



## TSMC Reports First Quarter EPS of NT\$0.72

Hsin-Chu, Taiwan, R.O.C., April 26, 2005 -- TSMC today announced revenue and net income for the quarter ended March 31, 2005. First quarter revenue reached NT\$55.65 billion while net income and fully diluted earnings per share came to NT\$16.82 billion and NT\$0.72 per share (US\$0.11 per ADS unit), respectively.

On a sequential basis, first quarter results represent a 12.9% decrease in revenue, a 24.2% decrease in net income and a 25.3% decrease in fully diluted EPS. Year-over-year comparison shows the decreases in revenue, net income, and fully diluted EPS to be 3.2%, 10.5%, and 10%, respectively. All figures were prepared in accordance with R.O.C. GAAP on an unconsolidated basis.

The 12.9% decrease in first quarter revenue mainly resulted from an 8.8% decrease in wafer shipments and a 4.4% weaker US dollar against the local currency, while average wafer selling price (ASP) remained at the same level. Gross margin for the first quarter declined to 38.9% from the previous quarter's 42.5%, due to lower levels of wafer output and the unfavorable movement of the currency exchange rate. Revenues from advanced process technologies (0.13-micron and below) increased to 45 percent of total wafer sales, compared to 36% previously. Net margin for the quarter was 30.2% while it was 34.7% in the last quarter.

"Due primarily to low seasonality and customers' continuing inventory digestion, our first quarter business had declined as we expected," said Lora Ho, VP and Chief Financial Officer of TSMC. "However, we expect the digestion of inventory to be near its end," noted Ho, "and based on the current business outlook, management's expectations for second quarter 2005 performance are the following":

- Wafer shipments to increase by a mid to high single digit percentage point sequentially;
- Overall utilization rate to be about 80%;
- Gross profit margin to be in the range of 38% to 40%;
- ASP to decline by a middle single digit percentage point 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, April 26, 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 **1-718-354-1254** in the U.S., **800-933-632** in Hong Kong, **0080-123-2370** in Taiwan, and **61-2-8898-6476** 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.



1Q05

Quarterly Management Report  
April 26, 2005**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>1Q05</u> | <u>4Q04</u> | <u>1Q04</u> | <u>QoQ</u> | <u>YoY</u> |
|--|-------------|-------------|-------------|------------|------------|
| EPS (NT\$ per com. shr.)                               | 0.72        | 0.96        | 0.80        | -25.3%     | -10.0%     |
| (US\$ per ADR unit)                                    | 0.11        | 0.15        | 0.14        |            |            |
| Net Sales  | 55.65       | 63.87       | 57.51       | -12.9%     | -3.2%      |
| Gross Profit   | 21.65       | 27.15       | 22.73       | -20.3%     | -4.8%      |
| Operating Expense                                      | (5.57)      | (6.12)      | (5.19)      | -9.0%      | 7.4%       |
| Non-Operating Items                                    | 0.19        | 1.07        | 0.90        | -82.3%     | -78.9%     |
| Net Income   | 16.82       | 22.18       | 18.79       | -24.2%     | -10.5%     |
| Wafers Shipped (kpcs 8 inch-equiv.)                    | 1,113       | 1,220       | 1,172       | -8.8%      | -5.1%      |
| Capacity Utilization                                   | 78%         | 88%         | 105%        |            |            |
| Net Profit Margin                                      | 30.2%       | 34.7%       | 32.7%       |            |            |

**Remarks:**

The first quarter EPS of NT\$0.72 represents a 25.3% decrease compared with 4Q04. The unconsolidated operating results of 1Q05 are summarized below:

Net sales declined 12.9% to NT\$55.7 billion compared with NT\$63.9 billion in the fourth quarter of 2004. The decrease mainly reflected an 8.8% decrease in wafer shipments and a 4.4% depreciation of the US dollar against local currency, while the wafer average selling price (ASP) remained at the same level as in the fourth quarter last year.

Gross profit decreased to NT\$21.6 billion, representing a 20.3% decline from the previous quarter. Gross margin declined to 38.9% from 42.5% in 4Q04 due mainly to lower levels of wafer output and an unfavorable exchange rate movement.

Operating expenses decreased to NT\$5.6 billion, representing 10% of revenue. The decrease was the result of lower expenses of R&D and SG&A.

The combined result from non-operating income and long-term investment was a gain of NT\$188 million, which was NT\$878 million lower than the NT\$1,066 million registered in the previous quarter.

Income before tax declined 26.4% sequentially to NT\$16.3 billion. The Company's provision for tax expenses of NT\$2.1 billion was more than offset by an investment tax credit of NT\$2.6 billion. TSMC's 1Q05 net income was NT\$16.8 billion with a net margin of 30.2%.

## I. Revenue Analysis

### I - 1. Wafer Sales Analysis

| By Application    | 1Q05 | 4Q04 | 1Q04 |
|-------------------|------|------|------|
| Computer          | 34%  | 35%  | 32%  |
| Communication     | 41%  | 41%  | 45%  |
| Consumer          | 17%  | 16%  | 17%  |
| Industrial/Others | 6%   | 6%   | 4%   |
| Memory            | 2%   | 2%   | 2%   |

| By Technology | 1Q05 | 4Q04 | 1Q04 |
|---------------|------|------|------|
| 0.13um-       | 45%  | 36%  | 20%  |
| 0.15/0.18um   | 31%  | 34%  | 44%  |
| 0.25um        | 12%  | 14%  | 18%  |
| 0.35um        | 6%   | 9%   | 11%  |
| 0.50um+       | 6%   | 7%   | 7%   |

| By Customer Type | 1Q05 | 4Q04 | 1Q04 |
|------------------|------|------|------|
| Fabless          | 68%  | 66%  | 69%  |
| IDM              | 31%  | 33%  | 30%  |
| System           | 1%   | 1%   | 1%   |

| By Geography  | 1Q05 | 4Q04 | 1Q04 |
|---------------|------|------|------|
| North America | 79%  | 75%  | 74%  |
| Asia Pacific  | 8%   | 10%  | 13%  |
| Europe        | 6%   | 7%   | 7%   |
| Japan         | 7%   | 8%   | 6%   |

### Revenue Analysis:

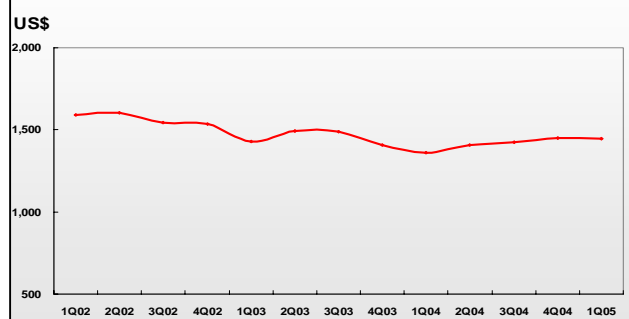
Net sales decreased 12.9% to NT\$55.7 billion compared with NT\$63.9 billion in the fourth quarter 2004. The decrease in first quarter revenue mainly resulted from an 8.8% decrease in wafer shipments and a 4.4% depreciation of the US dollar against local currency. Wafer average selling price (ASP) remained at the same level as in 4Q04.

Revenues declined across computer, communication, and consumer applications in this quarter due mainly to continuing inventory digestion in the industry and low seasonality. Revenue mix by application remained similar to last quarter.

Demand from advanced technologies - defined as 0.13-micron and below – strengthened further amid a relatively weak business environment in 1Q05. Revenue contribution from advanced process technologies increased to 45% of total wafer sales from 36% previously. Sales from 90nm accounted for 4% of total wafer sales.

IDM accounted for 31% of wafer sales during the quarter, compared to 33% in the previous quarter. Geographically, North America accounted for 79% of wafer sales, compared to 75% previously.

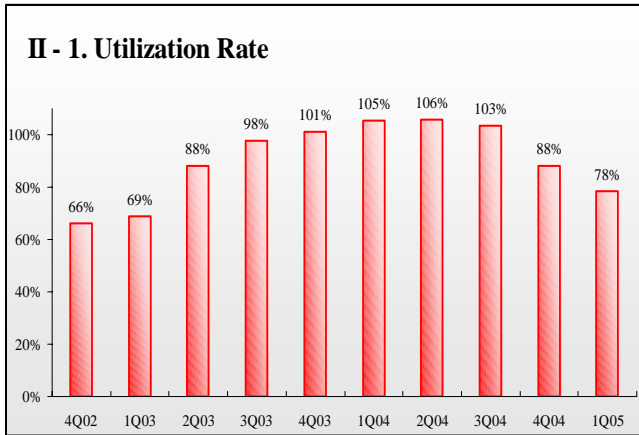
### I - 2. ASP Trend



### ASP Trend:

ASP remained at the same level as in 4Q04. This is the result of product mix improvement, offset by price erosion.

## II. Utilization & Capacity



### Utilization Rate:

Overall capacity utilization decreased to 78% in this quarter from 88% in 4Q04 due mainly to the soft demand that resulted from customers' inventory digestion and low seasonality.

## II - 2. Capacity

| Fab / (Wafer size)                              | 1Q05 (Est.)  | 1Q05 (Act.)  | 2Q05 (Est.)  |
|---|--------------|--------------|--------------|
| Fab-2 (6") <sup>1</sup>                         | 238          | 238          | 249          |
| Fab-3 (8")                                      | 234          | 234          | 245          |
| Fab-5 (8")                                      | 119          | 119          | 125          |
| Fab-6 (8")                                      | 203          | 203          | 214          |
| Fab-7 (8")                                      | 36           | 36           | 39           |
| Fab-8 (8")                                      | 215          | 222          | 217          |
| Fab-12 (12") <sup>2</sup>                       | 85           | 85           | 103          |
| Fab-14 (12") <sup>2</sup>                       | 18           | 18           | 36           |
| <b>TSMC - owned capacity 8"-equivalent Kpcs</b> | <b>1,172</b> | <b>1,180</b> | <b>1,292</b> |
| WaferTech (8")                                  | 95           | 95           | 96           |
| SSMC (8")                                       | 41           | 41           | 42           |
| TSMC (Shanghai) (8")                            | 9            | 9            | 22           |
| <b>Total TSMC - managed 8"-equivalent Kpcs</b>  | <b>1,317</b> | <b>1,324</b> | <b>1,451</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 1Q05 was 1,324K 8-inch equivalent wafers, slightly higher than the 1,317K wafers forecasted in our 4Q04 quarterly management report. The difference was a result of the rescheduling of annual maintenance for Fab 8 to 2Q05 from 1Q05.

TSMC managed capacity in 2Q05 is estimated to increase to 1,451K wafers, representing a 9.6% sequential growth. The newly added capacity in 2Q05 will be mainly for the continuing ramp up of Fab 12 and 14, totaling 36K 12-inch wafers.

Overall installed capacity for year 2005 is expected to reach 5.97 million 8-inch equivalent wafers, a 25% year-on-year growth.

### III. Profit & Expense Analysis

#### III - 1. Gross Profit Analysis

| (Amount: NT\$ billion) | <u>1Q05</u> | <u>4Q04</u> | <u>1Q04</u> |
|------------------------|-------------|-------------|-------------|
| <b>COGS</b>            | <b>34.0</b> | <b>36.7</b> | <b>34.8</b> |
| Depreciation           | 15.2        | 14.9        | 13.4        |
| Other MFG Cost         | 18.8        | 21.8        | 21.4        |
| <b>Gross Profit</b>    | <b>21.6</b> | <b>27.2</b> | <b>22.7</b> |
| <b>Gross Margin</b>    |             |             |             |
| - TSMC                 | 38.9%       | 42.5%       | 39.5%       |
| - TSMC w/o affiliates  | 42.1%       | 47.8%       | 44.3%       |

#### III - 2. Operating Expense Analysis

| (Amount: NT\$ billion)      | <u>1Q05</u> | <u>4Q04</u> | <u>1Q04</u> |
|-----------------------------|-------------|-------------|-------------|
| <b>Total Operating Exp.</b> | <b>5.57</b> | <b>6.12</b> | <b>5.19</b> |
| SG&A                        | 2.22        | 2.56        | 2.33        |
| Research & Development      | 3.35        | 3.57        | 2.86        |

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

| (Amount: NT\$ million)             | <u>1Q05</u>  | <u>4Q04</u>  | <u>1Q04</u> |
|------------------------------------|--------------|--------------|-------------|
| <b>Non-Operating Income/(Exp.)</b> | <b>386</b>   | <b>457</b>   | <b>92</b>   |
| Net Interest Income/(Exp.)         | 197          | 227          | (74)        |
| Other Non-Operating                | 190          | 230          | 166         |
| <b>L-T Investments</b>             | <b>(198)</b> | <b>609</b>   | <b>803</b>  |
| WaferTech*                         | 195          | 891          | 817         |
| SSMC                               | 104          | 31           | 145         |
| Vanguard                           | 293          | 423          | 323         |
| TSMC (Shanghai)                    | (280)        | (359)        | 0           |
| Miscellaneous                      | (510)        | (377)        | (483)       |
| <b>Total Non-Operating Items</b>   | <b>188</b>   | <b>1,066</b> | <b>895</b>  |

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

#### Gross Profit Analysis:

Gross profit decreased 20.3% from the previous quarter to NT\$21.6 billion. Gross margin declined to 38.9% from 42.5% in 4Q04 mainly due to lower levels of wafer output and an unfavorable exchange rate.

During the quarter, the gross margin from TSMC's own fab manufacturing activities declined to 42.1% from 47.8% in 4Q04.

#### Operating Expenses:

Operating expenses decreased to NT\$5.6 billion in this quarter. As Fab 14 continually increased commercial production volume, fewer engineering wafers were required and, as a result, R&D expenditures were sequentially lower. As Fab 12 (Phase II) commenced commercial production, it stopped incurring opening expenses, which led to lower SG&A expenditures. During this quarter, operating expenses represented 10% of net sales, compared to last quarter's 9.6%.

#### Non-Operating Items:

Combined result from non-operating income and long-term investment decreased to a gain of NT\$188 million from NT\$1,066 million in the previous quarter.

During the quarter, non-operating income decreased to NT\$386 million from last quarter's NT\$457 million. This decrease was due mainly to higher revaluation losses of short-term investments in marketable securities and foreign exchange losses from hedging activities, offset partially by the receipt of payment from the settlement of the lawsuit against SMIC.

Long-term investment incurred a loss of NT\$198 million in this quarter, compared to a gain of NT\$609 million in 4Q04. The differences were mainly attributable to lower levels of profit at WaferTech and VIS, offset partially by the improvement in SSMC and TSMC (Shanghai).

## IV. Financial Condition Review

### IV - 1. Liquidity Analysis

| (Amount: NT\$ million)           | <u>1Q05</u>  | <u>4Q04</u>  | <u>1Q04</u>  |
|----------------------------------|--------------|--------------|--------------|
| Cash & S-T Investments           | 111.9        | 118.5        | 126.3        |
| Accounts Receivable - Trade      | 22.4         | 27.2         | 27.0         |
| Inventory                        | 13.4         | 14.2         | 11.0         |
| <b>Total Current Assets</b>      | <b>159.7</b> | <b>173.7</b> | <b>175.7</b> |
| Accounts Payable                 | 19.1         | 40.8         | 25.3         |
| Accrued Liabilities and Others   | 18.8         | 19.8         | 12.8         |
| <b>Total Current Liabilities</b> | <b>37.9</b>  | <b>60.6</b>  | <b>38.1</b>  |
| Current Ratio (x)                | 4.2          | 2.9          | 4.6          |
| <b>Net Working Capital</b>       | <b>121.9</b> | <b>113.0</b> | <b>137.6</b> |

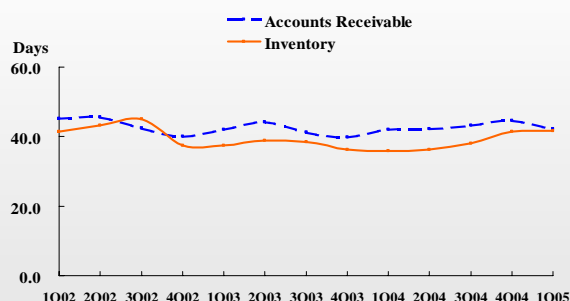
### *Liquidity Analysis:*

Total current assets were NT\$13.9 billion lower on a sequential basis. The decrease was mainly attributable to lower cash & short-term investments and accounts receivable.

Total current liabilities were NT\$22.7 billion lower sequentially, due mainly to the payment of accounts payable related to production equipment purchased previously.

As a result, net working capital increased to NT\$121.9 billion and current ratio increased to 4.2x.

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



### *Receivable/Inventory Days Trend:*

Days of receivables improved to 42 days compared to 45 days in 4Q04, reflecting accelerated collection of accounts receivable during 1Q05.

Days of Inventory increased to 42 days as compared to 41 days in the previous quarter. The increase was due mainly to higher portion of 12-inch wafer production that took place during 1Q05, which carries higher values for WIP.

### IV - 3. Debt Service

| (Amount: NT\$ billion) | <u>1Q05</u> | <u>4Q04</u> | <u>1Q04</u> |
|------------------------|-------------|-------------|-------------|
| Cash & S-T Investments | 111.9       | 118.5       | 126.3       |
| Interest-Bearing Debt  | 30.0        | 30.0        | 35.0        |
| Net Cash Reserves      | 81.9        | 88.5        | 91.3        |

### *Debt Service:*

Net cash reserves, defined as the excess of cash and short-term investments over interest-bearing debt, decreased by NT\$6.6 billion to NT\$81.9 billion in 1Q05. The decrease reflected lower levels of cash & short-term investments in this quarter.

Interest-bearing debt remained at the same level of NT\$30 billion as in the previous quarter.

## V. Cash Flow & CapEx

| <b>V - 1. Cash Flow Analysis</b>    |                      |                      |                      |
|-------------------------------------|----------------------|----------------------|----------------------|
| (Amount: NTS billion)               | <u>1Q05</u>          | <u>4Q04</u>          | <u>1Q04</u>          |
| Net Income                          | 16.8                 | 22.2                 | 18.8                 |
| Depreciation & Amortization         | 16.7                 | 16.6                 | 15.1                 |
| Other Op Sources/(Uses)             | 2.5                  | (2.1)                | (1.2)                |
| <b>Total Op Sources/(Uses)</b>      | <b><u>36.0</u></b>   | <b><u>36.7</u></b>   | <b><u>32.7</u></b>   |
| Capital Expenditure                 | (38.2)               | (20.5)               | (16.4)               |
| Short Term Investment               | 1.3                  | (6.9)                | (7.3)                |
| Long Term Investment                | (4.3)                | (17.0)               | (0.2)                |
| Other Investing Sources/(Uses)      | (0.2)                | (0.0)                | 0.0                  |
| <b>Net Investing Sources/(Uses)</b> | <b><u>(41.3)</u></b> | <b><u>(44.4)</u></b> | <b><u>(23.9)</u></b> |
| Treasury Stock                      | 0.0                  | 0.0                  | (0.5)                |
| Payment on long-term bonds payable  | 0.0                  | (5.0)                | 0.0                  |
| Other Financing Sources/(Uses)      | (0.0)                | (0.1)                | (0.1)                |
| <b>Net Financing Sources/(Uses)</b> | <b><u>(0.0)</u></b>  | <b><u>(5.1)</u></b>  | <b><u>(0.6)</u></b>  |
| <b>Net Cash Position Changes</b>    | <b>(5.3)</b>         | <b>(12.8)</b>        | <b>8.2</b>           |
| <b>Cash Balance</b>                 | <b>60.2</b>          | <b>65.5</b>          | <b>106.5</b>         |

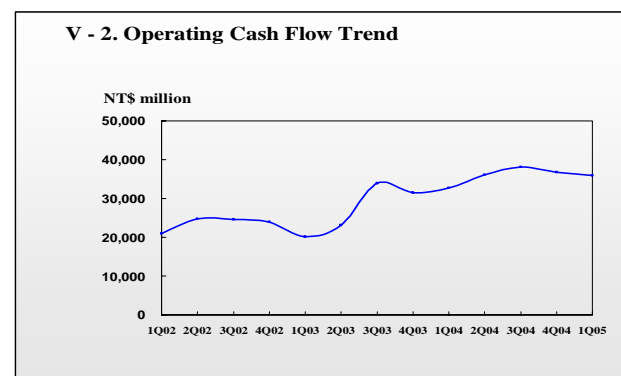
### *Summary of Cash Flow:*

During this quarter, TSMC generated NT\$36.0 billion operating cash inflow, mainly from net income of NT\$16.8 billion and depreciation & amortization of NT\$16.7 billion.

Net cash used in investing activities totaled NT\$41.3 billion, including (i) capital spending of NT\$38.2 billion, (ii) long-term investment of NT\$4.3 billion, comprising primarily a NT\$3.0 billion (US\$95 million) capital injection to TSMC (Shanghai), and a NT\$1.4 billion net increase in government bonds.

There was no material financing activity during this quarter.

As a result, TSMC ended the quarter with a cash balance of NT\$60.2 billion, NT\$5.3 billion lower than in 4Q04.



### *Operating Cash Flow Trend:*

Operating cash flow of NT\$36.0 billion was slightly lower than the previous quarter, due mainly to NT\$5.4 billion lower net income in 1Q05, ameliorated primarily by a decline in accounts receivable.

| <b>V - 3. Capital Expenditure</b> |                    |
|-----------------------------------|--------------------|
| <b>TSMC</b>                       | <b>US\$1,210 m</b> |
| <b>TSMC (Shanghai)</b>            | <b>US\$ 97 m</b>   |
| <b>WaferTech</b>                  | <b>US\$ 1 m</b>    |
| <b>TSMC Group</b>                 | <b>US\$1,308 m</b> |

### *Capital Spending:*

Capital expenditures for TSMC alone during the quarter totaled US\$1.2 billion. Most of the spending was for 12-inch production equipment.

Capital spending was US\$97 million for TSMC (Shanghai), and US\$1 million for WaferTech.

For year 2005, total capital expenditure for TSMC as a group is expected to be in the range of US\$2.5 billion to US\$2.7 billion, unchanged from our previous guidance given in January 2005.



## **VI. Recap of Recent Important Events & Announcements**

- **TSMC Board of Directors Proposes NT\$2.0 Cash Dividend and 5% Stock Dividend for 2004 Profit Distribution ( 2005/02/22 )**
- **TSMC Appoints Mr. Jason Chen as Vice President of Corporate Development ( 2005/02/12 )**
- **TSMC Unveils 90 Nanometer Libraries to Support Nexsys<sup>SM</sup> 90nm Production ( 2005/02/01 )**
- **TSMC Reaches Settlement with SMIC ( 2005/01/30 )**
- **TSMC Helps Altera Deliver World's Highest-Density, Highest-Performance FPGA Produced with 90nm Process Technology ( 2005/01/21 )**

\* 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.