



## TSMC Reports 17% Sequential Increase in Fourth Quarter Revenue with EPS of NT\$1.37

Hsin-Chu, Taiwan, R.O.C., January 26, 2006 -- TSMC today announced revenue of NT\$81.16 billion, net income of NT\$33.9 billion, and fully diluted earnings per share of NT\$1.37 per share (US\$0.21 per ADS unit) for the fourth quarter ended December 31, 2005.

On a sequential basis, fourth quarter results represent a 17.2% increase in revenue, and a 38.4% increase in both net income and fully diluted EPS. Year-over-year, fourth quarter revenue increased 27.1% while net income and fully diluted EPS both increased 52.8%. All figures were prepared in accordance with R.O.C. GAAP on an unconsolidated basis.

As a result of stronger than expected demand across all major product segments, fourth quarter revenue surpassed guidance. Gross margin for the fourth quarter climbed 5 percentage points to 49.1%, due to higher levels of capacity utilization and more favorable currency exchange rates. Advanced process technologies (0.13-micron and below) accounted for 49% of wafer revenues while revenues from 90-nanometer process technology alone reached 17% of the total wafer sales. Overall utilization was 104%. Operating margin jumped from 36% in third quarter to 42.2% in fourth quarter, and net margin improved to 41.8% from 35.4% quarter over quarter.

“Due primarily to continued robust demand from our customers, our fourth quarter business exceeded our previous guidance,” said Lora Ho, VP and Chief Financial Officer of TSMC. “Meanwhile, we expect our operating performance for the coming quarter to be better than the average seasonal pattern, but an anticipated depreciation of the US dollar against the NT dollar will impact our revenue by more than 4 percent,” said Ho. “Based on our current business and foreign exchange rate expectations, management’s expectations for first quarter 2006 performance are as follows”:

- Revenue to be between NT\$73 billion and NT\$76 billion;
- Gross profit margin to be between 46% and 48%;
- Operating profit margin to be approximately 39%.

Ho said management also expects that 2006 capital expenditure will be in the range of US\$2.6 billion to US\$2.8 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 26, 2006. 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 **1-617-614-2712** 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 is the first foundry to run 65-nanometer customer design prototype wafers. 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)

#### CONTACT

**Elizabeth Sun / Eric Chiang / Harrison Hsueh / Julie Wei**

Investor Relations Division

TSMC

[invest@tsmc.com](mailto:invest@tsmc.com)

886-3-568- 2085/ 2087/ 2088/ 2086

#### ***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.



4Q05

Quarterly Management Report  
January 26, 2006**CONTACT**

Elizabeth Sun / Eric Chiang

Harrison Hsueh / Julie Wei

Investor Relations Division

TSMC

[invest@tsmc.com](mailto:invest@tsmc.com)

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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>4Q05</u>	<u>3Q05</u>	<u>4Q04</u>	<u>QoQ</u>	<u>YoY</u>
EPS (NT\$ per common share) (US\$ per ADR unit)	1.37 0.21	0.99 0.15	0.90 0.14	38.4%	52.7%
Net Sales	81.16	69.26	63.87	17.2%	27.1%
Gross Profit	39.86	30.53	27.15	30.6%	46.8%
Operating Expenses	(5.64)	(5.60)	(6.12)	0.8%	(7.9%)
Non-Operating Items	1.18	(0.51)	1.07		10.5%
Net Income	33.90	24.49	22.18	38.4%	52.8%
Capacity Utilization	104%	96%	88%		
Net Profit Margin	41.8%	35.4%	34.7%		

**Remarks:**

The fourth quarter EPS of NT\$1.37 represents a 38.4% increase compared to 3Q05. The unconsolidated operating results of 4Q05 are summarized below:

Net sales were NT\$81.16 billion, up 17.2% compared to net sales of NT\$69.26 billion in the previous quarter. Net sales for the quarter surpassed the top end of our guidance by approximately NT\$2 billion, driven by stronger than expected demand across all major product segments.

Gross profit was NT\$39.86 billion, representing a 30.6% increase from the previous quarter. Gross margin improved by five percentage points sequentially to 49.1%, mainly due to higher levels of capacity utilization and more favorable exchange rates.

Operating expenses were NT\$5.64 billion or 6.9% of net sales. The combined result from non-operating income and long-term investments was a gain of NT\$1.18 billion, compared to a loss of NT\$510 million in the third quarter of 2005.

Net income was NT\$33.9 billion, up 38.4% sequentially. Net margin was 41.8%.

## I. Revenue Analysis

### I - 1. Wafer Sales Analysis

By Application	4Q05	3Q05	4Q04
Computer	32%	30%	35%
Communication	41%	41%	41%
Consumer	21%	23%	16%
Industrial/Others	5%	5%	6%
Memory	1%	1%	2%

By Technology	4Q05	3Q05	4Q04
90nm	17%	10%	1%
0.11/0.13um	32%	33%	35%
0.15/0.18um	32%	35%	34%
0.25/0.35um	14%	16%	23%
0.50um+	5%	6%	7%

By Customer Type	4Q05	3Q05	4Q04
Fabless/System	72%	71%	67%
IDM	28%	29%	33%

By Geography *	4Q05	3Q05	4Q04
North America	77%	75%	75%
Asia Pacific	11%	11%	10%
Europe	8%	9%	7%
Japan	4%	5%	8%

\* This does not reflect the actual shipment destination of sales.

### Revenue Analysis:

Net sales increased 17.2% sequentially to NT\$81.16 billion, topping the high end of our guidance by approximately NT\$2 billion, driven by stronger than expected demand across all major product segments.

On a quarter over quarter basis, revenues from computer applications increased by 30%, followed by an 18% increase from communications. Revenues from consumer applications also grew by 6% sequentially.

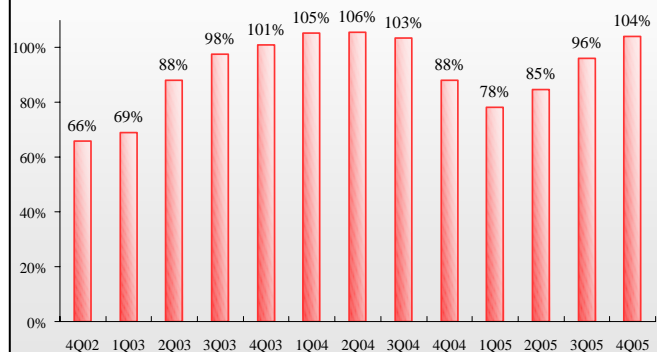
Revenue from advanced technologies - defined as 0.13-micron and below - accounted for 49% of total wafer sales, up from 43% in the previous quarter. Revenue from 90nm was up strongly and accounted for 17% of total wafer sales during the quarter, compared to 10% in the third quarter of 2005.

IDM accounted for 28% of total wafer sales during the quarter, down slightly from 29% in the previous quarter.

Geographically, North America accounted for 77% of wafer sales, up from 75% in 3Q05. Meanwhile, sales from Europe and Japan declined by one percentage point sequentially to 8% and 4% of wafer sales, respectively.

## II. Utilization & Capacity

### II - 1. Utilization Rate



### Utilization Rate:

Overall capacity utilization improved by eight percentage points to 104% in this quarter, reflecting strong demand from customers across the board and operational efficiencies.

## II - 2. Capacity

Fab / (Wafer size)	3Q05 (Act.)	4Q05 (Act.)	2005 (Act.)	1Q06 (Fest.)
Fab-2 (6") <sup>1</sup>	251	251	989	244
Fab-3 (8")	247	247	973	246
Fab-5 (8")	126	126	496	135
Fab-6 (8")	217	217	850	215
Fab-7 (8")	40	40	155	33
Fab-8 (8")	227	227	893	231
Fab-12 (12") <sup>2</sup>	122	139	448	142
Fab-14 (12") <sup>2</sup>	46	56	156	61
<b>TSMC - owned capacity 8"-equivalent Kpcs</b>	<b>1,374</b>	<b>1,437</b>	<b>5,282</b>	<b>1,455</b>
Wafer Tech (8")	100	100	389	99
SSMC (8")	47	49	179	49
TSMC (Shanghai) (8")	30	44	105	48
<b>Total TSMC - managed 8"-equivalent Kpcs</b>	<b>1,550</b>	<b>1,629</b>	<b>5,955</b>	<b>1,651</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 4Q05 was 1,629K 8-inch equivalent wafers, 5.1% higher than the 1,550K wafers in 3Q05.

Overall installed capacity for year 2005 was 5.96 million 8-inch equivalent wafers, up 24.4% on a year-over-year basis. Majority of the capacity increase was dedicated to advanced technologies.

TSMC managed capacity in 1Q06 will increase slightly to 1,651K 8-inch equivalent wafers, representing a 1.3% sequential growth.

## III. Profit & Expense Analysis

### III - 1. Gross Profit Analysis

(Amount: NT\$ billion)	<u>4Q05</u>	<u>3Q05</u>	<u>4Q04</u>
<b>COGS</b>	<b>41.3</b>	<b>38.7</b>	<b>36.7</b>
Depreciation	14.9	15.5	14.9
Other MFG Cost	26.4	23.2	21.8
<b>Gross Profit</b>	<b>39.9</b>	<b>30.5</b>	<b>27.2</b>
<b>Gross Margin</b>			
- TSMC	49.1%	44.1%	42.5%
- TSMC w/o affiliates	53.6%	47.6%	47.8%

### Gross Profit Analysis:

Gross profit for the fourth quarter of 2005 was NT\$39.9 billion. Gross margin climbed by five percentage points sequentially to 49.1%. The improvement in gross margin was mainly due to higher levels of capacity utilization and a 3.8% appreciation of US dollar against the local currency.

During the quarter, the gross margin for TSMC's own fabs increased to 53.6% from 47.6% in 3Q05.

### III - 2. Operating Expense Analysis

(Amount: NT\$ billion)	<u>4Q05</u>	<u>3Q05</u>	<u>4Q04</u>
<b>Total Operating Exp.</b>	<b>5.6</b>	<b>5.6</b>	<b>6.1</b>
SG&A	2.2	2.3	2.5
Research & Development	3.4	3.3	3.6

### III - 3. Non-Operating Items

(Amount: NT\$ million)	<u>4Q05</u>	<u>3Q05</u>	<u>4Q04</u>
<b>Non-Operating Income/(Exp.)</b>	<b>952</b>	<b>(19)</b>	<b>457</b>
Net Interest Income/(Exp.)	142	(41)	227
Other Non-Operating	810	22	230
<b>Equity-Method Investments</b>	<b>225</b>	<b>(491)</b>	<b>609</b>
WaferTech	793	487	891
SSMC	348	210	31
Vanguard	177	61	423
TSMC (Shanghai)	(414)	(760)	(359)
Others	(679)	(489)	(377)

## IV. Financial Condition Review

### IV - 1. Liquidity Analysis

(Amount: NT\$ Billion)	<u>4Q05</u>	<u>3Q05</u>	<u>4Q04</u>
Cash & S-T Investments	132.4	107.3	118.5
Accounts Receivable - Trade	36.4	37.2	27.2
Inventory	16.3	15.1	14.2
<b>Total Current Assets</b>	<b>197.6</b>	<b>165.1</b>	<b>173.7</b>
Accounts Payable	20.2	20.9	40.8
Accrued Liabilities and others	12.0	22.0	19.8
<b>Total Current Liabilities</b>	<b>32.2</b>	<b>42.9</b>	<b>60.6</b>
Current Ratio (x)	6.1	3.8	2.9
Net Working Capital	165.4	122.2	113.0

### Operating Expenses:

Operating expenses were essentially flat from the previous quarter at NT\$5.6 billion. Total operating expenses represented 6.9% of net sales, down from 8.1% in the third quarter of 2005.

### Non-Operating Items:

Combined result from non-operating income and long-term investments was a gain of NT\$1.2 billion.

During the fourth quarter of 2005, the non-operating income was NT\$952 million, compared to a loss of NT\$19 million in the previous quarter. The increase in non-operating income was mainly due to an increase in gains on sale of fixed assets, scheduled settlement payment from the lawsuit against SMIC, and a smaller valuation loss under lower of cost or market method for short-term investments.

Net investment income recognized by equity method was NT\$225 million in this quarter, compared to a loss of NT\$491 million in 3Q05. This was primarily attributable to improved operating performance at TSMC's manufacturing affiliates.

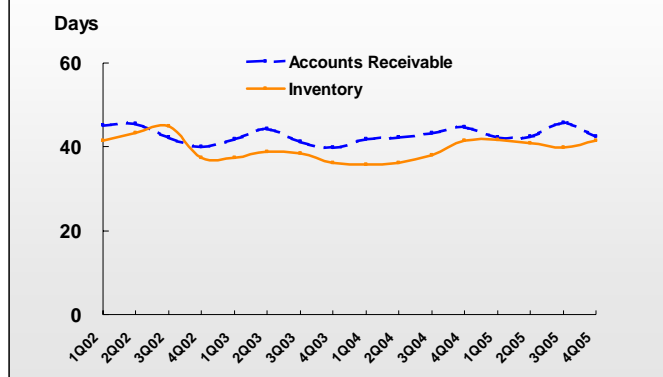
### Liquidity Analysis:

Cash & short-term investments increased by NT\$25.1 billion in this quarter, mainly due to strong cash flow from operating activities. Accounts receivable decreased slightly while inventory increased from the levels at 3Q05. As a result, TSMC ended the quarter with total current assets of NT\$197.6 billion, NT\$32.5 billion higher on a sequential basis.

Total current liabilities were NT\$32.2 billion at the end of the quarter, NT\$10.7 billion lower sequentially, mainly due to an NT\$10.5 billion pay down of corporate bond.

As a result, net working capital increased to NT\$165.4 billion and current ratio jumped to 6.1x.

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



#### Receivable/Inventory Days Trend:

Days of Receivable decreased to 42 days in 4Q05 compared to 46 days in the previous quarter.

Days of Inventory increased slightly to 42 days from 40 days in the third quarter of 2005.

#### IV - 3. Debt Service

(Amount: NT\$ Billion)	<u>4Q05</u>	<u>3Q05</u>	<u>4Q04</u>
Cash & S-T Investments	132.4	107.3	118.5
Interest-Bearing Debt	19.5	30.0	30.0
Net Cash Reserves	112.9	77.3	88.5

#### Debt Service:

As a result of strong operating performance during the quarter, net cash reserves - defined as the excess of cash and short-term investments over interest-bearing debt - increased by NT\$35.6 billion to NT\$112.9 billion in 4Q05.

Interest-bearing debt declined by NT\$10.5 billion from the previous quarter due to the pay down of corporate bond.

### V. Cash Flow & CapEx

#### V - 1. Cash Flow Analysis

(Amount: NT\$ billion)	<u>4Q05</u>	<u>3Q05</u>	<u>4Q04*</u>
Net Income	33.9	24.5	22.2
Depreciation & Amortization	16.6	17.1	16.6
Other Op Sources/(Uses)	(1.6)	(3.7)	(2.1)
<b>Total Op Sources/(Uses)</b>	<b><u>48.9</u></b>	<b><u>37.9</u></b>	<b><u>36.7</u></b>
Capital Expenditure	(13.3)	(9.1)	(20.5)
Short Term Investment	1.8	0.6	(6.9)
Long Term Investment	(1.0)	(0.7)	(9.1)
Other Investing Sources/(Uses)	0.4	(0.2)	0.0
<b>Net Investing Sources/(Uses)</b>	<b><u>(12.1)</u></b>	<b><u>(9.4)</u></b>	<b><u>(36.5)</u></b>
Cash dividends-common stocks	0.0	(46.5)	0.0
Employees Bonus	0.0	(3.1)	0.0
Repayment of Corporate Bonds	(10.5)	0.0	(5.0)
Other Financing Sources/(Uses)	0.6	0.9	(0.1)
<b>Net Financing Sources/(Uses)</b>	<b><u>(9.9)</u></b>	<b><u>(48.7)</u></b>	<b><u>(5.1)</u></b>
<b>Net Cash Position Changes</b>	<b>26.9</b>	<b>(20.1)</b>	<b>(4.8)</b>
<b>Ending Cash Balance</b>	<b>85.4</b>	<b>58.5</b>	<b>65.5</b>

\* Certain amounts have been reclassified to conform with the current period presentation.

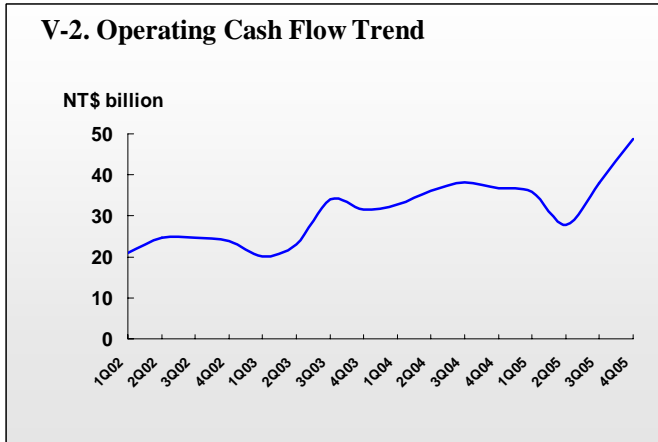
#### Summary of Cash Flow:

During this quarter, TSMC generated NT\$48.9 billion from operating activities, mainly from net income of NT\$33.9 billion and depreciation & amortization of NT\$16.6 billion.

Net cash used in investment activities totaled NT\$12.1 billion, mainly resulting from NT\$13.3 billion of capital spending.

Net cash used in financing activities was NT\$9.9 billion during this quarter, largely attributable to an NT\$10.5 billion pay down of corporate bond.

As a result, TSMC ended the quarter with a cash balance of NT\$85.4 billion, NT\$26.9 billion higher than in 3Q05.



***Operating Cash Flow Trend:***

Operating cash flow of NT\$48.9 billion was higher than the NT\$37.9 billion generated in the previous quarter, mainly due to increased net income.

**V – 3. Capital Expenditure**  
(In US\$ million)

	<u>4Q05</u>	<u>2005</u>
TSMC	\$389	2,291
TSMC (Shanghai)	4	187
WaferTech & Others	3	7
<b>TSMC &amp; Affiliates</b>	<b>\$396</b>	<b>2,485</b>

***Capital Spending:***

Capital expenditures for TSMC alone during the quarter totaled US\$389 million. Most of the spending was for the purchase of 12-inch production equipment. Capital spending for TSMC (Shanghai) in this quarter was US\$4 million.

For year 2005, total capital expenditure for TSMC and affiliates was approximately US\$2.5 billion, including US\$2.3 billion for TSMC and US\$0.2 billion for TSMC (Shanghai).



## VI. Recap of Recent Important Events & Announcements

- TSMC has entered full production of its 80 nanometer process technology for high-performance designs (2006/01/18)
- TSMC has pledged NT\$120 million for the phase II project of the Chemistry Research Center at National Taiwan University (2005/12/16)
- TSMC successfully manufactured industry's first network search engine using its 90 nanometer process technology for Integrated Device Technology, Inc., achieving new levels of performance, cost and power consumption (2005/12/07)
- TSMC was voted The Best Large Cap Company in Taiwan region by AsiaMoney (2005/12/01)
- TSMC board of directors approved capital appropriation of US\$706.5 million to expand its 65 nanometer, 0.18 micron and 0.15 micron capacities (2005/11/08)
- TSMC board of directors approved the investment of up to US\$75 million in establishing a new venture capital fund (2005/11/08)
- TSMC won 6 out of 11 award categories at the IR Magazine Hong Kong and Taiwan Awards, including Grand Prix for Best Overall Investor Relations - Large Cap and Best Corporate Governance (2005/11/04)
- TSMC was ranked No. 8 of the Top 50 Management Teams in Asia by CFO Asia magazine (2005/10)

\* 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.