

Taiwan Semiconductor Reports 25% Increase in Sequential EPS

Hsin-Chu, Taiwan, R.O.C., July 29, 2004 -- Taiwan Semiconductor Manufacturing Company, Ltd. today announced record-setting revenue and net income for the quarter ended June 30, 2004. Second quarter revenue reached NT\$64.87 billion while net income and fully diluted earnings per share came to NT\$23.41 billion and NT\$1.00 per share (US\$0.15 per ADS unit), respectively.

On a sequential basis, second quarter results represent a 12.8% increase in revenue, a 24.6% increase in net income and in fully diluted EPS. Year-over-year comparison shows the increases in revenue, net income, and fully diluted EPS to be 30%, 100%, and 101%, respectively. All figures were prepared in accordance with R.O.C. GAAP on an unconsolidated basis.

The increase in second quarter revenue resulted from a 9.4% increase in wafer shipments, a 3.2% increase in wafer average selling price (ASP), and a slightly weaker U.S. dollar exchange rate. Gross margin for the second quarter jumped to 43.4%, a significant increase from 39.5% in the previous quarter, due to higher utilization levels, improved ASP and better manufacturing cost, particularly related to depreciation and a more favorable licensing fee structure. Net margin for the quarter rose to 36.1% from 32.7% in the previous quarter.

“Building upon four consecutive quarters of strong financial performance, TSMC has delivered a record-breaking set of financial results where both top-line and bottom-line figures continue to validate TSMC’s strong fundamentals,” said Lora Ho, VP and Chief Financial Officer of TSMC.

Based on the current business outlook, Ho said that management’s expectations for third quarter 2004 performance are:

- Wafer shipments to increase by a mid single digit percentage point sequentially;
- Overall utilization rate to be slightly down from 106% in 2Q, but still be well above 100%;
- Gross profit margin to be approximately 45%;
- ASP to remain at about the same level sequentially;

Ms. Ho said management expects 2004 capital expenditure to be about US\$2.4 billion.

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, July 29, 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 1-303-262-2075 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)

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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 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.



2Q04

Quarterly Management Report
July 29, 2004**CONTACT IN TAIWAN**

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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>2004</u>	<u>1Q04</u>	<u>2Q03</u>	<u>QoQ</u>	<u>YoY</u>
EPS (NT\$ per com. shr.)	1.00	0.81	0.50	24.6%	101.0%
(US\$ per ADR unit)	0.15	0.12	0.07		
Net Sales	64.87	57.51	49.92	12.8%	29.9%
Gross Profit	28.14	22.73	18.35	23.8%	53.3%
Operating Expense	(6.01)	(5.19)	(5.01)	15.7%	19.8%
Non-Operating Items	0.99	0.90	(0.77)	10.3%	228.5%
Net Income	23.41	18.79	11.73	24.6%	99.6%
Wafers Shipped (kpcs 8 inch-equiv.)	1,282	1,172	887	9.4%	44.5%
Capacity Utilization	106%	105%	88%	0.4%	19.8%
Net Profit Margin	36.1%	32.7%	23.5%		

Remarks:

The second quarter EPS of NT\$1.00 represents a 24.6% increase compared with 1Q04. The unconsolidated operating results of 2Q04 are summarized below:

Net sales increased 12.8% to NT\$64.9 billion compared with NT\$57.5 billion in the first quarter due to a 9.4% increase in wafer shipments, a 3.2% increase in wafer average selling price (ASP), and a slightly weaker U.S. dollar exchange rate.

Gross profit improved 23.8% from the previous quarter to NT\$28.1 billion mainly driven by higher utilization levels, improved ASP and better manufacturing costs, particularly related to depreciation and a more favorable licensing fee structure. As a result, gross margin improved significantly to 43.4% from 39.5% in 1Q04.

Operating expenses increased to NT\$6.0 billion, representing 9.3% of net sales. This quarter's increase was due mainly to an increase in SG&A expenses and a slight increase in R&D expenses.

Second quarter net gains from non-operating items and long-term investments amounted to NT\$987 million, a 10.3% increase from NT\$895 million in the previous quarter. These overall net gains resulted largely from improved operating performance by TSMC subsidiary/affiliates.

Income before tax rose 25.4% sequentially to NT\$23.1 billion. The Company's provision for tax expenses of NT\$2.6 billion was more than offset by an investment tax credit of NT\$2.9 billion. TSMC's 2Q04 net income increased 24.6% to NT\$23.4 billion while net margin improved to 36.1% from the previous quarter's 32.7%.

I. Revenue Analysis

I - 1. Wafer Sales Analysis

By Application	2Q04	1Q04	2Q03
Computer	27%	32%	43%
Communication	45%	45%	34%
Consumer	22%	17%	16%
Industrial/Others	5%	4%	5%
Memory	1%	2%	2%

By Technology	2Q04	1Q04	2Q03
0.13um-	25%	20%	17%
0.15um	13%	17%	21%
0.18um	29%	27%	24%
0.25um	15%	18%	19%
0.35um+	10%	11%	9%
0.50um+	8%	7%	10%

By Customer Type	2Q04	1Q04	2Q03
Fabless	68%	69%	72%
IDM	31%	30%	27%
System	1%	1%	1%

By Geography	2Q04	1Q04	2Q03
North America	73%	74%	77%
Asia Pacific	12%	13%	12%
Europe	7%	7%	4%
Japan	8%	6%	7%

Revenue Analysis:

Net sales increased 12.8% to NT\$64.9 billion compared with NT\$57.5 billion in the first quarter. The growth in TSMC net sales was attributable to a 9.4% increase in wafer shipments, a 3.2% increase in wafer average selling price (ASP), and a slightly weaker U.S. dollar exchange rate.

Consumer applications represent this quarter's principle revenue driver, while communication applications revenue supported by wireless continued to grow. Computer applications revenue growth was flat.

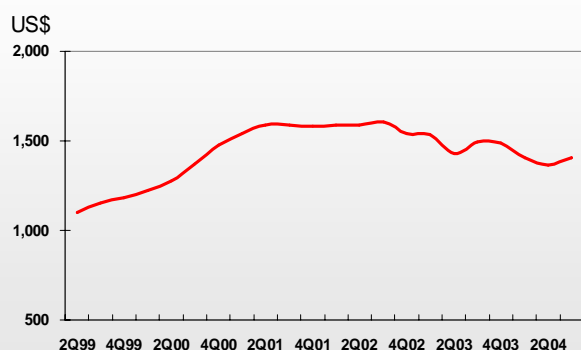
Demand from advanced technologies - defined as 0.13 micron and below - strengthened in 2Q04. Revenue contribution from advanced technology wafers improved to 25% of total wafer sales, compared to 20% in the previous quarter.

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

Geographically, the weightings for North American, Asian and European markets remained relatively the same as the previous quarter. Meanwhile, Japanese sales weightings were up 2%

Second quarter revenue contributions from TSMC subsidiary/affiliates amounted to NT\$8.6 billion and represented 13.3% of net sales, similar to the previous quarter's contribution of 12.9% (NT\$7.4 billion).

I-2. ASP Trend

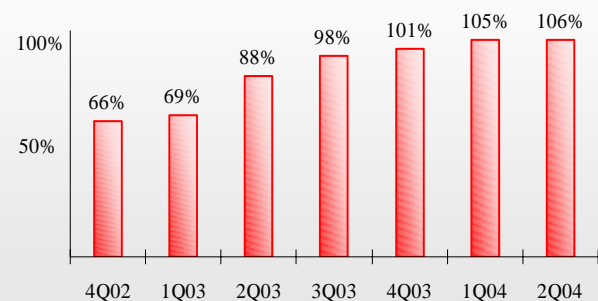


ASP Trend:

During the second quarter, the average selling price in U.S. dollars increased 3.2% compared to last quarter's 3.2% decline. This quarter's ASP increase was attributable to a better product mix and an improving pricing environment.

II. Utilization & Capacity

II - 1. Utilization Rate



Utilization Rate:

Overall capacity utilization levels in the second quarter improved to 106% due to operational efficiencies.

II - 2. Capacity

Fab / (Wafer size)	1Q04 (Act.)	2Q04 (Act.)	3Q04 (Est.)
Fab-2 (6") ¹	217	228	237
Fab-3 (8")	208	221	246
Fab-5 (8")	106	116	123
Fab-6 (8")	187	196	214
Fab-7 (8")	51	35	39
Fab-8 (8")	182	202	216
Fab-12 (12") ²	43	52	69
TSMC - owned capacity 8"-equivalent Kpcs	953	1,014	1,127
Wafer Tech (8")	88	92	97
SSMC (8")	29	33	34
Total TSMC - managed 8"-equivalent Kpcs	1,070	1,138	1,258

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 2Q04 was 1,138 kpcs/quarter in terms of 8-inch equivalent wafers, representing 6.4% sequential capacity growth, where 12-inch wafer fab capacity increased by 20.9% sequentially.

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

III. Profit & Expense Analysis

III - 1. Gross Profit Analysis

(Amount: NT\$ billion)	<u>2Q04</u>	<u>1Q04</u>	<u>2Q03</u>
COGS	36.7	34.8	31.6
Depreciation	14.0	13.4	14.0
Other MFG Cost	22.8	21.4	17.6
Gross Profit	28.1	22.7	18.4
Gross Margin			
- TSMC	43.4%	39.5%	36.8%
- TSMC w/o affiliates	49.1%	44.3%	41.1%

Gross Profit Analysis:

Gross profit increased 23.8% to NT\$28.1 billion. Gross margin improved significantly to 43.4% from 39.5% in 1Q04. The increase in gross margin was primarily due to higher utilization levels, improved ASP and better manufacturing costs, particularly related to depreciation and a more favorable licensing fee structure.

The gross margin from TSMC's own fab manufacturing activities grew significantly to 49.1% in this quarter as compared to 1Q's 44.3%.

III - 2. Operating Expense Analysis

(Amount: NT\$ billion)	<u>2Q04</u>	<u>1Q04</u>	<u>2Q03</u>
Total Operating Exp.	6.01	5.19	5.01
SG&A	3.04	2.33	1.93
Research & Development	2.96	2.86	3.08

Operating Expenses:

Operating expenses increased to NT\$6.0 billion. Higher selling, general and administrative expenses were attributable to Fab 14 opening expenses and overall heightened business activities. Research and Development expenditures increased slightly, while the ratio between R&D expenses to total net sales continued to maintain near its 5% level. Overall, total-operating expenses represented 9.3% of net sales, similar to 9.0% in 1Q04.

III - 3. Non-Operating Items

(Amount: NT\$ million)	<u>2Q04</u>	<u>1Q04</u>	<u>2Q03</u>
Non-Operating Income/(Exp.)	(264)	92	(1,578)
Net Interest Income/(Exp.)	30	(74)	(264)
Other Non-Operating	(294)	166	(1,314)
L-T Investments	1,251	803	810
WaferTech*	1,433	817	188
SSMC	288	145	(240)
Vanguard	257	323	35
TSMC (Shanghai)	(102)	(29)	
Miscellaneous	(626)	(454)	827

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

Non-Operating Items:

Combined non-operating items and long term investments represented a net gain of NT\$987 million in 2Q04 compared with a net gain of NT\$895 million in 1Q04.

Non-Operating items registered a net expense of NT\$264 million, compared to last quarter's income of NT\$92 million. This quarter's loss was due mainly to a forex evaluation loss on certain short-term investments.

A NT\$448 million sequential increase in long-term investment income of NT\$1,251 million resulted from the general improvement of business operations at TSMC subsidiaries / affiliates. Excluding miscellaneous, the sequential long-term investment return increased by NT\$620 million. Miscellaneous items were lower by NT\$172 million due to an absence of capital gains from the disposal of equities from venture capital investments as we did in 1Q04.

IV. Financial Condition Review

IV - 1. Liquidity Analysis

(Amount: NT\$ billion)	<u>2004</u>	<u>1Q04</u>	<u>2Q03</u>
Cash & S-T Investments	123.3	126.3	69.6
Accounts Receivable	30.8	27.2	25.0
Inventory	11.7	11.0	11.4
Total Current Assets	173.8	175.7	111.0
Accounts Payable and Others	25.6	30.3	15.3
Accrued Liabilities	23.4	7.8	6.7
Total Current Liabilities	49.0	38.1	22.0
Current Ratio (x)	3.5	4.6	5.1
Net Working Capital	124.8	137.6	89.0

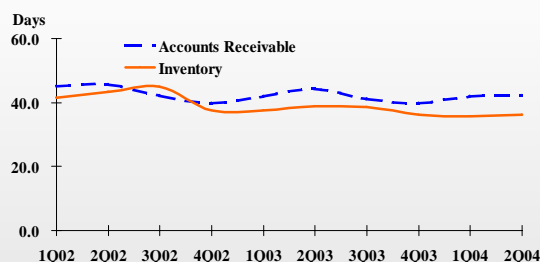
Liquidity Analysis:

Total current assets were NT\$1.9 billion lower on a sequential basis primarily because of lower cash levels resulting from higher quarterly capital spending, increased short term investments and purchases in long term government bonds.

Meanwhile, total current liabilities increased significantly due to higher accrued liabilities, driven mainly by the Company's accrued stockholder cash dividend and employee profit sharing totaling NT\$12.8 billion.

As a result, the Company's current ratio was lowered to 3.5x and net working capital amounted to NT\$124.8 billion.

IV - 2. Receivable/Inventory Days Trend



Receivable/Inventory Days Trend:

Turnover of receivables remained flat at 42 days revenue, same as the first quarter.

Inventories amounted to an equivalent of 36 days of cost-of-goods-sold, similar to the previous quarter.

IV - 3. Debt Service

(Amount: NT\$ billion)	<u>2004</u>	<u>1Q04</u>	<u>2Q03</u>
Cash & S-T Investments	123.3	126.3	69.6
Interest-Bearing Debt	35.0	35.0	35.0
Net Cash Reserves	88.3	91.3	34.6

Debt Service:

Net cash reserves, defined as the excess of cash and equivalents over interest-bearing debt, decreased by NT\$3.0 billion to NT\$88.3 billion in 2Q04, reflecting lower cash levels.

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

V. Cash Flow & CapEx

V - 1. Cash Flow Analysis

(Amount: NT\$ billion)	<u>2Q04</u>	<u>1Q04</u>	<u>2Q03</u>
Net Income	23.4	18.8	11.7
Depreciation & Amortization	16.0	15.1	15.5
Other Op Sources/(Uses)	(3.3)	(1.2)	(4.1)
Total Op Sources/(Uses)	<u>36.1</u>	<u>32.7</u>	<u>23.1</u>
Capital Expenditure	(22.8)	(16.4)	(7.2)
Short Term Investment	(24.8)	(7.3)	(3.1)
Long Term Investment	(5.8)	(0.2)	(0.0)
Other Investing Sources/(Uses)	(0.1)	(0.1)	(0.1)
Net Investing Sources/(Uses)	<u>(53.5)</u>	<u>(23.9)</u>	<u>(10.4)</u>
Treasury Stock	(6.6)	(0.5)	-
Corporate Bond	-	-	0.0
Redemption of preferred stocks	-	-	(13.0)
Paid to directors and supervisors	(0.1)	-	(0.1)
Cash dividends paid to preferred stocks	(0.2)	-	(0.5)
Other Financing Sources/(Uses)	(0.1)	(0.1)	(0.2)
Net Financing Sources/(Uses)	<u>(7.0)</u>	<u>(0.6)</u>	<u>(13.7)</u>
Net Cash Position Changes	(24.4)	8.2	(0.9)

Summary of Cash Flow:

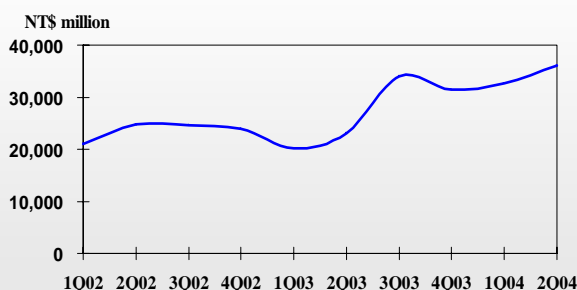
During 2Q04, TSMC generated NT\$36.1 billion operating cash inflow mainly from net income of NT\$23.4 billion and depreciation & amortization of NT\$16.0 billion.

Net cash used in investing activities totaled NT\$53.5 billion, including (i) capex of NT\$22.8 billion (ii) a significant accumulation in short-term investments, primarily in various money market instruments and (iii) purchases of NT\$5.5 billion in government bonds.

A net financing charge of NT\$7.0 billion was largely attributable to the Company's NT\$6.6 billion treasury stock buyback.

As a result, TSMC ended the quarter with a cash balance of NT\$82.1 billion.

V - 2. Operating Cash Flow Trend



Operating Cash Flow Trend:

Operating cash flow of NT\$36.1 billion was 10.4% higher than the previous quarter due to better net income.

V-3. Capital Expenditure

- Actual 2Q04 capital expenditure: US\$684 million.
- Estimated 2004 capital expenditure to be about US\$2.4 billion.

Capital Spending:

TSMC's capital expenditures during the quarter totaled US\$684 million, 40% higher than the previous quarter. Most of the spending was for 12-inch capacity ramp-up in Fab 12 and Fab 14.

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

VI. Recap of Recent Important Events & Announcements

- **TSMC's Fab 6 Production Exceeds 70,000 8-inch Wafers per Month (2004/06/11)**
- **TSMC Sets June 14 and June 20 as the Ex-dividend Date and Record Date for its Common Shares, Respectively (2004/05/31)**
- **TSMC Files Trade Secret Case against SMIC in the State Court of California (2004/05/19)**
- **TSMC Board of Directors Approves Capital Appropriation for Expanding Capacities (2004/05/11)**
- **TSMC Shareholders Approve Stock and Cash Dividends (2004/05/11)**
- **TSMC Receives Government Sponsored 2004 eAward (2004/04/30)**
- **TSMC Accelerates Customer Competitiveness with Technology Platforms (2004/04/14)**

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