

Letter to Shareholders 2005 Business Result

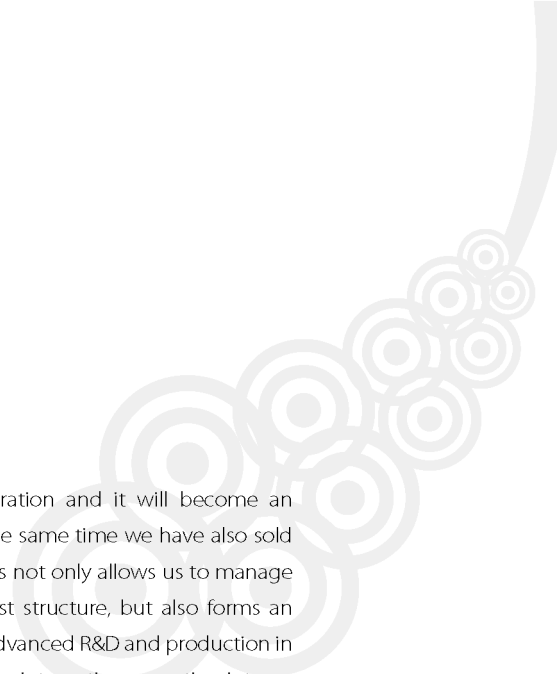


We would first like to thank shareholders' encouragement and support to Macronix's management team; your support helps us make a comeback after undertaking restructuring for a period of time. In 2005, we continued our process and cost structure improvement, resulting in a quarter-by-quarter increase of capacity utilization and gross margin. However, in the first half of 2005, an oversupply in the flash memory market incurred a price plunge and, because of our compliance with the government's new requirements for accounting principles governing asset decreases and long-term investment losses, we ended up with a deficit. In the second half of 2005, although the price of NOR flash memory remained low, our gross margin turned positive in the third quarter because our on-schedule conversion to low-cost NOR flash memory products. Our capacity utilization in the second half of the year exceeded 100%. The total 2005 revenue amounts to NT\$18.6 billion, with an after-tax loss of NT\$7 billion and a loss per share of NT\$2.41.

Despite the loss, we were financially sound as our 2005 business activities brought in a positive cash flow of NT\$4.4 billion, and our usable cash at year-end amounted to NT\$9.4 billion, while inventories were kept at NT\$3.5 billion. In order to make up accumulated losses, a provisional shareholders' meeting last year decided a 41.63% capital decrease of NT\$20.8 billion. When the capital decrease is completed by May this year, our paid-in capital will decrease from NT\$50 billion to NT\$29.2 billion, helping increasing our net per share and profitability.

Macronix is always committed to product and process technology R&D, which yields good results every year. For flash memories, in 2005 we advanced to the sub-0.15-micron manufacturing process and this reduced our cost by 40%, and our own brand of NBit™ Flash was successfully developed with the NROM technology. We aggressively developed our advanced 0.13-micron technology and SPI (Serial Peripheral Interface) flash memories and thus further increased our flash memory market share. We are the world's largest supplier of Mask ROM, and our new product Xtra ROM™ –developed with the NBit™ technology – is superior to Mask ROM in both storage capacity and order-to-delivery cycle time, and it will gradually replace Mask ROM and develop into a complete product series. For logic products, using our mobile audio-visual platform as a core, we have developed a low-power, high-fidelity MP3 SoC with an integrated peripheral interface that provides high quality chord ring tones and long listening time. Three of the world's top-six mobile phone brands have adopted this SoC successfully. In addition, we continue our cooperation with IBM and Infineon for the R&D of phase change memory and expect to breakthrough the limits of flash memory technology and provide new business opportunities to our company.

Over the past few years, the Macronix group has aggressively reengineered itself. To focus on our business and to optimize our asset management, we have transformed



our 6-inch FAB I into a professional foundry operation and it will become an independent company at an appropriate time. At the same time we have also sold our 12-inch FAB III to Powerchip Semiconductor. This not only allows us to manage our assets dynamically and improve our overall cost structure, but also forms an alliance with our strategic partner to accelerate our advanced R&D and production in 12-inch fabs. We are planning to transform our system integration operation into an independent subsidiary focusing on voice and mobile payment mechanisms, base band, and design services. Macronix, in turn, will focus on developing lower-power memory products with higher density, faster speed, and lower-voltage.

This year we will launch a series of 256 Mb/512 Mb/1 Gb Xtra ROM™ products to meet our key customers' strong demand for high-capacity memories. Our newly developed SPI flash memory has entered PC applications, and the wide range of applications of SPI products will be the driver of our flash memory growth this year. In the second half of this year, we will launch 4 Mb/8 Mb/16 Mb low-voltage (1.8V) flash memories for portable device applications such as Bluetooth, iPod, GPS, and MP3 players. This year our capacity utilization is expected to maintain at a high level, with the shipment 35% higher than that of 2005. We also expect a quarter-by-quarter revenue and profit increase.

We will continue our technology scaling migration and cost reduction to enhance competitiveness. Our 0.13-micron NOR flash process will commence in quantity production this year, and we will continue developing advanced processes for 12-inch wafers and sub-90 nanometer technologies. Xtra ROM™ developed with our NBit™ technology will continue moving towards Giga bit and 4 bits/cell (multi-level cell) technologies, and products suitable for data storage will be developed. These will lay the foundation for our future profitability and for us to stay abreast with major suppliers around the world.

The semiconductor industry is highly competitive; only persistent effort and consistent delivery of quality products and services to customers can ensure a company's success. Macronix always insists on providing our customers with total solutions – by aggressively participating in customers' system development projects, by providing innovative concepts and advanced technologies, and by providing the best system integration and technology solutions based on each customer's special needs. In the future, our management team will continue carrying out these beliefs of providing the best technology, quality and service to our customers based on the concept of cost effectiveness. This way we can continue creating the value unique to Macronix, and maximizing shareholders' interests.

Chairman 