp-up in Fab-12. For the first nine months of the year, the capital expenditures totaled US$706 million.

TSMC remains fully committed to providing capacity that meets both the fabrication and technological needs of its customers. The Company intends, however, to manage capacity in accordance with the strength of actual and sustainable demand so as to meet its return objectives for shareholders.

VI. Recap of Recent Important Events & Announcements

- **TSMC Board Approved TSMC's Sponsorship of Secondary Offering of Up to 100 Million ADSs by Philips (10/08)**
- **TSMC Held its Topping Ceremony for Its Wholly Owned Fab in Shanghai, China (09/22)**
- **TSMC Board Approved the Compensation Committee Charter to Further Strengthen Company's Corporate Governance (09/02)**
- **TSMC Board of Directors Approved TSMC's 1H03 Financial Statements, and Ms. Lora Ho as Vice President and Chief Financial Officer of TSMC (09/02)**

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