

TAIWAN SEMICONDUCTOR MANUFACTURING CO LTD

Form 6-K

January 28, 2005

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1934 Act Registration No. 1-14700

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, DC 20549**

**FORM 6-K**

**REPORT OF FOREIGN PRIVATE ISSUER  
PURSUANT TO RULE 13a-16 OR 15d-16 OF  
THE SECURITIES EXCHANGE ACT OF 1934**

For the month of January 2005

**Taiwan Semiconductor Manufacturing Company Ltd.**

(Translation of Registrant's Name Into English)

**No. 8, Li-Hsin Rd. 6,  
Science-Based Industrial Park,  
Hsin-Chu, Taiwan**

(Address of Principal Executive Offices)

(Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.)

Form 20-F

Form 40-F

(Indicate by check mark whether the registrant by furnishing the information contained in this form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.)

Yes

No

(If "Yes" is marked, indicated below the file number assigned to the registrant in connection with Rule 12g3-2(b): 82: \_\_\_\_\_.)

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**FOR IMMEDIATE RELEASE****CONTACT IN TAIWAN****Elizabeth Sun/Julie Chan/Eric Chiang**

Investor Relations Division

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886-3-568-2085/2080/2087

## Topics in This Report

Revenue Analysis

Utilization &amp; Capacity

Profit &amp; Expense Analysis

Financial Condition Review

Cash Flow &amp; CapEx

Recap of Recent Important Events &amp; Announcements

**4Q04 Quarterly Management Report  
January 27, 2005****Operating Results Review:****Summary:***(Amount in NT\$ billion except noted otherwise)*

|                                     | <b>4Q04</b> | <b>3Q04</b> | <b>4Q03</b> | <b>QoQ</b> | <b>YoY</b> |
|-------------------------------------|-------------|-------------|-------------|------------|------------|
| 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%.

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**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.

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**II. Utilization & Capacity****Utilization Rate:**

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

**II 2. Capacity**

| <b>Fab / (Wafer size)</b>                     | <b>4Q04<br/>(Act.)</b> | <b>2004<br/>(Act.)</b> | <b>1Q05<br/>(Est.)</b> |
|---|------------------------|------------------------|------------------------|
| Fab-2 (6") <sup>1</sup>                       | 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") <sup>2</sup>                     | 80                     | 244                    | 85                     |
| Fab-14 (12") <sup>2</sup>                     | 6                      | 6                      | 18                     |
| <b>TSMC owned capacity 8"-equivalent Kpcs</b> | <b>1,184</b>           | <b>4,279</b>           | <b>1,172</b>           |
| Wafer Tech (8")                               | 97                     | 373                    | 95                     |
| SSMC (8")                                     | 39                     | 136                    | 41                     |
| TSMC (Shanghai) (8")                          | 1                      | 1                      | 9                      |
| <b>Total TSMC managed 8"-equivalent Kpcs</b>  | <b>1,320</b>           | <b>4,788</b>           | <b>1,317</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 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.

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**III. Profit & Expense Analysis****III 1. Gross Profit Analysis**

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

**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.

**III 2. Operating Expense Analysis**

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

**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%.

**III 3. Non-Operating Items**

| (Amount: NT\$ million) | 4Q04 | 3Q04 | 4Q03 |
|------------------------|------|------|------|
|------------------------|------|------|------|



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

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

***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.

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**IV. Financial Condition Review****IV 1. Liquidity Analysis**

| (Amount: NT\$ billion)           | <b>4Q04</b> | <b>3Q04</b> | <b>4Q03</b> |
|----------------------------------|-------------|-------------|-------------|
| 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       |

***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.

**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  |

***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.

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**V. Cash Flow & CapEx****V 1. Cash Flow Analysis**

| (Amount: NT\$ billion)               | <b>4Q04</b>   | <b>3Q04</b>   | <b>4Q03</b>   |
|--------------------------------------|---------------|---------------|---------------|
| 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)         |
| <b>Total Op Sources/(Uses)</b>       | <b>36.7</b>   | <b>38.2</b>   | <b>31.5</b>   |
| 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)         |
| <b>Net Investing Sources/(Uses)</b>  | <b>(44.4)</b> | <b>(29.1)</b> | <b>(15.9)</b> |
| 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)         |
| <b>Net Financing Sources/(Uses)</b>  | <b>(5.1)</b>  | <b>(12.9)</b> | <b>(0.1)</b>  |
| <b>Net Cash Position Changes</b>     | <b>(12.8)</b> | <b>(3.9)</b>  | <b>15.6</b>   |
| <b>Cash Balance</b>                  | <b>65.5</b>   | <b>78.3</b>   | <b>98.3</b>   |

**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.

**CapEx**

(in US\$ million)

|                 | <b>1Q04</b> | <b>2Q04</b> | <b>3Q04</b> | <b>4Q04</b> | <b>2004</b>  |
|-----------------|-------------|-------------|-------------|-------------|--------------|
| TSMC            | 489         | 683         | 484         | 621         | 2,277        |
| WaferTech       | 14          | 27          | 26          | 5           | 72           |
| TSMC (Shanghai) | 1           | 9           | 8           | 51          | 69           |
| <b>Total</b>    | <b>504</b>  | <b>719</b>  | <b>518</b>  | <b>677</b>  | <b>2,418</b> |

**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).

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**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.

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**TAIWAN SEMICONDUCTOR MANUFACTURING CO., LTD.**  
**Unconsolidated Balance Sheet**

**As of December 31, 2004 and 2003**  
**(Figures in Million of New Taiwan Dollars (NTD) and U.S. Dollars (USD)) <sup>(1)</sup>**

| ASSETS  | December 31, 2004 |                |              | December 31, 2003 |             | YoY           |             |
|---|-------------------|----------------|--------------|-------------------|-------------|---------------|-------------|
|   | USD               | NTD            | %            | NTD               | %           | Move          | Inc.(Dec.)% |
| Cash  | 2,053             | 65,532         | 13.4         | 98,288            | 24.8        | (32,756)      | (33.3)      |
| Short Term Investment                           | 1,660             | 52,979         | 10.9         | 12,559            | 3.2         | 40,420        | 321.8       |
| Accounts Receivable Trade                       | 852               | 27,205         | 5.6          | 25,643            | 6.5         | 1,562         | 6.1         |
| Inventories                                     | 444               | 14,172         | 2.9          | 10,907            | 2.8         | 3,265         | 29.9        |
| Other Current Assets                            | 432               | 13,779         | 2.8          | 11,129            | 2.7         | 2,650         | 23.8        |
| <b>Total Current Assets</b>                     | <b>5,441</b>      | <b>173,667</b> | <b>35.6</b>  | <b>158,526</b>    | <b>40.0</b> | <b>15,141</b> | <b>9.6</b>  |
| Long Term Investment                            | 2,297             | 73,293         | 15.0         | 37,965            | 9.6         | 35,328        | 93.1        |
| Fixed Assets                                    | 16,543            | 527,982        | 108.4        | 435,801           | 109.9       | 92,181        | 21.2        |
| Less Accumulated Depreciation                   | (9,400)           | (300,006)      | (61.6)       | (247,514)         | (62.4)      | (52,492)      | 21.2        |
| Net Fixed Assets                                | 7,143             | 227,976        | 46.8         | 188,287           | 47.5        | 39,689        | 21.1        |
| Other Assets                                    | 395               | 12,617         | 2.6          | 11,639            | 2.9         | 978           | 8.4         |
| <b>Total Assets</b>                             | <b>15,276</b>     | <b>487,553</b> | <b>100.0</b> | <b>396,417</b>    | <b>100</b>  | <b>91,136</b> | <b>23.0</b> |
| <b>LIABILITIES</b>                              |                   |                |              |                   |             |               |             |
| Accounts Payable                                | 304               | 9,687          | 2.0          | 10,584            | 2.7         | (897)         | (8.5)       |
| Payables to Contractors and Equipment Suppliers | 976               | 31,154         | 6.4          | 7,118             | 1.8         | 24,036        | 337.7       |
| Accrued Expenses and Other Current Liabilities  | 291               | 9,298          | 1.9          | 7,836             | 1.9         | 1,462         | 18.7        |
| Current Portion of Bonds Payable                | 329               | 10,500         | 2.2          | 5,000             | 1.3         | 5,500         | 31.9        |
| <b>Total Current Liabilities</b>                | <b>1,900</b>      | <b>60,639</b>  | <b>12.5</b>  | <b>30,538</b>     | <b>7.7</b>  | <b>30,101</b> | <b>98.6</b> |
| Bonds Payable                                   | 611               | 19,500         | 4.0          | 30,000            | 7.6         | (10,500)      | (35.0)      |
| Other Long Term Liabilities                     | 265               | 8,449          | 1.7          | 6,665             | 1.7         | 1,784         | 26.8        |
| <b>Total Liabilities</b>                        | <b>2,776</b>      | <b>88,588</b>  | <b>18.2</b>  | <b>67,203</b>     | <b>17.0</b> | <b>21,385</b> | <b>31.8</b> |
| <b>SHAREHOLDERS EQUITY</b>                      |                   |                |              |                   |             |               |             |

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|   |        |         |       |         |       |         |       |
|---|--------|---------|-------|---------|-------|---------|-------|
| Capital Stock                               | 7,285  | 232,520 | 47.7  | 202,666 | 51.1  | 29,854  | 14.7  |
| Capital Surplus                             | 1,771  | 56,537  | 11.6  | 56,856  | 14.3  | (319)   | (0.6) |
| Legal Reserve                               | 800    | 25,528  | 5.2   | 20,802  | 5.2   | 4,726   | 22.7  |
| Special Reserve                             |        |         |       | 69      | 0.0   | (69)    |       |
| Retained Earnings                           | 2,763  | 88,202  | 18.1  | 50,229  | 12.7  | 37,973  | 75.6  |
| Treasury Stock                              | (50)   | (1,595) | (0.3) | (1,633) | (0.4) | 38      | (2.3) |
| Unrealized Loss on<br>Long-term Investments |        |         |       | (0)     | (0.0) | 0       |       |
| Cumulated Translation<br>Adjustment         | (69)   | (2,227) | (0.5) | 225     | 0.1   | (2,452) |       |
| Total Equity                                | 12,500 | 398,965 | 81.8  | 329,214 | 83.0  | 69,751  | 21.2  |
| Total Liabilities &<br>Shareholders Equity  | 15,276 | 487,553 | 100.0 | 396,417 | 100   | 91,136  | 23.0  |

Note: (1) New Taiwan dollar amounts have been translated into U.S. dollars at the rate of NT\$31.92 per U.S. dollar as of December 31, 2004



**TAIWAN SEMICONDUCTOR MANUFACTURING CO., LTD.**  
**Unconsolidated Balance Sheet**

**As of December 31 and September 30, 2004**  
**(Figures in Million of New Taiwan Dollars (NTD) and U.S. Dollars (USD))(1)**

| ASSETS  | December 31, 2004 |                |              | September 30, 2004 |              | QoQ            |              |
|---|-------------------|----------------|--------------|--------------------|--------------|----------------|--------------|
|   | USD               | NTD            | %            | NTD                | %            | Move           | Inc.(Dec.)%  |
| Cash  | 2,053             | 65,532         | 13.4         | 78,290             | 16.9         | (12,758)       | (16.3)       |
| Short Term Investment                           | 1,660             | 52,979         | 10.9         | 46,128             | 10.0         | 6,851          | 14.9         |
| Accounts Receivable Trade                       | 852               | 27,205         | 5.6          | 33,415             | 7.2          | (6,210)        | (18.6)       |
| Inventories                                     | 444               | 14,172         | 2.9          | 12,629             | 2.7          | 1,544          | 12.2         |
| Other Current Assets                            | 432               | 13,779         | 2.8          | 7,220              | 1.6          | 6,558          | 90.8         |
| <b>Total Current Assets</b>                     | <b>5,441</b>      | <b>173,667</b> | <b>35.6</b>  | <b>177,682</b>     | <b>38.4</b>  | <b>(4,015)</b> | <b>(2.3)</b> |
| Long Term Investment                            | 2,297             | 73,293         | 15.0         | 58,186             | 12.6         | 15,107         | 26.0         |
| Fixed Assets                                    | 16,543            | 527,982        | 108.4        | 492,964            | 106.6        | 35,018         | 7.1          |
| Less Accumulated Depreciation                   | (9,400)           | (300,006)      | (61.6)       | (285,808)          | (61.8)       | (14,198)       | 5.0          |
| <b>Net Fixed Assets</b>                         | <b>7,143</b>      | <b>227,976</b> | <b>46.8</b>  | <b>207,156</b>     | <b>44.8</b>  | <b>20,820</b>  | <b>10.1</b>  |
| Other Assets                                    | 395               | 12,617         | 2.6          | 19,484             | 4.2          | (6,867)        | (35.2)       |
| <b>Total Assets</b>                             | <b>15,276</b>     | <b>487,553</b> | <b>100.0</b> | <b>462,508</b>     | <b>100.0</b> | <b>25,045</b>  | <b>5.4</b>   |
| <b>LIABILITIES</b>                              |                   |                |              |                    |              |                |              |
| Accounts Payable                                | 304               | 9,687          | 2.0          | 12,997             | 2.8          | (3,310)        | (25.5)       |
| Payables to Contractors and Equipment Suppliers | 976               | 31,154         | 6.4          | 15,261             | 3.3          | 15,893         | 104.1        |
| Accrued Expenses and Other Current Liabilities  | 291               | 9,298          | 1.9          | 10,974             | 2.4          | (1,676)        | (15.3)       |
| Current Portion of Bonds Payable                | 329               | 10,500         | 2.2          | 5,000              | 1.1          | 5,500          | 110.0        |
| <b>Total Current Liabilities</b>                | <b>1,900</b>      | <b>60,639</b>  | <b>12.5</b>  | <b>44,232</b>      | <b>9.6</b>   | <b>16,407</b>  | <b>37.1</b>  |
| Bonds Payable                                   | 611               | 19,500         | 4.0          | 30,000             | 6.5          | (10,500)       | (35.0)       |
| Other Long Term Liabilities                     | 265               | 8,449          | 1.7          | 9,013              | 1.9          | (564)          | (6.3)        |
| <b>Total Liabilities</b>                        | <b>2,776</b>      | <b>88,588</b>  | <b>18.2</b>  | <b>83,245</b>      | <b>18.0</b>  | <b>5,343</b>   | <b>6.4</b>   |
| <b>SHAREHOLDERS EQUITY</b>                      |                   |                |              |                    |              |                |              |
| Capital Stock                                   | 7,285             | 232,520        | 47.7         | 232,519            | 50.2         | 1              | 0.0          |

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|   |        |         |       |         |       |         |       |
|---|--------|---------|-------|---------|-------|---------|-------|
| Capital Surplus                             | 1,771  | 56,537  | 11.6  | 56,529  | 12.2  | 8       | 0.0   |
| Legal Reserve                               | 800    | 25,528  | 5.2   | 25,528  | 5.5   |         | 0.0   |
| Special Reserve                             |        |         |       |         |       |         |       |
| Retained Earnings                           | 2,763  | 88,202  | 18.1  | 66,007  | 14.3  | 22,195  | 33.6  |
| Treasury Stock                              | (50)   | (1,595) | (0.3) | (1,617) | (0.3) | 22      | (1.4) |
| Unrealized Loss on<br>Long-term Investments |        |         |       | (3)     | (0.0) | 3       |       |
| Cumulated Translation<br>Adjustment         | (69)   | (2,227) | (0.5) | 300     | 0.1   | (2,528) |       |
| Total Equity                                | 12,500 | 398,965 | 81.8  | 379,263 | 82.0  | 19,702  | 5.2   |
| Total Liabilities &<br>Shareholders Equity  | 15,276 | 487,553 | 100.0 | 462,508 | 100.0 | 25,045  | 5.4   |

Note: (1) New Taiwan dollar amounts have been translated into U.S. dollars at the rate of NT\$31.92 per U.S. dollar as of December 31, 2004

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**TAIWAN SEMICONDUCTOR MANUFACTURING CO., LTD.**  
**UNCONSOLIDATED INCOME STATEMENT**

**For the Three Months Ended December 31, 2004, December 31, 2003 and September 30, 2004**  
**(Expressed in Million New Taiwan Dollars (NTD) and U.S. Dollars (USD) <sup>(1)</sup>)**  
**Except for Per Share Amounts and Shares Outstanding)**

|                                     | Year over Year Comparison |          |        |          |            | Sequential Comparison |         |          |        |          |            |     |
|-------------------------------------|---------------------------|----------|--------|----------|------------|-----------------------|---------|----------|--------|----------|------------|-----|
|                                     | Q4 2004                   |          | % of   | Q4 2003  |            | YoY                   | Q4 2004 |          | % of   | Q3 2004  |            | QoQ |
|                                     | USD                       | NTD      | Sales  | NTD      | Inc.(Dec.) | %                     | USD     | NTD      | Sales  | NTD      | Inc.(Dec.) | %   |
| Net Sales                           | 1,936                     | 63,875   | 100.0  | 57,780   | 10.5       |                       | 1,936   | 63,875   | 100.0  | 69,735   | (8.4)      |     |
| Cost of Sales                       | (1,113)                   | (36,722) | (57.5) | (35,073) | 4.7        |                       | (1,113) | (36,722) | (57.5) | (37,595) | (2.3)      |     |
| Gross Profit                        | 823                       | 27,153   | 42.5   | 22,707   | 19.6       |                       | 823     | 27,153   | 42.5   | 32,140   | (15.5)     |     |
| Operating Expenses                  |                           |          |        |          |            |                       |         |          |        |          |            |     |
| Research and Development Expenses   | (108)                     | (3,568)  | (5.6)  | (4,055)  | (12.0)     |                       | (108)   | (3,568)  | (5.6)  | (3,123)  | 14.3       |     |
| General and Administrative Expenses | (65)                      | (2,153)  | (3.4)  | (1,765)  | 21.9       |                       | (65)    | (2,153)  | (3.4)  | (2,578)  | (16.5)     |     |
| Selling and Marketing Expenses      | (13)                      | (404)    | (0.6)  | (262)    | 54.4       |                       | (13)    | (404)    | (0.6)  | (318)    | 27.1       |     |
| Total Operating Expenses            | (186)                     | (6,125)  | (9.6)  | (6,082)  | 0.7        |                       | (186)   | (6,125)  | (9.6)  | (6,019)  | 1.8        |     |
| Income from Operations              | 637                       | 21,028   | 32.9   | 16,625   | 26.5       |                       | 637     | 21,028   | 32.9   | 26,121   | (19.5)     |     |
| Net Non-operating Income (Expenses) | 15                        | 457      | 0.7    | (192)    |            |                       | 15      | 457      | 0.7    | 630      | (27.4)     |     |
| Investment Gain (Loss)              | 18                        | 609      | 1.0    | 1,135    | (46.4)     |                       | 18      | 609      | 1.0    | 1,378    | (55.8)     |     |
| Income before Income Tax            | 670                       | 22,094   | 34.6   | 17,568   | 25.8       |                       | 670     | 22,094   | 34.6   | 28,129   | (21.5)     |     |
| Income Tax Credit (Expenses)        | 2                         | 90       | 0.1    | (1,566)  |            |                       | 2       | 90       | 0.1    | (196)    |            |     |
| Net Income                          | 672                       | 22,184   | 34.7   | 16,002   | 38.6       |                       | 672     | 22,184   | 34.7   | 27,933   | (20.6)     |     |

|  |      |               |               |      |      |               |               |        |
|--|------|---------------|---------------|------|------|---------------|---------------|--------|
| Diluted<br>Earnings Per<br>Ordinary Share                        | 0.03 | 0.96          | 0.68          | 40.1 | 0.03 | 0.96          | 1.20          | (20.5) |
| Earnings Per<br>ADR <sup>(2)</sup>                               | 0.15 | 4.77          | 3.40          |      | 0.15 | 4.77          | 3.72          |        |
| Weighted<br>Average<br>Outstanding<br>Shares ( M) <sup>(3)</sup> |      | <b>23,255</b> | <b>23,337</b> |      |      | <b>23,255</b> | <b>23,270</b> |        |

Note: (1) New Taiwan dollars have been translated into U.S. dollars at the weighted average rate of NTD32.99 per U.S. dollar for the fourth quarter of 2004.

(2) 1 ADR equals 5 ordinary shares.

(3) Total weighted average outstanding shares for 4Q 03 has been retroactively adjusted for stock dividends and stock bonus.

**TAIWAN SEMICONDUCTOR MANUFACTURING CO., LTD.**  
**UNCONSOLIDATED INCOME STATEMENT**

**For the Twelve Months Ended December 31, 2004 and 2003**  
 (Expressed in Million New Taiwan Dollars (NTD) and U.S. Dollars (USD) <sup>(1)</sup>  
 Except for Per Share Amounts and Shares Outstanding)

|   | 2004    |           | % of   | 2003      | YoY             |
|---|---------|-----------|--------|-----------|-----------------|
|   | USD     | NTD       | Sales  | NTD       | Inc.(Dec.)<br>% |
| Net Sales   | 7,653   | 255,992   | 100.0  | 201,904   | 26.8            |
| Cost of Sales   | (4,360) | (145,831) | (57.0) | (129,012) | 13.0            |
| Gross Profit  | 3,294   | 110,161   | 43.0   | 72,892    | 51.1            |
| Operating Expenses                                      |         |           |        |           |                 |
| Research and Development Expenses                       | (374)   | (12,516)  | (4.9)  | (12,713)  | (1.5)           |
| General and Administrative Expenses                     | (280)   | (9,367)   | (3.7)  | (6,338)   | 47.8            |
| Selling and Marketing Expenses                          | (43)    | (1,455)   | (0.6)  | (1,193)   | 21.9            |
| Total Operating Expenses                                | (698)   | (23,338)  | (9.1)  | (20,244)  | 15.3            |
| Income from Operations                                  | 2,596   | 86,823    | 33.9   | 52,648    | 64.9            |
| Net Non-operating Expenses                              | 27      | 916       | 0.4    | (2,411)   |                 |
| Investment Loss   | 121     | 4,040     | 1.6    | 791       | 410.5           |
| Income before Income Tax                                | 2,744   | 91,779    | 35.9   | 51,028    | 79.9            |
| Income Tax Credit (Expenses)                            | 16      | 537       | 0.2    | (3,769)   |                 |
| Net Income  | 2,760   | 92,316    | 36.1   | 47,259    | 95.3            |
| Diluted Earnings Per Ordinary Share <sup>(2)</sup>      | 0.12    | 3.97      |        | 2.02      | 96.8            |
| Earnings Per ADR <sup>(3)</sup>                         | 0.59    | 19.85     |        | 10.09     |                 |
| Weighted Average Outstanding Shares ( M) <sup>(4)</sup> |         | 23,255    |        | 23,337    |                 |

*Note: (1) New Taiwan dollars have been translated into U.S. dollars at the weighted average rate of NTD 33.45 per U.S. dollar for the twelve months of 2004.*

*(2) EPS calculation for 2003 is after deducting a cash dividend payment on NT\$13,000 million of preferred stock paying an annual rate of 3.5% at the period from January 1 to May 29, 2003. The preferred stock was redeemed on May 29, 2003.*

(3) *1 ADR equals 5 ordinary shares.*

(4) *Total weighted average outstanding shares were 23,255M shares for the twelve months ended December 31, 2004 and 23,337M shares for the twelve months ended December 31, 2003 after the retroactive adjustments for stock dividends and stock bonus.*

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**TAIWAN SEMICONDUCTOR MANUFACTURING CO., LTD.**  
**UNCONSOLIDATED STATEMENT OF CASH FLOWS**

**For the Twelve Months Ended December 31, 2004**  
**(Figures in Million of New Taiwan Dollars (NTD) and U.S. Dollars (USD)) <sup>(1)</sup>**

|   | 12 Months 2004 |                  | 4Q 2004         | 3Q 2004         | 4Q 2003         |
|---|----------------|------------------|-----------------|-----------------|-----------------|
|   | USD            | NTD              | NTD             | NTD             | NTD             |
| Cash Flows from Operating Activities:                       |                |                  |                 |                 |                 |
| Net Income  | 2,760          | 92,316           | 22,184          | 27,933          | 16,002          |
| Depreciation & Amortization                                 | 1,886          | 63,072           | 16,615          | 15,371          | 15,495          |
| Deferred Income Tax   | (33)           | (1,101)          | (226)           | 46              | 1,566           |
| Investment Loss (Gain) Recognized by Equity Method          | (121)          | (4,040)          | (608)           | (1,378)         | (1,135)         |
| Gain on Sale of Long-Term Investments                       |                | (2)              |                 | 0               | (13)            |
| Changes in Working Capital & Others                         | (196)          | (6,565)          | (1,231)         | (3,813)         | (432)           |
| <b>Net Cash Provided from Operating Activities</b>          | <b>4,296</b>   | <b>143,680</b>   | <b>36,734</b>   | <b>38,159</b>   | <b>31,483</b>   |
| Cash Flows from Investing Activities:                       |                |                  |                 |                 |                 |
| Increase in Short-Term Investments                          | (1,310)        | (43,823)         | (6,851)         | (4,929)         | (865)           |
| Increase in Long-Term Investments                           | (906)          | (30,291)         | (17,009)        | (7,339)         | (1,955)         |
| Acquisition of Fixed Assets                                 | (2,277)        | (76,171)         | (20,521)        | (16,471)        | (12,832)        |
| Proceeds from Sales of Long-Term Investments                |                | 8                |                 | 0               | 18              |
| Proceeds from Disposal of Properties                        | 51             | 1,714            | 1,404           | 60              | 18              |
| Increase in Deferred Assets                                 | (72)           | (2,404)          | (1,351)         | (412)           | (345)           |
| Decrease (Increase) in Deposit-Out                          | 3              | 92               | (56)            | (3)             | 110             |
| <b>Net Cash Used in Investing Activities</b>                | <b>(4,511)</b> | <b>(150,875)</b> | <b>(44,384)</b> | <b>(29,094)</b> | <b>(15,851)</b> |
| Cash Flows from Financing Activities:                       |                |                  |                 |                 |                 |
| Cash Dividend - Common Shares                               | (364)          | (12,160)         |                 | (12,160)        |                 |
| Increase in Treasury Stocks                                 | (211)          | (7,060)          |                 |                 |                 |
| Repayment of corporate bonds                                | (149)          | (5,000)          | (5,000)         |                 |                 |
| Bonus Paid to Employees                                     | (20)           | (682)            |                 | (682)           |                 |
| Cash Dividend - Preferred Shares                            | (6)            | (184)            |                 |                 |                 |
| Decrease in Guarantee Deposits & Others                     | (10)           | (351)            | (112)           | (75)            | (75)            |
| Bonus Paid to Directors and Supervisors                     | (4)            | (128)            |                 |                 |                 |
| Issuance of stocks option                                   |                | 4                | 4               |                 |                 |
| <b>Net Cash Used in Financing Activities</b>                | <b>(764)</b>   | <b>(25,561)</b>  | <b>(5,108)</b>  | <b>(12,917)</b> | <b>(75)</b>     |
| <b>Net Increase (Decrease) in Cash and Cash Equivalents</b> | <b>(979)</b>   | <b>(32,756)</b>  | <b>(12,758)</b> | <b>(3,852)</b>  | <b>15,557</b>   |

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|  |              |               |               |               |               |
|--|--------------|---------------|---------------|---------------|---------------|
| Cash and Cash Equivalents at Beginning of Period | <b>2,939</b> | <b>98,288</b> | <b>78,290</b> | <b>82,142</b> | <b>82,731</b> |
| Cash and Cash Equivalents at End of Period       | <b>1,960</b> | <b>65,532</b> | <b>65,532</b> | <b>78,290</b> | <b>98,288</b> |

*Note: (1) New Taiwan dollar amounts have been translated into U.S. dollars at the rate of NTD33.45 per U.S. dollar, the weighted average exchange rate for the twelve months of 2004.*

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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Taiwan Semiconductor Manufacturing Company Ltd.

Date: January 27, 2005

By /s/ Lora Ho  
Lora Ho  
Vice President & Chief Financial Officer