



TSMC Reports 95% Increase in Record Year Profit Quarterly Net Income Reached NT\$22 Billion

Hsin-Chu, Taiwan, R.O.C., Jan. 27, 2005 -- Taiwan Semiconductor Manufacturing Company, Ltd. today announced revenue and net income for the quarter ended December 31, 2004. Fourth quarter revenue reached NT\$63.87 billion, while net income and fully diluted earnings per share came to NT\$22.18 billion and NT\$0.96 per share (US\$0.15 per ADS unit), respectively. For the full year of 2004, TSMC's revenue set a new record, NT\$255.99 billion, 26.8% higher than in year 2003. Net income for the entire year grew 95.3% to NT\$92.32 billion, also a new record. In US dollar terms, revenue for 2004 was US\$7.65 billion, an increase of 30.3% while net income grew to US\$2.76 billion, an increase of 100%. Fully diluted earnings per share jumped 96.8% to NT\$3.97 (US\$0.59 per ADS unit).

On a sequential basis, fourth quarter results represent an 8.4% decline in revenue, a 20.6% decrease in net income and a 20.5% decrease in fully diluted EPS. Year-over-year, fourth quarter revenue, net income, and fully diluted EPS increased 11%, 39%, and 40%, respectively. All figures were prepared in accordance with R.O.C. GAAP on an unconsolidated basis.

The 8.4% sequential decline in revenue in the fourth quarter mainly resulted from an 8.5% decrease in wafer shipments and a 2.9% depreciation of US dollar against local currency, ameliorated by a 1.7% increase in wafer average selling price (ASP). Revenues from advanced process technologies (0.13-micron and below) increased significantly in the fourth quarter and reached 36 percent of total wafer sales. Gross profit margin for the quarter declined by 3.6 percentage points to 42.5%, due to lower levels of wafer output, an unfavorable movement of the exchange rate, and the ramp-up of Fab14. Net margin for the quarter was 34.7%.

"Due primarily to customers' continuing inventory digestion, our fourth quarter business had declined as we expected," said Lora Ho, VP and Chief Financial Officer of TSMC. "First quarter business conditions are likely to exhibit a normal seasonal pattern in the end market," noted Ho, "and based on the current outlook, management's expectations for the first quarter 2005 performance are as follows":

- Wafer shipments to decrease by a single digit percentage point sequentially;
- Overall utilization rate to be about 78%;
- Gross profit margin to be in the range of 38% to 40%;
- ASP to remain about the same sequentially.

Ho said management also expects that 2005 capital expenditure will be in the range of US\$2.5 billion to US\$2.7 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, January 27, 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 **1-866-321-1799 in the U.S., 0080-161-5105 in Taiwan and 61-2-8228-7003 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.



4Q04

Quarterly Management Report
January 27, 2005

Operating Results Review:

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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

Summary:

<i>(Amount in NT\$ billion except noted otherwise)</i>	4Q04	3Q04	4Q03	QoQ	YoY
EPS (NT\$ per com. shr.)	0.96	1.20	0.68	-20.5%	40.1%
(US\$ per ADR unit)	0.15	0.18	0.10		
Net Sales	63.87	69.74	57.78	-8.4%	10.5%
Gross Profit	27.15	32.14	22.71	-15.5%	19.6%
Operating Expense	(6.12)	(6.02)	(6.08)	1.8%	0.7%
Non-Operating Items	1.07	2.01	0.94	-46.9%	13.0%
Net Income	22.18	27.93	16.00	-20.6%	38.6%
Wafers Shipped (kpcs 8 inch-equiv.)	1,220	1,333	1,127	-8.5%	8.3%
Capacity Utilization	88%	103%	101%	-14.7%	-12.6%
Net Profit Margin	34.7%	40.1%	27.7%		

Remarks:

The fourth quarter EPS of NT\$0.96 represents a 20.5% decrease compared with 3Q04. The unconsolidated operating results of 4Q04 are summarized below:

Net sales declined 8.4% to NT\$63.9 billion compared with NT\$69.7 billion in the third quarter. The decrease in fourth quarter revenue mainly reflected an 8.5% decrease in wafer shipments and a 2.9% depreciation of the US dollar against local currency, ameliorated by a 1.7% increase in wafer average selling price (ASP).

Gross profit decreased to NT\$27.2 billion, representing a 15.5% decline from the previous quarter. Gross margin reduced to 42.5% from 46.1% in 3Q04 due mainly to lower levels of wafer output, an unfavorable exchange rate, and the ramp-up of Fab 14, a new 12-inch wafer fab.

Operating expenses increased slightly to NT\$6.1 billion from the previous quarter's NT\$6.0 billion. The increase is the result of 14.3% higher R&D expenses netted by an 11.7% decline of SG&A expenses.

Combined non-operating income and long-term investment gains of NT\$1.1 billion was 46.9% lower than in the previous quarter. The reduction was mainly the result of less profitable operating performance by TSMC subsidiary/affiliates and lower gains from other non-operating items.

Income before tax declined 21.5% sequentially to NT\$22.1 billion. The Company's provision for tax expenses of NT\$2.6 billion was more than offset by an investment tax credit of NT\$2.7 billion. TSMC's 4Q04 net income was NT\$22.2 billion with a net margin of 34.7%.

I. Revenue Analysis

I - 1. Wafer Sales Analysis			
By Application	4Q04	3Q04	4Q03
Computer	35%	31%	35%
Communication	41%	42%	42%
Consumer	16%	20%	17%
Industrial/Others	6%	5%	4%
Memory	2%	2%	2%
By Technology	4Q04	3Q04	4Q03
0.13um-	36%	30%	18%
0.15/0.18um	34%	38%	45%
0.25um	14%	14%	20%
0.35um+	9%	10%	10%
0.50um+	7%	8%	7%
By Customer Type	4Q04	3Q04	4Q03
Fabless	66%	69%	71%
IDM	33%	31%	29%
System	1%	0%	0%
By Geography	4Q04	3Q04	4Q03
North America	75%	75%	75%
Asia Pacific	10%	11%	12%
Europe	7%	7%	5%
Japan	8%	7%	8%

Revenue Analysis:

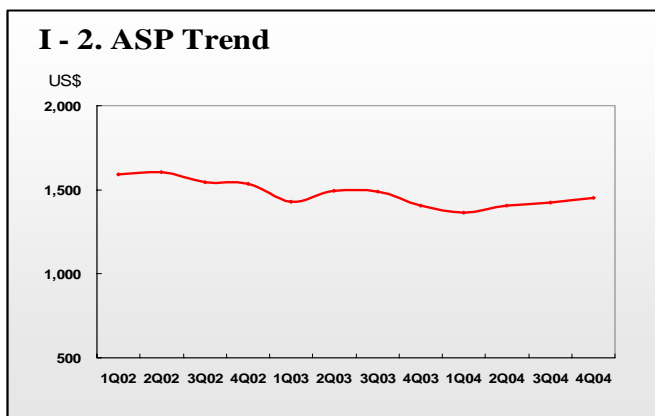
Net sales decreased 8.4% to NT\$63.9 billion compared with NT\$69.7 billion in the third quarter. The decrease in fourth quarter revenue mainly resulted from an 8.5% decrease in wafer shipments and a 2.9% depreciation of the US dollar against local currency, ameliorated by a 1.7% increase in wafer average selling price (ASP).

Revenues from computer applications continued to grow in this quarter while revenues from both communication applications and consumer applications declined.

Demand from advanced technologies - defined as 0.13-micron and below - strengthened further in 4Q04 with 90nm commencing volume production with very high yield and good quality. Revenue contribution from advanced technology wafers increased to 36% of total wafer sales, compared to 30% in the previous quarter.

IDM wafer sales weighting during the quarter rose to 33% from 31% in the previous quarter while Fabless accounted for 66%. The increase in IDM weighting was mainly attributable to continuous IDM outsourcing in advanced technology.

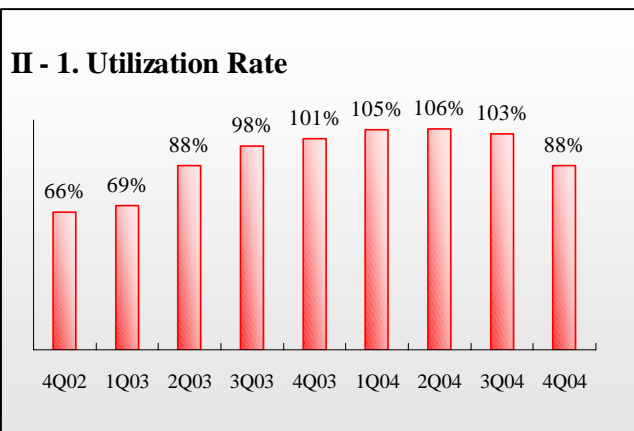
Geographically, the distribution remained similar to the previous quarter.



ASP Trend:

Continuing from 3Q04's 1.4% increase, ASP rose again by 1.7% in this quarter. This quarter's ASP increase was attributable to a better product mix.

II. Utilization & Capacity



Utilization Rate:

Overall capacity utilization decreased to 88% in this quarter from 103% in the third quarter.

II - 2. Capacity

Fab / (Wafer size)	4Q04 (Act.)	2004 (Act.)	1Q05 (Est.)
Fab-2 (6") ¹	248	930	238
Fab-3 (8")	247	922	234
Fab-5 (8")	124	470	119
Fab-6 (8")	217	813	203
Fab-7 (8")	40	165	36
Fab-8 (8")	224	823	215
Fab-12 (12") ²	80	244	85
Fab-14 (12") ²	6	6	18
TSMC - owned capacity 8"-equivalent Kpcs	1,184	4,279	1,172
Wafer Tech (8")	97	373	95
SSMC (8")	39	136	41
TSMC (Shanghai) (8")	1	1	9
Total TSMC - managed 8"-equivalent Kpcs	1,320	4,788	1,317

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 4Q04 was 1,320 kpcs/quarter in terms of 8-inch equivalent wafers, representing 4.8% sequential capacity growth, where 12-inch wafer capacity increased 24.6% sequentially.

Overall installed capacity for year 2004 was about 4.8 million 8-inch equivalent wafers.

While the majority of TSMC fabs will conduct annual maintenance in 1Q05, TSMC managed capacity is expected to remain about the same at 1,317 kpcs 8-inch equivalent wafers.

Overall installed capacity for year 2005 is expected to reach 5.95 million 8-inch equivalent wafers, representing 24% year-on-year growth. Capacity for 90 nanometers, which are produced only from 12-inch wafers, will increase 18 times, and the overall 12-inch wafer capacity will more than double.

III. Profit & Expense Analysis

III - 1. Gross Profit Analysis

(Amount: NT\$ billion)	<u>4Q04</u>	<u>3Q04</u>	<u>4Q03</u>
COGS	36.7	37.6	35.1
Depreciation	14.9	13.7	13.9
Other MFG Cost	21.8	23.9	21.2
Gross Profit	27.2	32.1	22.7
Gross Margin			
- TSMC	42.5%	46.1%	39.3%
- TSMC w/o affiliates	47.8%	51.9%	44.2%

III - 2. Operating Expense Analysis

(Amount: NT\$ billion)	<u>4Q04</u>	<u>3Q04</u>	<u>4Q03</u>
Total Operating Exp.	6.12	6.02	6.08
SG&A	2.56	2.90	2.03
Research & Development	3.57	3.12	4.06

III - 3. Non-Operating Items

(Amount: NT\$ million)	<u>4Q04</u>	<u>3Q04</u>	<u>4Q03</u>
Non-Operating Income/(Exp.)	457	630	(193)
Net Interest Income/(Exp.)	227	228	(14)
Other Non-Operating	230	402	(178)
L-T Investments	609	1,378	1,135
WaferTech*	891	1,643	549
SSMC	31	268	131
Vanguard	423	326	99
TSMC (Shanghai)	(359)	(237)	(1)
Miscellaneous	(377)	(622)	357
Total Non-Operating Items	1,066	2,008	942

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

Gross Profit Analysis:

Gross profit decreased to NT\$27.2 billion, representing a 15.5% decline from the previous quarter. Gross margin reduced to 42.5% from 46.1% in 3Q04 mainly due to lower levels of wafer output, an unfavorable exchange rate, and the ramp-up of Fab 14.

During the quarter, the gross margin from TSMC's own fab manufacturing activities declined to 47.8% from 51.9% in 3Q04.

Operating Expenses:

Operating expenses increased slightly to NT\$6.1 billion. R&D expenditures were sequentially higher due mainly to further development efforts related to 65-nm process technology and more engineering wafers to support the Fab14 ramp-up. SG&A expenditures were sequentially lower mainly because Fab14 stopped incurring opening expenses as it commenced commercial production during 4Q04. Overall, operating expenses represented 9.6% of net sales, compared to last quarter's 8.6%.

Non-Operating Items:

Combined non-operating income and long-term investment gains decreased 46.9% to NT\$1.1 billion from NT\$2.0 billion in the previous quarter.

During the quarter, non-operating income amounted to NT\$457 million, NT\$173 million lower than last quarter's income of NT\$630 million. This decrease was due mainly to lower royalty income accrued and the revaluation losses of short-term investments in marketable securities, offset partially by higher foreign exchange gains from hedging activities.

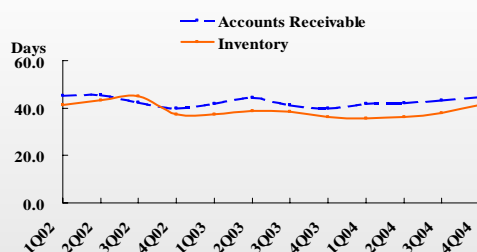
Long-term investment gains declined to NT\$609 million, compared to NT\$1,378 million in 3Q04. The decrease mainly resulted from lower utilization levels at WaferTech and SSMC, and higher expenses incurred at TSMC (Shanghai). These were offset partially by the continuous improvement in Vanguard and smaller losses in miscellaneous others.

IV. Financial Condition Review

IV - 1. Liquidity Analysis

(Amount: NT\$ billion)	4Q04	3Q04	4Q03
Cash & S-T Investments	118.5	124.4	110.8
Accounts Receivable - Trade	27.2	33.4	25.6
Inventory	14.2	12.6	10.9
Deferred Income Tax Assets	8.8	2.5	8.3
Total Current Assets	173.7	177.7	158.5
Accounts Payable	40.8	28.3	17.7
Current Portion of Bonds Payable	10.5	5.0	5.0
Accrued Liabilities and Others	9.3	11.0	7.8
Total Current Liabilities	60.6	44.2	30.5
Current Ratio (x)	2.9	4.0	5.2
Net Working Capital	113.0	133.4	128.0

IV - 2. Receivable/Inventory Days Trend



IV - 3. Debt Service

(Amount: NT\$ billion)	4Q04	3Q04	4Q03
Cash & S-T Investments	118.5	124.4	110.8
Interest-Bearing Debt	30.0	35.0	35.0
Net Cash Reserves	88.5	89.4	75.8

Liquidity Analysis:

Total current assets were NT\$4.0 billion lower on a sequential basis. The decrease was mainly attributable to lower cash & short-term investment and accounts receivable, partially offset by higher inventory and deferred income tax assets. The NT\$5.9 billion decrease in cash and short-term investment was due mainly to a long-term investment of NT\$5.6 billion in a structured note during this quarter, and a reclassification of NT\$4.9 billion of such notes from short-term to long-term investment made in the previous quarter.

Meanwhile, total current liabilities increased significantly due mainly to the increase of accounts payable resulting from the faster move-in of 12-inch production equipment in this quarter and the increase of the current portion of bonds payable.

As a result, the Company's current ratio declined to 2.9x and net working capital reduced to NT\$113.0 billion, a decrease of NT\$20.4 billion over the previous quarter.

Receivable/Inventory Days Trend:

Days of receivables increased to 45 days compared with 43 days in 3Q04, reflecting slower business activities during 4Q04.

Days of Inventory increased to 41 days as compared to 38 days in the previous quarter. The increase was due mainly to the combination of higher values of WIP for increased 12-inch production and higher finished goods.

Debt Service:

Net cash reserves, defined as the excess of cash and short-term investments over interest-bearing debt, decreased by NT\$0.9 billion to NT\$88.5 billion in 4Q04.

Interest-bearing debt reduced to NT\$30 billion as NT\$5 billion bonds were redeemed in this quarter.

V. Cash Flow & CapEx

V - 1. Cash Flow Analysis			
(Amount: NT\$ billion)	4Q04	3Q04	4Q03
Net Income	22.2	27.9	16.0
Depreciation & Amortization	16.6	15.4	15.5
Other Op Sources/(Uses)	(2.1)	(5.1)	(0.0)
Total Op Sources/(Uses)	36.7	38.2	31.5
Capital Expenditure	(20.5)	(16.5)	(12.8)
Short Term Investment	(6.9)	(4.9)	(0.9)
Long Term Investment	(17.0)	(7.3)	(2.0)
Other Investing Sources/(Uses)	(0.0)	(0.4)	(0.2)
Net Investing Sources/(Uses)	(44.4)	(29.1)	(15.9)
Cash dividends paid to common stocks	0.0	(12.2)	0.0
Bonus paid to Employees	0.0	(0.7)	0.0
Payment on long-term bonds payable	(5.0)	0.0	0.0
Other Financing Sources/(Uses)	(0.1)	(0.1)	(0.1)
Net Financing Sources/(Uses)	(5.1)	(12.9)	(0.1)
Net Cash Position Changes	(12.8)	(3.9)	15.6
Cash Balance	65.5	78.3	98.3

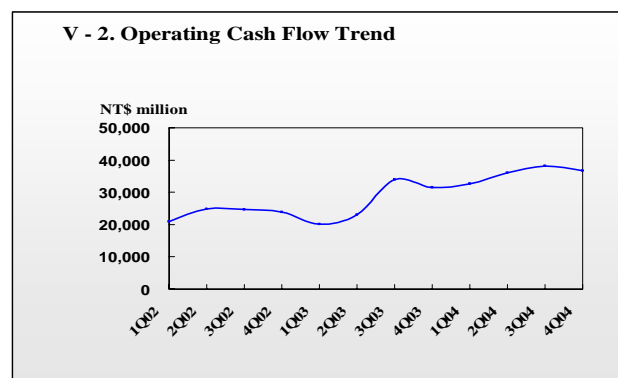
Summary of Cash Flow:

During the quarter, TSMC generated NT\$36.7 billion operating cash inflow mainly from net income of NT\$22.2 billion and depreciation & amortization of NT\$16.6 billion. This was partially offset by increases in working capital.

Net cash used in investing activities totaled NT\$44.4 billion including (i) capital spending of NT\$20.5 billion, (ii) a continued accumulation of NT\$6.9 billion in short-term investments, and (iii) long-term investments of NT\$3.5 billion in government and corporate bonds, NT\$2.9 billion capital injection to TSMC (Shanghai), and NT\$5.6 billion in a structured note and a NT\$4.9 billion reclassification of such notes.

A net cash outflow of NT\$5.1 billion in financing activities was largely attributable to the Company's NT\$5.0 billion bond redemption.

As a result, TSMC ended the quarter with a cash balance of NT\$65.5 billion.



Operating Cash Flow Trend:

Operating cash flow of NT\$36.7 billion was slightly lower than the previous quarter due mainly to lower net income.

Capital Spending:

Capital expenditures for TSMC alone during the quarter totaled US\$621 million. Most of the spending was for 12-inch capacity ramp-up in Fab 12 and Fab 14.

Capital spending for WaferTech was US\$5 million, and US\$51 million for TSMC (Shanghai).

For Year 2004, total capital expenditures for TSMC as a group amounted to US\$2.4 billion, including US\$2.3 billion for TSMC, US\$72 million for WaferTech, and US\$69 million for TSMC (Shanghai).

CapEx (in US\$ million)	1Q04	2Q04	3Q04	4Q04	2004
TSMC	489	683	484	621	2,277
WaferTech	14	27	26	5	72
TSMC (Shanghai)	1	9	8	51	69
Total	504	719	518	677	2,418

VI. Recap of Recent Important Events & Announcements

- **TSMC Verifies Fully Functional 90 Nanometer Chips Using Immersion Lithography Tools (2004/12/22)**
- **TSMC Holds A Special Shareholders' Meeting To Approve Amendment of Dividend Policy (2004/12/21)**
- **TSMC 0.18-Micron High-Voltage Technology Goes to Volume Production (2004/11/23)**
- **TSMC Is Awarded Best IR by A Taiwan Company by *IR Magazine* (2004/11/04)**
- **TSMC Board of Directors Proposes Amendment of Dividend Policy (2004/11/02)**
- **TSMC Aims to be Best Partner in "Invented/Made in China" Arena (2004/10/28)**
- **Freescale and TSMC to Develop Silicon-on-Insulator Technology (2004/10/12)**

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