

## Taiwan Semiconductor Reports 17% Increase in Sequential EPS

Hsin-Chu, Taiwan, R.O.C., April 30, 2004 -- Taiwan Semiconductor Manufacturing Company, Ltd. said today that it expects 2004 will set new records for revenue and net income. Revenues from the first quarter ended March 31, 2004 reached NT\$57.51 billion while net income and fully diluted earnings per share came to NT\$18.79 billion and NT\$0.93 per share (US\$0.14 per ADS unit), respectively.

On a sequential basis, first quarter results, which were published on Tuesday, represented a 0.5% decrease in revenue, a 17.4% increase in net income and fully diluted EPS. All figures were prepared in accordance with R.O.C. GAAP on an unconsolidated basis.

Despite a 4.0% increase in wafer shipments, a 3.2% decline in wafer average selling price (ASP) combined with a 1.5% weaker U.S. dollar exchange rate brought first quarter revenue to a level similar to 4Q03. Gross Margin for the quarter improved slightly to 39.5% from 39.3% in the previous quarter due to higher utilization levels. Net Margin for the quarter improved substantially to 32.7% compared to 27.7% previously.

Lora Ho, TSMC vice president and chief financial officer, said "TSMC's first quarter marks the beginning of a year where we believe TSMC will once again deliver record-breaking financial performance in terms of both top-line and bottom-line results."

Ho also said that, based upon the current business outlook, management's expectations for second quarter 2004 performance are:

- Wafer shipments to increase by close to 10 percent sequentially;
- ASP to improve by a low single digit percentage point sequentially;
- Overall utilization rate may exceed 105 percent;
- Gross profit margin will jump a few points;
- Revenues from advanced technologies (defined as 0.13 um and below) to exceed 25% of wafer sales;
- Demand to increase strongly in the Consumer segment, modestly for the Communication segment, but decline modestly in the Computer segment.

### **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 Friday, April 30, 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 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:**

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 June 23, 2003, TSMC's registration statement on Form F-3, filed with the SEC on October 21, 2003, 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.

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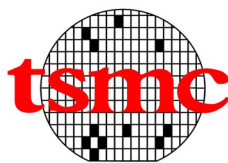
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(Management Report and Tables Follow)

FOR IMMEDIATE RELEASE



1Q04

Quarterly Management Report  
April 30, 2004

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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 NTS Bn except noted otherwise)</i>	<u>1Q04</u>	<u>4Q03</u>	<u>1Q03</u>	<u>QoQ</u>	<u>YoY</u>
EPS (NT\$ per com. shr.)	0.93	0.79	0.21	17%	342%
(US\$ per ADR unit)	0.14	0.12	0.03		
Net Sales	57.51	57.78	39.33	0%	46%
Gross Profit	22.73	22.71	10.39	0%	119%
Operating Expense	(5.19)	(6.08)	(4.19)	-15%	24%
Non-Operating Items	0.90	0.94	(2.02)	-5%	144%
Net Income	18.79	16.00	4.36	17%	331%
Wafers Shipped (kpcs 8"-equiv.)	1,172	1,127	694	4%	69%
Capacity Utilization	105%	101%	69%		
Net Profit Margin	32.7%	27.7%	11.1%		

**Remarks:**

EPS of NT\$0.93 for 1Q04 represents a 17% increase compared with 4Q03. The operating results of 1Q04 are summarized below:

Net sales of NT\$57.5 billion remained almost even with 4Q03, resulting from a 4% increase in wafer shipments, a 3.2% decrease in wafer ASP, and an unfavorable foreign exchange.

Gross profit improved sequentially to NT\$22.7 billion driven by higher capacity utilization. Gross margin improved to 39.5% from 39.3% in 4Q03.

Operating expenses of NT\$5.2 billion decreased 14.7% sequentially. Lower research and development expenditures were the main reason behind the decrease. R&D expenditures in the latest quarter returned to a level of roughly 5% of net sales, absent a one-time royalty payment related to the development activities in 65 nm technologies, which occurred in 4Q03.

Net gain from non-operating items amounted to NT\$895 million, representing a NT\$48 million decline on a sequential basis. During 1Q04 operating performance by TSMC's subsidiary/affiliates improved, and hedging costs were lower. However, the Company did not realize any capital gains from the disposal of venture capital equity investments during the quarter as it did previously.

Income before tax rose 4.9% sequentially to NT\$18.4 billion. Provision for tax expense was NT\$2.3 billion, and the Company booked a NT\$2.7 billion investment tax credit. TSMC's 1Q04 net income increased 17.4% to NT\$18.8 billion while net margin improved to 32.7% from 27.7% sequentially.

## I. Revenue Analysis

### I - 1. Wafer Sales Analysis

By Application	1Q04	4Q03	1Q03
Computer	32%	35%	41%
Communication	45%	42%	38%
Consumer	17%	17%	13%
Industrial/Others	4%	4%	6%
Memory	2%	2%	2%

By Technology	1Q04	4Q03	1Q03
0.13um-	20%	18%	11%
0.15um	17%	17%	21%
0.18um	27%	28%	21%
0.25um	18%	20%	24%
0.35um+	11%	10%	12%
0.50um+	7%	7%	11%

By Customer Type	1Q04	4Q03	1Q03
Fabless	69%	71%	68%
IDM	30%	29%	32%
System	1%	0%	0%

By Geography	1Q04	4Q03	1Q03
North America	74%	75%	76%
Asia Pacific	13%	12%	13%
Europe	7%	5%	5%
Japan	6%	8%	6%

### Revenue Analysis:

Net sales of NT\$57.5 billion were 0.5% lower than the NT\$57.8 billion recorded in 4Q03. The sequential change in TSMC net sales was attributable to 4.0% higher wafer shipments, offset partially by 3.2% lower average selling price in U.S. dollar terms and a 1.5% appreciation in NT dollar.

Communication applications continued to drive revenue during the quarter, while Consumer applications revenue also increased. Computer applications were impacted by a seasonal decrease in demand.

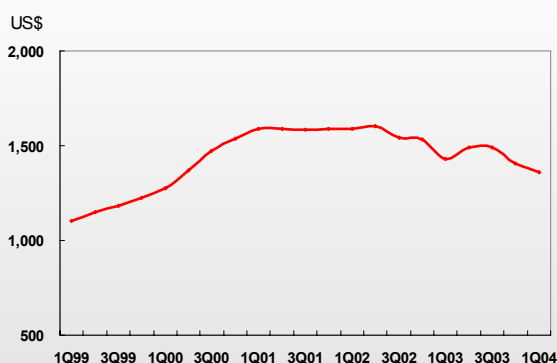
Demand from advanced technologies, defined as 0.13-micron and below, strengthened in 1Q04. Revenue from advanced technology wafers improved to 20% from 18% of the Company's total wafer sales in the quarter.

Revenue from the IDM segment strengthened to 30% of wafer sales during the quarter versus 29% in 4Q03.

On a geographical basis, the weightings for Asia and European markets improved while the percentage of Japanese sales declined.

Revenue contributed by TSMC's subsidiary/affiliates amounted to nearly 13% (NT\$7.4 billion) of net sales during the quarter versus 12% (NT\$7.2 billion) in 4Q03.

### I-2. ASP Trend

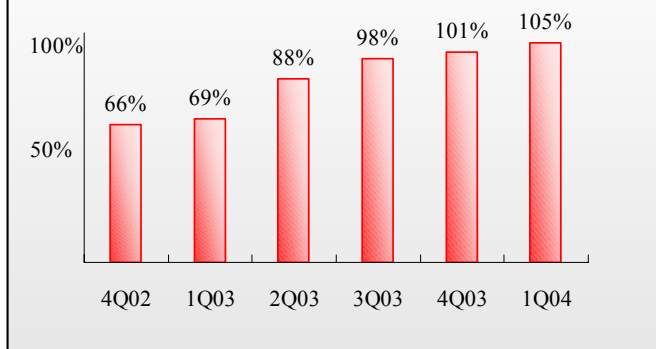


### ASP Trend:

Average selling price in U.S. dollars declined 3.2% sequentially, albeit at a slower rate than that of the previous quarter. The price erosion occurred as TSMC continued to honor previous commitments.

## II. Utilization & Capacity

### II - 1. Utilization Rate



### Utilization Rate:

Overall capacity utilization improved to 105% in the latest quarter from 101% in 4Q03. This increase reflected sequential business improvement experienced in the first quarter.

### II - 2. Capacity

Fab / (Wafer size)	4Q03 (Act.)	1Q04 (Act.)	2Q04 (Est.)
Fab-2 (6") <sup>1</sup>	227	217	228
Fab-3 (8")	213	208	221
Fab-5 (8")	112	106	116
Fab-6 (8")	183	187	192
Fab-7 (8")	35	51	35
Fab-8 (8")	189	182	202
Fab-12 (12") <sup>2</sup>	40	43	50
<b>TSMC - owned capacity 8"-equivalent Kpcs</b>	<b>949</b>	<b>953</b>	<b>1,004</b>
Wafer Tech (8")	89	88	88
SSMC (8")	29	29	33
<b>Total TSMC - managed 8"-equivalent Kpcs</b>	<b>1,067</b>	<b>1,070</b>	<b>1,125</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 1Q04 was 1,070K 8-inch equivalent wafers, representing 0.3% sequential growth.

While the majority of TSMC fabs conducted annual maintenance in 1Q04, managed capacity was 3K higher than the previous quarter.

Overall installed capacity for 2004 is now expected to be 4.8 million 8-inch equivalent wafers, representing 19% year-on-year growth, while 12-inch wafer capacity will increase by about 130%.

### III. Profit & Expense Analysis

#### III - 1. Gross Profit Analysis

(Amount: NT\$ Billion)	<u>1Q04</u>	<u>4Q03</u>	<u>1Q03</u>	<u>QoQ</u>	<u>YoY</u>
<b>COGS</b>	<b>34.8</b>	<b>35.1</b>	<b>28.9</b>	-1%	20%
Depreciation	13.4	13.9	13.7	-3%	-2%
Other MFG Cost	21.4	21.2	15.2	1%	40%
<b>Gross Profit</b>	<b>22.7</b>	<b>22.7</b>	<b>10.4</b>	0%	119%
<b>Gross Margin</b>					
- TSMC	39.5%	39.3%	26.4%		
- TSMC w/o affiliates	44.3%	44.2%	28.8%		

#### Gross Profit Analysis:

Gross profit increased marginally to NT\$22.7 billion. Despite an unfavorable exchange rate, gross margin improved slightly to 39.5% from 39.3% in 4Q03. The increase in gross margin was primarily due to higher capacity utilization.

Excluding wafers manufactured by TSMC's subsidiaries/affiliates, the gross margin from TSMC's own manufacturing activities improved slightly to 44.3% during the quarter.

#### III - 2. Operating Expense Analysis

(Amount: NT\$ Billion)	<u>1Q04</u>	<u>4Q03</u>	<u>1Q03</u>	<u>QoQ</u>	<u>YoY</u>
<b>Total Operating Exp.</b>	<b>5.19</b>	<b>6.09</b>	<b>4.19</b>	-15%	24%
SG&A	2.33	2.03	1.68	15%	39%
Research & Development	2.86	4.06	2.51	-29%	14%

#### Operating Expenses:

Operating expenses decreased 15% sequentially to NT\$5.19 billion. Selling, general and administrative expenses increased 15% due to business activity growth, while Research and Development expenses decreased 29% sequentially. Absent a one-time payment on royalties related to the development activities in 65 nm technologies which occurred in 4Q03, the R&D expenditures in the latest quarter returned to a level about 5% net sales. Total operating expenses amounted to 9.0% of net sales, compared with 10.5% in 4Q03.

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

(Amount: NT\$ Mn)	<u>1Q04</u>	<u>4Q03</u>	<u>1Q03</u>	<u>QoQ</u>	<u>YoY</u>
<b>Non-Operating Income/(Exp.)</b>	<b>92</b>	<b>(193)</b>	<b>(499)</b>	148%	119%
Net Interest Income/(Exp.)	(74)	(14)	(311)	-415%	76%
Other Non-Operating	166	(178)	(187)	193%	189%
<b>L-T Investments</b>	<b>803</b>	<b>1,135</b>	<b>(1,516)</b>	-29%	153%
WaferTech*	817	549	(619)	49%	232%
SSMC	145	131	(276)	11%	153%
Vanguard	323	99	(208)	226%	255%
Miscellaneous	(483)	356	(413)	-236%	-17%

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

#### Non-Operating Items:

Combined Non-operating Items represented a gain of NT\$895 million in 1Q04 compared with a gain of NT\$943 million in 4Q03. Net Non-operating Income of NT\$92 million in the latest quarter was primarily attributed to lower hedging costs, vendor reimbursements and proceeds from selling equity shares of a certain listed company. A long-term investment gain of NT\$803 million resulted from the general improvement of business operations at TSMC's subsidiaries/affiliates, meanwhile, the Company did not realize any capital gains from the disposal of venture capital equity investments as it had in 4Q03.

## IV. Financial Condition Review

### IV - 1. Liquidity Analysis

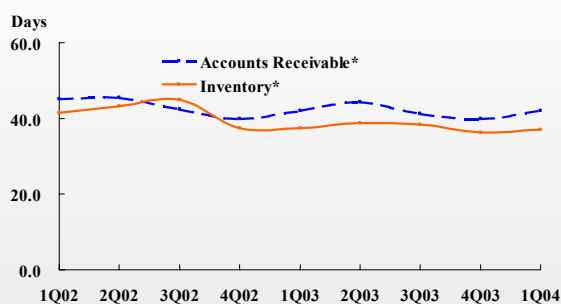
(Amount: NT\$ Billion)	<u>1Q04</u>	<u>4Q03</u>	<u>1Q03</u>
Cash & S-T Investments	126.3	110.8	67.4
Accounts Receivable	27.2	25.8	17.6
Inventory	11.0	10.9	10.2
Total Current Assets	175.7	158.5	103.0
Accounts Payable	33.1	25.5	20.3
Total Current Liabilities	38.1	30.5	20.3
Current Ratio (x)	4.6	5.2	5.1
Net Working Capital	137.6	128.0	82.6

### *Liquidity Analysis:*

Total current assets were NT\$17.2 billion higher on a sequential basis, mainly due to higher levels of cash and short-term investments. Meanwhile, accounts payable increased by NT\$7.54 billion to NT\$33.1 billion, driven by an increase in capital equipment purchasing. As a result, the Company's current ratio declined to 4.6x as compared to 5.2x previously.

Net working capital of NT\$137.6 billion was NT\$9.6 billion greater than the previous quarter, reflecting stronger operating cash flows.

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



\* Turnover figures represent trailing averages of the previous four quarters.

### *Receivable/Inventory Days Trend:*

Turnover of receivables grew slightly to 42 days revenue compared to 40 days in the previous quarter.

Inventories amounted to an equivalent of 37 days of cost-of-goods-sold, roughly the same as the previous quarter.

### IV - 3. Debt Service

(Amount: NT\$ Billion)	<u>1Q04</u>	<u>4Q03</u>	<u>1Q03</u>
Cash & S-T Investments	126.3	110.8	67.4
Interest-Bearing Debt	35.0	35.0	35.0
Net Cash Reserves	91.3	75.8	32.4

### *Debt Service:*

Net cash reserves increased significantly by NT\$15.5 billion to NT\$91.3 billion in 1Q04, reflecting TSMC's consistently strong operating cash flows.

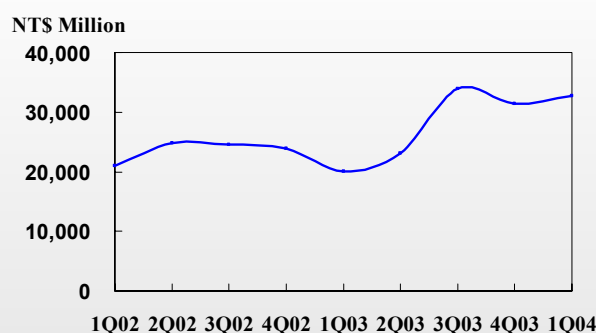
Interest-bearing debt remained unchanged at NT\$35.0 billion.

## V. Cash Flow & CapEx

### V - 1. Cash Flow Analysis

(Amount: NTS Billion)	<u>1Q04</u>	<u>4Q03</u>	<u>1Q03</u>
Net Income	18.8	16.0	4.4
Depreciation & Amortization	15.1	15.5	15.4
Other Op Sources/(Uses)	(1.2)	(0.0)	0.4
<b>Total Op Sources/(Uses)</b>	<b><u>32.7</u></b>	<b><u>31.5</u></b>	<b><u>20.1</u></b>
Capital Expenditure	(16.4)	(12.8)	(9.1)
Short Term Investment	(7.3)	(0.9)	0.0
Long Term Investment	(0.2)	(2.0)	(1.0)
Other Investing Sources/(Uses)	(0.1)	(0.2)	(0.3)
<b>Net Investing Sources/(Uses)</b>	<b><u>(23.9)</u></b>	<b><u>(15.9)</u></b>	<b><u>(10.3)</u></b>
Treasury Stock	(0.5)	0.0	0.0
Corporate Bond	0.0	0.0	(4.0)
Other Financing Sources/(Uses)	(0.1)	(0.1)	0.0
<b>Net Financing Sources/(Uses)</b>	<b><u>(0.6)</u></b>	<b><u>(0.1)</u></b>	<b><u>(4.0)</u></b>
<b>Net Cash Position Changes</b>	<b>8.2</b>	<b>15.6</b>	<b>5.8</b>

### V - 2. Operating Cash Flow Trend



### V-3. Capital Commitment and Capacity Highlights

- Actual 1Q04 capital expenditure: US\$489 million.
- Estimated 2004 capacity (excluding VIS): to be above 4.8 million wafers at 8"-equivalent, 19% growth year-over-year.

### Summary of Cash Flow:

During 1Q04, TSMC generated NT\$32.7 billion operating cash inflow mainly from net income and depreciation.

Net cash used in investing activities totaled NT\$23.9 billion, including acquisitions of fixed assets in the amount of NT\$16.4 billion and increases in short-term investments of NT\$7.3 billion, mainly for purchasing government bonds. Under a share buyback program, the Company had spent NT\$0.5 billion in the latest quarter. This and the return of guarantee deposits to a few customers constituted the NT\$0.6 billion net financing uses.

TSMC ended the quarter with NT\$15.5 billion more cash and short-term investments. Cash increased by NT\$8.2 billion while short-term investments went up by NT\$7.3 billion sequentially.

### Operating Cash Flow Trend:

Operating cash flow of NT\$32.7 billion was 4% higher than the previous quarter, largely due to higher net income.

### Capital Spending:

TSMC's capital expenditures during the quarter totaled US\$489 million, 31% higher than the previous quarter. Most of the spending was for 12-inch capacity ramp-up in Fab 12 and Fab 14.

TSMC remains fully committed to providing capacity that meets both the fabrication and technological needs of its customers. 2004 planned capacity is 4.8 million wafers at 8-inch equivalent, resulting in 19% year-over-year growth.



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

- **TSMC to Supply Products and Services for Future Microsoft Game Consoles (2004/04/06)**
- **TSMC Board of Directors Approves Share Buyback Plan (2003/03/23)**
- **Qualcomm and TSMC Collaborate on 90nm Low-Power Process for Wireless Applications (2004/03/10)**
- **nVidia Adopts TSMC's 0.11-micron Technology (2004/02/25)**
- **TSMC Board of Directors Proposes NT\$2.0 Dividend Including NT\$1.4 Stock and NT\$0.6 Cash Dividend (2004/02/17)**
- **TSMC Celebrates Two Generations of Low-k Production on 0.13-micron and 90nm (2004/02/05)**
- **TSMC's Low-k Technology Goes Mainstream (2004/02/03)**

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