

A Letter to Our Shareholders

Dear Shareholders,

Looking back at 2004, the semiconductor industry continued the recovery that began in 2003. Since July, Macronix monthly revenues have gradually increased. However, the global slowdown and soft demand for finished products have brought about an imbalance in Flash memory supply. This, plus other factors, such as an industry price war and the appreciation of the NT dollar, have resulted in Macronix revising its 2004 operating objectives. For 2004 Macronix realized total net revenue of NT\$22.9 billion, while net profit before taxes stood at NT\$207 million, and net cash flow amounted to NT\$6.512 billion. Total revenues grew 32.51% over 2003; and net profit before taxes turned from loss to gain. Shipments increased 41%, of which Flash memory grew 54%.

In 2004, Macronix became a major Flash memory supplier. According to market research firm, iSuppli, Macronix is the world's ninth largest Flash memory supplier. Flash product revenue increased 78% over the previous year as Macronix actively promoted 0.13 micron products and the cost-competitive NBit technology products. Mask ROM products experienced a steady 12% growth for the year, and we are still the world's number one supplier. With long-term support of world-class customers and Macronix's continuous production upgrades, Mask ROM products remain a stable source of profit.

Macronix is devoted to developing new products and process technology. In 2004, Macronix was fourth in Taiwan for patents registered, with a total of 277. Patents granted in the United States equaled 163, the second most for the Taiwan semiconductor industry. R&D projects completed on schedule increased from 12% to 43%. In addition, R&D achievements for Mask ROM include the completion of 0.15 micron 64/128/256Mb MROM, and the planned production of 0.13 micron 512Mb XtraROM for 2005. In development is a 0.13 micron NBit 4bit/cell high density XtraROM product line. For Flash products, NBit 0.25 micron 64/128Mb have started production, and 0.13 micron NBit memory is in development. In July 2004, Macronix and IBM agreed to co-develop non-



volatile Ovonic Unified Memory (OUM) technology. Macronix continues to develop technology that will take us to the top of the industry.

Macronix focuses on Flash and Mask ROM products. Yet we also have group subsidiaries and invested companies that develop, design, manufacture and sell products, which include a mobile handset platform, a sound generator chip, a SIM card controller and a portable DVD LCD controller. With a solid base in product development and integrated resources, Macronix is creating new sources of profit.

For the future, Macronix will continue to enhance capacity utilization and inventory control, as well as provide a safe and comfortable workplace for employees. The result will satisfy customer and market requirements for our products, and promote the growth of the company.

In closing, we give our sincere gratitude to our shareholders for your long-term support and encouragement. We wish you all good health and prosperity for the coming year.

Chairman

President